

Interlocking Giants: Understanding India-China Trade Dynamics

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ABSTRACT

The trade relationship between India and China stands as one of the most significant dynamics in the global economic landscape. This relationship has evolved against the backdrop of historical, geopolitical, and economic factors, shaping the bilateral trade patterns between these two Asian giants. This research paper employs a comprehensive approach, integrating data analysis, policy reviews, and scholarly insights to elucidate the complexities of India-China trade relations. Utilizing a combination of quantitative and qualitative methods, it explores the evolution of trade policies, bilateral agreements, and economic indicators influencing the trade dynamics between the two nations. The analysis reveals multifaceted trends in India-China trade, encompassing fluctuations in trade volume, shifts in export-import patterns, and the impact of geopolitical tensions on bilateral economic cooperation. Furthermore, it identifies key sectors driving trade growth and highlights areas of mutual benefit and competition. Despite occasional challenges and geopolitical tensions, India and China continue to maintain a robust trade relationship characterized by both cooperation and competition. Understanding the nuances of this relationship is crucial for policymakers, businesses, and scholars alike to navigate the evolving dynamics of the global economy.

Keywords: India, China, trade relations, bilateral cooperation, economic dynamics.

Introduction

Beginning in the second century B.C. and continuing until the first century A.D., when Buddhism arrived in China, there has been a long history of cultural contact between India and China. Monks that were influential in the sharing of Buddhist texts included Xuan Zang, Bodhidharma, Kumarajiva, and Fa Xian. However, cultural exchanges decreased as a result of colonization and the collapse of Buddhism in India. Nonetheless, these connections have been reinforced even more by the 1950s and 1960s revival of contacts and shared interests, as well as the Hindi-Chini Bhai Bhai era. Cultural interactions have increased much more after political relations were restored in the 1980s.

Since 1950, relations between China and India have greatly improved; sixteen agreements have been struck in the last ten years. Prime Ministers Vajpayee and Jiabao's high-level visits have strengthened strategic ties and encouraged stability. Although both leaders have participated in multilateral summits, their relationship has suffered as a result of the continuing events near the Line of Actual Control in Eastern Ladakh. There are now more than thirty different discussion structures in place to discuss regional, political, economic, and cultural issues.

The two powerful competitors of Asia and the world have been developing their ties at an incredibly rapid rate. India established diplomatic relations with the People's Republic of China on April 1, 1950, making history as the first non-socialist bloc nation to do so. On July 18, 1994, China and India inked an agreement to avoid double taxation. In keeping with their WTO obligations, the two nations have also expressed interest in joining a global trading system. China and India are now among the top trading partners, and they continue to have strong bilateral and economic ties.

Literature Review

Bandey, Murugan & Maryam (2019) The study examines the causal relationship between foreign direct investment, trade openness, and GDP in BRICS countries from 1990-2018. Results show FDI and trade openness positively impact long-term economic growth, with bidirectional causality from FDI to economic growth, trade openness to FDI, and unidirectional causality from trade openness to FDI.

Dash, Purohit & Mallik (2020) The study compares India and China's economies based on trade liberalization impact. Using linear regression analysis, it was found that trade liberalizations have a positive and significant impact on exports, imports, and total foreign trade for both countries. This highlights the importance of comparing economies like China with India.

Emikonel (2021) This study examined trade between China and 97 countries using the extended gravity model from 2008-2019. It investigates the impact of ASEAN and APEC member countries on Chinese trade, including per capita incomes, populations, and distances. The study finds that trade positively affects GDP and population growth, while increasing

distance negatively affects trade. The dummy coefficients of ASEAN, APEC, and OPEC are significant, aligning with gravity model theory.

Khan (2021) The study examines China's environmental impact from 1971 to 2016, revealing a positive relationship between energy use and urbanization, while international trade and capital formation negatively impact CO2 emissions and ecological footprint. Granger causality reveals bidirectional causality between urbanization and ecological footprint, while unidirectional causality runs from ecological footprint to energy use and international trade.

