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Trade Competitiveness between India and China

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Abstract: Both India and China are the huge economies in the world with the largest market platforms in the world. They offer more than thirty percent of world population. Due to their huge GDPs, population and geographical proximities they had better market potentials than with any other nations. The paper studies the trend and commodity composition of bilateral trade between India and China from 2002 to 2020. The study describes the bilateral trade pattern during the pandemic COVID. The study used revealed comparative advantage of the various stages of processing and sectoral composition to describe the trade competitiveness between India and China.

Keywords: bilateral trade, pandemic COVID, trade competitiveness, revealed comparative advantage, sectoral composition.

I. INTRODUCTION

No country in this world is self-sufficient so that it can fulfil all its needs by its own. They need to undergo trade among them. After meeting the domestic demand, a country attempts to export the commodities to the other nations. Both India and China are the emerging economies of the world offering huge market potentials to each other. Both the nations are having geographical advantage due to huge boarder sharing. This makes trade cost effective. The gravity model explains that in case the countries have less distance are more likely to trade better. In case of India and China, both the nations are emerging economies of the world with China's GDP five times that of India's GDP (World Bank, 2020). India's bilateral trade is having progressive trend with China and India is having trade deficit with China. In 2002 China was the eighth largest export market for India and 5th largest import market for India. In 2020 China became the second largest export market and the largest import market for India with 16 percent share in India's total imports. Therefore, both the nations are interdependent on each other. The paper focuses over the trade competitiveness of India and China bilateral trade.

II. OBJECTIVES OF THE STUDY

- To identify the trend of bilateral trade between India and China;
- To study the commodity composition of India-China bilateral trade;
- To examine the trade competitiveness between India-China bilateral trade

III. RESEARCH METHODOLOGY

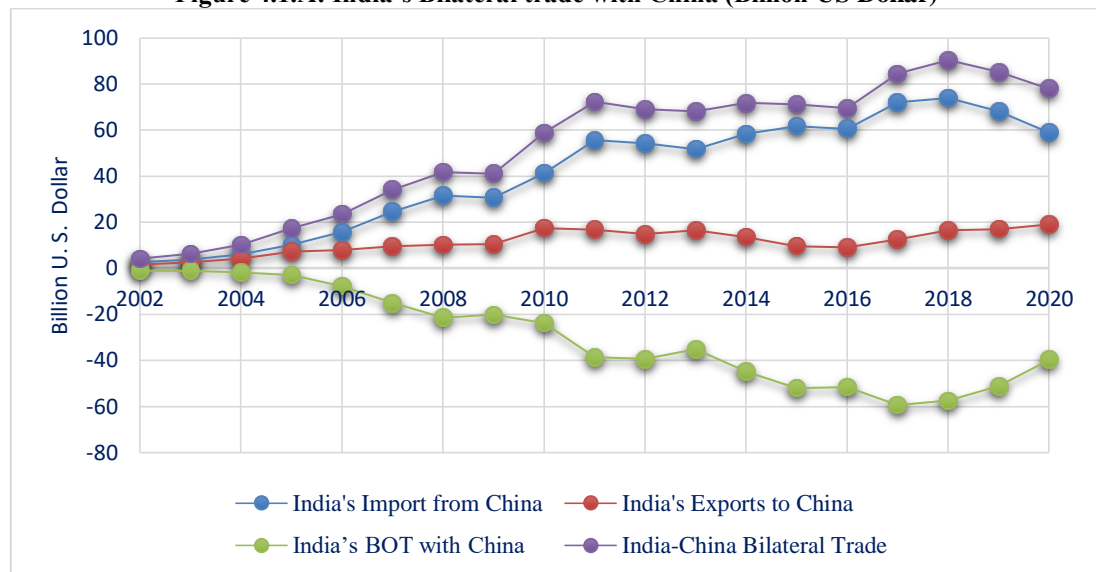
The study is based on secondary data from 2002 to 2020. The data has been collected from UN COMTRADE, WTO, World Bank and UNCTAD websites. The study used percentage, compound annual growth rate, trade share and revealed comparative advantage to achieve the objectives.

IV. RESULTS AND DISCUSSIONS

The study has been divided in three sections. First section 4.1, describes the trend of bilateral trade between India and China. In section 4.2, the study explains the commodity composition of bilateral trade between India and China. In the third section 4.3, the study explains the trade competitiveness of bilateral trade between India and China.

