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Drivers of Bilateral Trade between India and China

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Abstract - Both India and China are the fastest growing economies in the world. This paper throws light on the present status of India China bilateral trade. The bilateral trade between India and China has reached 84.44 billion USD in 2017. However the trade deficit between both the countries has been raised by 219% in a decade from 16 billion USD in 2006-07 to 51 billion USD IN 2016-17. The drivers of bilateral trade include opportunities of investment linkage between both the countries, progress made by both the countries in past decade and relative competitive advantages they have while working together in global arena. The paper delineates the recommendations to increase bilateral trade between India and China which mainly focuses on leveraging the competitive advantages possessed by both the countries while working in tandem with each other. The conclusion drawn from the study includes mutual negotiations created by diplomatic dialogue between policymakers of both the countries can level up the trade deficits and other challenges coming in way of booming bilateral trade between two countries.

Keywords: ***Bilateral trade, Chinese imports, Indian export, India China rapprochement, India-China trade deficit, Equalization of India-China bilateral trade.***

I. INTRODUCTION

China and India have an extensive history of cultural, scientific, and economic linkages in common. Since1990, both the countries have become increasingly outward-looking in their trade and industry policies and have encompassed deeper economic cohesion with the rest of the world. Both the countries are also members of the World Trade Organization (WTO). The reduction and removal of trade barriers has helped to encourage economic exchange between both the countries. Since 2000, business between China and India has grown nearly twice as fast as each country's trade with the rest of the world.

Notwithstanding the bilateral tension aroused over the Doklam issue, the bilateral trade between India and China has reached 84.44 billion USD in 2017.It was 18.63 percent more than the previous year trade of 71.18 billion USD in 2016. As per data by Chinese General Administration of Customs, The Indian exports to China have also increased by 40 percent to 16.34 billion USD in 2017. The Indian imports from China have increased by 14.59 percent to 68.10 billion USD in 2017.This booming bilateral trade has come to be the strongest pillar of China-India reunion. This has not only since overtaken the pace of political confidence-building but also has a significant influence on their mutual perceptions. This bang in trade has also introduced new trends. The two states are no longer only beneficiaries on foreign direct investment but have entered into a new segment of being investors, both mutually as in other regions.

India has emerged as 24th largest exporter to China. The exports primarily consist of diamonds along with copper, iron ore, chrome ore, organic chemicals and cotton yarn, plastic and linoleum, marine products, tobacco and tea. In 2017, India was the second largest exporter of diamonds to China with a market share of 33.06 per cent, first being South Africa. The diamond exports grew by 4.93 percent totaling upto 2.59 billion USD. The copper exports rose 115.78 percent reaching 2.15 billion USD. The yarn and woven fabric exports have reached 1.30 billion USD registering 1.86 percent growth on year on year basis. The zinc exports have contributed to 240 million USD showing the sharpest increase of 802 percent. Other primary exports to China are natural pearls, precious stones , precious metals, ores, slag and ash.

Chinese exports to India consists of items like raw silk and silk yarn, coking coal, some types of chemicals, pulses, mercury and antimony, freshwater pearls, pig iron, newsprint and several low-technology consumer items. The reason for the huge difference between imports and exports is that India exports only raw material to China. The discrepancy can be reduced only when India starts exporting value-added products.

Despite being two largest economies with large GDP, both the countries still have substantial poverty and pockets of discontent and a very low per capita income and living standards. Bilateral trade will help both the countries reducing such catastrophes and making a healthier society. Their long-term potential as trade partners, however, remains yet to be fully discovered. This article makes an attempt to know how bilateral trade promises to become a most potent instrument for resolving the political differences and expediting progress in realizing their strategic partnership for better future. This China-India economic cooperation remains an essential criterion

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for the success of their regional and global political initiatives.

II. LITERATURE REVIEW

Singh and Mishra (2014) studied the impact of trade relations between India and China after membership of China in WTO in 2001. They asserted that the bilateral trade between India and China has improved significantly after Chinese membership. They also discussed constraints in trade between India and China. Panda and Sethi (2016) compared determinants of trade between India and China. They studied relationship between trade flows and different variables like gross domestic product, capital income, distance, language etc.The study showed that India trades with countries having higher GDP and low per capita income while Chinese trade is influenced by higher per capita income and common language of trading partner. The study also identified key determinants of India China trade flow. Kadira Pethiyagoda (2017) focused on main drivers of conflict in India China bilateral trade. India's large trade deficit with China, disputes over market access and resource competition are major causes of conflict along with Doklam border dispute. The study however concluded that getting aware of peaceful coexistence over centuries from past can help both the countries to reduce the political and economic antagonism and help flourish a sustainable mutual trade and development. Mallapur (2018) points that the trade deficit between India and China has increased by 219% from 16 billion USD in 2007-08 to 51 billion USD in 2016-17. This trade imbalance aroused as the value of Indian export to China is only USD 10 billion in 2016-17 while that of import from China resides at USD 61 billion in 2016-17. This trade deficit attributed to the fact that India exports only primary and intermediate products to China while the Chinese import consists of manufactured items with value added content. Jennings (2018) explicated that the key to achieve successful partnership is that both the countries should accept each other's existence in Asia respectfully and not just impinging the view that only one of them is powerful and influential. Good relationship with each other is the key to achieve an unbeaten and sustainable competitive advantage over other global players.