Mir (2021) China and India, ancient civilizations, have a complex relationship with varying periods of peace, respect, and mutual existence. Issues such as border disputes, Tibetan issues, water sharing, and China's relationship with Pakistan have stifled progress. Economic reforms and liberalization have opened new vistas, with Rajiv Gandhi's 1988 visit restoring diplomatic ties. Economic cooperation between the two countries has grown significantly, from \$332 million in 1992 to \$84.4 billion in 2017. However, issues like trade deficit and anti-dumping hinder progress. This paper aims to analyze the relationship between China and India, focusing on economic engagement and cooperation, and its impact on trust-deficit and growth.

Sharma & Dahiya (2022) This review examines factors affecting foreign trade, including export-import, inflation, exchange rate, GDP, anti-dumping, tariffs, and investment. It focuses on India, USA, and China, examining policy implementations and their impact on foreign trade. The study finds that each factor has positive or negative impacts on trade. The review concludes that foreign trade in India has evolved into a significant area of international business, influenced by various factors.

Bilateral trade

India has the most trade imbalance of any nation as a result of its booming commerce, which reached USD 58.04 in 2018. The deficit has been rising gradually; in 2021 it was USD 69.56 billion, and in 2022 it was USD 101.28 billion. A limited range of goods shipped to China and obstacles to market entry for agricultural products and competitive industries like IT/ITeS and medicines are blamed for the development. India and China are still in communication about problems related to market access.

China's investments in India fell by 68.3% in 2021 compared to the previous year, indicating that bilateral investment between the two countries has not kept up with the growth in trading volumes. Indian investment into China fell by 47.4%, while cumulative Chinese investment to India was USD 5.403 billion. The Joint Group on Economic Relations, Science and Technology (JEG), Strategic Economic Dialogue (SED), NITI Aayog – Development Research Centre of China (DRC) Dialogue, and India-China Financial Dialogue are some of the dialogue mechanisms that shape India-China economic and commercial relations. These methods seek to resolve challenges related to macroeconomic cooperation, trade cooperation, and the requirement for mutual investment flows.

India and China continue to enjoy robust trading relations in spite of the current trade conflict and the COVID-19 outbreak. China accounts for twice as much of India's overall imports as any other country. India may be at least 25% dependent on China for imports other than oil. China now accounts for a larger portion of India's imports than it did a few years ago, despite efforts to lessen dependency through import substitution and free trade agreements. China is India's main source of imports for plastic, organic chemicals, and electrical and electronic goods. India's exports are still less than imports, despite a steady increase in exports to China, which leads to a significant trade imbalance. 38–40% of India's total merchandise trade deficit in the post-Covid era is accounted for by its sizable and expanding bilateral trade imbalance with China. Ores, slag, cotton, plastics, steel, organic chemicals, and iron and steel are among the goods that India exports to China. India should prioritize investing in knowledge and service-based industries in order to boost exports. Cement, organic chemicals, nuclear reactors, boilers, machinery, silk, mineral fuels, and oils are among the products exported by China. China's exports to India are primarily made up of value-added goods like electrical machinery. India imports a variety of goods from China, including machinery, chemicals, fertilizers, iron and steel products, plastics, mineral fuels, oils, and electronic and electric goods. China's exports increased to \$58.33 billion in 2016, whereas India's bilateral trade with China fell by 2.1% to about \$71 billion.

China's departure from the Regional Comprehensive Economic Partnership (RCEP), together with its substantial reliance on imports of Chinese goods, are the main causes of India's trade imbalance with China. This imbalance is caused by a number of factors, such as the dominance of Chinese manufacturing, India's reliance on Chinese imports, non-tariff trade obstacles, poor infrastructure, and fluctuating currency exchange rates. In order to deal with this, India could expand its exports to China, diversify its imports, build up its own industries, reevaluate free trade agreements, and maybe even sign one. In addition to lowering India's dependency on imports, this will generate jobs. The depreciating value of the Indian rupee makes the trade imbalance worse.

India and China's bilateral trade was worth US\$ 113.83 billion in FY23 compared to US\$ 115.83 billion in FY22. China was India's third-largest trading partner as of 2022–2023. With an 8% expansion, bilateral trade between China and India was valued at US\$ 125.62 billion in 2021 and US\$ 136.26 billion in 2022. India rose to become China's sixteenth-largest trading partner in 2020. China accounted for 13.8% of India's total imports in FY23. India brought in \$715.9 billion worth of commodities from around the globe, with \$98.5 billion coming from China. With FDI equity inflows into India totaling US\$ 2.50 billion between April 2000 and September 2023, China is ranked 21st.