4.1 Trend of India-China Bilateral Trade

Figure 4.1.A: India's Bilateral trade with China (Billion US Dollar)



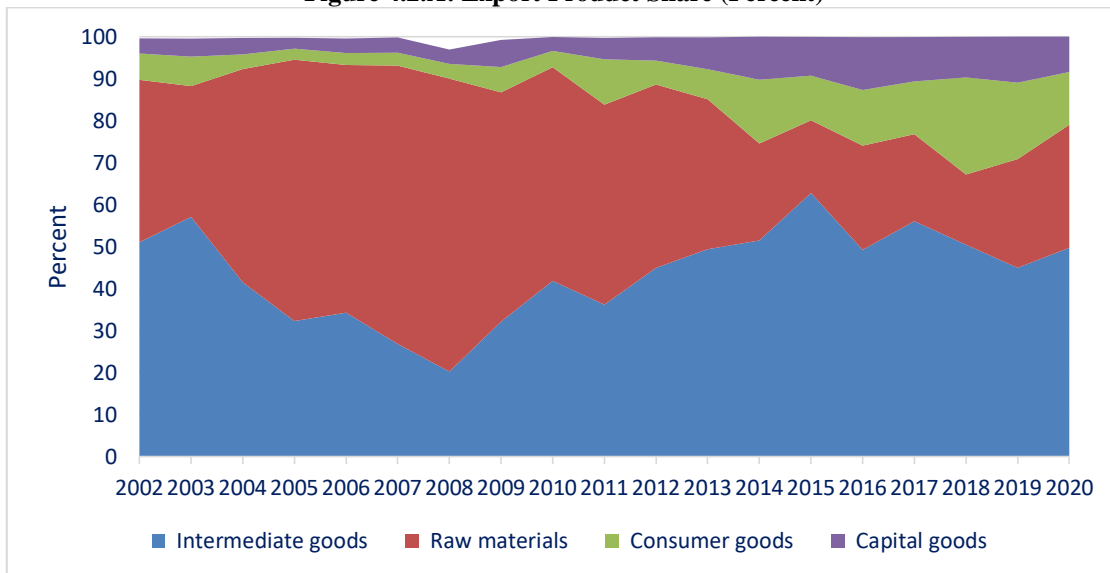
Source: UN COMTRADE Data Base

Figure 4.1 explains the bilateral trade between India and China. In 2002, India's import from China were \$2.62 billion which in 2005 it rose at a compound annual growth rate of 57 percent. during 2010 it rose by 34 percent as compared to 2009 and in 2011 from 2010. From 2016 to 2018 the imports rose significantly. 2019 onwards it showed a downward trend till 2020. India's exports to China rose steadily from 2002 till 2020. In 2010 it rose by 68 percent as compared to 2009. In 2015 and 2016 the exports reduced to \$9.58 billion and \$8.92 billion respectively. Due to decreased demand of Chinese products in the international market. The bilateral trade between India and China showed a significant rise from \$4.15 billion in 2002 to \$77.80 billion in 2020. The terms of trade were in favour of China during the study period. In 2002 India was having a trade deficit of \$1.09 billion which in 2017 reached to 59.43 billion. In 2019 and 2020 the trade deficit reduced to 51.20 billion and \$ 39.80 billion respectively as an aftermath of COVID 19.

4.2. Commodity Composition of Bilateral Trade between India and China

In this section the commodity composition of bilateral trade between India and China has been discussed. The study classifies the commodities on the basis of stages of processing given by World Bank and World Custom Organisation (WCO) sector classification for Harmonised System product nomenclature with minor differences. On the basis of stages of processing commodities have been classified as raw material, intermediate goods, consumer goods and capital goods. 16 sectors have been identified as proposed by WCO Harmonised System.

