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BILATERAL TRADE RELATION BETWEEN INDIA-CHINA AND IMPACT OF TRADE ON INDIA'S GDP

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ABSTRACT

India and China started to trade with each other from the very early period. Post 1980's with the opening of economies of both countries the equation changed. China is one of the largest trading partners of India and India is one of the largest consumer market in the world. Besides this, China has emerged top three trading partners of India whereas India has emerged top ten trading partner of China. India is also looking to become superpower in the global economy. In this paper I have tried to find out the impact of Export to China and import from China on GDP of India. This paper took into account the GDP of India, Import from China and Export to China respectively from 2000-2018. This paper attempts to find out the impact of bilateral trade between indo- China between GDP of India. Further, due to large size of the economies and their composition, exports as well as imports and political will, the trade is supposed to grow and it would have significant impact on trade and economy. Moreover, in post covid-19 age and after all the tension along the LAC and trade war it will be interesting to see that in which direction trade moves whether in favour of India or against India.

Keywords: *India, China, GDP, Export, Import, COVID-19.*

Introduction

The two economic giants of the world economy i.e., India and China have become leading powers and consolidated their position in recent times. Both the economies are fastest growing economies of the world representing Asia as a global market on the world map. Bilateral relations between India and China have entered into a new era post 1980's. Status of Most Favored Nation's (MFN) was given to China in the year 1984. Post 1992, bilateral trade relations had improved and it entered into a new phase. In 1994, Double Taxation agreement was signed between India and China. Both, India and China became dialogue partners in the Association of Southeast Asian Nations (ASEAN). In the year 2003, Bangkok Agreement was signed between 2 countries under which trade preference was given to some products of both the countries. In the year 2003, an agreement to initiate open border trade via silk route was signed between India and China. Both of the countries were trying to follow WTO commitments and have shown their willingness to participate in various multilateral trade agreements. Today's, China is the largest trading partner of India. Both, India and China are rapidly growing as the leading economic powers of the world. Despite having so many common features, key development characteristics and economy takeoff timing differs between these two countries.

In the first decade of 21st century, there has been exponential rise in the presence of Chinese product in Indian market. From the year 2001 to 2006, imports of India from China surged to a whopping 33 times from \$1.83bn to \$60.48bn. Astoundingly, trade deficit of India with China expands 57 times during the same period. It has narrowly downed in last few years but it is still exorbitant.[1] India was the 7th largest export destination for Chinese product and 27th largest exporter to China in 2016. In the first four months of the year 2017, India - China trade increased by 19.92% on Year-on-Year (YoY) basis to \$26.02bn. India's export to China has increased by 45.29% on Year-on-Year (YoY) to \$5.57bn whereas India's import from China saw a Year-on-Year (YoY) growth of 14.48% to \$20.45bn. Indian trade deficit with China in the same period has further increase by 6.07% YoY to \$14.883bn. [2]

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Research Methodology

In this research work, secondary data from various government sources and institutional sources like Ministry of Commerce and Industry, World Bank and Ministry of Statistic Programming and Implementation (MOSPI) etc. have been used. I have tried to analyze the impact of import and export with China on GDP of India through the use of Ordinary Least Square regression.

Data Analysis and Interpretation

The variables which were used in my studies are of Export data of China, Import data from China and GDP of India. Simple linear regression were used in the form of **Y = a + b.X** where Y is the dependent variable and X is the independent variable which shows the relation between GDP with Import and Export respectively. Two regression equations have been run.

- With GDP of India as dependent variable and Export to China as Independent variable
- With GDP of India as dependent variable and Import from China as Independent variable.

Table 1: Variables Used in the Study (Amount in US Dollar)

Year	Export to China ($ mn)	Import from China($ mn)	GDP of India($ mn)
1999-00	831.3	1,502.20	468395
2000-01	951.95	2,036.39	485441
2001-02	1,975.48	2,792.04	514938
2002-03	2,955.08	4,053.21	607699
2003-04	5,615.88	7,097.98	709149
2004-05	6,759.10	10,868.05	820352
2005-06	8,321.86	17,475.03	940260
2006-07	10,871.34	27,146.41	1217000
2007-08	9,353.50	32,497.02	1199000
2008-09	11,617.88	30,824.02	1342000
2009-10	14,168.86	43,479.76	1676000
2010-11	18,076.55	55,313.58	1823000
2011-12	13,534.88	52,248.33	1828000
2012-13	14,824.36	51,034.62	1857000
2013-14	11,934.25	60,413.17	2039000
2014-15	9,010.35	61,706.83	2104000
2015-16	10,171.18	61,281.57	2295000
2016-17	13,333.53	76,380.70	2653000
2017-18	16,752.20	70,319.64	2713000
2018-19	16,612.75	65,260.75	2875000

Source: Ministry of Commerce and Industry, Department of Commerce, Government of India; World Bank Database [3]

Results of the Study

In **Case 1: -** When GDP was used as dependent variable and Export to China was used as an independent variable

Table 2: Regression Result of Export to China on India's GDP Growth

Summary		
Multiple R	**R square**	**Adjusted R square**
0.8405	**0.7065**	**0.6902**

Source: Author's calculation [4]

In the above table Multiple R shows the correlation between the export growth and GDP growth. It tells that how strong a linear relationship is. Multiple R in this case is 0.8405 which suggests that there is strong positive correlation between export to China and GDP of India. The R square value how much proportion of variation in dependent variable (GDP of India) that is explained by the independent variable in the regression model. Here in this case 70.65% of the variation in the dependent variable is explained by the independent variable. Rest is explained by the Residuals.

