

# **Analysis of India China Bilateral Trade in Perspective of Self-Reliant India**

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## **ABSTRACT**

China's involvement in India's bilateral trade has broken all the records and grew up by 17000 times during 1996-97 to 2019-20, signifies the India's heavy dependency on Chinese imports especially of manufacturing products. Considering this issue, this research work is articulated to know the trend of India- China bilateral trade and composition of India imports from China. By ANCOVA regression and composition analysis, it can be concluded that India's trade deficit with China has been increasing with the passage of time, because imports from China are extending with high pace than Indian exports to the China. It has also been found that Electronic goods and engineering goods accounts 30 per cent share in Indian imports from China. All in all, over 60 per cent imports are manufacturing goods because share of manufacturing is meagerly 10 - 12 per cent in India's total GSVA. That's why, structural transformation is need of an hour for Indian economy. Thus, this work paper hereby suggests that India needs manufacturing led growth to be a self-reliant economy.

***Keywords: India China Bilateral Trade, Self-Reliant, Imports***

## INTRODUCTION

It is well known fact that India's development path has paved the way for service-oriented growth by surpassing the industrial and manufacturing sector. In fact, the share of agriculture in Indian GDP fell from 56 per cent to 14 per cent, while the contribution of the service sector doubled from 27 per cent to 55 per cent, however the share of manufacturing is stayed at 11 per cent during 1960s to 2019-20. Considering this scenario, it can be stated that the goal of self-reliant India is the great need of an hour for the sustainability and survival of the Indian economy in world market.

Although, Self-reliant is technically differed from self-sufficiency, because, in this era of global value chain, no nation can survive isolated. However, each and every developing countries even developed countries like America and Britain, which have been advocates of globalization, adopted a policy of de-globalization.

As, the current time is very favorable for this initiative (self-reliant India), as the curve of Indian imports is showing a steady decline due to the slowdown in global demand and the corona epidemic, at the same time, due to the corona epidemic lock down, people are now able to assess their unnecessary and essential needs properly.

Self-reliant India is not a new policy agenda but Indian policies have emphasizing on manufacturing sector and encouraging MSMEs through various initiatives like Make in India, Start Up Stand Up, Mudra Loans, Ease of Doing Business. Though, it is a need of an hour, because statistics states that China's involvement in India's bilateral trade has broken all the records and grew up by 17000 times during 1996-97 to 2019-20. These statistics verbalize that India's heavy dependency on China especially for manufacturing products. In fact, 45 to 88 percent of total imports come from China specifically of textiles (silk, natural silk, readymade garments); Chemicals (Drug Intermediates, Agro Chemicals) Electronics (Computer Hardware, Peripherals Accumulators & Batteries, AC Refrigerator Machinery). These products are falls under the category of necessities now-a-days. According to *Pramit Bhattacharya's* analysis, 34 percent of China's imported goods have been used to produce India's exports in 2019. Taking this issue, this research work is articulated to know the trend of India-China bilateral trade and composition of India imports from China.

**REVIEW OF LITERATURE**

Many developing countries liberalized their trade regime aiming to enhance economic growth and foster overall development. Trade openness can have a positive effect on exports, imports and capital inflow thereby overall economic development will be improved. However, over the three decades, it has been observed that major proportion i.e. around 82 per cent of the potential gains through trade liberalization accrued by rich countries, while developing nations with stand to gain only 18 per cent (**Anderson & Martin, 2005**).

Taking these panic findings as research question, **Wu and Zeng (2008)** covered a large sample of developing countries for a long period of time. In particular, two sets of sample with 39 and 77 developing countries for the period of 1970-2004, and 1970-2001, respectively, the focus of this study was to assess the impact of trade liberalization on trade balance of developing nations. The findings are however, mixed; few evidences have been seen where trade liberalization worsen the trade balances, and results reflects that liberalization fosters the exports and imports in developing countries.

