

## Dynamics of India –China trade relations

**Dr. Priyanka Sahni**

Assistant Professor

Department of Economics

Hindu Kanya Mahavidyalaya, Jind

**Dr. Preeti Sharma**

Assistant Professor

Department of Economics

SNRL Jairam Girls College

Kurukshetra

---

### **Abstract:**

*China and India are shifting the centre of economic gravity towards Asia and the economic prospects of economies throughout the world have become increasingly dependent on sustained demand in the two Asian giants. After liberalization both have made rapid progress. Owing to large size and amalgamated composition of economies, the economies are looks as the upcoming global leaders on the international arena. China has enjoyed rapid economic growth ever since it embarked on reform and opening up to the world in 1979, although the speed has varied from time to time. The surge forward was particularly impressive from the start of twenty-first century until the financial crisis, with the economy zipping along at a double-digit growth rate. Growth in India accelerated following the economic reforms of 1991, but not until the twenty-first century did this country's high-speed growth truly take off. The bilateral trade between the nations has definitely impact on the economic scenario of global trade. Merchandise trade between India and China has accelerated rapidly in recent years. China is now India's largest trading partner while India is also one of China's major trade partners. The rise in trade reflects an enhanced economic engagement between the two countries. In the present era, 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 context of their changing behavior, the present paper makes an endeavor to appraise that how the bilateral trade between the two economies since 1990s becomes as a tool in intensifying their partnership for their joint advantages in the future time.*

**Key Words:-** India, China, Asia, Economic Performance, Trade Deficit

---

### **1.1 Introduction:-**

India and China established diplomatic relations on April 1, 1950. India was the second country to establish diplomatic relations with China among the non-socialist countries. The rapid economic growth of India and China has been associated with much more rapid growth in their trade in 1954, Chinese Premier, Zhou Enlai and Indian Premier, Pandit Nehru, exchanged visits and jointly initiated the famous five principles of peaceful coexistence. Due to hostile political relations, the trade between the two countries was disrupted but resumed in 1978. In 1984, India and China signed a trade agreement, providing for Most Favored Nations treatment, to foster greater cooperation between each other. But India's liberalization became systematic only with the launch of the major reform package of 1991. In 2003, Indian Prime Minister Atal Bihari Vajpayee, visited China. At that time India and China signed agreements

Received: 2 June Revised: 7 June Accepted: 17 June

on visa simplification procedures and education programs besides enhancing the bilateral trade to \$10 billion by 2005.

Relations between China and India have been notoriously difficult over the years but have improved since they established a strategic partnership in 2003. The statement issued on that occasion highlights clearly that the two countries have developed a shared common conception of their role on the global stage. As two large developing countries, China and India are aware of each other's role in the process of promoting the establishment of a new international political and economic order. The 2003 statement noted that the two sides were supportive of the 'democratization of international relations and multilateralism, the support for the establishment of a new international political and economic order that is fair, rational, equal and mutually beneficial, and the promotion of North-South Dialogue and South-South Cooperation.

Over the years, an elaborate framework for promoting trade and economic relationships has been evolved. The main areas of trade and economic relationship include: bilateral trade, science and technology, banking, tourism, investment protection and promotion, trade facilitation, avoidance of double taxation and cooperation on WTO issues. "Economic growth in China and India has been rapid in recent years, and these two countries have increased their global market share, trade, and investment in many industries. Productivity and per capita income growth of these two countries, particularly China, appear to have been much more rapid in recent years than that of the United States and other advanced economies" (National Science Board, 2008). Both emerging countries agreed at the time that the United Nations (UN) should undergo comprehensive reform, with emphasis on increasing the representation of developing countries. The statement also reiterated Indian aspirations for permanent membership of the UN Security Council, alongside China, owing to India's increasingly strong influence in the international arena. China and India elected new leaders in 2013 and 2014 and this has had a significant impact on their relations.

Both countries have in common their intention to develop prosperity based on international trade. China is India's largest trading partner with two-way trade totaling about USD 65.5 billion in 2013. However their trade relations are characterized by India's soaring trade deficit vis a vis China. Indian consumers have indeed been consuming an increasing amount of Chinese products, but Indian exports to China have not grown in the same way. Additionally, Chinese foreign direct investments to India also remain at a low level. According to Indian government statistics, the country has received a total of around USD 400 million from China in investment in the last 14 years.

Although World witnessed economic wonders like that of Singapore, Hong Kong, Japan, Brazil, Russia, Taiwan, North Korea and South Korea but none of these posed so much threat to the global economy, as is expected from India and China. From the last two decades, these 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 present study makes an attempt to explore the extent of trade relations between these two nations and hence explore the potential for future trade. The present paper studies the trade patterns and composition between the two countries sine 1990s. Post-Independence, in 1950s, both countries looked alike in GDP terms. However, with the introduction of economic reforms in China post 1978, GDP growth skyrocketed to double digit for the next three decades. India, also adopted economic reforms in 1991 and growth rates increased. A gap of more than a decade in adoption of reforms is obvious in the outcome.

## 1.2 Review of literature:-

Many empirical studies have been undertaken to make a comparative study of India and China, prominent among them are as follows:-

**Batra (2004)** calculated the trade potential of India with all countries and found that bilateral trade with China still holds good potential.

**Arunachalaramanan and Golait (2011)** have examined the impact of the yuan's revaluation on India's trade and found that, despite the depreciation of the rupee vis-à-vis the yuan, India's balance of trade with China has worsened.

**Tyagi (2014)** investigated the major trends of bilateral trade between India and China and explores issues associated with trade intensity, intra-industry trade and comparative advantage in the two countries. The findings throw light on the burgeoning trade deficit of India vis-à-vis China, which have policy implications for potential trade and economic cooperation between the two developing economies.

