

# India-China Trade and Partnership in Global Harmony

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## Abstract:

In China and India, the titans of Asia are emerging. Both nations are the most populous in the world, and their populations are increasing at the fastest rate. Additionally, their bilateral relationship has strengthened as a result of the significant expansion of China and India's global diplomatic and economic influence. For centuries, China and India have coexisted in harmony, as they are two of the earliest cultures in the world. Both countries have made efforts to establish fruitful political, diplomatic, and economic relationships. India's policy and security connections have been fortified by the two nations, and China has emerged as its largest trading partner. China has become India's largest trading partner, as the two nations strive to expand their economic and military connections. The economic relationship between the two countries is anticipated to be one of the strongest bilateral relations in the current global economic situation, and this development is expected to continue in the coming years. Both nations are currently in the process of developing a variety of issues, such as military, fiscal, cultural, and diplomatic cooperation. The two administrations maintain a substantial relationship; their respective roles in critical matters are considerably more well-defined, and their mutual objectives are considerably more apparent.

**Keywords:** Trade, Common Future, Cooperation, Trade Imbalance

## Methodology:

The research relies heavily on secondary data sources. Secondary data and information will be gathered by studying many relevant periodicals, including EXIM Bank, Economic Review, World Bank, a WTO magazine, and the Ministry of Commerce, Government of India. To portray the recent trade and performance of the Indian and Chinese economies, information published in various publications and websites in recent times will be consulted.

## Objective:

1. To gain a better understanding of trade imbalance between India and China.
2. To provide corrective measures for the trade imbalance.
3. To give suggestions on how India and China work together to create a global harmony for a common future.

## Introduction:

To address the potential and shared difficulties that face humanity in the twenty-first century, China has produced a white paper titled "A Global Community of Shared Future: China's Proposals and Actions." Amidst worldwide upheaval, including the Russia-Ukraine conflict and problems in West Asia, focus

shifts to the historically connected civilizations of China and India. Their similar outlooks on the future may offer hope for world peace.

Despite the ongoing trade conflict between China and the US and the COVID-19 pandemic, China's involvement in global merchandise trade remains unaffected. China is the largest contributor to India's imports, accounting for more than twice the proportion of all Indian imports. India's reliance on China for non-oil imports can reach up to 25% or even more.

India's trade relations with China are crucial, given that China has consistently been India's primary import partner for the past 15 years. India's attempts to decrease its reliance on China by implementing import substitution strategies and entering into free trade agreements (FTAs) with Asian nations have been unsuccessful, since China's portion of India's imports has continued to grow over time. India must carefully examine its trade relations with China in response to the growing trade disparity between the two countries.

### **Which are the Main Ideas for the World Community of Common Future?**

- Support the right course for economic globalization. Globalization and Inclusivity. Together, we can create an open global economy that rejects protectionism, unilateralism, and zero-sum games while standing up for the interests of developing countries.
  - Peace, Cooperation, and Development: Adopt win-win strategies, avoid colonialism and hegemony, and promote collaborative efforts for world peace and development.
  - Worldwide Community of Shared Destiny: Establish a worldwide community of shared destiny that prioritizes equity, respect for one another, and mutually beneficial cooperation to prevent confrontation between developing and established powers and fosters deeper global relationships.
  - Real Multilateralism and a Just International System: rejecting unilateralism and bloc politics in favour of a just international system centred on the UN. Supporting genuine multilateralism and upholding international law as the cornerstone of international norms and order.
  - Promotion of Common Human Values: Encouraging freedom, democracy, justice, and equity without enforcing a particular type of democracy.
1. Accept unity among differences while upholding the freedom of each country to select its own social structures and developmental routes.

