Current Position of India's Foreign Trade with China

The Changes Taking Place

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ABSTRACT

We analyze causality relationships between industry and foreign trade in two major areas of the world economy: India, China for the period 2002-07, 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 goals of achieving an all round economics self-sufficiency transforming the back word agrarian Indian economy into an industrial nation and ensuring the millions a better quality of life. The pressure on Indian manufacturers to become more efficient and on the Indian government to accelerate the elimination of India's disadvantage in infrastructure. There are vase opportunities for increasing the contents of our expert basket to china. Quantum of export and import with china has changed since 1991.

1. INTRODUCTION

International trade is instrumental in equalizing factor prices and results in a more efficient allocation of resources. It promotes capital formation and brings sectoral and external economics in the industrial activities in the country. It bestows a number of economies of scale and enables a country to produce those goods, which are economically, competitive and are based on rational cost proportions. It strengthens the relations, both economics and political with the other trading countries and provides an opportunity to enter into customs union which bring forth trade creating and trade diverting benefits. It promotes the hidden talents of entrepreneurs and thus augments the comparative advantages in a country. Trade is as old as human society itself as no man, and more so, no society, could ever be self-sufficient. In the ancient period, trade was in the form of barter, but afterwards, not only trade changed from money but from inter-regional to international. International trade, more than even before, is the driving force of economic activity. Economic theorists recognize that the central process of economic growth not only depends upon accumulation of material resources but also on foreign trade. Trade has been regarded as one of the most important tool of international economic relations, despite marginal and insubstantial deviations. The economic well being of most countries, especially the smaller one is affected by their international trade position. It has been well recognized that development cannot be imported from abroad and has to be propelled by own efforts. A country has to look at problem of foreign exchange in best possible manner. The unfavorable balance of payment situation can be managed temporarily by borrowings from abroad, grants, and foreign investment in domestic economic activity, running down of foreign exchange reserves and increasing surplus on account of invisibles and remittances. The depletion of reserves would eliminate cushion, while large scale borrowings abroad would give rise to heavy burden dept services. This situation is evidenced in the present day dept crisis of many Asian and Latin American countries. Foreign participation in domestic economic activities involves remittances of profits and eventual

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repatriation of capital. In case of foreign aid, source of supply is often restricted to market of the lender and prices are invariably marked up by the sellers in the lending countries. It might also be difficult to increase surplus on account of invisibles and remittances in the short-run. The alternative available for less developed countries is to reduce imports but many imports, such as petroleum, high technology industrial goods crucial to developmental process of these countries. Therefore, the only option that remains is to manage balance of payments either by stepping up exports or by adopting import substitution strategy or inward looking strategy.

Foreign trade makes an important contribution to economic growth in both India and China. Over the years, the China has emerged as India's largest trading partner with a share of 30.6 billion, with India recording a trade surplus of 1.65 billion and they have agreed to boost bilateral trade to 20 billion by 2008.

2. OBJECTIVES

1. To study the trade relations with the China; 2. To provide an overview of India's export performance by tracing growth rate of its aggregate export and structural changes in commodity composition and directions of exports, with China; 3. To examine the compatibility of India's exports with resource structure ; 4. To analyze the competitiveness of selected traditional and non- traditional commodities of Indian exports in the world market; 5. To investigate into the price responsiveness of developing countries in general and that of India in particulars as compared to developed trading partner countries; 6. To explore policy directions for the promotion of India's exports with China, in the light of the findings of the analysis; and 7. To analyze the position of Balance of Payment and attitude of policies with China.

3. INDIA-CHINA TRADE

Economic ties between India and China are rapidly emerging as one of the most important bilateral relationships in the world. We address the few questions like-

a) Is the current magnitude of trade between India and China too little or too large?

Regarding the magnitude of India-China trade, several observations are in order

1) Trade between the two countries has grown very robustly. Each country's aggregate international trade is expanding by 23-24% annually. In comparison, India-China trade grew at a 50% rate during 2002-2006 and will increase by a further 54% during 2007 to reach $37 billion.

2) After adjusting for partner GDP (i.e., bilateral trade divided by the trading partner's GDP), India's trade with China is greater than that with Japan, the US, or the entire world. After similar adjustments, China's trade with India is only slightly below that with Japan, the US, or the entire world.

3) China already is (or will shortly become) India's number one trading partner. From China's side, India already is one of its top ten trading partners. Also, China's trade with India is growing much faster than with any of the other nine. Thus, India is rapidly becoming an increasingly important trading partner for China.

