



The Composition of India's Trade (Import) with China and Its Impact on India's CAD

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Abstract

All these issues have been well addressed in China's 12th Five-Year Plan (2011-2015).

To address environmental and social imbalances the plan highlights the development of services and measures. Targets have been set to reduce pollution, to increase energy efficiency, to improve access to education and healthcare, and to expand social protection. Besides, China now focuses on Human Development as its annual growth target of 7 percent indicates the intention to focus on quality of life, rather than the rate of growth.

Keyword: CAD, GDP, MDGs, RMB

1.1 Introduction

The People's Republic of China has a socialist market economy which is now the world's second largest economy by nominal GDP and by Purchasing Power Parity after the United States. Over the past 30 years, its growth rates have been hovering around 10% a year and more than 500 million people have been drawn out of poverty. Being the largest exporter and second largest importer of goods in the world, it has the distinction of being the world's fastest-growing economy. China initiated and introduced market reforms in 1978. Before this, China's economy was centrally planned and regulated. Since the reforms and the shift to the market based economy China experienced rapid economic and social development. Recently,

China became the world's second largest economy and is increasingly playing a significant role in the global economy. Most of the MDGs (Millennium Development Goals) have either been reached or are on the verge of being achieved. Despite all this, China remains a developing country with a low per capita income. Its per capita income is just a fraction of that in advanced countries. At the end of 2012, Official data reflected that about 98.99 million people still lived below the national poverty line of RMB (Renminbi) 2,300 per year. With the largest population and the second largest number of poor in the world after India, poverty alleviation remains a fundamental challenge.

Rapid economic growth has also sprung up many challenges. The first and foremost is to keep the growth sustainable. Major policy adjustments are necessary so as to maintain the growth trajectory; as it has been proved that transformation from middle-income to high-income status can be more difficult than moving up from low to middle income.¹

This growth phenomenon is coupled with challenges of rapid urbanization; environmental sustainability; pollution; education and healthcare; demographic pressures related to an ageing population; internal migration of labor; high inequality and external unevenness incomplete market reforms.

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1.2 Review of literature

Betina Dimaranan, Elena Ianchovichina, Will Martinr (2007), The World Bank, Development Research Group, Trade Team, "China, India, and the Future of the World Economy"; attempted to understand the implications of the growth of China and India bilateral trade for other developing economies and also tries explores whether it will lead to Fierce Competition or Shared Growth. The rapid economic growth of China and India has been associated with much more rapid growth in their trade. In some cases, this has created

enormous opportunities for their trading partners. In others, it has created strong competition either in home markets, or in third markets.

Mahvash Saeed Qureshi and Guanghua Wan (February 2008), "Trade Expansion of China and India: Threat or Opportunity"; explores the export performances and specialization patterns of China and India and assess their trade competitiveness and complementarities vis-à-vis each other as well as with the rest of the world. Their major findings of the study are: India faces tough competition from China in the third markets especially in clothing, textile and leather products; there is a moderate potential for expanding trade between the two countries; India appears to be a competitor mainly for its neighbouring South Asian countries; and complementarities exists between the imports of China and India, implying opportunities for trade expansion.

Malini Chakravarty (2009), IDEAs traces out the India's integration with the developing Asia. Developing Asia excludes Japan. This study includes many nations of South Asia and South East Asia along with East Asia. The study focuses Increasing importance of China and South-East Asia in India's exports and imports. The study goes beyond the region and relates India's overtures in the global economy with the increasing integration into the developing Asia.

Omkar K. ,Shweta Pillai 2013 The CAD is said to be necessary for a growing economy, though it is recommended in a small amount. The sustainable CAD that is safe for India is said to be in the range 2.4-2.8 % of GDP. This is a result of a study by Rajan Goyal, Director in the Department of Economic and Policy Research, Reserve Bank of India

1.3 Objective of the Study

- To assess the changing Composition and Direction of India's foreign trade and also to analyze the new trading pattern of India with China especially in the post-independence LPG regime.
- To study the Economic structure and evolving trading patterns of China
- To explore the changing Composition of India's trade with China.

