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Indo-China Trade: Intensity and Potential for Future Trade

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Abstract: India and China are the two civilizations of the world with long history of intimacy. They are the fastest growing economies among the major economies of the world. After liberalization both have made rapid progress. One of the major events in international trade and economics is the recent fast growth in their bilateral trade. India has emerged as one of the top ten trading partners of China whereas China has emerged one of the top three trading partners of India. Due to large size and amalgamated composition of economies, flow of exports and imports plus high growth rates and political will from both sides, the bilateral trade will grow further and would have significant impact on global trade and economy. The trade between these two giant economies has been identified as the most sensible and reliable instrument, in recognizing the impact on the dynamism of the global economy and its vibrant growth speed. It is in this purview of their fast changing behavior, the current study makes an attempt to evaluate that how the bilateral trade between the two nations becomes as a weapon in the arsenal in intensifying their partnership for their mutual advantages in the coming time.

Introduction

China and India are the two fastest re-emerging economies (The Economist 2006). For the most part of last fifteen years, China's and India's economic growth rates have outperformed world average growth rates. The ever increasing importance of these populous nations in the world has caused concerns about their growth and trade prospects and deep implications for the rest of the countries.Albaledjo (2005) examined that China is a tough competitive threat to East Asia especially with respect low technology products. China has grown at an average rate of close to ten per cent annually during 1990-2012 whereas India has grown at an average rate of six per cent annually as compared to world economic growth rate of three per cent (Kowalski 2007).Their rapid growth has had a significant impact on world economy (Srinivasan 2006). The story has moved beyond GDP growth rates. The emergence of China and India gives the world an opportunity to experiment and make sure that there is equitable wealth generation (WEF 2006).Together they constitute a big part of global population and geographic area. The two countries now account for 37.5 per cent of world population and 6.4 per cent of the world output and income at current prices and exchange rates (World Bank 2007).

In the set of these conditions, the relations between India and China have gained a fresh acceleration as the economies have felt the essence of positive political cooperation and the mutual benefits of their conjoint potential rather than on the self burning policies. In 1984, India and China signed a Trade agreement for providing Most Favored Nation (MFN) status. The bilateral trade between the two countries has shown a phenomenal growth and yet there is a lot of untapped future potential. In this regard the study attempts to explore the intensity of trade relations between the nations and investigates the opportunities which can be tapped for the mutual benefit of both the economies.

Need for the Study

Although World witnessed economic miracles like that of Hong Kong, Singapore, Japan, but none of these posed so much threat to the global economy. From the last two decades, two giant economies of India and China have achieved economic laurels by following their own growth strategies. China called as "Factory Of the World" and India known as "Worlds Back office" continue to grow at the rate of 10 per cent and 7 per cent. In this regard, the study makes an attempt to explore the extent of trade relations between these two nations and hence explore the potential for future trade.

Objectives

The main objectives of the study are as follows:

- Analysis of the trends and patterns of growth of India's trade with the Chinese economy.
- Estimate of the extent of intensity of trade relations between China and India.

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Research Methodology

The study is based on secondary data. The data will be collected through a wide variety of sources: journals on international trade; yearbooks publishing statistical data with respect to trade, viz World Bank, UN, UNESCAP, IMF, WTO and UNCOMTRADE; and through different online data sources, Websites, textbooks, magazines, etc.

Models applied for the study

The analysis will be done by adopting the following methodology:

- Export Intensity Index
- Import Intensity Index
- Year on Year Growth

(i) Intensity Indices

Trade intensity Index can be divided into Export Intensity Index (EII) and Import Intensity Index (III) for looking the pattern of exports and imports. Following Kojima (1964) and Drysdale (1969) they can be defined as follows:

(a) Export Intensity Index:
The Ratio of export share of a country/region to the share of world exports going to a partner.EII can be defined as,

$$EII_{ij} = \frac{X_{ij}/X_{iw}}{Xwj/Xww}$$

Where x_{ij} is the dollar value of exports of country/region i to country/region j,X_{iw} is the dollar value of the exports of country/region i to the world, x_{wj} is the dollar value of world exports to country/region j, and X_{ww} is the dollar value of world exports. An index of more than one indicates that trade flow between countries/regions is larger than expected given their importance in world trade.

(b) Import Intensity Index
The ratio of import share of a country of a country/region to the share of world imports going to a partner.III can be defined as,

$$III_{ij} = \frac{M_{ij}/M_{iw}}{M_{wj}/M_{ww}}$$

Where M_{ij} is the dollar value of imports of country/region i to country/region j,M_{iw} is the dollar value of the imports of country/region i to the world, M_{wj} is the dollar value of world imports to country to country/region j,and M_{ww} is the dollar value of world imports. An index of more than one indicates higher import intensity between the nations.

(ii) Trade Share

It is the percentage of trade with a partner to total trade of a country/region. It is computed as the dollar value of total trade of country/region i with country/region j expressed as a percentage share of the dollar value of total trade of country/region i with the world. A higher share indicates a higher degree of integration between partner countries/regions. Here trade share of India's exports and imports with respect to Brazil are calculated for the purpose of analysis.

Analysis: Indo-China Bilateral Trade

Indo-China trade resembles an imbalance with India importing three times as much as it exports to China, however the trade between the two nations has increased from the last decade. Chinese commodities have been making inlets in the Indian market at a much faster speed than any of its export destinations. Table 1.1 represents the analysis for exports to and imports from China as percentage of its total exports, which portrays the that there was a gradual rise in both categories i.e. Exports and Imports during 2000-2012.Regarding year 2000, the total value of India's exports were 1.732 per cent where as total imports from China represent a significant value of 3.734.However the trend continues resulting in the feature that China continued to be the most important source of imports for India.