4) India's overall international trade is significantly below that of China's, in terms of both absolute figures (for 2006, $306 billion vs $1,760 billion) as well as relative to GDP (34% of GDP vs. 65% of GDP).

5) Growth rate in India-China trade slows down to 25% annually (a conservative projection) from the current rate of over 50%, bilateral trade between them will be almost $75 billion in 2010 and $225 billion in 2015, i.e., as large as China-US trade just three years ago. These are very large

numbers. Political and business leaders need to start getting ready now for this radically different world.

b) Should India grant market economy status (MES) to china?

Trade theory tells us that, in an increasingly flat world, trade between two countries should be a multiplicative function of their GDPs. Since it is almost certain that, by 2050, China and India will be the two largest economies in the world, it is inevitable that bilateral trade between them will become the most important economic relationship in the world. We look now at the current hot subject and one that may be part of Prime Minister Manmohan Singh's discussions during his visit to China: should India grant Market Economy Status (MES) to China? We believe that the correct answer is "Yes." True, some of China's major trading partners (the US, the EU, and Japan) have not yet granted MES to China. However, it is in India's own best interests to grant MES to China — Now. Here's why?

While government subsidies do remain an issue in some industries in China, there is no evidence that this problem is endemic throughout large sectors of the Chinese economy. Also, other countries (such as Russia), which suffer from similar problems already, enjoy a Market Economy Status. Whether or not a country grants MES to China has minimal impact on trade balance with China. Take the US as an example. Even though the US has not granted MES to China, its trade deficit with China was \$162 billion in 2004, \$202 billion in 2005, and \$232 billion in 2006. Thus, from China's point of view, whether or not a country grants MES to it has little substantive value. The value is entirely "symbolic" and, as we know well, symbolism is a hugely valued commodity in China.

In any case, China will automatically get the Market Economy Status around 2015-16. Thus, for China, the symbolic value of getting MES goes down with each passing year. If India were to grant MES to China now (rather than after Japan, the US, or the EU have done so), the symbolic value to China will be much greater than if India were to be a mere follower. Granting MES to China will not take away India's rights to file legitimate anti-dumping cases. Even after China is granted MES, it has to provide verifiable information to the country filing an anti-dumping complaint. If such information is not provided, the latter retains the right to use the best information available, including third-country (surrogate) information. As it is, the current anti-dumping cases filed by India against China total less than 5% of China's annual exports to India. In short, the substantive value of granting or not granting MES to China is insignificant not just for China but also for India. Yes, India will have a \$9-10 billion trade deficit with China in 2007; however, MES has little if anything to do with the trade deficit. Substance aside, if India were to grant MES to China before Japan, the US, and the EU do so, the symbolic value to China will be very high. If India is smart, it should exploit this opportunity to the maximum by getting quid-pro-quo concessions from China on issues that matter enormously to India (e.g., a settlement of the border disputes). In essence, India should look at MES for China as an issue whose salience rests almost totally in non-economic rather than economic domains. We agree that, at the margins, granting MES to China will put greater pressure on Indian manufacturers to become more efficient and on the Indian government to accelerate the elimination of India's disadvantage in infrastructure.

c) Finally, what are the prospects for trade links between India and China?

The pressure on Indian

manufacturers to become more efficient and on the Indian government to accelerate the elimination of India's disadvantage in infrastructure is likely to be a net plus. India's political and business leaders have always responded with vigour to external economic pressures and competition. Look at the country's response in 1991. Or, look at the accelerated pace with which India's IT giants are globalizing their footprint and moving up the value chain in response to an appreciation of the rupee and growing competition from other countries.

In any discussion of the growing economic integration between India and China, it is important to remember also that trade is only one of the two major economic ties that bind nations. The other is investment. At present, trade links between the two countries are relatively modest. Haier and Huawei have significant presence in India. Similarly, Bharat Forge, TCS, and Infosys are building a noteworthy presence in China. These types of greenfield investments will continue to grow. However, the quantum leap will come as some of the bigger companies from India and China acquire third-country companies that already have a significant presence in the other country e.g., if an Indian auto company were to acquire a western auto company with significant presence in China. It is certain that, over just the next five years, we will see a growing number of foreign acquisitions by Indian and Chinese companies. As these acquisitions materialize, it is inevitable that trade linkages between India and China will grow rapidly.

The world is watching the rise of China and India with fascination and awe. However, most people do not realize that the implications of tighter economic links between the two could be even more profound.

4. CONCLUSION

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, the sectors where India exactly 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". So this will solve the more basic macro-economic challenges that India faces. However, no matter what challenges may arise, India and China can only benefit by increasing bilateral trade. Reasons being, "... 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. But I believe actually that 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."

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