### **How can China and India Work Together to Create a Global Community for a Common Future?**

1. China and India, two ancient Asian civilizations that have coexisted for thousands of years, have similar ideas on the future and fate of humanity.
2. Their Oriental wisdom and civilizational legacy provide them the obligation, talent, and chance to lead by example for the rest of the world.
3. Since ancient times, the Chinese people have held dear the idea of "a world of fairness and justice for the common good."
  - a. The Sanskrit phrase "Vasudhaiva Kutumbakam," which translates to "the world is one family," is also found in ancient Indian literature.
  - b. In September 2023, it was also the theme of the G20 meeting, which took place in New Delhi.
4. Additionally, China and India jointly developed the Five Principles of Peaceful Coexistence in the 1950s:

- Respect for each other's sovereignty and territorial integrity
- Mutual refraining from hostility and reciprocal
- Non-interference
- Parity and reciprocal advantages
- Harmonious coexistence

### **Domains and Forums of Collaboration between China and India:**

#### **Economic Cooperation:**

- China and India are members of the New Development Bank (NDB), the Asian Infrastructure Investment Bank (AIIB), the SCO, and the BRICS.
- By using these channels, they can strengthen their economic cooperation and advance an inclusive, open, and balanced global economy that takes the needs and interests of developing nations into account.
- Additionally, they can investigate new areas of collaboration like innovation, the digital economy, and the green economy, as well as increase their bilateral trade and investment.

**Cooperation in Security:** China and India are both participants in the UN Conference on Disarmament (CD).

- They can work together to preserve regional peace and stability while opposing terrorism, extremism, and secession.

#### **Cultural cooperation:**

- With rich and varied cultures, India and China are both ancient civilizations.
- By interacting with each other more, they can improve their mutual learning and cultural cooperation.
- They can also promote goodwill and mutual understanding between the two peoples by expanding their exchanges and engagements in the areas of education, tourism, sports, youth, and media.

#### **Environmental Cooperation:**

- Both China and India are signatories to the Convention on Biological Diversity and the Paris Agreement on Climate Change.
- On matters like carbon reduction, renewable energy, biodiversity conservation, and disaster management, they may improve their environmental cooperation and coordination.
- Additionally, they can help one another carry out the Sustainable Development Goals (SDGs).

#### **India and China's advantages Trade Opportunities**

#### **Economic Growth through Cooperation:**

- **Market Expansion:** There are sizable consumer markets in China and India. By working together, the two may be able to increase trade prospects and open up new markets for goods and services.
- **Complementary Economies:** India's services industry and skilled workforce, along with China's manufacturing can forge a mutually beneficial economic alliance.
- Through cooperation, the weaknesses in each other's economies can be strengthened and gaps can be filled.

#### **Technological Innovation and Advancements:**

Joint efforts in research, technology, and innovation can result in advances in a number of fields, including artificial intelligence, healthcare, and renewable energy.

Collaboration among experts and resources could hasten progress in fields including cybersecurity, space exploration, and climate change mitigation.

**Global governance and diplomacy:** Both nations can promote a more multipolar world order by standing in opposition to other global powers' unilateral actions by uniting on global concerns.

When combined, India and China might have a collective voice in international forums, influencing topics like trade, security, and climate change.

Cooperation between them could increase their diplomatic reach and result in more successful resolutions.

### **What are the Difficulties and Barriers to China-India Collaboration?**

**Border Conflicts:** Long-running border conflicts have led to sporadic military standoffs, particularly along the Line of Actual Control (LAC), which has bred mistrust and raised the possibility of escalation. India has also taken issue with China's most recent claim about Arunachal Pradesh

**Historical Disparities and Suspicion Layer:** A legacy of historical strife and the 1962 Sino-Indian War is a strong mistrust. Cooperation attempts are hampered by the suspicions each country has about the other's motivations.

India's non-participation in China's Belt and Road Initiative (BRI) adds to the geopolitical tension and mistrust between the two countries, in addition to China's use of its veto power against India in the UNSC and its strong links with Pakistan.

**External Pressure and Strategic Competition:** Given that both China and India have national interests and goals, it is impossible to overlook the strategic competition between them.

The strategic rivalry is also impacted by outside pressure, particularly from the US and its allies who want to stop China's ascent.

**Divergent Strategic goals:** Both nations strive for influence in areas like South Asia, where their strategic goals occasionally collide.

One may argue that China is invading India's sphere of influence by investing in nations that border it.

