

Chapter 01 – Introduction

1.1 Introduction:

India's trade relation with China is an important area of study for both scholars and policymakers of both these nations. A large volume of works has been produced on different aspects of India's trade relations with China. Our study covers some of the important aspects of these relations. Trade relations can have two different aspects. One of the aspects is the complementary bilateral relation between the nations, where two countries trade with each other. Other one is the competitive relation where two countries compete in the world market. As far as the trade relationship between India and China are concerned, most of the studies are either focused on complementary aspects or they are focused on competitive aspects. A very few authors have considered both aspects in their studies. We have in our study considered both complementary and competitive aspects of trade between India and China to have a holistic understanding of the bilateral trade relationship between the two nations. Even though we have considered both complementary and competitive aspects in this study, we have given more importance to the complementary aspect of the trade relation.

The rest of the chapter is organized as follows: In the next section we have review of literature on various aspects of India's trade and India's trade with China. In section 1.3 we discuss Rational of the study and in 1.4 Limitation of this study. We have formulated several objectives for this study which is accompanied by relevant principal research questions and research hypothesis. These are presented from section 1.5 to section .7. In section 1.8 we discuss the data and methodology that we have considered for this study. And finally in section 1.9 we have presented the structure of our thesis.

1.2 Review of Literature:

As we have just introduced the issues that we have covered in our preceding chapters, where we have made extensive review of literature for each chapters, in this chapters we have considered two broad aspects related to our study. One is exclusively related to India's trade and other related to India – China trade. First one is covered under the theme of a) India's Trade Potential and the second one under b) Important issues related to India-China economic relations.

a) India's Trade:

Charan Wadhva (1998) studied the export performance of India from 1950-1997 focusing on two sub- groups viz. 1950-1990 and 1991 -1997. He concluded that during the study period India failed to “take off to a long-term self-sustaining high growth

path". He attributed this failure to inability of India's policy to align to world standard at both macro and micro level. According to him it was the domestic supply related constraint and not the external factors which was responsible for relatively low export performance. He asserts that since India's trade policy was unable to evolve into 'strategic and comprehensive national export policy' over the years, there is a need for reformulation of India's export strategy as a part of national macroeconomic strategy.

C. Veeramani made a comparison of export growth during the pre-reform period of 1950-1990 and post reform period of 1993-2005 and found that growth rate during post reform period was not very high as compared to pre reform period. Comparing the potential and actual growth rates of exports during the post reform period he found that during this period actual growth rate was higher than potential growth rate. The reason he gave for this was overall improvement in competitiveness of India's export during this period. He also identified that appreciation of real effective exchange rate had adverse effect on India's exports during post reform period.

Ranajoy Bhattacharyya and Tathagat Banerjee in their paper titled "Does the Gravity Model explain India's direction of trade? A panel data approach" examines India's direction of foreign trade. With regard to the factors responsible for affecting a country's foreign trade they pointed out that the comparative advantage to the other countries, economies of scale, the aggregate income of the home as well as the partner residents, trade policies of the government, membership to currency unions and /or customs unions and finally participation in bilateral, regional, and multilateral agreements. Using the gravity model to analyse India's direction of trade they produced some interesting findings. They found that this model can explain 43 percent of fluctuations in India's direction of trade in the second half of the twentieth century. Again, when it comes to the responsiveness of India's trade, they found that it responded less than proportionally to the size and more than proportionally to the distance. The presence of colonial heritage in India's trade still seems to be an important determining factor for India's direction of trade. According to their study India trade more with the developed nations than with the developing but size of the partner appears to be more influential determining factor than the level of the development of the partner.

S.N Bhattacharya and B.N Bhattacharya in their work titled "Gains and Losses of India China Trade Cooperation: A Gravity Model Impact Analysis" calculated the trade intensity indices of India and China, and their result shows significant trade potential between the two countries. They also showed with gravity model the likely impact in terms of

gain or loss in imports of both India and China due to different preferential arrangements and free trade agreements.

Amita Batra in her study titled “*India’s Global Trade Potential: A Gravity Model Approach*” argues that though India’s economic liberalisation had positive impact on India’s external sector but compared to other countries the volume of trade as a share of world market is far less. She used the gravity model of trade to examine the trade potential of India. Her study reveals that India’s trade potential is maximum with Asia- Pacific Region followed by Western Europe and North America. With regard to individual nations potential of trade expansion is highest with China, UK, Italy, and France. Her study reveals that among ASEAN countries the trade potential is highest with Philippines and Cambodia.

