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# India's Foreign Trade With China

## A Historical Showcase.

**ABSTRACT**

*India always had a surplus with the whole world including Europe, which was settled by the inflow of gold into India. But there was a steep decline in trade in the subsequent years since 1800 BC when the Aryans were ravishing most of Asia. In a variety of industries, cheap imports from China are killing local manufacturers. It needs probe as to how much profit is due to China's competitiveness and how much due to dumping. With the advent of globalisation, liberalisation and reduction in trade import and export barriers the world has today become a tiny village. There are vast opportunities for increasing the contents of our export basket to China. The government in China, unlike that in India, is motivated to support economic activity. So, the government often enables entrepreneurship in China. Two-way trade between China and India rose to $24 billion in 2005 from $3 billion in 1999. Both countries have also become more important to each other's trade. In 1999, China was India's 13th most important import source and 17th as an export destination, but by 2005 China had risen to third in both. Although India does not rank quite as highly in China's list of trading partners, it too has risen in importance, to 16th.*

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### 1. THE START

Though the history of India's trade and commerce goes back to the Phoenician Times when not only did cotton and teak, spices, silks and precious stones changes bands but a whole series of ideas and thought systems were shared. Indian silks and fine muslins were highly priced and there is contemporary evidence of a flourishing trade between India and the distant European Countries.

### India's Foreign Trade in Retrospect

Trade in India is recorded as far back as 3500 BC when a fairly large-scale agricultural economy existed in the main river basin areas, spreading gradually over the next 3000 years to all parts of the sub-continent. The archaeological excavations carried out during the 1920s and 1930s at Mohan-Jo-Daro and Harappa (both now in Pakistan) and excavator at Rangpur in Gujarat clearly indicate that well before 1500 BC. Indians were carrying on trade with far-off lands with West Asia and beyond. We always had a surplus with the whole world including Europe, which was settled by the inflow of gold into India. But there was a steep decline in trade in the subsequent years since 1800 BC when the Aryans were ravishing most of Asia. India's foreign trade existed even before the Christian era. During the Kushana period. India's trade and commerce with the Roman Empire reached in zenith. During the seventh and eighth century A.D., Indian trade had developed further, though by the eighth century, the Arabs had already proved themselves to be very strong competitors obtaining a foothold in Sind.

### The Gupta Period

India had commercial relations with foreign countries in which the Arabs played the role of 'Intermediaries' in the X century B.C. In the first two centuries of the Christian era, there was a considerable increase in trade between India and Rome. The Gupta period, however, is regarded as the golden age in Indian history and Indian trade and culture during this period made a great impact on Central Asia and Malaysia.

**The Mauryan Period**

Beginning around 325 BC during the Mauryan period, the ship building industry was flourishing solely under state monopoly. Emperor Chandra Gupta established a Board of Admirals in 321 BC to control the hiring out of ships, levy duty on imports and exports and other administrative chores.

**India-a Golden Bird**

Some of those who are reputed to have discovered certain countries, like Columbus, actually were in search of our country which came to be known as 'Golden Bird'', largely through the trade which we had with other parts of the world. Archaeological discoveries, in India and other parts of the world, have proved the existence of flourishing trade in the Gupta and Maruyan periods, as stated above also. The trend, however, in those times was mainly 'visible trade'. The Europeans, particularly British, formed trading companies in their countries with a view to develop trade with India. East India Company was an example of this. It came to carry away precious goods-gold, silver, raw-materials and even finished goods to England and gave in turn services like defence, civil administration etc. trade, then became both 'visible' and 'invisible'.

**The Mughal and British Period**

The Mughal period from 1526 to 1707 AD also is viewed as a period of economic and cultural revival in India. While trade and industry progressed well, fine arts, sculpture, music and painting reached their apex. During the British period, trade involved heavy imports of Indian textiles into England. According to one estimate, the total exports of bullion to India through the East India Company alone was of 21 million. The foreign trade of India during British regime was an important instrument for exploiting the Indian Economy.

This 'Drain' constituted, on a very conservative estimate, about 2-3 percent of India's national income during 1757 to 1939. If this amount had been invested in India for her development, she would have been able to attain a growth rate, only a little lower than that attained by the United States and the United Kingdom during the 19th century.

Much of the foreign trade of India was concentrated in the countries of the British Empire. The foreign trade in India, moreover, was handled by the British and other European business houses. The British control over India's foreign trade was further strengthened by an almost exclusive control of the foreign exchange business in the hands of the foreign banks.

Prior to the Second World War, India was forced to export more than import in order to meet the unilateral transfer for British officers (civil and military). During the second world-war, the British Government commandeered from the poverty-striking people of India huge supplies of foodstuffs, clothing, leather-ware, iron and steel, cement, railway equipment for the prosecution of their war. The balance of trade was so favourable with Britain, the principal customer of Indian goods, that even after paying off the sterling debt, India was able to build a huge sterling balance amounting to Rs. 1,733 crore.