### **Future Course of Conflict Settlement Procedures:**

- Provide effective means for resolving disputes over borders and other difficult topics. These processes should encourage mutual compromise and negotiation in order to achieve a peaceful resolution. Put in place measures to foster confidence in order to lessen mistrust and encourage openness regarding military operations and goals.
- **Encourage economic cooperation** and ties between the two countries by identifying areas in which they can both profit. Pay attention to business partnerships, trade, and investment that advance shared prosperity.
- **Respect for Sovereignty and Territorial Integrity:** Uphold mutual respect for one another's territorial integrity and sovereignty to keep the area stable and secure.
- **Sensitivity and Discretion in Diplomacy:** Exercise tact in diplomacy, recognising the intricacies of geopolitics and history while avoiding escalating already-existing tensions.
- **Long-Term Vision:** Aim for a long-term vision that puts the interests of both countries and the area ahead of short-term disagreements in order to promote peace, stability, and mutual prosperity. Creating mutual understanding, trust, and prioritising shared interests over divergences is essential to guiding India and China towards a prosperous future.

## INDIA-CHINA TRADE RELATIONS:

### What is the status of India-China trade relations?

- **Imports from China:**

Despite the economic slowdown in China and disruptions in supply chains, China's portion of India's overall imports has not decreased. In fact, India's imports from China in the 2021-22 period are considerably larger than the amount imported before the Covid-19 pandemic.

In the fiscal years 2020-21 and 2021-22, China accounted for a significant portion of India's imports, reaching a peak of 16.53% and 15.43% respectively. The United Arab Emirates (UAE) was the second-largest contributor to India's imports, with a share of 6.7% and 7.31% in 2020-21 and 2021-22 respectively.

China's supremacy in non-oil merchandise imports is particularly evident, with India relying on China for as much as 25% or more of its non-oil imports.

- **Items of Imports:**

1. India's main imports from China consist of electrical and electronic goods, organic chemicals (including pharmaceuticals), and plastic items.
2. These specific commodities make up over 70% of India's total imports from China.

- **Exports to China:**

According to data from the Ministry of Commerce and Industry, India's exports to China have exhibited a consistent upward trend in recent years.

India's exports to China in the financial year 2020-21 amounted to \$21.2 billion, showing an increase from \$16.7 billion in 2019-20.

- **Items of Export:**

India's exports to China mostly consist of organic chemicals, cotton yarn, copper, and ores. Nevertheless, the value of India's exports to China remains far lower than the value of its purchases from China, leading to a substantial trade deficit.

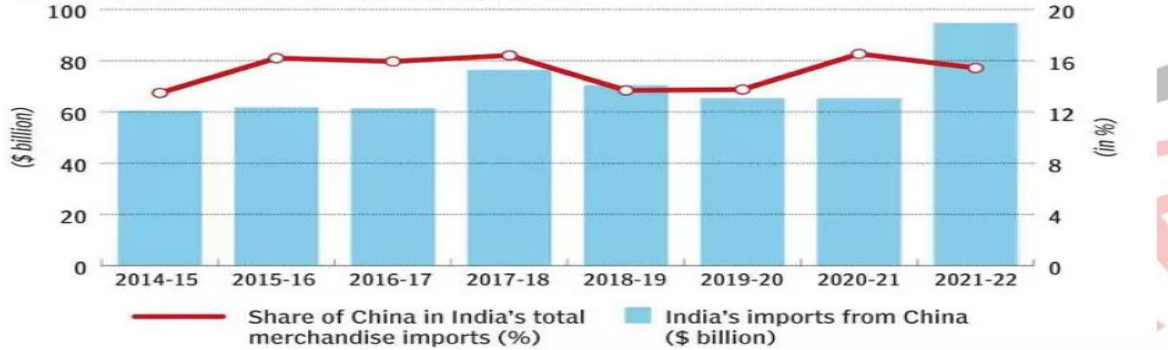
- **Bilateral Trade Deficit:**

India's trade deficit with China, which refers to the difference between the value of imports and exports, is substantial and increasing. India's trade deficit with China reached over \$73.3 billion in the fiscal year 2021-22 and is projected to surpass \$100 billion in the fiscal year 2022-23.