**Wani (2016)** reveals that growth of India-China trade was quite phenomenal yet one major problem remained from Indian perspective was its growing trade deficit. During the study period India experiences negative balance of trade with China. Despite of this, the study shows that bilateral trade will impact on the economic scenario of global trade. The inherent potential in the economies of the two countries could be harnessed to accelerate trade and economic cooperation between India and China to achieve laurels.

**Panda et .al. (2016)** applied Gravity model and shows that India and China trade flows are mostly with geographically closer countries. Additionally, India's trade flows are with countries having higher GDP but with lower per capita income. China's trade is influenced by higher per capita income of the trading partner and common language. When crisis is introduced in the analysis, post crisis, common colony became an important influence of trade for India.

## 1.3 Objectives of the study:-

1. To analyze and compare the performance of the two Asian economies during the period under study.
2. To analyze the growth of India's merchandise trade with China.
3. To analyze the composition of India's merchandise trade with China.
4. To estimate the trade intensity between India and China.
5. To provide insight on the possible future trade relations and to provide some ideas for the future advancement or growth of Indo-China trade.

## 1.4 Methodology & sources of data:-

The present study is based on secondary data and it has been collected from various sources such as: UN COMTRADE database, Ministry of Commerce & Industry, Govt. of India, World Development Indicators (various issues), Direction of Trade Statistics Yearbook (various issues). In present paper, we have calculated the compound growth rate of India-China trade for the period 1995-96 to 2015-16. Trade intensity index has also been calculated which is defined as the share of one country's exports going to a partner divided by the share of world exports going to the partner. If an index is greater than one, which means there is a higher degree of trade intensity between two given countries. On the other hand, if the index is closer to zero, that shows lower degree of trade intensity.

Received: 2 June Revised: 7 June Accepted: 17 June

### 1.5 A brief glance at the major macro economic indicators of India & China (2015):-

As India and China are the two fastest growing countries of the world, the possibility of an economic rapprochement among them to seize the synergies<sup>1</sup> of their development is an interesting issue for discussion. Both the countries have witnessed transitions in their economic policies during the last two to three decades, and the irreversible nature of economic liberalization has enabled each nation to integrate with the world economy. While analyzing the existing patterns of their trade and the sectoral complementarities for further economic engagement, the comparative macroeconomic performance of selected indicators both economies may be examined in recent year.

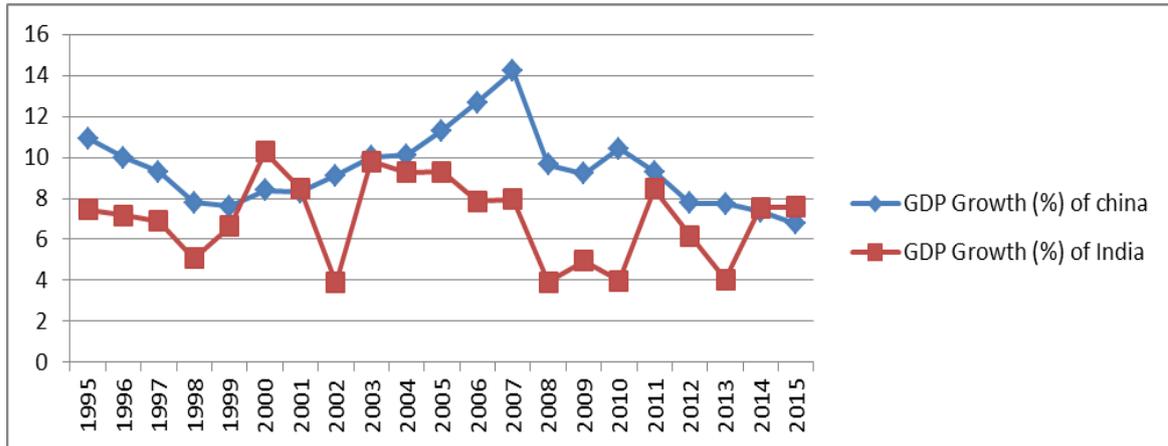
**Table:- 1.1 selected indicators for india and china (2015)**

Indicator	India (2015)	China (2015)
<b>Exports (million US\$)</b>	264381.0	2281856.0
<b>Imports (million US\$)</b>	390744.7	1681670.8
<b>Balance of Trade (million US\$)</b>	-126363.7	600185.3
<b>Major trading partners (% of exports)</b>	United States (15.2), United Arab Emirates (11.3), China, Hong Kong SAR (4.6)	United States (18.0), China, Hong Kong SAR (14.7), Japan (6.0)
<b>Major trading partners (% of imports)</b>	China (15.8), Saudi Arabia (5.5), Switzerland (5.4)	Republic of Korea (10.4), United States (9.0), Asia nes. (8.6)
<b>GDP based on PPP (Billions International \$)</b>	7,996.623	18,975.871
<b>Growth Rate GDP (%)</b>	7.46	6.76

Source:-World Economic Outlook (2015)

India has witnessed trade deficit in the year 2015 whereas China has witnessed trade surplus. China is the major trading partner of imports for the year 2015 but India has not maintained its position as top trading partner of China in export share as well as import share. However, India's Growth Rate of GDP (%) has shown a remarkable performance as compared to China for the period 2015. This may be due to mainly on account of improvement in services and manufacturing sectors.

Received: 2 June Revised: 7 June Accepted: 17 June

**FIG:- 1.1 percentage growth rate of gdp in India and China (1995-2015)**

### 1.6 GROWTH OF INDIA – CHINA MERCHANDISE TRADE:-

The fast economic growth of India and China is attributed to rapid growth in their trade. Another important feature of the growth of India and China has been the growth in their demand for natural resources, and particularly energy (Martin, 2009). India and China have experienced unprecedented growth in terms of economic development, which have attracted the attention of the world economy. India and China today represent two unique new players in the international market, presenting a combination of high GDP.