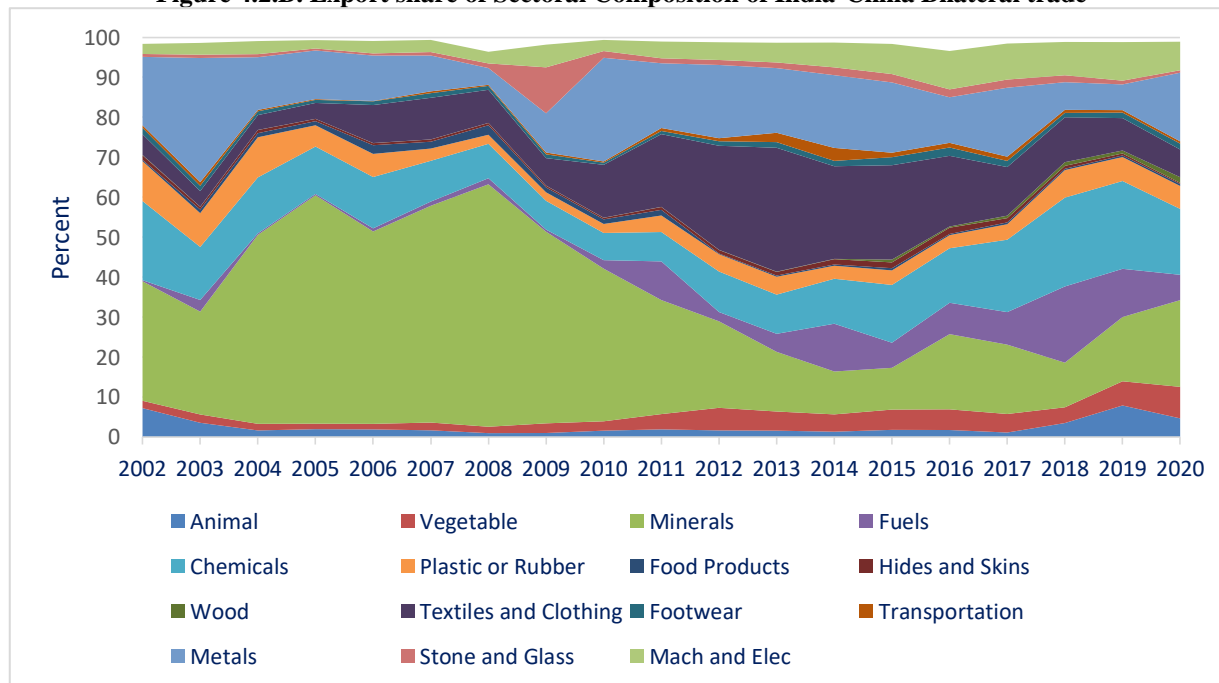
Figure 4.2.A: Export Product Share (Percent)



Source: UN COMTRADE Data Base

Figure 4.2.A describe the export product share of raw material, intermediate goods, consumer goods and capital goods. In 2002 the export share of consumer and capital goods was very less. The majority of export basket consists of intermediate goods and raw materials. In 2008 the export share of raw material increased drastically. 2010 onwards the role of consumer and capital goods increased. in 2020, there is reduction in the share of raw materials and exports of consumer goods got a significant place.

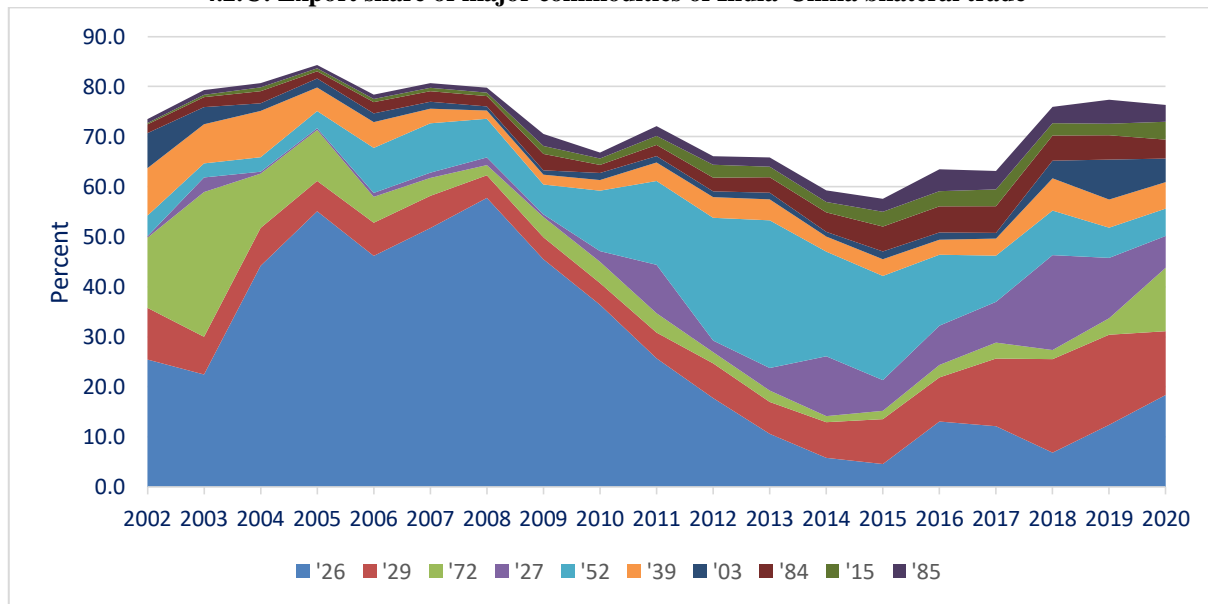
Figure 4.2.B. Export share of Sectoral Composition of India-China Bilateral trade