This trade imbalance with China constitutes around 38-40% of India's overall merchandise trade deficit in the period following the Covid-19 pandemic.

### Dissecting India-China trade

#### Imports from China and share of China in India's total merchandise imports



The source

of the image is a document titled "Drishti trade ties between India and China 1711268849.pdf".

#### Merchandise trade with China and India's total merchandise trade

TABLE

(\$ billion)

|         | Imports from China | Exports to China | Trade deficit with China | India's total trade deficit |
|---------|--------------------|------------------|--------------------------|-----------------------------|
| 2014-15 | 60.41              | 11.93            | -48.48                   | -137.69                     |
| 2015-16 | 61.71              | 9.01             | -52.7                    | -118.72                     |
| 2016-17 | 61.28              | 10.17            | -51.11                   | -108.5                      |
| 2017-18 | 76.38              | 13.33            | -63.05                   | -162.05                     |
| 2018-19 | 70.32              | 16.75            | -53.57                   | -184                        |
| 2019-20 | 65.26              | 16.61            | -48.65                   | -161.35                     |
| 2020-21 | 65.21              | 21.19            | -44.03                   | -102.63                     |
| 2021-22 | 94.57              | 21.26            | -73.31                   | -191.05                     |

The source of the image is a document titled "Drishti trade ties between India and China 1711268849.pdf".

#### What are the factors contributing to the establishment of intriguing trade relations?

- China's policy on domestic consumption:** India's growing trade deficit with China is a subject of interest due to specific policy factors. China's GDP growth rate has decelerated in the wake of the Covid crisis, prompting the country to redirect its policy towards bolstering domestic consumption. Nevertheless, this change in policy has had no impact on the shipment of Chinese goods to India.
- India's decision to withdraw from the Regional Comprehensive Economic Partnership (RCEP)** has not resulted in the expected reduction in China's market share, despite India's previous signing of free trade agreements (FTAs) with various East and Southeast Asian countries. India has chosen to exit the Regional Comprehensive Economic Partnership (RCEP), which puts India in a less favourable position compared to other countries who have a free trade agreement (FTA) with China.

#### What are the implications of a significant dependence on imports from China?

- The government has heightened political and security risks when it relies on importing items and services from a hostile country.



2. India relies heavily on China for the majority of the Active Pharmaceutical Ingredients (APIs) it utilises in its pharmaceutical sector. Chinese APIs are more cost-effective than Indian APIs, even when considering the Indian market.
- The extent of the issue became apparent during the Covid-19 outbreak when travel restrictions led to a temporary halt in the shipment of Chinese Active Pharmaceutical Ingredients (APIs) to India. As a result, India had to reduce its own exports of APIs as well.
3. Approximately 24% of the coal energy produced in India is likely sourced from plants that utilise crucial technology supplied from China. Consequently, this may not be classified as a strategic reliance, but it does provide a security obstacle. • Although there are calls to restrict or even prohibit such imports from China, this would essentially impose increased expenses on private Indian power businesses.

### **What are the causes of the trade imbalance between India and China?**

#### **The overwhelming dominance of China in the industrial sector:**

- China has emerged as a global manufacturing centre, with an extensive industrial infrastructure that allows it to manufacture things at a more economical rate compared to India.
- Consequently, China has been able to export a diverse array of products to India, encompassing electronic goods and textiles.

#### **India's reliance on Chinese commodities is substantial,**

- as it imports a considerable quantity of raw materials and completed products from China.
- This encompasses machinery, electronics, and chemicals.

#### **Non-tariff barriers**

- It refers to various obstacles that hinder trade between India and China. These barriers include intricate regulatory requirements, infringements on intellectual property rights, and a lack of transparency in business transactions.
- As a result, Indian businesses face challenges in accessing the Chinese market and competing with Chinese firms.

#### **Infrastructure and logistics in India are insufficient**

- It leads to increased costs for exporters. This reduces the competitiveness of Indian goods in the Chinese market.