**Table: 1.2 India's trade with China (1995-96 to 2015-16)**  
(us\$ million)

Year	India's Exports to China	India's Imports from China	Total Trade	Balance of Trade
1995-96	331.69	806.98	1138.67	-475.29
1996-97	614.8	756.91	1371.71	-142.11
1997-98	717.95	1,112.05	1830	-394.1
1998-99	427.16	1,096.71	1523.87	-669.55
1999-2000	539.04	1,282.89	1821.93	-743.85
2000-01	831.3	1,502.20	2333.5	-670.9
2001-02	951.95	2,036.39	2988.34	-1084.44
2002-03	1,975.48	2,792.04	4767.52	-816.56
2003-04	2,955.08	4,053.21	7008.29	-1098.13
2004-05	5,615.88	7,097.98	12713.86	-1482.1
2005-06	6,759.10	10,868.05	17627.15	-4108.95
2006-07	8,321.86	17,475.03	25796.89	-9153.17
2007-08	10,871.34	27,146.41	38017.75	-16275.1

Received: 2 June Revised: 7 June Accepted: 17 June

2008-09	9,353.50	32,497.02	41850.52	-23143.5
2009-10	11,617.88	30,824.02	42441.9	-19206.1
2010-11	14,168.86	43,479.76	57648.62	-29310.9
2011-12	18,076.55	55,313.58	73390.13	-37237
2012-13	13,534.88	52,248.33	65783.21	-38713.5
2013-14	14,824.36	51,034.62	65858.98	-36210.3
2014-15	11,934.25	60,413.17	72347.42	-48478.9
2015-16	9,010.35	61,706.83	70717.18	-52696.5

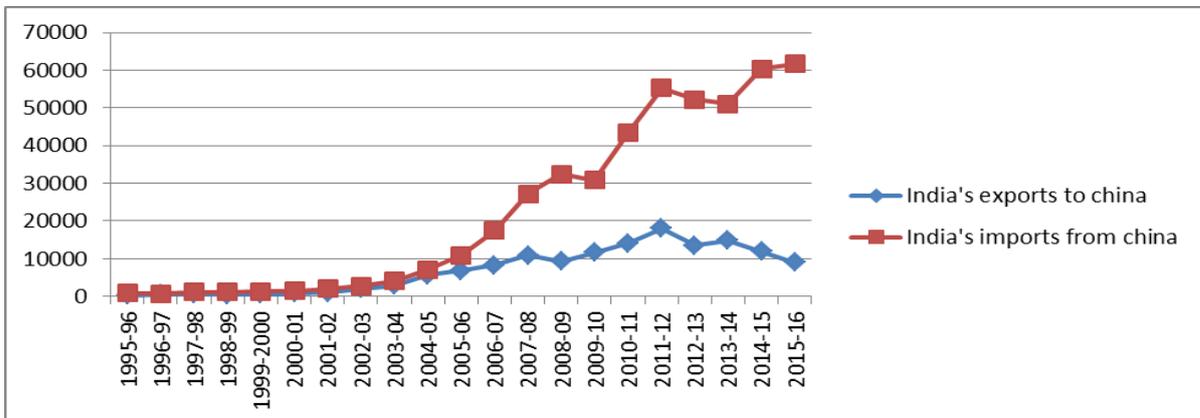
Source:- Ministry of Commerce & Govt. of India and Author's own calculations

The table (1.2) shows that India-China trade relations experienced various changes during 1995-96 to 2015-16. Bilateral trade increased from US\$1138.67 million in 1995-96 to US\$ 70717.18 million in 2015-16. Imports and exports both increased for India but the rate of growth of imports from China exceeded the exports growth rate to China, resulting in the trade deficit growing to US\$52696.5 million in 2015-16. For increase in India's exports to China, the identified three factors are:-

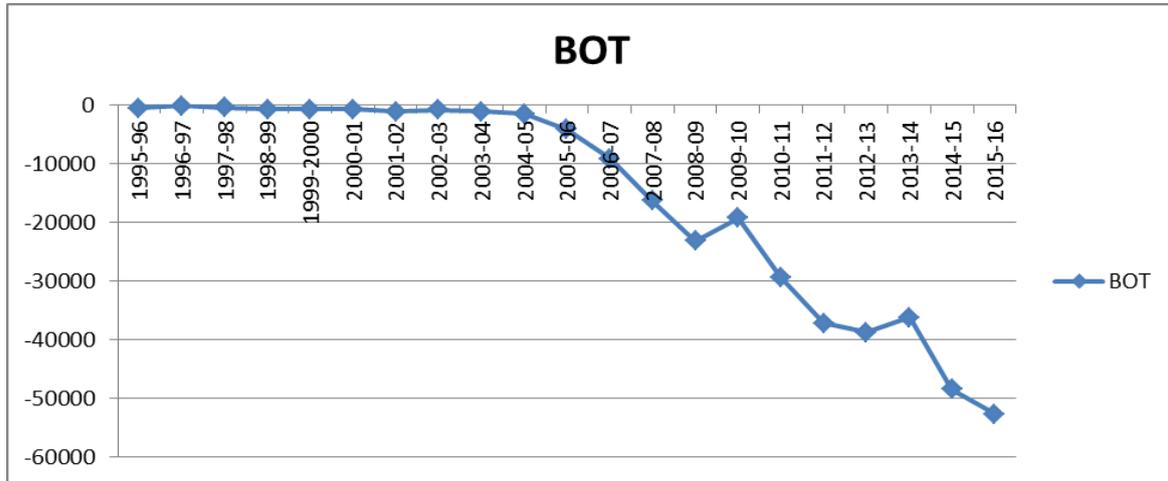
- Increase in Chinese demand
- Improvement in the competitiveness of Indian industry
- Increase in number of products, which India has started exporting to China.