In **Case 2: -** when GDP was used as dependent variable and import from China was used as an independent variable

Table 3: Regression Result of Import from China on India's GDP Growth

Summary		
Multiple R	R square	Adjusted R square
0.9784	0.9573	0.9550

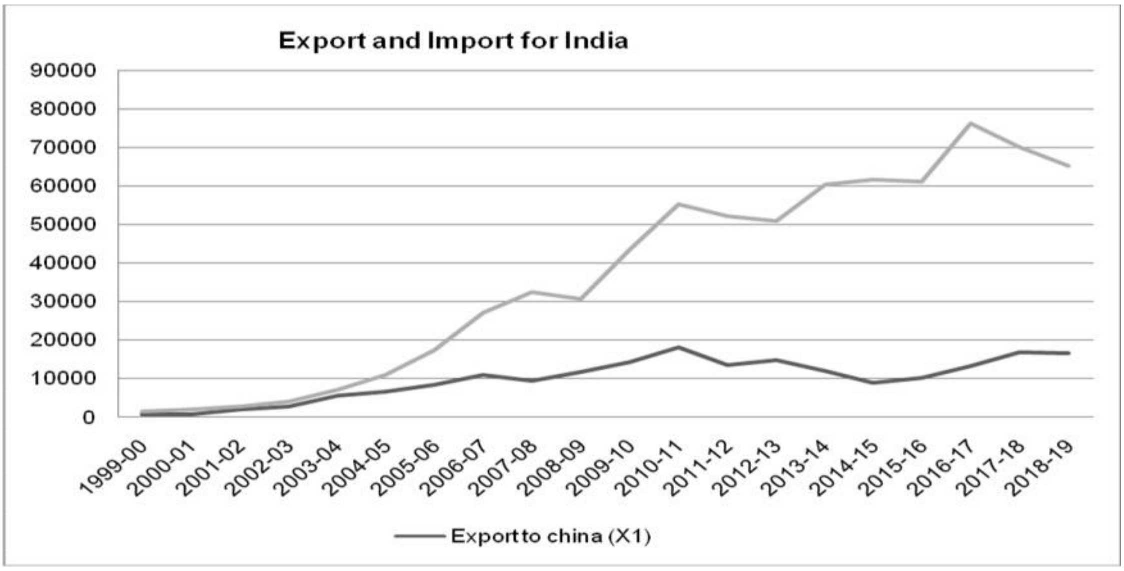
Source: Author's calculation [4]

In the above table Multiple R shows the correlation between the export growth and GDP growth. It tells that how strong a linear relationship is. Multiple R in this case is 0.9784 which suggests that there is strong positive correlation between import from China and GDP of India. The R square value how much proportion of variation in dependent variable (GDP of India) that is explained by the independent variable in the regression model. Here in this case 95.73% of the variation in the dependent variable is explained by the independent variable. Rest is explained by the Residuals.

It shows that there is an impact of export to China on GDP of India along with Import from China. In this model r square is very high which shows that model explains that major changes in GDP is due to import and export.

Impact of Covid-19 on Trade

Trade pattern across the world has set to undergo a massive change due to outbreak of pandemic. There are waves of anti-China and nationalism sentiments in Indian are trying hard to turn the direction of trade. Simultaneously skirmish at Galwan Valley in LAC and push for "Atmanirbhar Bharat" have boosted the voice to boycott Chinese products. However, China being one of the major trading partners of India has major share in India's trading account but the reverse is not true. It means that India is not as important to China as China is to India. Bilateral trade rose from $2.33bn (2000-01) to approximately $ 89.7bn in 2017-18 though the trade balance was always tilted in favour of Chinese. It is evident from the following data that India's share in China's total import and export were just 0.76% and 4% respectively, whereas China's share in India's total import and export were 18% and 9% respectively in 2019-20.[5]



In recent times, most of the products like needle, toys, electronic gadgets, cell phones, crackers, gift items, television etc. have been dumped in our country from China. All these product are available at very less price than 'Made in India' products, thus forcing our domestic producer to go out of competition. It further led to weakening of Indian manufacturing unit and Indian economy. Due to unusual sharp increase in imports from China, several anti-dumping investigations and anti-dumping duty was constituted to prevent the interest of Indian producers**.** As of now approximately 550 tariff lines are under the 'restricted' or 'prohibited' category for imports under the Foreign Trade Policy, which includes imports from all the categories including China. So import curve flatted after these but the trade deficit is still large due to large imports from China.[6]