Considering the fact that most of the developing nations are agri-dominant economy, **Ander & Martin (2005)** estimated the global benefits of agriculture trade liberalization. He stated that two third of global benefits comes from agriculture trade liberalization accrued by Argentina, Brazil and India, while in case of non-textile manufacturing China and Vietnam took the gains. All in all, the reality is worse unfortunately. As widely recognized power imbalances in the WTO also undermine the developing nations' potential gains from trade, because many poorest countries have been suffering net losses by following trade liberalization (**Jomo & Arnim, 2008**)

Instead of taking the case of macro-economy, **Balkrishanan and et al. (2000)** took a firm level analysis to analyze the impact of trade liberalization on productivity of manufacturing units. They used a panel data set comprises 2300 firms and 11,009 observations, spanning the period 1988-89 to 1997-98. This study unfortunately found no significance escalation in productivity growth within manufacturing industry since the onset of 1991 reforms.

Moreover, considering trade liberalization as prerequisite to growth for developing nation, **Sarkar & Bhattacharyya (2005)** took a case of India and

Korea to examine the association between trade openness and growth from 1956 to 2001, by using ARDL approach to co-integration and found no meaningful relationship between the growth of real GDP and trade openness.

On the contrary, particularly analyzing the case of Bangladesh economy, **Manni & Afzal (2012)** tried to assess the impact of trade liberalization during the period from 1980 to 2010. They found positive effect of trade liberalization in fostering the real exports and imports along with enhancing trade openness which ultimately led the economic growth in Bangladesh economy.

To this point, it could not be finalized that trade liberalization has positive effect on economic growth or negative. Connecting to the same with poverty, **Bannister & Geoffrey (2001)** stated that the links between trade reform and poverty are diverse and complex in nature. The direct effects of trade liberalization operate through changes in prices or availability of goods and services for which the poor are net suppliers or net consumers. But there are also numerous economy-wide indirect effects of trade liberalization that can affect the poor, for instance through spillovers of price and quantity effects between markets, or through the effects of trade reform on government fiscal policy, economic growth, and economic instability.

The results of the empirical analyses suggest that trade reform has a positive effect on employment and income for the poor. Even in the short term, the adjustment costs associated with trade reform seem to be small in relation to the benefits, and these benefits seem to be fairly widespread. However, as in all structural reforms, there are winners and losers, and the losers in some cases include the poor. This should not be construed as an excuse to avoid trade reform, but rather as an inducement to implement it in ways that cushion the poorest. In practice, this implies designing trade reform to minimize the costs to the poor where possible, and to provide adjustment assistance to the poor.

With reference to India, **Mitra(2016)** analyzed both cross-country regression and single-country regression which support the claim that liberalizing trade will reduce poverty. Both China and India, the greatest examples of the positive effects of trade on poverty, experienced huge reductions in poverty following extensive trade reforms, however, not all studies find significant positive gains from trade reforms. What seems to matter for the impact of trade on poverty is

having the right kind of domestic institutions and policies. Greater road density, sensible labor regulations, and greater financial development enhance this impact.

## RESEARCH METHODOLOGY

This research work is explorative in nature and purely based on secondary data. In order to assess the trend of India-China bilateral trade and to analyses the pattern Indian imports from China, required datasets related to India China bilateral trade and composition of Indian imports from China are extracted from Economic Outlook, CMIE. Data lasts from 1996-97 to 2019-20. To estimate the trend values, ANCOVA regression analysis has been employed. Firstly, logarithmic on base 10 is applied on Indian exports to China and Indian Imports from China and then regressed over the set of predicted variables specifically time, time dummy of shift period (*2009-10 is identified as shift year by observing the graph*) and interactive term of dummy and time. Equation of the model is given below.

$$\text{Log}_Y_{it} = \beta_0 + \beta_1 D_{10} + \beta_2 \text{Time} + \beta_3 (D_{10} * T) + \mu_t$$

Where  $\text{Log}_Y_{it}$  is the logarithmic series of dependent variable of  $i^{\text{th}}$  variable (exports or imports) at time  $t$ .

$\beta_0$  is intercept term, which shows the overall mean value of the series. In other words, it reports the overall mean level.

$D_{10}$  is dummy for time where 1 is assigned to 2010 onwards otherwise 0. More broadly, from 1996-97 to 2008-09 the series includes 0 and thereafter till 2019-20 it had 1.

$\beta_1$  shows the change in mean value for dummy category. Positive value shows the mean of reference category is lower than dummy category, while negative reveals the reverse.

$\beta_2$  is the slope of overall period from 1996-17 to 2019-20.