Source: UN COMTRADE Data Base

Figure 4.2.B depicts the export share of sectoral composition of India and China bilateral trade from 2002 to 2020. In 2002, minerals and metals had a significant position in the export basket. From 2002 to 2010, minerals, dominated India’s export basket. Chemicals from 2002 to 2020 had a stagnant export share. In 2002 the export share of textiles and clothing was negligible which from 2010 to 2016 had a significant position in the export basket of India. The export share of fuels, stones and glass, vegetables and animal had a less importance in India’s exports.

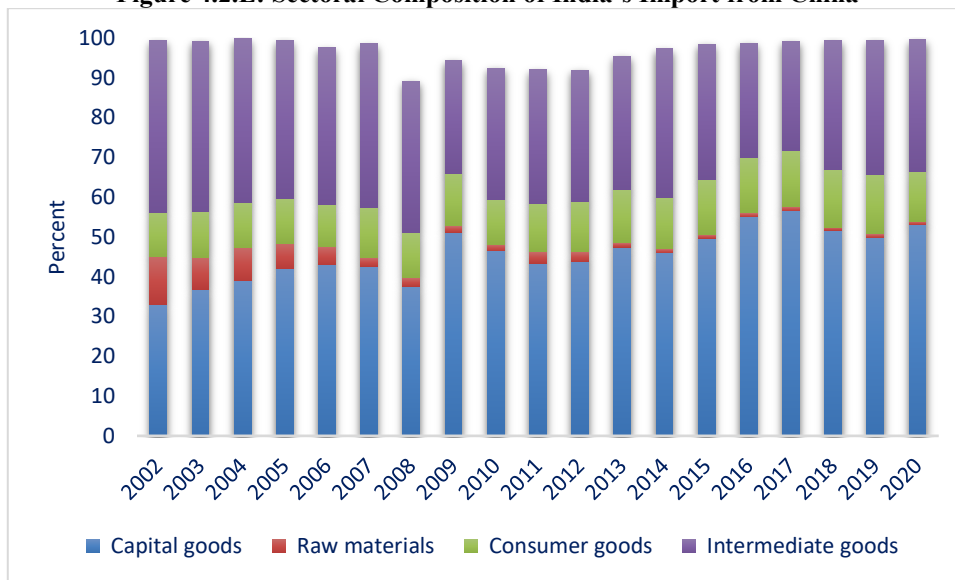
4.2.C: Export share of major commodities of India-China bilateral trade



Source: UN COMTRADE Data Base

Figure 4.2.D. depicts the export share of major commodities of India from 2002 to 2020. The export share of commodity 26 i.e., Ores, slag and ash had a significant share in export basket of India from 2004 to 2008. The export share of commodity 72 i.e., Iron & Steel, organic Chemicals, Mineral fuels etc. and Cotton had a significant place in the export share of India. There is no significant change in the export share of commodity 85 i.e., Elec & Mach etc.; commodity 15 i.e., Animal or veg fat; and commodity 84 i.e., Machinery and Mechanical equipment etc.