After 2013-14, growth of Indian exports to China has declined on account of ban on iron ore exports imposed by Supreme Court of India and possibly due to decrease in demand for iron ore after the 2008 Olympics in China.

FIG:- 1.2 INDIA'S EXPORTS & IMPORTS WITH CHINA (1995-96 TO 2015-16)



Further, the trade deficit with China accounted for only -475.29 per cent of India's overall trade deficit in 1995 – 96, which rose to its maximum i.e. -52696.5 per cent in 2015-16 as shown in table 1 and fig.2. Though, the values of India's exports to and imports from China remained quite phenomenal however one major problem from India's point of view was its rising trade deficit with China. By and large, the balance of trade remained in China's favor; India suffered unfavorable balance of trade with China from 1995-96 to 2015-16.

**FIG:-1.3 INDIA'S BALANCE OF TRADE WITH CHINA (1995-96 TO 2015-16)****TABLE:1.3 Growth of India's trade with China (1995-96 TO 2015-16)**

YEAR	India's Exports to China		India's Imports From China		India's Trade with China	
	I.G.R	C.G.R	I.G.R	C.G.R	I.G.R	C.G.R
1995-96 to 2015-16	21.5%	23.68%	26.9%	29.69%	24.1%	27.25
1995-96 to 2004-05	30.3%	35.39%	20%	22.14%	21.2%	23.61%
2005-06 to 2015-16	5.9%	6.07%	16.2%	17.58%	10.9%	11.51%

Source:- Calculations on the basis of data from Ministry of Commerce & Industry, Govt. of India

The table (1.3) shows that compound growth rate of India's total exports to China is found to be 23.6 percent during the period under study i.e. 1995-96 to 2015-16 but it is declined during the sub-period 2005-06 to 2015-16. The compound growth rate of India's imports from china declined also during the sub-period 2005-06 to 2015-16. It implies that demand for Chinese products in India is decelerating which revealed a significant shift in the consumption pattern of Indian consumers towards domestic products. The analysis by PHD chamber of commerce & industry said that increasing competitiveness of India's production capabilities to match its Chinese counterparts due to the ease of doing business is another factor responsible for the trend.

### 1.7 COMPOSITION OF TRADE:-

The changing structure of India's exports throws some interesting light on

Received: 2 June Revised: 7 June Accepted: 17 June

both the demand pattern and supply factors that are increasingly influencing India's exports and the manner in which its production structures, institutions, and policies are responding to it. India's export basket was traditionally dominated by primary and resource based products in the past. Presently also, it is dominated by primary and resource based products but with marginal signs of deviation towards more technologically advanced products. Exports of Iron and steel, plastics and machinery items have been rising over the last few years. Table (1.2) shows the percentage share of selected commodities in India's exports to China. The share of selected eight commodities in India's exports to China increased. However, during the period under study it fluctuated sharply. The share of Ores, Slag and Ash has shown a remarkable performance as compared to other products from 1996-97 to 2015-16.

**TABLE:-1.4:-PERCENTAGE SHARE OF SELECTED COMMODITIES IN INDIA'S EXPORTS TO CHINA (1995-96 TO 2015-16)**

Commodities with HS Code	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Cotton (52)</b>	2.36	2.54	2.07	2.42	2.92	3.45	2.89	4.37	3.86	17.2	19.2	21.1	12.4	27.4
<b>Ores, Slag &amp; Ash (26)</b>	20.33	23.22	24.54	31.05	33.74	48.29	47.14	66.33	78.30	77.81	78.00	88.34	88.29	83.73
<b>Iron &amp; Steel (72)</b>	8.24	1.53	1.01	0.46	2.41	1.75	26.27	23.29	15.68	11.13	8.54	3.41	4.79	6.80
<b>Organic Chemicals (29)</b>	2.97	3.39	4.11	4.88	6.24	7.01	7.38	7.84	10.00	9.47	9.05	8.70	5.34	6.84
<b>Inorganic Chemicals (28)</b>	5.37	13.89	6.55	3.43	1.62	7.02	21.17	23.85	35.34	42.41	43.93	19.02	18.59	11.41
<b>Copper (74)</b>	0.28	0.14	0.07	0.44	9.47	1.39	6.12	5.97	6.93	7.72	17.61	13.76	6.55	30.21
<b>SALT, SULPHUR; EARTHS &amp; STONE; PLASTERING MATERIALS, LIME &amp; CEMENT (25)</b>	6.02	4.37	7.47	11.05	10.75	12.88	13.26	14.43	17.11	16.70	17.89	16.84	21.84	24.99
<b>FISH AND CRUSTACEANS, MOLLUSCS AND OTHER AQUATIC INVERTABRATES (03)</b>	6.66	9.58	5.00	7.51	8.41	6.95	8.31	6.15	7.66	9.74	6.50	9.41	6.24	11.74