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*Healthcare issues are emotional and cannot be addressed thru economic indicators alone. What is the value of a human life? How many dollars or pounds are spent to save a few lives?*

The war between Britain, Japan and Germany in the war did not allow them to export manufactured commodities to India and to the Far and Middle East and Far East and consequently India was able to create markets for her manufacturers in these countries and for importing raw material feed her growing consumer goods industries.

**India's Foreign Trade in the World War Periods**

The first half of the 20th century witnessed many turbulent events. Beginning with the First World War, the problems during the inter-war period, the great depression (1929-34) and the Second World War, all of them disturbed the world economy. Most of the economies were directly or indirectly stricken badly by these events. During 1919 to 1939, Indian imports and exports showed a declining trend. Our exports during Second World War rose rapidly, the imports remained more or less stagnant.

The Herculean task of economic reconstruction and industrialization beckoned the dawn of India's independence in 1947. The goals of achieving an all round economic self-sufficiency transforming the backward agrarian Indian economy into an industrial nation and ensuring the millions a better quality of life. This warranted colossal amount of resources quite apart from building the requisite infrastructure.

**2. TRADE WITH CHINA**

With the advent of globalisation, liberalisation and reduction in trade import and export barriers the world has today become a tiny village. Here we have a role to play. Our trade with China is at a low ebb and we can increase it. There are vast opportunities for increasing the contents of our export basket to China. Quantum of Export & Import with China is very low as compared other developed countries or the world. The composition of exports and imports with China has changed since 1991. The reduction in custom tariffs has positively contributed to trade with China. Terms of trade for India still remain unfavorable.

China and India both have unbelievable amount of entrepreneurship but the way it is growing in the two economies is very different and is being shaped by two fundamental factors. There is much more FDI going into China, both in flow and stock terms. This has two implications — first there is room for new entrepreneurs in China that create business models that complement multinationals for example as suppliers to them. This might lead to a possible crowding out of other would-be entrepreneurs by multinationals.

India is a mirror image — that is less crowding out occurs since FDI is so much lesser. There are fewer MNCs and fewer businesses developing around MNCs. Hence, there is more local space for local companies.And entrepreneurs have managed to fill out those spaces. There is also that much less room for complementarity in India, which exists in China. Second factor is the role of the government.

In China, the government at all levels is much more ubiquitous. That is to run a business of any appreciable size in China you will have to understand and manage multiple relationships in the government. In China, capital is hard to come by and getting listed is quite hard. An important caveat is that this is not at all bad. The government, unlike that in India, is motivated to support economic activity.

The markets have opened up right now to each other, There was a big influx of Chinese manufactured goods to the Indian markets usually consumer items like electric fans, batteries and such other items. India has also started making its presence in information technology markets felt within mainland China.

In India, however, things are different. While many senior government officials in a multi-party system have embraced the idea of reform, there are lower-level irritants but they are neither constraints nor enablers of much of India's entrepreneurial fervour.

A lot of entrepreneurship in India is happening in sectors which are not much affected by the vestiges of Licence Raj. So, while India and China both have high level of entrepreneurship, they are following very different models. And so far there is little to suggest that either one dominates the other on all counts.

## 3. SURGE IN CHINA-INDIA TRADE

Two-way trade between China and India rose to $24 billion in 2005 from $3 billion in 1999. Both countries have also become more important to each other's trade. In 1999, China was India's 13th most important import source and 17th as an export destination, but by 2005 China had risen to third in both. Although India does not rank quite as highly in China's list of trading partners, it too has risen in importance, to 16th. The growing trade between these two large emerging markets reflects their continuing development, but might also indicate greater integration into regional value chains, with trade shifting away from the U.S., whose share in both countries' trade has decreased.

In this paper we have analysed the relationships between industry and foreign trade in three major areas of the world economy: India, China and OECD countries for the period 1960-2002, and found that the effect of imports is usually positive and significant to favour industrial and non-industrial development, from a mixed approach to economic growth which has into account demand and supply sides.

The Asian giants not only account for nearly 40 percent of the population of the world but are expected to be among the largest economies (together with the United States) in the foreseeable future. After a brief but bloody border war in 1962, ties between India and China started a slow thaw only from the late-1980s onwards. There is no dearth of people in both countries who are suspicious of the other's intentions to "dominate" the continent and claim territory.

China's Ambassador to India Sun Yuxi stirred a major controversy when he told a television interviewer that the north-eastern province of Arunachal Pradesh was Chinese territory. His remarks elicited angry denials from Indian officials led by External Affairs Minister Pranab Mukherjee. In the past, China has expressed its unhappiness with Indian assistance to those supporting independent nationhood for Tibet.