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Table 1.1 Percentage Share of India's Exports/Imports with China

Year	Exports	Imports
2000	1.732	3.734
2001	2.219	4.721
2002	3.903	6.120
2003	4.949	6.134
2004	6.915	7.999
2005	6.811	9.104
2006	6.797	9.586
2007	6.330	10.673
2008	5.188	9.664
2009	6.288	9.872
2010	9.022	9.734
2011	9.309	9.978
2012	9.987	10.097

Source: UNCOMTRAE, various issues

Table 1.2: Export Intensity Index and Import Intensity Index

EXPORT INTENSITY INDEX									
Year	XIC	XI	XIC/XI	MC	Mw	MI	Mw-MI	MC/Mw-MI	(XIC/XI/MC/Mw-MI)
2000	734	42379	0.0173	225024	6659051	51523	6607528	0.0341	0.509
2001	962	43361	0.0222	243553	6426100	50392	6375708	0.0382	0.581
2002	1966	50372	0.0390	295170	6669494	56517	6612977	0.0446	0.874
2003	2918	58963	0.0495	412760	7783433	72558	7710875	0.0535	0.925
2004	5300	76649	0.0691	561229	9483711	99775	9383936	0.0598	1.166
2005	6785	99620	0.0681	660206	10789418	142842	10646576	0.0620	1.098
2006	8279	121806	0.0680	791797	12364252	178474	12185778	0.0650	1.046
2007	9492	149951	0.0633	956233	14217056	228686	13988370	0.0684	0.926
2008	10093	194531	0.0519	1131620	16427124	320785	16106339	0.0703	0.738
2009	10370	164921	0.0629	1004170	12615256	257187	12358069	0.0813	0.774
2010	19566	216868	0.0902	1394690	15262403	323624	14938779	0.0934	0.966
2011	20304	223129	0.0909	1289565	14567383	312345	14536278	0.0887	1.024
2012	20934	227865	0.0918	1367893	17634546	328766	13245376	0.1032	0.889
IMPORT INTENSITY INDEX									
Year	MIC	MI	MIC/MI	XC	Xw	XI	Xw-XI	XC/Xw-XI	(MIC/MI/XC/Xw-XI)
2000	1924	51523	0.0373	249203	6359071	42379	6316692	0.039	0.947
2001	2379	50392	0.0472	266098	6403212	43361	6359851	0.042	1.128
2002	3459	56517	0.0612	325596	7451626	50372	7401254	0.044	1.391
2003	4451	72558	0.0613	438228	9062403	58963	9003440	0.049	1.260
2004	7981	99775	0.0800	593326	10337942	76649	10261293	0.058	1.383
2005	13005	142842	0.0910	761953	11952279	99620	11852659	0.064	1.416
2006	17108	178474	0.0959	969380	13775893	121806	13654087	0.071	1.350
2007	24408	228686	0.1067	1576338	15945609	149951	15795658	0.077	1.384
2008	31000	320785	0.0966	1206568	12349086	194531	12154555	0.118	0.822
2009	25390	257187	0.0987	1434237	14879177	164921	14714256	0.082	1.209
2010	31500	323624	0.0973	1216265	15229609	216868	15012741	0.105	0.926
2011	31890	327631	0.0973	1209345	15234890	208679	15026211	0.080	1.216
2012	32086	312353	0.1027	1234536	12445268	178564	12266704	0.974	0.105

Source: Authors calculations based on the data from unctad.org

From the above table 1.1, it is quite clear that china is dominating, thus connoting the implication for China as the major source of export destination to Indian exports. However from 2011-2012, the gap has minimized with India close to the level.

Trade Intensity Index.

Regarding Trade Index, Table 1.2 investigates the intensity of trade between India and China. The values of Export Intensity Index (EII) and Import Intensity Index (III) were calculated for the time period 2000-2012, which defines the growing intensity of trade between the nations.

The EII values from 2000 to 2003 were less than index value 1, means a lower intensity of export trade of India with China. But the upswing resulted from 2004 to 2006 with value greater than 1, thus higher export intensity. However, the trend reversed again with value less than 1 from 2007 to 2012.

In consideration of Imports, China has been the most important source of imports for India, which is quite visible from the Import Intensity Index values. The highest value 1.41 was registered in year 2005.Since 2008; the Import Intensity Index values depicted a significant rise, thus portraying the greater intensity of India's import trade with China.

Conclusion

In present era, whole world is catching their eye with keen interest on the economies of China and India, as the future dictators of the global economy. The credit regarding this goes to their young energetic populations having high skills, which in turn will prove an important asset for the respective economies. The trends in the growth rate of China –India trade shows a huge potential focused on their political achievements as well. Regarding their economic relations, it would be injustice if the bilateral trade is not regarded as the important inevitable one in the global trade scenario. To boost the trade flow with vigor and vitality, remaining trade barriers like customs rules and procedures, on tariff barriers and rules of origin and other impediments are to be relaxed. If minimization of these constraints is put into force, then there is no denying the fact that India and China will set a golden stage for a magnificent jump regarding dominance in the global trade, which finally will increase synergies in the economic cooperation. Thus bilateral trade will have definitely significant impact on the economic scenario of global trade.

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