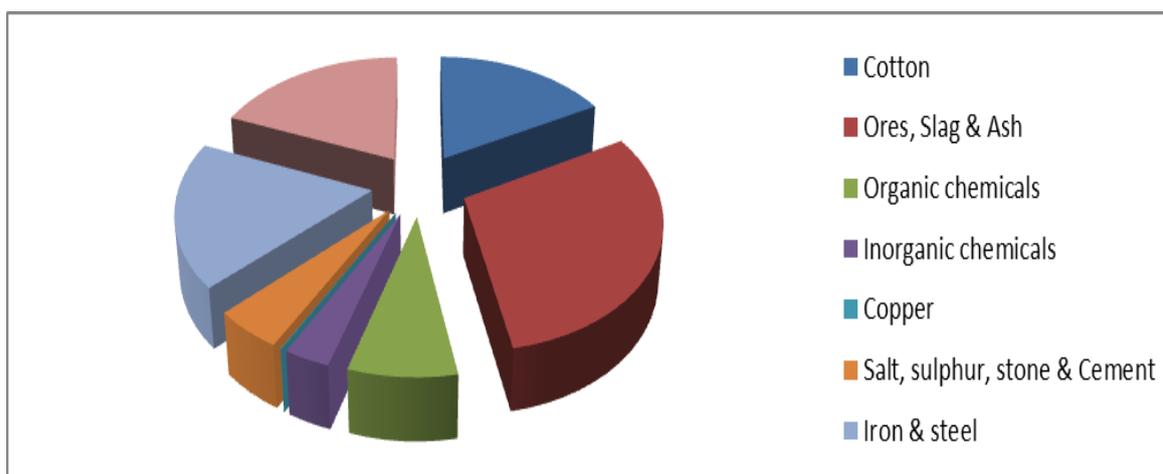
Source:- Ministry of Commerce, Govt. of India  
contd.

Received: 2 June Revised: 7 June Accepted: 17 June

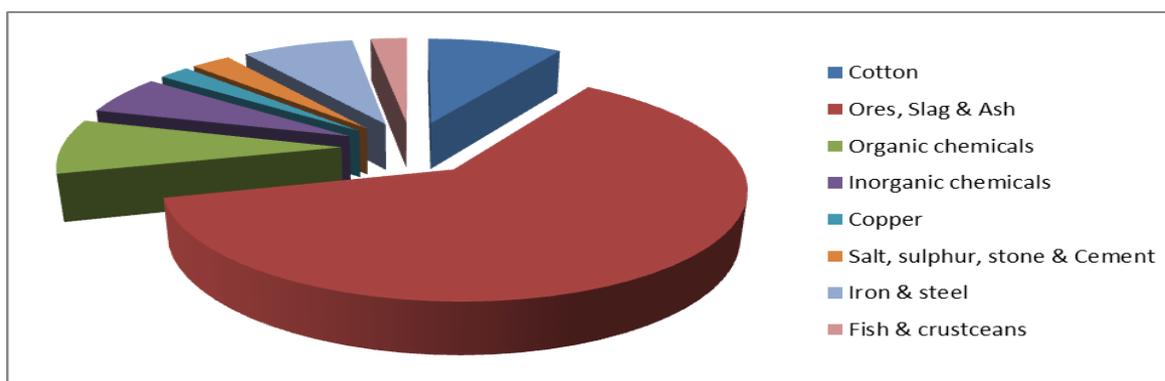
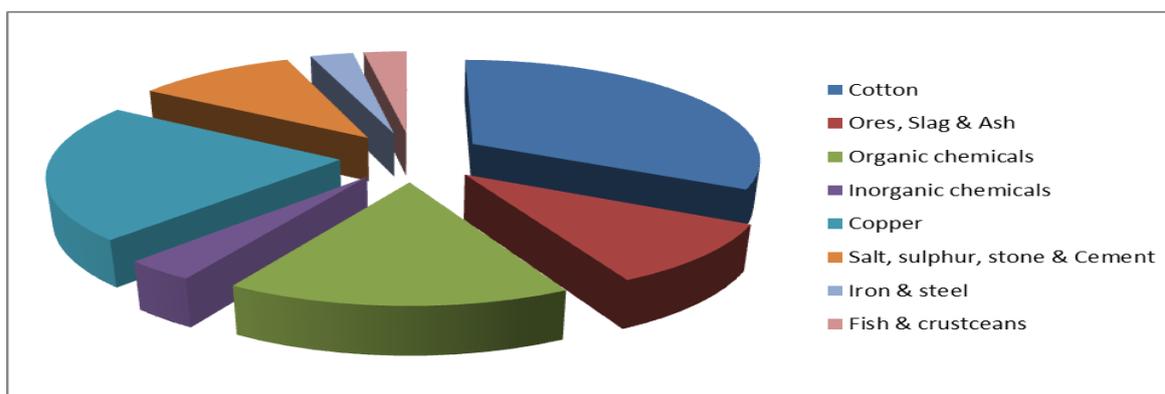
**TABLE:-1.4:-PERCENTAGE SHARE OF SELECTED COMMODITIES IN INDIA'S EXPORTS TO CHINA (1995-96 TO 2015-16)**

Commodities with HS Code	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Cotton (52)</b>	27.3	45.1	38.2	38.6	29.5	23.1
<b>Ores, Slag &amp; Ash (26)</b>	90.69	85.05	79.61	71.34	52.16	75.85
<b>Iron &amp; Steel (72)</b>	10.48	7.00	3.71	3.49	1.36	2.65
<b>Organic Chemicals (29)</b>	7.78	7.71	8.42	7.64	8.74	7.34
<b>Inorganic Chemicals (28)</b>	9.16	5.99	3.16	8.35	17.21	14.71
<b>Copper (74)</b>	43.76	70.87	69.46	66.16	56.26	46.18
<b>SALT, SULPHUR; EARTHS &amp; STONE; PLASTERING MATERIALS, LIME &amp; CEMENT (25)</b>	33.57	37.87	38.10	34.56	31.66	29.17
<b>FISH AND CRUSTACEANS, MOLLUSCS AND OTHER AQUATIC INVERTABRATES (03)</b>	11.79	5.35	5.13	3.91	2.25	3.23