In recent years, markets in Indian cities have been flooded with inexpensive Chinese products — from light bulbs, toys and garments to even pictures of Hindu gods and goddesses. Many local businessmen feel threatened by these cheap imports and allege that these goods flow from China into India through its porous border with Nepal. It is further

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claimed that counterfeit products with fake labels of well-known brands are manufactured in China for Indian consumers and these products hurt the interests of legitimate manufacturers.

Bureaucrats and defence experts in New Delhi are wary about Beijing's close economic and military links with India's neighbour Pakistan with which the country has a long history of animosity. Over the last year, citing national security concerns, Indian government officials have been successful in blocking at least two major investments by Chinese firms in telecommunications and in the development of a sea-port.

The cause of Chinese companies has been taken up by members of the Communist parties that provide crucial "outside" support to the centre-left United Progressive Alliance coalition led by the Congress party that is currently in power in New Delhi.

Representatives of Chinese organisations, on the other hand, have claimed that they have been unfairly discriminated against despite offering the lowest bids for execution of projects and supply of equipment. These allegations are denied by Indian officials. Both countries claim the other is on occasions less than willing to issue visas to visiting businesspersons.

Still, trade between the two countries has increased impressively, often exceeding the expectations of the governments of the two countries. Two-way trade between India and China surged from 260 million US dollars in 1980 to nearly eight billion dollars in 2003.

The figure of aggregate export-import trade is expected to touch 20 billion dollars during the current financial year (ending in March 2007) and is slated to touch 30 billion dollars by 2009, states a report prepared by the Federation of Indian Chambers of Commerce and Industry (FICCI). If these projections materialise, China would overtake the U.S. as India's largest trading partner.

"With China's entry into the World Trade Organization, immense opportunities have opened up for setting up joint ventures and business collaborations," says the FICCI report.

Despite claims of discrimination, dozens of major Chinese companies have been permitted to set up offices in India over the last few years. These firms are in a variety of industrial sectors, including mechanical machinery, metallurgical equipment, engineering, chemicals, automobiles and silk.

Indian companies too — in sectors such as information technology, pharmaceuticals, automotive components, iron and steel and chemicals — have established a presence for themselves in China from the 1990s.

India has often been compared to an elephant and China with a dragon — at 8 per cent per year India's economic growth rate is coming close to the 10 per cent level achieved by China and I believe that if today's competitor becomes tomorrow's collaborator, this will be good for humankind as a whole.

Gilbert Etienne, professor emeritus, Institute of International Studies, Geneva, who has travelled extensively in both India and China since the 1950s, says that the two countries have a lot to learn from each other's development experiences. According to him in the early 1950s, thanks to Pax Britannica, India's roads, railways and power networks were superior and more extensive that those of China but, thanks to large public investments, the situation had completely reversed by the end of the 1970s.

In rural China, the agricultural practices that are followed are far superior to those in India. China ranks among the world's most wasteful users of natural resources and such trends in manufacturing industry should certainly not be emulated by any country. Chinese companies are also less equipped than Indian firms in expanding abroad. Analysts argue that one reason for this could be that Indians have better command over the English language.

Economist and international trade expert T. K. Bhaumik argues that the China has been able to grow faster than India because of a "superior economic reforms strategy". Deng Xiaoping did not discourage the public sector while encouraging private enterprises," he says, adding that this aspect of China's economic experience was worth following by countries like India.

India has nearly 1.1 billion people, while China has 1.3 billion. Despite the apparent similarities, there are also major differences in the political and economic systems of the two. India prides itself as being the world's largest democracy. But its economy is smaller and growing at a slightly slower pace in comparison to that of China.

Foreign direct investment (FDI) has been pouring into China at levels exceeding 150 billion dollars in new agreements. In contrast, over the last ten years, cumulative inflows of FDI to India have aggregated roughly 45 billion dollars. These figures are, however, not strictly comparable.

A study conducted by the International Monetary Fund concluded that if India and China defined FDI in an identical manner, the differences in the FDI inflows claimed by the governments of the two countries would narrow considerably and if FDI as a proportion of GDP is compared, the difference would be negligible — 2 per cent in the case of China against 1.7 per cent for India.

A major difference between the two economies is that whereas China is a manufacturing powerhouse, India has emerged as an important provider of a range of services, especially those related to computer software and information technology (IT). Much of the rise in India's exports to China has been fuelled by the latter's voracious appetite for raw materials such as metal ores and petro-chemicals.

At present, over 70 per cent of Indian exports to China are concentrated in three product categories: ores, slag and ash; iron ore; and plastics. India buys a wider range of products from China including electrical equipment, nuclear reactors, mineral fuels, organic chemicals and silk.The FICCI report says India has opportunities to expand exports of a wide range of items to China such as cotton yarn, fabrics, automotive parts, electronic components, IT products and services, pharmaceuticals, handicrafts, marine food, fruits, vegetables and construction materials.

