

A Study of India's Trade Relations with China in WTO Era

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ABSTRACT

China's joining of WTO in 2001 has completely changed its economic structure and its entry in WTO proved to be a landmark event in the global economy. As a result, China's trade relations with the world have improved significantly particularly with India. Both, India and China are the fastest growing economies in the world since they have grown at rate of 8% and 10% GDP respectively. The total trade between India and China has reached to \$60 billion in 2010. However, the major change in the trade relations between India and China has come after China's joining of WTO in 2001. In the above background, this paper is divided into three parts. The first part of the paper examines the direction of foreign trade of China after becoming a member of WTO and, the second part analyzes India's trade relations with China (Pre and Post China's joining of WTO). The final section of the paper delineates the major constraints between India and China for improving trade relations.

Keywords: Capital Flows, Foreign Direct Investment (FDI), India China Trade, Non Tariff Barriers, Trade, World Trade Organization (WTO)

INTRODUCTION

India and China have emerged as the two important economic giants in the Asia. Both the countries represent the two largest and most dynamic societies in Asia and play a vital role in the new economic architecture of the world. Robust economic growth in India and China has played a crucial role in this process. In the recent past, China and India have grown at an average 11% and 9% GDP respectively which made them the second and the fourth largest economy in the world in terms of purchasing power parity. Economic and trade relationship between India and China has changed in the

1980s with the opening of Chinese economy. Further, economic and trade liberalization of India in 1991 also played a vital role in developing the robust economic structure

Despite the strong economic ties, a wide range of geo-political issues have impacted the economic relations of the two countries. The trade between India and China was a minuscule till 1990, but with the start of globalization in 1990s, economic and trade relationship between the two countries has seen a paradigm shift. Most importantly, China's joining of WTO has completely changed the economic and trade environment of China in with their trading partners.

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It ensured the world that China has faith in the market based economy and it is willing to open for economic reforms as guided by WTO. China's joining of WTO gave a big boost to foreign investors to explore the new avenues for businesses in China. Consequently, the trade relations between India and China also improved significantly. The aim of this research paper is to analyze the trade relations between India and China especially China's entry into WTO in 2001.

Research Methodology and Analytical Framework

In this study, descriptive research has been used to analyze the trade relations between India and China. In order to understand the impact of WTO on India and China trade relations, we have segregated the data into two time frames *i.e.* trade between India and China before China's joining of WTO and trade between India and China after China's joining of WTO. In this study trend analysis, inferential statistics, mean, standard deviation and t-test have been computed to understand the significant changes in trade relations between India and China.

Data Sources: The study is based on the secondary sources. The data for the study has been gathered from WTO, UNCOMATRADE, UNCTAD and Exim Bank websites. The data for the study has been taken since 1994 to date.

Literature Review

A large number of studies have been carried out on bilateral trade agreements in the context of WTO. In this context, Bottelier (2003) noted that India has absolute advantage in export of services *vis a vis* China. India's IT exports were almost \$10 billion, compared to \$1.5 billion from China. Batra Amita (2004) developed an augmented gravity model for analyzing trade potential between India and China. She found that the potential for trade between India and China is between two and a half times to six times the actual trade in the year for which the

model was estimated. Further, another study conducted by ICRIER revealed that there exist a vast potential of international trade between the two countries. Bhattacharya K Swapan.etl (2006) found in their research that FTA between India and China certainly goes in favour of China and that is not beneficial for India in the short-run. There exist wide ranging of factors to highlight India's concern. The higher tariff rates in India as compared to those in China pose a serious challenge to economic efficiency of India. Further, India has a higher trade deficit as compared to China and it will have the far-reaching implications to India's economy once the free trade agreement is materialized. Panagariya Arvind (2006) found that India's domestic policies have impacted the export of labour intensive products and lack of attention on small scale industries (SSI) is mainly responsible for India's poor performance in external trade. Bussière Matthieu and Mehl Arnaud (2008) used a gravity model to understand the overall trade intensity and the depth of their bilateral relations. They found that the major difference between India and China lies in their integration which differs in almost in all the areas. In the case of trade in goods, China has a high trade intensity in global trade due to its strong manufacturing base, size and location. On other, India has a low trade intensity in the global trade and its bilateral linkage is weaker. These findings indicate the difference in regional integration patterns.

Thus, the brief review of literature discusses the major trade developments between India and China. However, China's joining of the WTO has completely changed the external environment of China and it has significantly impacted the trade relations with India. Therefore, it is important to understand the major developments which have taken place between the two emerging economies in the post WTO scenario. In this paper, therefore, the attempt has been made to understand the trade relations between India and China after the China's joining of WTO.

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