III. TRIGGERS OF BILATERAL TRADE

1. **Relative advantages**

The varying comparative advantages of the two countries offer grounds for strong economic exchange. Although China's economy is three times as large as India's and its manufacturing sector is five times that of India's. Chinese exports to India primarily include manufactured goods, especially various types of machinery and electronic items. On the other hand, India has some of the world's largest reserves of iron ore, bauxite, and manganese, and its exports to China contain primarily of raw materials to nourish that country's expanding steel and automotive sectors. Services trade between China and India remains trivial. India has emerged as a global powerhouse in information technology (IT) and IT-enabled services all across the world but the language differences create natural barriers to the export of these services from India to China. Consequently, many of India's IT companies participate directly in local operations within China.

China can help India in dealing with infrastructure bottlenecks in field of roads, ports, electric power by supplying capital goods like turbines etc. This will help India to modernize its infrastructure quickly. There also lies a cost advantage in this proposition as Chinese capital goods are comparatively cheaper than western or japanese manufacturers.

2. Swift economic progress

The utter growth rates of these economies have heightened bilateral trade, as they have more to buy and sell. These countries are likely to continue to grow more rapidly than other major economies of the world according to International Monetary Fund projections. They could remain world's fastest growing economies for next two decades. In this milieu, the projections for continued strong growth in bilateral trade appear to be bright. It is the nature of China-India bilateral trade as a confidence-building measure that must be underlined to realize its interface with their political relations which remains so significant for its long-term prospects. Therefore, more than being measured in terms of statistics and profits, it is the political impact of trade which remains the gauge of their economic commitment. The vitality of both economies and societies, especially young population and increasingly trained manpower are going to be their critical asset. In absolute terms, as proportion of their total trade or even in terms of per capita trade this may present a murky picture, yet trends in the growth rate of China-India trade show strong potential and which is having important political implications.

3. **Rising investment linkages**

The level of investment between China and India remain somewhat low. This is because Chinese and Indian companies are still in the early stages of learning how to operate and succeed in each other's economies. Foreign direct investment requires greater knowledge of host economy and commitment towards host economy. Current developments suggest that bilateral FDI will likely see a sharp rise over the next five years. Investment is rapidly entering a broader range of sectors, encircling high-tech and low-tech industries. Constant dialogue between diplomatic, economic and military policymakers of China and India at higher level will open doors of investment for both the countries. The co-ordination and communication between national institutions of both the countries can be strengthened. Nurturing a positive image of each other at global business environment will also help increasing investment opportunities in both the countries. Issues of strategic importance relating to defense like Tibet and

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South China Sea should be handled sensitively. Both the countries should employ a cooperative attitude to resolve their differences thereby reforming global business trends.

IV. RECOMMENDATIONS

The rapid ascend of China and India, and the growing economic assimilation between them, has clear implications for other multinational corporations. Companies must make a decision how best to leverage the growing power and economic integration of these two economies. By making products by leveraging the scale of both countries to sell at high volume to compensate for lower margins a company can utilize the complementary strengths of both countries. For example, IBM procures much of its hardware from China and has its office at Shenzhen to take advantage of China's manufacturing strengths. While in India a company recruits employees who are engaged in global IT projects outside India taking advantage of good English skills and knowledge of information technology domain of Indian professionals. As both the countries have large economies with very low per-capita incomes and large rural sectors, the opportunities and challenges that most companies face in China are similar to those they face in India. Accordingly, products developed for one market can often be sold in the other.

V. CONCLUSION

Flourishing bilateral trade has come to be the most powerful pillar of China-India rapprochement. This has not only created a tempo of political confidence-building but also led to considerable impact on their mutual perceptions. It has contributed to overall harmony and peace between both the countries and also smoothen progress in their border negotiations.

The development of bilateral trade has also introduced new trends. The two countries are not just only recipients on foreign direct investment but have also entered into a new phase of being investors, both mutually in other regions. Investment linkage between India and China will deepen by acquisition of companies in various different countries of this world which have presence of both India and China. For example Tata Steel in 2004 acquired Natsteel Holdings based in Singapore which has two steel mills in China. Acquisition of Jaquar and Land Rover in 2007 gave Tata motors a revenue business of 1 billion USD in China. Investment opportunities in India can be leveraged by China through investing into infrastructure projects in India. Although many times India has issued several antidumping measures against products such as yarns and fabrics and aluminum products from China. But both governments appear eager to resolve these issues through shared discussions rather than taking them to the WTO. However a major obstacle to bilateral investment which needs to be bridged is unresolved border disputes. Along with this the competition to capture new market also presents a major challenge to sustain this booming bilateral trade. But mutual negotiations will bring equalization in trade between both the countries.

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