Interactive term is product of dummy and time, which capture the slope for the period when the value of dummy is 1.  $\beta_3$  is the change in slope of the period 2009-10 to 2019-20. All in all,

$\beta_0$  = Overall Mean Level from 1997 to 2020

$\beta_2$  = Slope for the period 1997 to 2020

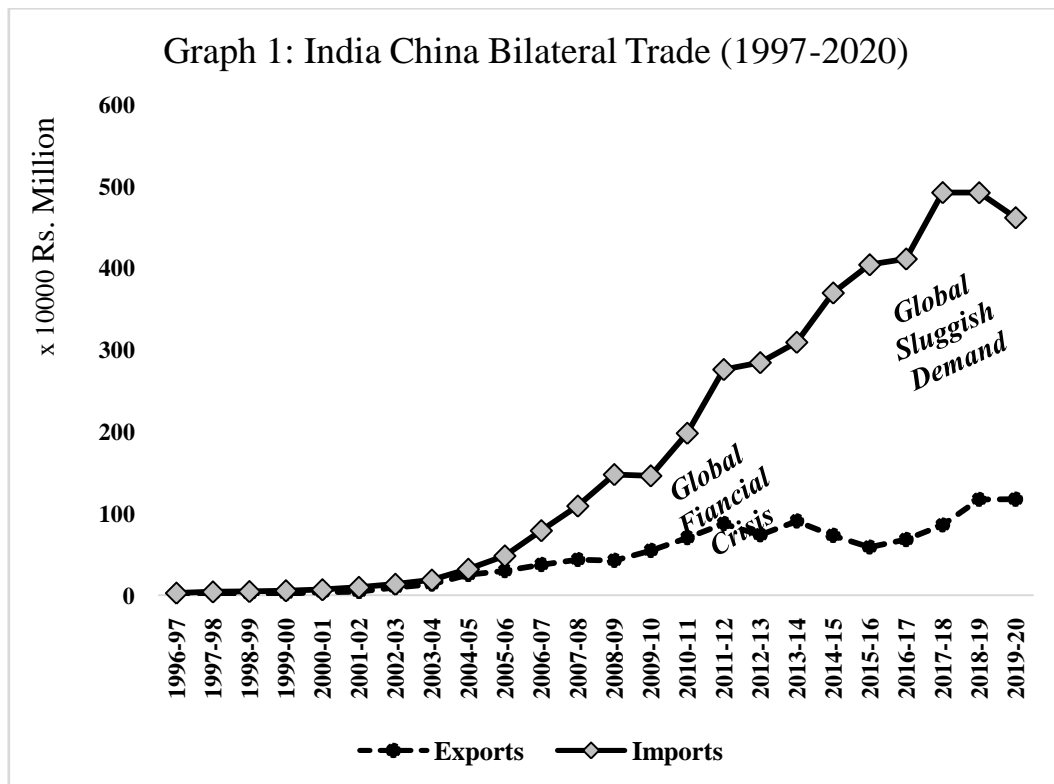
$$\beta_0 + \beta_1 = \text{Mean level for 2010 to 2020}$$

$$\beta_2 + \beta_3 = \text{Slope for the period 2010 to 2020}$$

**INDIA-CHINA TRADE OPENNESS**

After adopting liberalization and globalization, developing nations were afraid to enter into the globe market due to the cut throat competition played by developed and industrialist nations. Hence, developing nations tried to strong rapprochement with neighboring emerging economies. Connecting with same, if we analyze overall India China trade relationship, so we found that China is a prime and leading import trade partner of India accounting 10 per cent share of its total imports. Furthermore, China is third largest exporting country in the list of India’s top five trade partners amounting five per cent share in India’s total exports. These basic statistics verbalize that India’s on China is very high. Not only India, but many countries in the world is dependent on China, because, China is world’s largest manufacturing economy. However, India is on 10<sup>th</sup> rank in China’s exports list while in taking imports India holds 23<sup>rd</sup> rank in China’s Imports list.