#### **Currency exchange rates:**

- The exchange rate between the Indian rupee and the Chinese yuan influences the trade imbalance.
- The Indian rupee has depreciated relative to the Chinese yuan, resulting in increased costs for Chinese buyers of Indian exports and decreased costs for Indian buyers of Chinese imports.
- This exacerbates the existing trade deficit between India and China.

### **What is the recommended course of action?**

#### **Diversification of Imports:**

- In order to decrease its reliance on Chinese imports, India should diversify its imports by sourcing goods from other nations such as Vietnam, South Korea, Japan, Taiwan, and Indonesia.

#### **Enhance Exportation:**

- India should prioritize the augmentation of its exports to China.

- India should prioritize the export of high-value commodities such as engineering goods, electronics, medicines, and chemicals.
- These products offer a greater profit margin and will contribute to the growth of India's foreign exchange profits.

**Promote home industry:**

- India should focus on promoting its home industry to decrease its dependence on imports. The government can incentivize domestic enterprises to produce commodities that are now being imported.
- This action will not only assist in decreasing the trade deficit but also generate employment possibilities within India.

**Reevaluate Free Trade Agreements (FTAs):**

- India should reassess its free trade agreements with foreign nations to ascertain whether they adversely impact domestic sectors.
- India should explore the possibility of entering into a Free Trade Agreement (FTA) with China to boost its exports and mitigate the trade deficit.

**Literature Review:**

The survey of relevant literature is a critical and indispensable component of a research project. This entails the examination and assessment of both the existing and historical research literature that is pertinent to the proposed investigation.

**As per G. V. VIJAYASRI (2013)**, the various national economies of the contemporary world are mutually interdependent. In the present day, it is exceedingly difficult to identify an instance of a confined market. All economies worldwide have transitioned to an open economy. However, the extent of transparency differs among nations. Consequently, in the modern world, no nation is wholly self-sufficient. The term "self-reliance" in this context refers to the proportion of products and services in a nation that are dependent on their total productivity. However, the extent of self-reliance differs among nations.

**In their 1994 article "Economic Reform in China and India: A Comparison," S.P. Gupta and Alaka Singh** examined the process of economic reforms in China and India. China, a confined economy, initiated its development in 1978 with virtually no debt. However, India did not enter its augmentation and structural amendment phase until 1993-94, which is significantly later than China. In 1992, the Chinese market experienced a 13% increase in development, and it is anticipated that the growth rate for 1993 will exceed 13% in actual terms. This results in an average annual development rate of over 9 percent during the 16-year period (1978-1993), which is significantly higher than the 6.1 percent figure for the 26-year period (1953-78). This is remarkable in light of China's vast population and local diversity. In 1992-93, the Indian economy experienced a real-term growth rate of 4.3 percent, followed by a decline to 1.2 percent in 1991-92 after transformations were initiated in 1990-91. In 1993-94, the growth rate was approximately 4.0 percent. The current research endeavours to address the lacuna by examining the Indo-China relationship during the post-liberalization era. The study also examines the prospective relationship between the countries through the use of Time Series Analysis.



The paper by **Swapan K. Bhattacharya and Biswa N. Bhattacharya (2007)** revealed that India and the People's Republic of China have a substantial potential for bilateral trade, which has not yet been investigated. Currently, these nations are in the process of negotiating free trade agreements that are based on their complementarities. This paper conducted calculations to determine the approximate benefits in terms of gains or losses in imports for both India and China as a result of diversified privileged trading arrangements and free trade arrangements, utilising the gravity model.

**Prof. T. P. Bhat, Team Leader, Mr. Atulan Guha, and Dr. Mahua Paul (2006)**, in their Report on "INDIA AND CHINA IN WTO"-Building Complementarities and Competitiveness in the External Trade Sector, sponsored by the Planning Commission, elucidated the bilateral trade relationship in terms of economic indicators such as imports, exports, balance of trade, and commodity group. However, this research has not taken into account other economic indicators, such as GDP and GDP per capita, which are also beneficial in comprehending the bilateral trade relationship. Additionally, the research was conducted to identify the trade trends that will influence the future of both countries.

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