India and China recently signed an agreement aimed at resolving a decades-long border dispute between the two countries. At the same time, leaders of the two nations also agreed on improving trade and cultural ties. As their economies continue to grow, the bilateral trade will bring India and China closer.

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**TABLE - 3**
**INDIA'S FOREIGN TRADE WITH CHINA (VALUES IN RS. LACS)**

| | 2001-2002 | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 |
|---|---|---|---|---|---|
| 1. **EXPORT** | 454,003.6 | 956,039.19 | 1,357,905.88 | 2,523,297.00 | 2,992,491.50 |
| 2. **IMPORT** | 971,192.4 | 1,351,215.13 | 1,862,513.75 | 3,189,230.75 | 4,811,665.00 |
| 3. **TOTAL TRADE** | 1,425,195.9 | 2,307,254.31 | 3,220,419.63 | 5,712,527.75 | 7,804,156.50 |
| 4. **TRADE BALANCE** | -3,618,17,174.0 | -4,206,858.0 | -6,574,090.0 | -12,572,504.0 | -20,399,100.0 |

**Note:** The country's total imports since 2000-2001 does not include import of Petroleum Products and Crude Oil.
**Source :** http://commerce.nic.in/eidb/iecnt.asp.

The trade relationship between these two countries has historically been tenuous at best. They have not been trading as often and as much as one would expect this two giants to trade. The markets have opened up right now to each other, There was a big influx of Chinese manufactured goods to the Indian markets usually consumer items like electric fans, batteries and such other items. India has also started making its presence in information technology markets felt within mainland China.

There's been a fairly long history of dispute between China and India largely around their long border. Just within the last day or so there was a series of meetings and they have agreed to set aside those border disputes because they have now become such large trading partners with each other."

India and China have agreed to boost bilateral trade to twenty billion by 2008. Last year, trade totaled Thirteen-point-six billion, with India recording a trade surplus of one-point-seventy-five billion. It is interesting the new moves these countries have made towards working together in multiple arenas. We are somewhat skeptical about that partnership being really deep and robust and holding out in the long term. The reason is this. If you think about what China imports from India, and what India can import from China, India can get low coast manufactured goods from China and China can get software and other intellectual capital from India. The problem is, these are exactly the sectors where India needs to invest heavily if it is going to generate a large amount of employment for its own pools of labor. India itself needs to build up its manufacturing sector in a very robust way. So substituting the growth of the manufacturing sector with imports from China in that sector is not going to solve India's employment challenges. We do not see how sending software to China and importing manufactured goods from China to India, will solve the more basic macro-economic challenges that this countries face especially India. Anyway, India and China can only benefit by increasing bilateral trade.

In the long run it is a good thing. In the long run free markets and free trade tends to raise standards of living for everyone. There will certainly be conflicts. As the two countries grow they may run into conflicts over raw materials and things like that. Speaking truly the reverse is the case. In the settlement of border disputes you see the fact. The two countries decided that even though they had been fighting over this borders over the Himalayan mountains for decades, in the end that conflict is not as important as the benefits they where enjoying from trading with each other.

When India opened up the economy way back in 1991, many in industry feared that their businesses would be wiped out by cheap imports from China. Things haven't proved that fatal, but there are industries - especially in the small scale sector - that are beginning to buckle under the China Price. That brings us to the question, why are Chinese manufacturers so price competitive? Or, if you will, how are they able to sell at rock-bottom prices, when other manufacturers are hard-pressed to cut cost even by a few percentage points?

## 4. CONCLUSION

These are question that governments in Europe and America have spent lots of energy and money on to answer. Often, their conclusion has been simple: China dumps. Consider this: 86 anti-dumping and trade protection investigation ere initiated by Turkey, India and the European Union on Chinese products last year, compared to 63 the year before. According to the Chinese Ministry of Commerce, of the 86 cases, 63 Chinese were anti-dumping, two cases of government dumping, and 21 cases of investigation on protectionist measures.

Yet, there's no denying that Chinese manufacturers are vastly more competitive compared to Indian manufacturers, who have comparable low-cost advantages, China scores on just on point: scale. Take toys. As a country, China churned out $ 15.2 billion (Rs. 67,200 crores) worth of toys in 2005. In contrast, the entire toy exports from India were worth Rs. 443 crore. It's a difference that's rapidly growing the competitive divide in manufactured goods between India and China, hurting industry after industry. We look that a handful of industries that are reeling under the China Price. But mind that just like there can be no justification for dumping by China, there can be no justification for India, or any other country, to erect tariff barriers in the way of competitive Chinese suppliers. In the end, the consumers must win, and not inefficient Indian manufacturers.

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