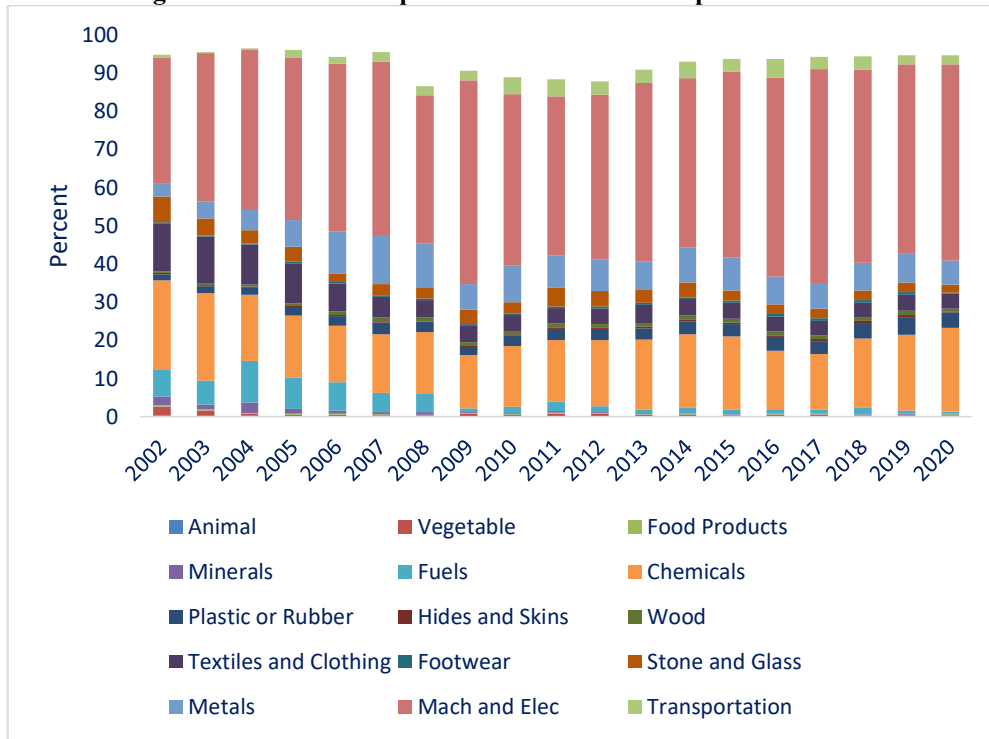
Figure 4.2.E: Sectoral Composition of India's Import from China



Source: UN COMTRADE Data Base

Figure 4.2.E describes the sectoral composition of India's imports from China during 2002-2020. The import basket of India basically comprises of capital goods and intermediate goods. The share of Imports of raw material reduced significantly over the decade and in 2020 had a negligible share in the imports of India from China. The imports of consumer goods showed a stagnant share in India's import basket.

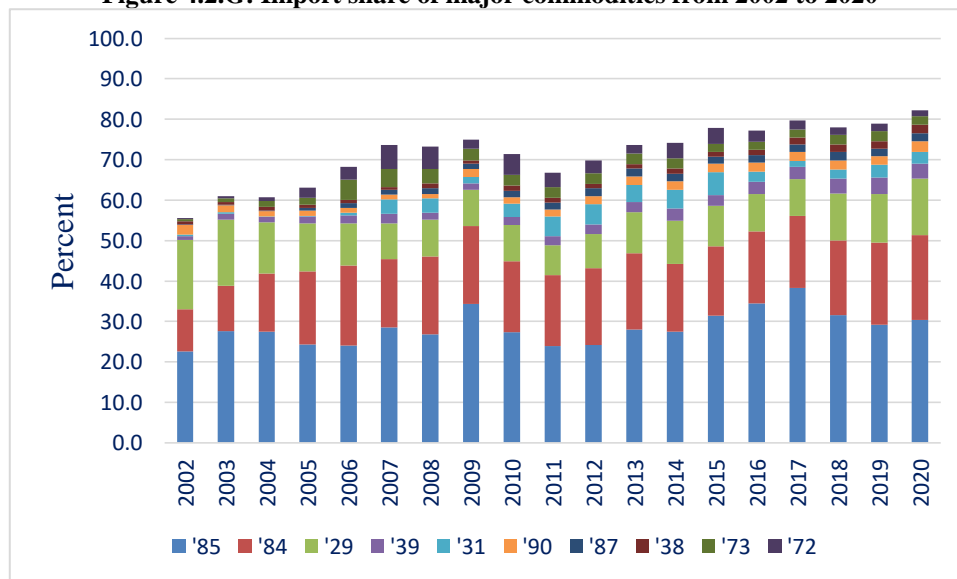
Figure 4.2.F: India's import share of sectoral composition of India