1.4 Research Design

1.4.1 Collection of data

This study is based on the secondary data which is collected from the Reserve bank of India, CSSO, NSSO, Ministry of Employment Govt. of India, etc.

1.4.2 Research Methodology

The study find the cause and effect relationship between China and Its Impact on India's CAD the descriptive statistical tools and techniques will be used.

1.5 India's trade with China

The Special Economic Zones have served as the spine of most of the People's Republic of China's economic growth. China is the largest manufacturing economy in the world. According to the data provided by the International Monetary Fund, People's Republic of China ranked 87 by nominal GDP on a per capita income basis and 92nd by GDP (PPP) in 2012.

The economy of China is the fastest growing consumer market in the world. By the end of the first decade of this century, China turned out to be the lone Asian economy with the value of above the \$10-trillion mark.

With China's phenomenal economic growth, Human Development has also attracted attention. Xi Jinping's Chinese Dream is described as achieving the "Two 100s": the material goal of China becoming a "moderately well-off society" by 2021, the 100th anniversary of the Chinese Communist Party, and the modernization goal of China becoming a fully developed nation by 2049, the 100th anniversary of the founding of the People's Republic.

Table 1.1
Total Value of India's Imports & Exports with China in Rs. (Lacs)

| Year | Imports | % Growth in Imports | Exports | % Growth in Exports | Total Trade | % Growth in Total Trade |
|---------|---------------|---------------------|--------------|---------------------|---------------|-------------------------|
| 2003-04 | 1,862,513.84 | -- | 1,357,905.85 | -- | 3,220,419.69 | -- |
| 2004-05 | 3,189,230.68 | 41.60 | 2,523,296.90 | 46.19 | 5,712,527.58 | 43.63 |
| 2005-06 | 4,811,665.23 | 33.72 | 2,992,491.28 | 15.68 | 7,804,156.51 | 26.80 |
| 2006-07 | 7,900,860.72 | 39.10 | 3,752,978.03 | 20.26 | 11,653,838.75 | 33.03 |
| 2007-08 | 10,911,607.12 | 27.59 | 4,359,741.59 | 13.92 | 15,271,348.71 | 23.69 |
| 2008-09 | 14,760,559.50 | 26.08 | 4,266,133.36 | -2.19 | 19,026,692.86 | 19.74 |
| 2009-10 | 14,604,861.20 | -1.07 | 5,471,392.87 | 22.03 | 20,076,254.07 | 5.23 |
| 2010-11 | 19,807,907.58 | 26.27 | 7,024,221.14 | 22.11 | 26,832,128.72 | 25.18 |
| 2011-12 | 26,546,561.90 | 25.38 | 8,747,082.09 | 19.70 | 35,293,643.99 | 23.97 |
| 2012-13 | 28,438,458.52 | 6.65 | 7,352,956.23 | -18.96 | 35,791,414.75 | 1.39 |
| 2013-14 | 30,923,495.99 | 8.04 | 9,056,108.68 | 18.81 | 39,979,604.67 | 10.48 |

It is clear from the table given above (table 1.1) that the total value of India's exports and imports has increased considerably in the last ten years. From Rs. 3,220,420 lakhs in 2003-04, the value of the total trade has increased to Rs. 39,979,605 lakhs in 2013-14. During this period, total value of imports rose from Rs. 1,862,514 lakhs in 2003-04 to Rs. 30,923,496 lakhs in 2013-14; whereas exports rose from Rs. 1,357,906 lakhs in 2003-04 to Rs. 9,056,108 in 2013-14.