Nilanjan Banik, identified the factors responsible for significant decline in India’s exports during the post reform period. He found that decline in India’s growth rate was mainly because of fall in growth rate of export volume. And the factors responsible for declined export growth rates were related to demand side factors rather than supply side ones. But he also suggested that, taking care of supply side factors is also important for the revival of exports growth. According to him, the actual demand for India’s exports was due to sharp decline in India’s competitiveness caused by depreciation of the currencies of many Southeast Asian countries during that time. Another reason for the decline according to him was imposition of high non- tariff barriers by many developed countries during that period.

Prabir De’s study titled “*Global economic and financial crisis: India’s trade potential and future prospects*” also confirms the findings of Amita Batra. Using the gravity model of trade to examine the India’s trade potential during pre- crisis and post- crisis period with panel data, he concludes that India’s trade potential is maximum in Asian and Pacific region followed by Africa and Latin America. The study also shows that the potential for expansion of trade is highest with countries like China during post –crisis period.

b) Important issues related to India-China economic relations:

Many studies have been conducted with respect to the issues related to India- China bilateral trade.

Arvind Virmani in his article “India- China Economic Cooperation” has pointed out several issues related to India China trade. Here he shows his optimism regarding the high prospect of India China trade resonating some empirical work done by Amit Batra. According to him India- China “bilateral trade potential is very high given the size and economic dynamism of the two economies.”

Bhat et al in their study suggests that India and China have scope of economic cooperation. They found that both India and China are developing closer economic ties not only with each other but also with rest of the Asia using bilateral as well as multilateral agreements. They also figure out that there is vast potential of economic cooperation between the two countries as indicated by growth in trade and investment between them. They also found there exists complementarities between the two nations in trade. On the one hand India imports were electrical and electronics, chemicals, and silk product from China and exports to China products based of primary resource based and low technology manufactured ones. Regarding China's entry into the WTO, they observe that it has not only provided challenges but also opportunities for both India and China. They suggest that India and China can take common stands in WTO in issues like agricultural subsidies, trade related aspects of intellectual property rights, trade facilities and so on.

Singh and Mishra in this study found that the total volume of between India and China had increased significantly particularly in the period after China become a member of WTO in 2001. They observed that there exists a tremendous scope in bilateral trade between India and China and China's entry in WTO had positive impact in that relation. One measure to achieve full potential of bilateral trade between India and China, authors suggest that the remaining trade barriers as well as constraints between them should be lifted.

Qureshi and Wan in their work titled "Trade Expansion of China and India: Threat or Opportunity?" identifies the export performance and specialization pattern of China and India with special focus on their trade competitiveness and trade complementarities with respect to each other and with the rest of the world. Their finding shows that present competition that India faces from China in export of traditional labour-intensive products may reduce in the long run.

Beretta and Lenti in their paper examines competition and complementary position of India and China in world economy as well as bilateral relationship between them. According to them, India and China show different path of specialization along with intensification of bilateral. Comparing comparative advantages of India and China they observed that India's comparative advantage was still in traditional sectors and in some manufacturing sectors whereas China's specialization was focussed on mass export of cheap goods. On the basis of growing inter-industry trade between India and China, authors concluded that there is complementary relation between the two. According to them bilateral trade between India and China has huge potential.

According to the “Report on the India- China Joint Study Group on Comprehensive Trade and Economic Cooperation (2005) there is rapid growth in the bilateral trade and investment between India and China and has a “vast potential for growth in the future”. According to the report India and China can complement each other because China has advantage over manufacturing sector and India is dominant in-service sector and they can use their respective strengths for mutual benefits. Along with this according to the report India and China can together play significant role in broader economic integration of Asia.

Boillot, and Labbouz. (2006), using two probable scenarios, tried to project the trend in trade between India and China in 2015. For this study they considered two scenario. First was continuation of the bilateral trade expansion between India and China which they called ‘Chindia’ and second was ‘end of catching up process and the emergence of a joint ‘India and China’ upsurge at the world level. By considering the models of specialization and industrial transformation both in micro and macro level by both these countries, the authors concluded that second scenario had better probability than the first one. With regard to projected trade between India and China in 2015, they found that China was far ahead of India in trade and trade flow between India and China was insignificant.

SK Mohanty, in his study India-China Bilateral Trade Relationship (2013) has identified following issues with regard to India China trade relations: i) India’s trade gap is increasing over time not only in the world but also in terms of its trade with China and how much is the contribution of China in overall trade gap of India. ii) Role of tariff policies on the trade performance of India and China as regard to country’s expanding participation on various RTAs in Asia and in the world. iii) Role of India in the Global value chain which is an unexplored area in India through engagement with China and iv) Revaluation of Chinese currency yuan and its impact on India’s trade not only with China but also with the world.