Source: UN COMTRADE Data Base

Figure 4.2.F depicts the import share of sectoral composition of India from 2002 to 2020. The imports share of Mach & Elec and Chemicals had a significant share from 2002 to 2020. The import share of Textiles & Clothing declined from 12.38 percent to 3.83 percent in 2020. The fuel had a share of 6.97 percent in 2002 which became negligible in 2020. The import share of stones & glass reduced from 6.7 percent in 2002 to 1.98 percent in 2020. Plastic or rubber has a share of 1.5b percent which in 2020 rose to 4.04 percent. Wood and hides & skins had a share less than 1 percent over the decades. Import share of Metals doubled itself from 2002 to 2020.

Figure 4.2.G: Import share of major commodities from 2002 to 2020



Source: UN COMTRADE Data Base

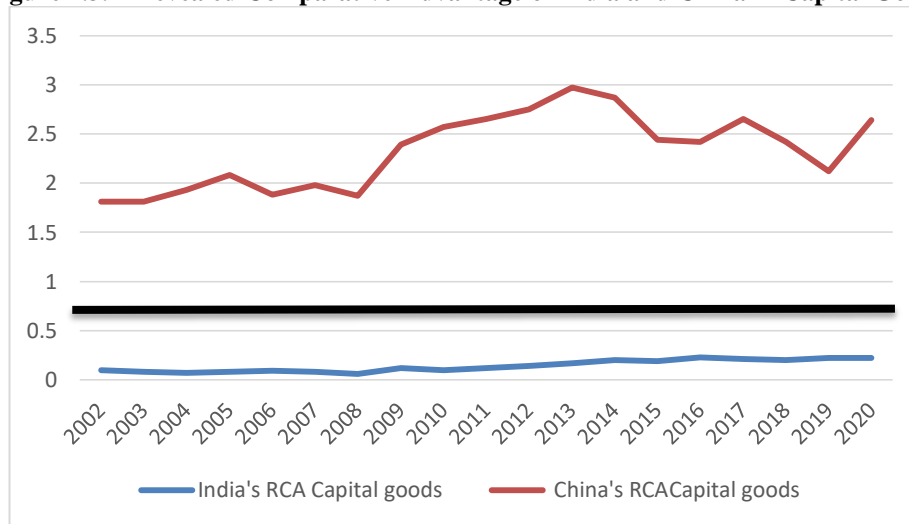
Figure 4.2.G depicts India's import share of major commodities from China from 2002 to 2020. During 2002, Elec & Mach and Organic chemicals had a significant import share of 22.6 percent and 17.2 percent in India's imports from China respectively. Mach and mechanical etc. had a share of 10.4 percent which in 2020 rose to 21 percent. in 2020 the import share of commodity 29 and 85 reached 13.9 percent and 30.3 percent. the import of commodity 72 i.e., Iron & steel was 0.3 percent which rose to 1.4 percent in 2020. The import share of commodity 39 i.e., Plastics & articles thereof, had an import share of 1

percent in 2002 which in 2020 rose to 3.7 percent. commodity code 31 i.e., fertilizers had a share of 0.3 percent in 2002 which in 2020 reached to 2.8 percent in the import share of India. Commodity 90 i.e., optical, photographic, cinematography etc. had an import share of 2.3 percent in 2002 and 2.7 percent in 2020. The Articles of Iron & Steel also had a significant rise from .5 percent in 2002 to 2.1 percent import share in 2020.

Section 4.3 India's Trade Competitiveness with China

In the present section, the study classifies the commodities into stages of processing as proposed by WCO. The study used revealed comparative advantage of India and China in various stages of processing i.e., raw materials, capital goods, consumer goods and intermediate goods to investigate India's competitiveness with China.