Source:- Ministry of Commerce, Govt. of India

**FIG: 1.4 (A) INDIA'S EXPORTS TO CHINA (1996-97)**

Received: 2 June Revised: 7 June Accepted: 17 June

**FIG: 1.4 (B) INDIA'S EXPORTS TO CHINA (2005-06)****FIG: 1.4 (C) INDIA'S EXPORTS TO CHINA (2015-16)****TABLE:-1.5:-PERCENTAGE SHARE OF SELECTED COMMODITIES IN INDIA'S IMPORTS FROM CHINA (1996-97 TO 2015-16)**

Commodities with HS Code	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Organic Chemicals (29)</b>	9.77	12.08	14.31	14.30	15.58	18.60	21.19	20.60	19.67	25.47
<b>Fertilizers (31)</b>	0.01	0.04	0.42	0.33	1.90	1.53	2.37	2.51	0.31	0.97
<b>Plastics (39)</b>	0.92	1.43	1.58	1.27	2.00	2.31	3.47	4.51	5.90	7.33
<b>Silk (50)</b>	72.71	78.78	80.11	91.35	91.16	92.46	81.76	86.66	94.00	96.75
<b>Iron &amp; Steel (72)</b>	0.87	1.50	1.92	1.75	1.03	1.19	0.76	1.14	3.75	4.93
<b>Electronic equipments (85)</b>	3.56	4.52	5.55	5.26	6.02	8.59	13.81	18.01	19.87	23.31
<b>Ships &amp; Boats (89)</b>	3.74	0.37	0.43	1.05	0.06	0.84	3.15	0.26	3.83	3.96
<b>Medicinal</b>	1.25	1.51	1.71	1.75	2.11	4.52	4.09	4.11	4.66	5.16

Received: 2 June Revised: 7 June Accepted: 17 June

Technical Equipments (90)										
---------------------------	--	--	--	--	--	--	--	--	--	--

Source: Ministry of Commerce, Govt. of India

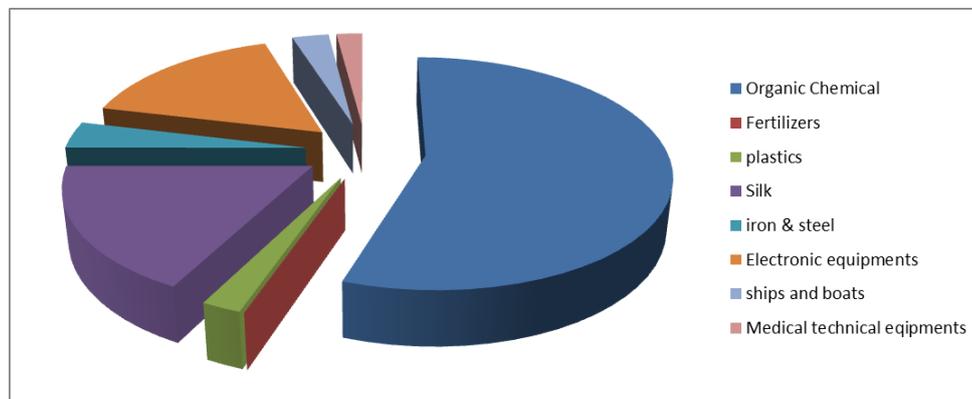
Contd.

Commodities with HS Code	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Organic Chemicals (29)	28.31	29.36	32.77	31.99	30.48	30.35	31.66	35.65	38.85	39.47
Fertilizers (31)	4.57	25.75	7.60	6.69	24.54	28.15	40.46	35.98	49.39	46.20
Plastics (39)	12.92	15.26	11.37	9.38	11.30	12.52	11.79	13.06	14.63	14.81
Silk (50)	96.15	97.22	98.11	96.12	94.52	95.33	97.19	96.21	93.10	87.88
Iron & Steel (72)	11.58	16.05	16.79	9.24	18.04	13.59	10.98	10.71	21.98	20.96
Electronic equipments (85)	29.12	38.00	39.66	43.79	43.57	43.15	46.89	48.80	50.49	54.94
Ships & Boats (89)	3.71	7.77	6.09	12.69	34.26	31.63	9.44	14.00	22.62	28.08
Medicinal Technical Equipments (90)	6.51	7.80	11.93	10.09	12.39	14.17	14.03	15.51	17.32	17.76

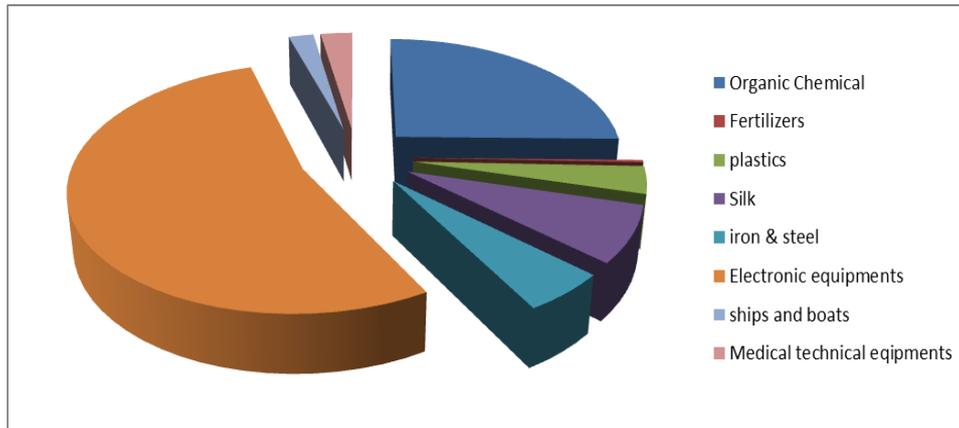
Source: Ministry of Commerce, Govt. of India

During the liberalization era, Indian dependency on Chinese items increased rapidly. Due to the cheap prices of Chinese products, Indian imports from China increased at a tremendous pace. Table 1.3 shows the percentage share of selected commodities in India's total imports from China. The share of Electronic equipments in India's imports from china improved significantly from 3.56 % in 1996-97 to 54.94 % in 2015-16. This rise may be the result of increasing demand in Indian market for cheap Chinese electrical equipments'.