In FY23, India shipped 4,455 commodities to China, bringing its total export and import values to \$15.33 and \$21.26, respectively. Iron ore, engineering goods, maritime products, and petroleum products are among the main export goods. In FY23 and FY22, China's imports to India totaled US\$ 98.50 billion and 94.57 billion, respectively. In May 2014, India and China, who have maintained diplomatic ties for seven decades, became members of the Asian Infrastructure Investment Bank. Over the last ten years, bilateral trade between the two nations has increased fourfold, and in FY23, it reached US\$ 100 billion for the third year in a row. Over 100 Chinese corporations have opened offices in India, and numerous Indian companies have begun operating in China. Since the turn of the twenty-first century, India's economy has grown significantly thanks to adjustments made to trade and economic policy, such as the introduction of the Goods and Services Tax (GST) and the demonetization of larger value banknotes. Over the last 25 years, imports have increased 19 times while exports have increased 17 times. India's trade to GDP ratio grew as well, reaching 46% in 2023–2023. India is currently the world's 18th largest merchandise exporter, 9th largest merchandise importer, 7th largest service exporting nation, and 8th largest service importing nation, ranking as the world's 20th largest exporter and 14th largest importer respectively.

China is India's biggest trading partner, with \$71.5 billion in bilateral trade. However, as a result of higher imports and exports, India's trade deficit has grown to \$51.1 billion. Base metals, manufactured commodities, and chemical products are among China's top exports to India. India imports a large amount of machinery, organic chemicals, electrical items, transportation equipment, and fertilizers. China's significant import demand for primary products and raw resources as a result of its fast industrialization and urbanization exacerbates the trade deficit. China purchases primarily raw materials, primary goods, and intermediate goods from India, such as cotton, copper, iron ore, and minerals. Mobile phones and toys are the main value-added products that India sends to China. To safeguard indigenous businesses, the Indian government is looking into the idea of limiting the entry of electronics and IT goods from China. To close the trade imbalance, India's manufacturing sectors must create value-added goods.

India's sale of raw resources rather than high-tech goods is the main cause of its trade deficit with China. China exports manufactured capital goods; India's trade basket includes cotton, jewels, precious metals, copper, and iron ore. Because of the knowledge and information gap and the stringent government rules, this is an issue for Indian companies trying to reach the market. Though it takes longer than in China, policy execution in India is made possible by its democratic structure. Chinese businesses are the mainstay of Indian manufacturing because to their large investments in the telecom, electricity, and cell phone industries. India has introduced programs like the Niryat Bandhu Scheme and the New Foreign Trade Policy to alleviate this trade imbalance.

The study's secondary data obtained from the Indian budget, economic surveys, RBI annual report, Ministry of Commerce and Industry annual report, and more. To evaluate trade performance between the two selected countries namely, India and China, use the formula Growth rate of export (percentage Change)

$$GR_t = \frac{y_t - y_{t-1}}{y_{t-1}} * 100$$

where Y is the export and Grt is the variable Y's growth rate.

Table 1: Trade Relations between India and China (in US \$ Billions)

Year	India's Export to China	% Change	India's Import from China	% Change	Balance of Trade	Total Trade	% Change
2000	1.35	*	1.56	*	0.21	2.91	*
2001	1.7	25.93	1.9	21.79	0.2	3.6	23.71
2002	2.27	33.53	2.67	40.53	0.34	4.94	37.22
2003	4.25	87.22	3.34	25.09	0.91	7.59	53.64
2004	7.67	80.47	5.93	77.54	1.74	13.6	79.18
2005	9.76	27.25	8.93	50.59	0.83	18.69	37.43
2006	10.27	5.23	14.58	63.27	4.31	24.85	32.96