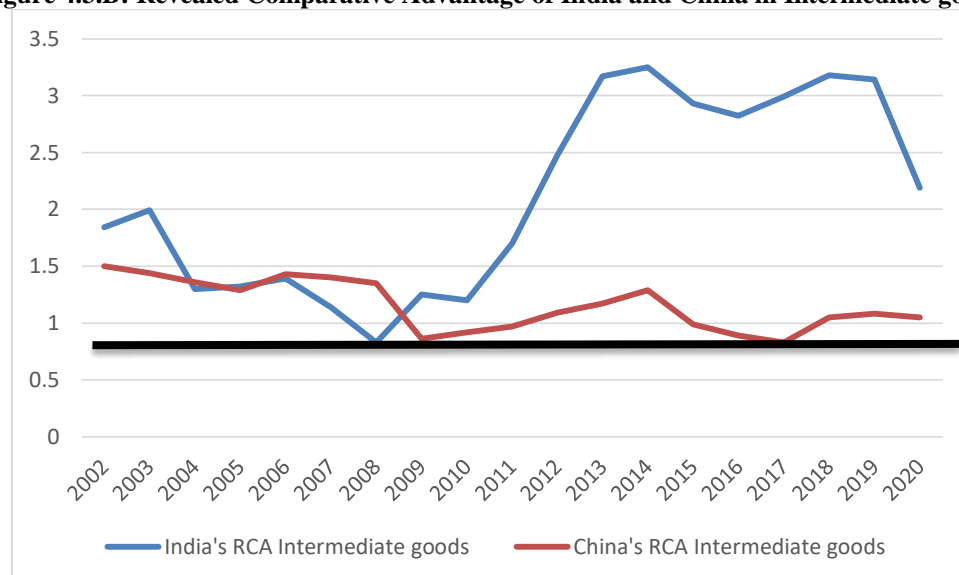
Figure 4.3.A Revealed Comparative Advantage of India and China in Capital Goods



Source: UN COMTRADE Data Base

Figure 4.3.A describes Revealed Comparative Advantage of India and China in Capital Goods from 2002 to 2020. India's Revealed Comparative Advantage from 2002 to 2020 has been less than one. It explains India's disadvantage in capital goods. China from 2002 to 2020 has revealed comparative advantage in capital goods over India. During the euro crisis period in 2008, the revealed comparative advantage of China declined. 2009 onwards it gained momentum. In 2019 during the COVID pandemic its Revealed Comparative Advantage declined which in 2020 again increased.

Figure 4.3.B: Revealed Comparative Advantage of India and China in Intermediate goods

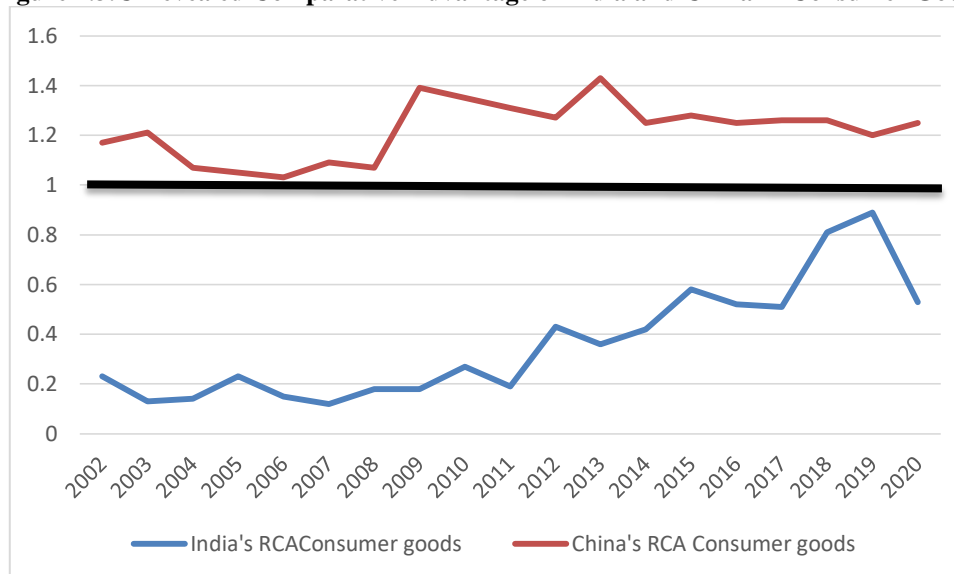


Source: UN COMTRADE Data Base

Figure 4.3.B explains the Revealed Comparative Advantage of India and China in intermediate goods. In the initial years of 2002 and 2003 India was having Revealed Comparative Advantage in intermediate goods over China. 2009 onwards India

was having Revealed Comparative Advantage over China till 2020. During 2014 India was having maximum Revealed Comparative Advantage of 3.25.