1.3 Rationale of the study:

India’s economic relationship with China is not only limited to bilateral complementary relationship but China is also a major competitor of India in the world market. This study is an attempt to understand the nature and consequence of India’s economic relationship with China. The study basically has two components or parts. Firstly, we are going to study different aspects of bilateral trade relationship between India and China. Secondly, we study the competition between the two countries by comparing their performances in the world market. The rationale for doing such a study is to understand both complementary and competitive relationship between the two nations in one study to have a holistic understanding

of the nature of trade relationship between India and China .As most of the literatures on India China trade relations have focused either on one or the other relation and we this prevents us to have an overall understanding of India – China trade relations. So, this study is an attempt to bridge that research gap.

1.4 Limitations:

One of the important limitation of this study is that in this study we have considered only merchandise trade and we have not considered trade in services and other aspects related to trade like FDI. As far as data is concerned, we have used data with two different frequencies. In Chapter 02, Chapter 03, and Chapter 06 we have used annual data and in Chapter 05 we have used quarterly data. In case of Chapter 04 we have used annual as well as quarterly data due to unavailability of data.

1.5 Objectives of the study:

This study has been conducted with the following specific objectives :

1. To examine the performance of India's trade during the study period.
2. To understand the nature of India- China bilateral economic relationship.
3. To examine factors that complements India- China bilateral relations.
4. To examine the extent and nature of intra-industry trade between India and China.
5. To examine the long -run relationship between India's exports to and imports from China.
6. To understand the nature competition between India and China in the world market.

1.6 Principal Research Questions:

We have formulated certain specific research questions or principal research questions for conducting this research with an intention to make sense of the issue objectively and scientifically.

1. Has India's trade in the world trade stagnated?
2. What is the nature of India's trade relationship with China?
3. What is the nature and extent of share of intra- industry trade in India China trade?
4. Is there any long-run relationship between India's exports to and import from China ?
5. Is India's export performance better than China in the world market?

In our study question no. 1 is addressed in chapter 02 and question no. 2 in chapter 03. The third question is addressed in chapter 04 and fourth question in chapter 05. The last question i.e., fifth one is addressed in chapter 06 of our study.

Similarly, for our studies we had formulated following research hypotheses

1.7 Research hypotheses:

In the study we are going to test the following important hypothesis that we have formulated so that we come up with better understanding of the issue we are addressing in this study.

1. India's trade remains stagnant during the study period.
2. India is an important trade partner of India.
3. China is an important trade partner of India.
4. India intra-industry trade with China reduced overtime.
5. There was no change in the type of intra-industry trade between India and China.
6. There is no long-run relationship between India's exports to and imports from China.
7. India's export performance is better than China in the world market.

1.8 Data and Methodology:

The data that we are going to use in this study is secondary in nature from different national govt. and international agencies. The basic sources of data for this study will be from publications of WTO, Ministry of Foreign Trade, Ministry of Commerce, CMIE etc. The data after 1991 will be used for the purpose.

For Chapters 02, 03 and 05 we have calculated various types of trade related indices and used them in our study. For chapter 04 we used index of intra-industry trade and another method to separate different types of IIT. In chapter 05 we have used cointegration approach to find out the long run relationship between variables concerned. The data for our analysis is collected from various sources which includes WITS- COMTRADE, RBI, Ministry of Commerce, Government of India , Federal Bank of St Louis, USA. For most of the analysis the frequency of our data was annual but the data that has been used in chapter 05 is quarterly data.

1.9 Structure of the work:

The structure of this work are as follows. In Chapter 02 we discuss performances of India's trade during the period from 1992-2018. In this chapter we examine various aspects of India's trade. In Chapter 03 we will be analyzing the complementary trade

relationship between India and China for the same period. This chapter will help us to understand the nature of India China trade. It is followed by Chapter 04 where we discuss the extent and nature of India's intra-industry trade with China. This chapter will show the share of intra-industry trade in the overall trade of India with China. Along with that in this chapter we will also know the nature or type of intra-industry trade between India and China. After this chapter, in Chapter 05 we will examine the long- run relationship between India's export and import with China. It also helps us to know the stability of the relationship between these two variables. In Chapter 06, we will make a comparison of trade performances of India and China in the world market. This chapter will help us to understand the competitive relationship between the two countries. In the final chapter i.e., Chapter 07 we will summarize the study, make relevant recommendations, and conclude the work.

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