**INDIA-CHINA BILATERAL TRADE**



India's overall bilateral trade with China is sharply escalating with the passage of time especially after the Indian globalization. As is visible from the above **graph 1** that, Indian imports are increasing with much higher rate than Indian exports to China. It can also be seen that the gap between imports and exports has been widening especially after 2010, hence the Indian economy is experiencing the trade deficit with China since 2004-05. In the terms of statistic, the Indian exports to China have been increasing with the pace of 13 per cent per annum while after post global financial crisis, it has rather been declining with the rate 11 per cent per annum (see **table 1**). On the other hand, Indian imports coming from China have been growing with the rate of 14 per cent per annum and even after global financial crisis it has still been escalating with the pace of about 5 per cent per annum (see **table 1**). The widening trade deficit due to rapidly increasing imports than exports; is not only the economic concerning issue but also the political and public interest issue as far as India is concerned.

<b>Table 1: India China Bilateral Trade Trend Analysis</b>		
<b>Independent Variables</b>	<b>Dependent Variable</b>	
	<b>Log Indian Exports</b>	<b>Log Indian Imports</b>
<b>Dummy_2010</b>	1.49*	1.41*
<b>Time (Trend)</b>	0.13*	0.14*
<b>Interaction Term (D*T)</b>	(-0.11)*	(-0.09)*
<b>Constant</b>	4.01*	4.19*
<b>Pre_Mean_2010</b>	10,340 (Rs. Million)	15,631 (Rs. Million)
<b>Post_Mean_2010</b>	3,22,090 (Rs. Million)	4,04,090 (Rs. Million)
<b>Growth_Post_2010</b>	0.24	0.48
<b>R-squared</b>	<b>0.96</b>	<b>0.99</b>
Prob(F-statistic)	0	0
<b>Model</b>	<b>ANCOVA Dummy Regression Model</b>	
*; significant at 1 % level of significance respectively.		
<i>Author's Calculation</i>		

It has been observed that Indian economy is too dependent on Chinese products. To understand the composition of Indian Imports with China, proportion of Chinese Imports in total Indian world imports are calculated category wise for the year 2019-20 and thereafter categorize into continuous series taking interval of ten values specifically from more than 60 per cent share to 20-30 per cent share,

which is tabulated in following **table 2**. This **table 2** here signify the product-wise dependency of India on China. It can be seen from the table that if India takes imports of 100 units from the world market, so more than 60 per cent comes from China. These product category includes fabric, footwear bicycle parts and chemicals.