1.6 Current Account and CAD

Current account is a very important and broader concept of the Balance of Payment it covers all the transaction of resident and non resident other than financial items. It includes the sum of three balances i.e. Merchandise balance, service balance and unilateral transfer balance or we can say that it comprises trade and transfer balances. Merchandise represent the export and import of commodity form/to India the credit item represent export and debit of this account import. Invisibles comprise cost of services, income and transfer payment. The manual of IMF for India select head under the Invisibles account i.e. (1) travels (2) transport (3) insurance (4) investment income (5) miscellaneous(receipt and payment for patent and royalties) (6) official transfer and transfer payment private.

Hence it measures the exports and imports of commodities and services, the movement of investment income from one home country to the rest of the world and vice-versa. It measures unilateral transfers between the agents of the domestic country and the rest of the world. If the balance of the Current Account is negative, i.e. if the imports are greater than the exports then there is said to be a CAD.

In a very simple word we can say that current account deficit (CAD) is the deference between the debit and credit side of current account the debit side of current account comprise the import of merchandise goods and services and the credit side of current account are export of merchandise goods and services. Most of the developing economies have a serious problem of CAD because their current account debit side is grater than credit side means the import of goods and services are greater than exports. India after the liberalisation when the new economic policy come in to force there are increasing growth rate recorded year by year in its CAD because the import of goods become started increasing and there are a very low growth rate recorded in the export of merchandise goods of the country however the export of services are increasing but this increase is not greeter than import of merchandise goods. A country undergoing Current Account Deficit results into foreign liabilities and debts with rest of world. This further leads to payback of valuable foreign exchange reserves. Substantial amount of foreign exchange are spent on paying out these debts. One important drawback of increasing external debt is decline in value of nation's domestic currency. Payment of foreign debts results in increase in demand of foreign currencies. This leads to devaluation of domestic currency and thus, enhances problems of foreign exchange crises. There are various factors which influence country's External Borrowings as well as Foreign Exchange Rates. One such important factor is Current Account (Trade Balance) Deficit. [Dr. Mechernich B. Mehta]

The CAD is affected by negative movements of the exchange rate and negative Foreign Investments. The RBI is now following a more market determined exchange rate. A high and uncontrollable CAD may scare foreign investors which in turn would weaken the rupee, which then would cause a further strain on the CAD. This effect is a chain-effect. Hence in this study we analyse the cause and effects of the CAD, and the Indian Rupee (INR)-to-US Dollar (USD) exchange rate, and their interdependence. The ways of financing the CAD is analysed. In order to understand the volatility in the INR exchange rate, a brief analysis is done on the major components of the capital account, namely, types of foreign investment.[Omkar K. Shweta Pillai 2013]

The following data showing the trends of current account deficit in India after liberalisation.

Table 1.2

Current Account Balance (Rupees Billion)

| Year | CAD |
|----------------|-----------------|
| 1990-91 | 165 |
| 1995-96 | -197.06 |
| 2000-01 | -115.98 |
| 2005-06 | -437.37 |
| 2010-11 | -2196.53 |
| 2011-12 | -3759.73 |
| 2012-13 | -4796.14 |
| 2013-14 | -1877.5 |

Source: RBI Handbook of Statistics 2013-2014.

As we seen in this table that in 1990-1991 current account is shows the picture of positive and in India in 1991 the liberalization policy adopted than after open the boundary with tariff relaxation so the CAD started increasing and in 1995-96 it was -197.06 rupees billions which and in 2012-13 it was recorded highest with -4796.14 rupees billion and in 2013-14 it dramatically decrease because in this period the government adopted a very tight policy for controlling such a huge CAD.

1.7 Conclusion of the Study

The study also involves an elaborate explanation of the economic structures and trading patterns of the China. The study also contains details about the composition of India's trade with China and discusses changes that are taking place in India's Balance of Trade with each of the China. Along with this, the reasons for its ups and downs over the years have also been analyzed. It was found out that India is having unfavorable Balance of Trade of China.

1.8 References

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