However after Covid-19 induced lockdown and restriction on trade and transportation of commodities, China has been badly impacted by this. According to Government of India report India's trade deficit with China has been reduced to $5.8 billion in the April-June 2020-21 from $13.1 billion in the same period last fiscal year. It was a collective effort from GoI and the citizens of India. Government did their own part putting a lot of effort on increasing exports and reducing imports from the neighboring countries. Not only this, Indian government has also taken various other steps to reduce the total trade deficit with China. Total trade of India has been reduced from $21.42 billion (April-June 2019-20) to

$16.55 billion in April - June 2020-21. India's trade deficit with China was $53.56 billion in 2018-19 which was further declined to $48.64 in fiscal year 2019-2020.[7] The major items which saw fall in imports are Plastic items, man-made fabric and yarn, aluminum and its products, glass and glassware, paper and paperboard etc. Import from China is mostly in the finished products and are huge in numbers. Top imports from China includes electrical items $21.9bn, Machinery and Parts $11.1bn, Organic Chemical 5.6bn, plastic and ship boats. Whereas, India's export to China including export of intermediate goods like Ores, Stag and Ash worth $1623mn, Cotton worth $1348mn, Organic Chemicals worth $887mn, Mineral Fuels worth $789mn , Copper worth $708mn. It can be viewed from past trends that India is a heavy exporter of unfinished (intermediate) goods whereas China exports cheap quality commodities to India. With the help of these unfinished goods import, China refurbished it and exports it again to other countries at higher prices. Thus China makes profits in exports. [8]

According to CII report China account for approximately 14% of India's import in 2018-19. According to the data estimate of CII, China account for almost 45% of electronic import of India, one third of machinery imports, and two-fifth of organic chemicals. [9]

But there is a big question arises that, should be severe our ties with China? China has established its leadership in trade by reforming the basic structure of the economy's manufacturing sectors like up scaling rural productivity and employment, focus on promoting ICT technologies, heavy investment in telecommunications, ports and road infrastructure e.g. one belt one road initiative etc. [1] So, severing our ties is hardly going to impact China, even if we feel to severe our ties. So, the best option available to us is to continue the trade with China given the strategic intervention in Ladakh, South China Sea, Taiwan and Hong Kong. Gradual reduction in the trade with the Chinese would prove with a better alternative. [10]

Conclusion

By the above analysis it is clear that India is persistent trade deficit with China. India has a huge trade deficit. However there is no short run solution to fix this. The Covid-19 induced lockdown has given Indian traders upper hand but it does not promise long run benefit to traders. Manufacturing activity in China too have taken a hit. Countries are trying to diversify their trade channels so that in future their trading would have little impact.

According to Bussiere and Mehl (2008), the overall degree of trade intensity of China is higher than that of India. Chinese goods compete with advanced and developed economies like Europe and USA whereas indian goods compete with the least developed economies have low technological advancement. Chinese export of goods and services complement each other. At the same time Indian exports are mostly in services sector thus can't complement the goods export. [2]

To minimize the further impact of such global pandemic and to create an uninterrupted supply chain in the market, India needs to have a calibrated move in planning medium and long-term policies. The major challenges lies in domestic sector e.g. - building required infrastructure, high-end technology, strengthening of multilateral institution etc. These challenges need to be addressed in order to build a strong opposition in post covid-19 age for economic and political interventions by China.

Foreign Trade Policy needs to be revisited and promotion of trade based on comparative advantage should take place. Investment in required infrastructure such as ports, roads, tele-communications, technologies, industrial sectoral dynamics are extremely important. We need to identify and invest in those sectors which have maximum spillover effect. We are going through a major health and economic crisis all over the world. Potential sectors like pharmaceuticals, healthcare needs to be promoted and in these sectors we can achieve the desired result. It is also supported from the fact that we are the largest generic medicine supplier in the world but for that we require raw material i.e. Active Pharmaceutical Ingredients (API) from China. Trade Related Intellectual Property Rights (TRIPS) of WTO also needs to ensure that medicines and all ingredients are available and accessible to all countries and fair trade practices should be followed. Post Covid-19 era is all about how a nation seize the opportunity to become the leader in the market. We should aspire to utilize the opportunities available to us by increasing fiscal and monetary measures to increase the demand and supply numbers. For this we need to relocate production to rural areas with skilled manpower able to generate livelihood for all.

In order to counter the dumping of cheap products by China, India should practice countervailing duties (CVDs), safeguard duties, anti-dumping measures and other kind of trade barriers etc. These will be very effective in reducing the dumping and thus reducing trade deficit. But at the same time we must be ready for counter action by China. So here role of domestic industries becomes important so that we can be strict on China.[11]

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