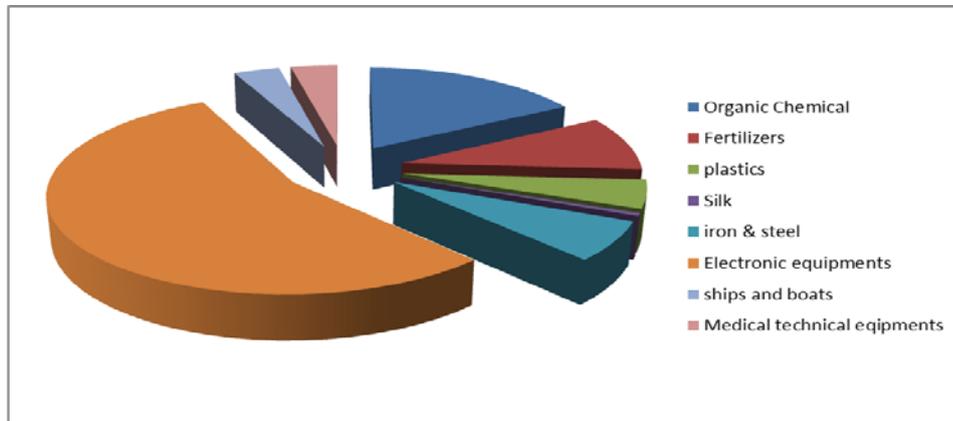
FIG: 1.5 (A) INDIA'S IMPORTS FROM CHINA (1996-97)



**FIG: 1.5 (b) India's imports from China (2005-06)**



**FIG:1. 5 (C) India's imports from China (2015-16)**



**1.8 Trade intensity index:-**

An implicit statistical indicator of the growing complementarities in trade between India and china is provided by the export and import intensities. This index is first used by K. Kojima (Kojima, 1964). It measures the share of one country's trade with other country as a proportion of the latter's share in world trade. The average amount of this index is equal to one, if an index is greater than one, which means there is a higher degree of trade intensity between two given countries. On the other hand, if the index is closer to zero, that shows lower degree of trade intensity.

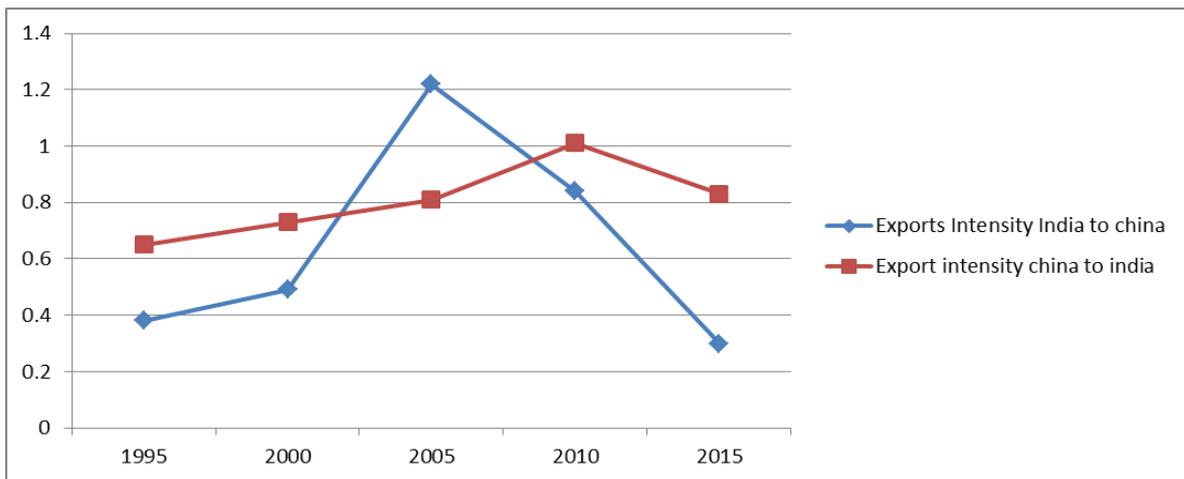
**Table:- 1.6 intensity of trade between India and China**

	1995	2000	2005	2010	2015
<b>EXPORT INTENSITY</b>					
<b>India to China</b>	0.38	0.49	1.22	0.84	0.30
<b>China to India</b>	0.65	0.73	0.81	1.01	0.83

IMPORT INTENSITY					
India from China	0.72	0.70	0.96	1.10	0.97
China from India	0.45	0.86	1.39	0.90	0.36

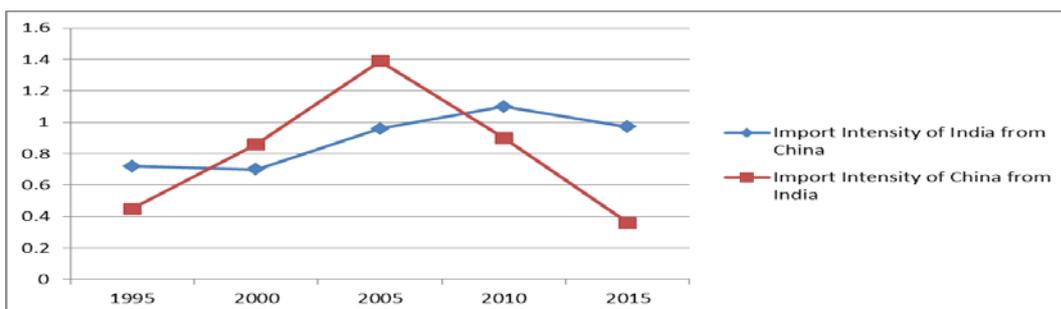
Source:- Author's own calculations

FIG: 1.6 (A) export intensity index between Indian & China (1995-2015)