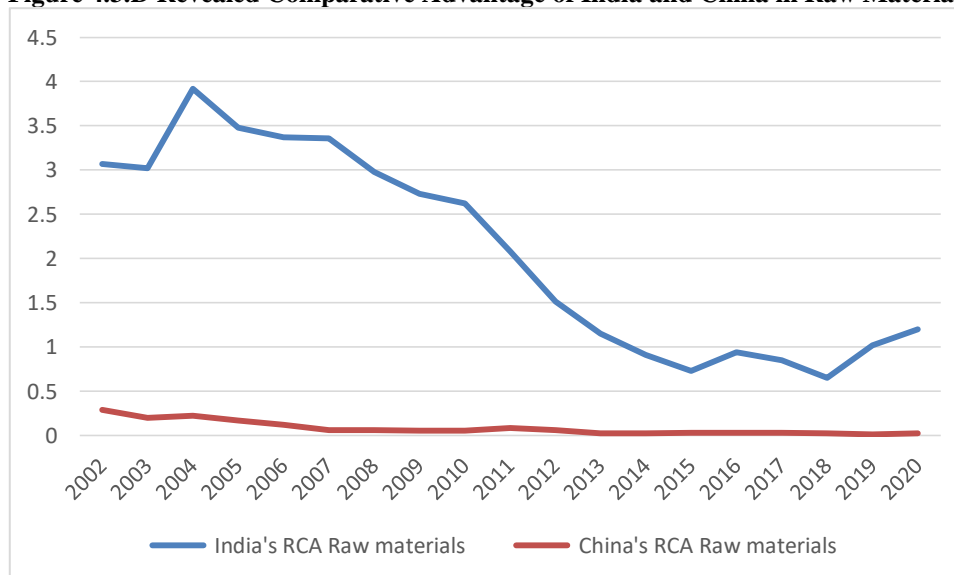
Figure 4.3.C Revealed Comparative Advantage of India and China in Consumer Goods



Source: UN COMTRADE Data Base

Figure 4.3.C depicts Revealed Comparative Advantage of India and China in Capital Goods from 2002 to 2020. From 2002 to 2020 China was having Revealed Comparative Advantage in consumer goods. These are the readily available goods for consumption. They don't need any further addition of value. India is having disadvantage in consumer goods. This explains that China serves better in consumer goods than India.

Figure 4.3.D Revealed Comparative Advantage of India and China in Raw Materials



Source: UN COMTRADE Data Base

Figure 4.3.A shows Revealed Comparative Advantage of India and China in raw materials from 2002 to 2020. India has Revealed Comparative Advantage over China from 2002 to 2020. China's Revealed Comparative Advantage from 2002 to 2020 was less than 0.5. Raw materials are the low value products which lead to less inflow of foreign currency in India. This explains negative balance of trade for India.

V. CONCLUSION AND SUGGESTION OF THE STUDY

The study concluded that India's exports to China are increasing but at a lesser rate than its imports from China. The bilateral trade between India and China had a progressive trend except the COVID period but it mainly comprises of the imports

from China. India is having trade deficit with China from 2002 to 2020. The major export commodities of India are low value products while it imports more of capital and intermediate goods. China exports more of capital goods and intermediate goods to India and imports more of raw material from India. The competitiveness of India over China has been described as Revealed Comparative Advantage of various stages of processing given by WCO. India is having Revealed Comparative Advantage in raw material and intermediate goods while China has Revealed Comparative Advantage in capital and consumer goods. Raw materials and intermediate goods are the low value products while capital and consumer goods are high value products. China is having RCA in high value products while India has RCA in low value products. The paper concluded that China's products are more competitive as compared to India due to which India is having negative trade balance with China.

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