2007	14.61	42.26	24.05	64.95	9.38	38.72	55.81
2008	20.3	38.95	31.6	31.39	11.3	51.9	34.04
2009	20.3	0.00	29.7	-6.01	16	43.4	-16.38
2010	13.7	-32.51	40.9	37.71	20.1	61.7	42.17
2011	20.8	51.82	50.5	23.47	2.2	73.8	19.61
2012	23.3	12.02	47.7	-5.54	29	66.46	-9.95
2013	18.7	-19.74	48.4	1.47	31.4	65.4	-1.59
2014	17	-9.09	54.2	11.98	37.8	70.6	7.95
2015	13.4	-21.18	58.26	7.49	44.86	71.66	1.50
2016	11.75	-12.31	59.43	2.01	47.68	71.18	-0.67
2017	16.34	39.06	68.1	14.59	51.76	84.44	18.63
2018	18.83	15.24	76.87	12.88	58.04	95.7	13.33
2019	17.97	-4.57	74.92	-2.54	56.95	92.9	-2.93
2020	20.87	16.14	66.78	-10.86	45.91	87.65	-5.65
2021	28.03	34.31	97.59	46.14	69.56	125.62	43.32
2022	17.49	-37.60	118.77	21.70	101.28	136.26	8.47

The table above outlines the bilateral trade between India and China from 2000 to 2022, highlighting India's exports to China, imports from China, the balance of trade, and the total trade volume, along with their respective percentage changes.

General Trends:

- **Growth in Total Trade:** The overall trade between India and China has shown a significant increase from \$2.91 billion in 2000 to \$136.26 billion in 2022. This growth reflects the deepening economic ties and interdependence between the two countries.
- **Trade Balance:** The trade balance has been consistently in favor of China, indicating that India imports significantly more from China than it exports to China. The trade deficit has widened substantially over the years, reaching its peak in 2022 with a deficit of \$101.28 billion.

Detailed Analysis by Period:

- **2000-2004:** The initial years show moderate growth in trade. Exports and imports both increased steadily, with total trade rising from \$2.91 billion in 2000 to \$13.6 billion in 2004. The percentage change in both exports and imports was relatively high, indicating rapid expansion in trade relations.
- **2005-2010:** This period marks a robust increase in both exports and imports, with imports growing faster than exports. By 2010, imports reached \$40.9 billion, while exports were \$13.7 billion. The trade deficit began to widen significantly during these years, reflecting increasing dependency on Chinese imports.
- **2011-2016:** The trade deficit continued to grow, with imports consistently outpacing exports. In 2016, imports were \$59.43 billion compared to \$11.75 billion in exports. Despite occasional fluctuations, the overall trend shows a steady increase in total trade, though the rate of growth began to stabilize.
- **2017-2022:** A notable increase in both exports and imports occurred, with 2021 marking a significant jump in total trade to \$125.62 billion. In 2022, despite a decrease in India's exports to China by 37.60%, imports from China surged by 21.70%, pushing the total trade to \$136.26 billion.
- The trade deficit reached its highest point in 2022, reflecting India's growing reliance on Chinese goods.

Key Insights:

- **Export Fluctuations:** India's exports to China have seen significant fluctuations, with years of both substantial growth (e.g., 2010, 2011, and 2021) and notable declines (e.g., 2010, 2013, and 2022). This volatility could be attributed to changes in demand, global economic conditions, and bilateral trade policies.
- **Consistent Import Growth:** Imports from China have generally shown consistent growth, with occasional declines (e.g., 2009, 2012, 2019, and 2020). The surge in imports indicates strong demand for Chinese goods in India, driven by factors such as competitive pricing and the availability of diverse products.
- **Rising Trade Deficit:** The increasing trade deficit underscores a critical challenge for India in balancing its trade with China. This persistent imbalance highlights the need for India to boost its export capacity and diversify its trade partners.

Conclusion

The bilateral trade between India and China has expanded significantly over the past two decades, characterized by robust import growth and a widening trade deficit. While trade volumes have increased, the imbalance in trade remains a crucial issue for India. Future trade policies and economic strategies will need to address this deficit by enhancing export competitiveness and reducing over-reliance on Chinese imports. The analysis underscores the complexity of India-China trade relations, emphasizing the need for continuous monitoring and strategic planning to ensure a balanced and mutually beneficial economic partnership. As interlocking giants in the global economy, India and China wield significant influence, and their trade dynamics have far-reaching implications for regional and global economic stability. Efforts to address trade imbalances, promote fair trade practices, and foster greater economic cooperation will be essential in shaping the future trajectory of India-China trade relations.

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