During 1995 and 2000, India's export intensity to China's is found to be 0.38 and 0.49. It implies that India's export to china is much lower than expected given the Chinese markets' importance in world export. But it is found to be 1.21 in 2005 which implies that India's exports to china are higher than expected, given the Chinese market importance in world exports. The reason behind it may be the very steep increase in India's export of iron and steel and iron ore to China. There may be other reason too, like increasing complementarities between Indian export and Chinese import, etc. As a result of global financial crisis, Indian exports to China goes down, this can be seen in the declining export intensity index for the year 2010 and 2015

FIG: 1.6 (b) import intensity index between Indian & China (1995-2015)



For the period 2010, India's import intensity index is greater than one; it implies over-representation of China in the India's imports. It implies that in-spite of huge potential of trade;

the trade relationship between India and China is not at par. Both the countries are trading less than their potential. The table demonstrates that the trade deficit between the economies during the period which seems to be widened during 2010 to 2015. These under potential trade relationship between India and China is not only due to economic factors like gap between the opening up the economy of both the nations, differences in their gross domestic product etc but because of some unresolved issues , maintenance of peace and lack of confidence and other non-economic factors may also be responsible.

### 1.9 Conclusions & policy implications:-

The present study provides an exposition of the India-China trade relationship since 1990s. Both countries have benefitted from this economic cooperation in many ways. The context of China-India bilateral trade itself—bilateral as well as regional and global— has been changing rapidly. At the bilateral level, this is self-evident in the way their rapidly growing trade partnership has provided a great boost to their ongoing political confidence-building. In the wake of their diplomatic stand-off following India's nuclear tests of May 1998, their bilateral trade was the first to bounce back to its normal pace. However, this boom in their bilateral trade could not have been possible in absence of bold political initiatives yet, in recent years, it is the role of their business communities that has become far more influential in determining the tone and tenor of their political interactions. Secondly, Positive trends in the bilateral trade have been particularly shaped by the economic reforms on both sides and the consequent search for new business partners. As a result of this, their complicated politico-strategic equations, that had continued to slow the rising enthusiasm, have come to be underplayed and marginalized. The results from calculated indices show that India has a huge potential in trade with China and eyebrows need not be raised over the burgeoning trade deficit. Next, growth in trade is also possible if both countries exploit their comparative advantage as shown in many commodities.

Both countries can exchange valuable experiences given the different growth strategy each has adopted. India has been able to sustain high growth rate with little investment in infrastructure, while China's enormous investment in infrastructure made it the factory of the world. After the slowdown, it can still accelerate its economy if the service sector gets a stimulus.

The principal items of Indian exports to China are ores, slag and ash, iron and steel, organic chemicals and cotton. The main items that comprise Chinese export to India are electrical machinery and equipment, organic chemicals, fertilizers, silk etc. Many new items have been entered in India's export list, but even then Chinese exports to India are more diversified as compared to Indian exports to China. India's major exports to China belong to natural resource based and primary products while Chinese exports to India belong to manufactured products. India is continuously facing the adverse balance of trade with China which is a serious concern from India's point of view. Finally, it can be concluded that the future strategy for bilateral trade between Indian and China should not be prepared not for India and China only but for India, China and the world keeping the interest of both the economies intact.

### Bibliography:

1. **Arunachalaramanan, S. and Ramesh Golait.** 2011. 'The Implication of renminbi revaluation on India's trade: A study', RBI Working Paper Series 2.
2. **Batra, A.** 2004. 'India's global trade potential: The gravity model approach', Global Economic Review, Vol. 35, No. 3, 327–61.

Received: 2 June Revised: 7 June Accepted: 17 June

3. **Beretta, S. and R. T. Lenti.** 2012. 'India and China: Trading with the World and Each Other', *Economic & Political Weekly*, Vol. 47, No. 44, 35–43.
4. Embassy of India, China. 2014. 'India-China Economic Relations', [www.indianembassy.org.cn](http://www.indianembassy.org.cn).
5. **M. K. Venu**, "India, China may join hands at WTO ministerial", *The Economic Times* (New Delhi), September 19th 2005.
6. **Mohanty, S.K.** 2014. 'India-China Trade Relationship' RIS, New Delhi, [www.ris.org.in](http://www.ris.org.in).
7. **Panda R. and Sethi M.** (2016). 'A Study of Bilateral Trade Flows of China and India', *Indian Journal of Science and Technology*, Vol.9, April 2016.
8. **Srinivasan, T.N.** 2004, 'China and India: Economic Performance, Competition and Cooperation' Mimeo, Yale University.
9. **Swamy, S.** 1973. 'Economic Growth in China and India, 1952–1970: A Comparative Appraisal', *Economic Development and Cultural Change*, Vol. 21, No4, Part II.
10. **Tyagi** 2014. 'Composition, Intensity and Revealed Comparative Advantage in Sino-Indian Bilateral Trade: A Preliminary Study', Institute of Chinese Studies, New Delhi, September 2014 Occasional paper, No.8.
11. **Venkatesan, J.** 2012. 'Supreme Court scraps UPA's 'illegal' 2G sale', *The Hindu*, 2 February, [www.thehindu.com](http://www.thehindu.com)
12. **Wani, N.U and Dhani, J.K.** 2016. 'India's Merchandise trade with China: Growth, Prospects and Future Potential', CT Institute of Management and Technology, LPU Punjab.
13. **Wu, Y. and Z. Zhou.** 2006. 'Changing bilateral trade between China and India', *Journal of Asian Economics*, Vol. 17, No. 3, 509–18.