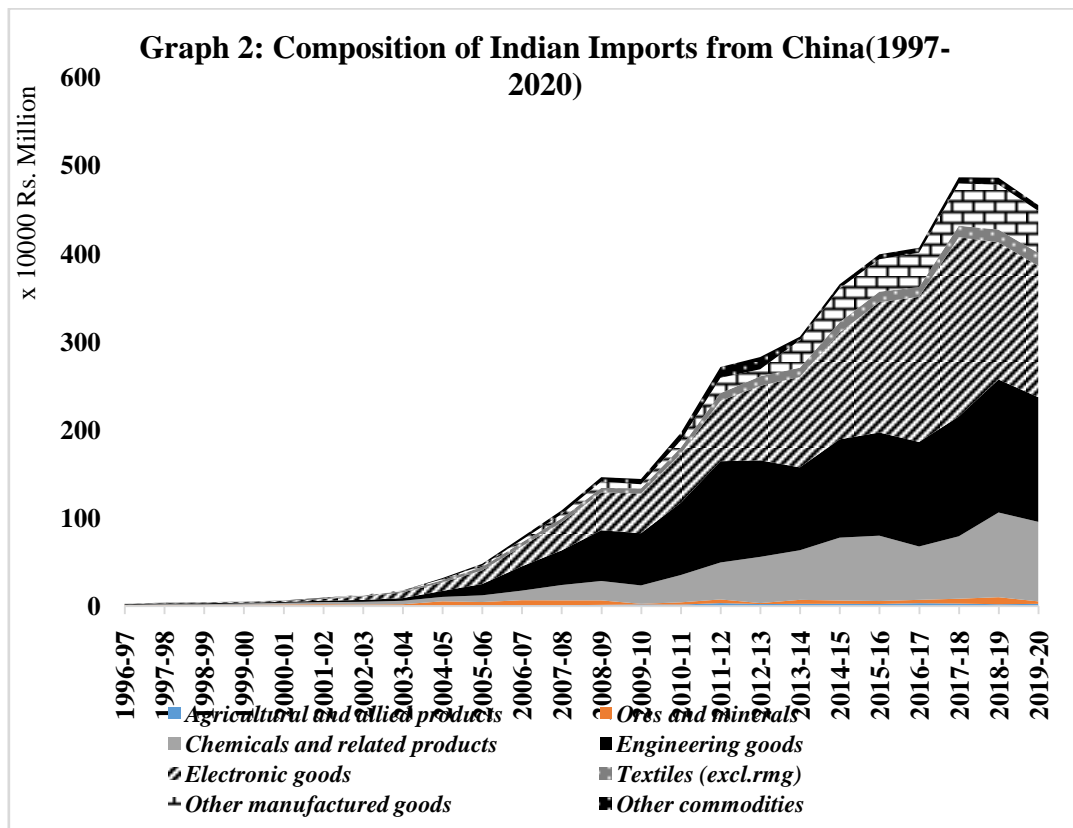
<b>Proportion</b>	<b>Major Category</b>	<b>Products</b>
<b>&gt; 60 per cent</b>	<b>Fabric, Footwear, Bicycle part, chemicals</b>	Silk Carpet, Raw Silk, Silk Waste, Natural Yarn, Other Textile Yarn, Human hair, drug intermediaries
<b>50 -60 per cent</b>	<b>Sports Goods, Glass, Stationary</b>	Glassware, school supply, ceramics, battery and accumulator
<b>40 -50 per cent</b>	<b>Chemicals, Leather, Electronics, Railway Transport Equipment</b>	Agro-chemicals, dyes, footwear, leather footwear, AC refrigerator, computer hardware, consumer electronics,
<b>30 -40 per cent</b>	<b>Non-Electronic Goods</b>	Telecom Instrument, Official equipments, ATM, injecting machinery, Medicinal and pharmaceutical products, Nuclear reactors, industrial boilers
<b>20-30 per cent</b>	<b>Organic chemicals, Readymade garments,</b>	Fertilizers, fertilizer manufactured, chemical and related products, packaging materials
<i>Source: Economic Outlook, CMIE</i>		
<i>Author's Calculation</i>		

While, this proportion ranges from 40 to 50 per cent for agro-chemicals like pesticides and fertilizers and for organic fertilizers, the value is 20 -30 per cent. That is to say, the country which is agro-dominants economy, takes raw materials for farming from other country, which is really a concerning issue for an Indian economy (**table 2**).

Hitherto, Chinese imports share has been seen in purview of world imports. Now, the product category wise imports share is displayed in total imports from China itself. From the **graph 2**, it can be visualized that total imports have been increased by 17000 times over the period of 24 years from 1996-97 to 2019-20.



Particularly, the imports have started raising with high pace after 2004-05 and after 2008-09, it had raised surprisingly. The major categories which comprises Indian imports basket from China in the year 2019-20 is Electronic goods accounting 32 per cent share, then engineering goods with the share of 30 per cent, thirdly, Chemicals with the proportion of 20 per cent and lastly other manufactured goods. *Electronic goods* category comprises computer hardware, office equipments; telecom instruments, consumer electronics and medical equipments. *Engineering goods* includes transport equipments (road, ship, railway, automobiles and bicycle parts).



**CONCLUSION**

From the ongoing discussion, it can be concluded that India’s overall trade with China has been increasing with the passage of time and so as India’s trade deficit with China, because imports from China are extending with high pace than Indian exports transferring to the China. By composition analysis of Indian imports, it has been found that India’s dependency on China is very high. Major categories which comprise high share in Indian imports especially from China are Electronic goods accounting 32 per cent share, engineering goods with the share of 30 per

cent, thirdly, Chemicals with the proportion of 20 per cent. *Electronic goods* category majorly comprises computer hardware, office equipments; telecom instruments, consumer electronics and medical equipments. While *Engineering goods* includes transport equipments (road, ship, railway, automobiles and bicycle parts). All in all, over 60 per cent imports are manufacturing goods because share of manufacturing is meagerly 10 -12 per cent in India's total GSVA. That's why, structural transformation is need of an hour for Indian economy. Thus, this work paper hereby suggests that India needs manufacturing led growth to be a self-reliant economy.

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