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"CHINDIA" TRADE MOVES A LEVEL UP– ATTEMPT TO SOLVE DEFICIT ISSUES: AN EMPERICAL STUDY IN CHINA

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ABSTRACT

This research paper pitchurizes the "CHINDIA" trade pattern since 2009 and projects the results in the context of the strategies of economic development for Asia's leading economies i.e. India & China. Our findings projected were firstly, India – China moves a level-up in its trade with signing of new agreements but showing an off-track trend. Further Imports from China by India is decreasing by proportion with certain reasons and China's exports have been more complex and sophisticated than India's, as a result the gap of deficit is not narrowing. It was also founded that India exports a large share of products; however, this proportion is still smaller than that of China exports to India. Lastly huge potential market is available in both countries that are yet to be brought into the picture or are not fully utilized to its potential. Apart from the above many challenges are found to be affecting the trade relations such as Anti-dumping, Free trade agreements and others.

Moreover "CHINDIA" setting a target for 100$ Billion Trade by 2015 would bring in a lot of challenges politically and economically, a brief study on that scenario is provided to brighten up the gray side of the trade and its implications on the Global trade.

1. INTRODUCTION

The Indian and Chinese governments agreed to scale up two-way trade to $100 billion by 2015 from $67.8 bn in 2012-13. As a result the bilateral trade went from $2.1 bn in 2001-02 to $75.6 bn in 2011-12; it then came down to $67.8 bn during 2012-13. Simultaneously, India's trade deficit increased from $1.1 bn in 2001-02 to $40.8 bn in 2012-13. In 2012-13, China became India's fourth largest trading partner from third largest in 2011-2012. Our
exports fell from $18.1 bn in 2011-12 to $13.5 bn in 2012-13.

The surging deficit is a big cause of concern and Commerce and Industry Minister Anand Sharma has taken up the matter with Chinese counterpart Gao Hucheng. There has been greater work on some of the steps suggested in the earlier communiqué issued by the Premiers of the two governments, to allow India's exports to increase. In 2010, both sides had set a trade turnover target of $60 bn, which was achieved. However, India was not able increase its exports to China, while imports from there kept rising. The only exception was in 2012-13, when imports from China fell to $54.3 bn from $57.5 bn in FY2012.

The joint communiqué issued then had suggested measures for India to increase its exports, including enhancing exchange and cooperation in pharmaceutical products, stronger relationships between information technology (IT) companies, and speedier completion of phyto-sanitary negotiations on agro products.

"Targets do get achieved but that always happens in their (China's) favor," said Biswajit Dhar of Delhi-based think tank RIS. This is now an opportunity for India to pull up their socks and look at the Chinese market seriously, and understand areas where they need India. India must realize that China is gradually becoming a high-cost economy, and there are labor and wage issues that are affecting their market. Indian industry has to stop being defensive and work out a well-thought strategy.
According to exporters, increasing of market access to China is vital for a jump in India's exports as the country endeavors to change its export profile from raw materials to finished and value-added products. "While bilateral trade of $100 bn by 2015 is within the realm of reality,

It would be liked if India's exports to touch $40 bn by 2015, so as to bring the trade deficit within a narrow zone," said M Rafinesque Ahmed, president, Federation of Indian Export Organizations.

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An India-China CEOs' Forum has been constituted to deliberate on business issues and make recommendations on expansion of trade and investment cooperation. The India side would be chaired by Anil Ambani, chairman, Reliance ADAG Group. Chen Yuan, chairman of the China Development Bank will head the other side. For five years, India had been making efforts to enter the Chinese IT and pharmaceuticals sectors. However, Indian IT faces problems in work permits and business tax regulations. In pharma, too, Indian industry faces several barriers in the form of delay in approvals and a complex registration process.

To address the trade deficit issue, both sides signed three agreements, on buffalo meat, fisheries and pharmaceuticals, and one agreement on feed and feed ingredients. The export of buffalo meat had not been allowed from India to China and this has been a long-pending issue.

With the resumption, India hopes a big merchandise flow would be helpful in reducing trade imbalance.

2. "CHINDIA" TRDAE SHOWS AN OFF-TRACK TREND

India-China bilateral trade which was as low as US$ 2.92 billion in 2000 reached US$ 51.8 billion in 2008, making China India's largest trading partner in goods, replacing the United States of America. By the end of 2009, as a result of the world economic downturn, bilateral trade dropped to US$ 43.27 billion (a decline of 16.54%). However, in 2010 bilateral trade reached US$ 61.74 billion, a growth of 43% compared to the same period last year.

India exported goods worth US$ 20.86 billion (+52%) to China and imported goods worth US$ 40.88 billion (+38%) from China, resulting in an adverse balance of trade of US$ 20 billion.
In 2011, bilateral trade stood at US$ 73.9 billion (+20%). India's total exports to China for 2011 were US$ 23.41 billion (+23%) and China's exports to India reached US$ 50.49 billion (+24%). Trade deficit for India for year 2011 stood at US$ 27.08 billion.

China's trade with India and the world for year 2012 reflected the trends of the global economic slowdown, marked by lower consumption and slower growth in trade volumes. India-China total trade in goods for 2012 stood at US$ 66.57 billion, recording a decline of almost 10%. This decline in overall bilateral trade can be attributed to decline in both India's exports to China (@20%) and India's imports from China (@5%). Commodity-wise, bilateral trade was dominated by reactors, boilers, machinery, etc.; electric machinery, sound equipment, etc.; organic chemicals; ores and cotton.

India's exports to China for 2012 reached US$ 18.8 billion, recording a decline of more almost 20% y-o-y whereas imports touched a total of US$ 47.75 billion, recording a decline of more than 5% over the figure for 2011.

Trade deficit for India for Jan-Oct, 2012 stood at US$ 29 billion. In 2012, India was the 15th largest trading partner of China with a share of 1.72% in China's overall trade, recording a decline of almost 10% y-o-y; 7th largest export destination for China, comprising a share of 2.33% of overall Chinese exports and 19th among the countries exporting to China with a share of 1.1% in overall imports by China.

Table. 1 The overall bilateral trade figures for year 2012 released by the China Customs are as follows:

(All figures in US$ billions)

	2010	2011	2012
Total India-China Trade	**61.74**	**73.9**	**66.57**
Growth %	**42.66**	**19.71**	**-9.93**
India's Exports to China	**20.86**	**23.41**	**18.82**
Growth %	**52.19**	**12.26**	**19.61**
China's Exports to India	**40.88**	**50.49**	**47.75**
Growth %	**38.25**	**23.5**	**-5.4**
Trade Balance for India	**-20.02**	**-27.08**	**-28.93**

*http://www.indianembassy.org.cn/DynamicContent.aspx?MenuId=3&SubMenuId=0

3. THE CURRENT TRADE PATTERN –NEED A CHANGE?

Policymakers may have failed to bring the two economies together in a closer relationship through a FTA, but the market had worked out its own plan. Rapid expansion of trade since the beginning of the previous decade indicates this clearly. In 2001-02, India-China trade was just less than $3 billion. This increased to $75.6 billion in the last fiscal, registering a 25-fold increase. More significantly, China has emerged as India's largest trade partner since 2009. Currently, India-China trade accounts for nearly 12% of India's total trade.

The spurt in trade volumes took place on the back of India's rapidly increasing imports from China. From a tad above $2 billion in 2001-02, India's imports from China increased to over $57.5 billion by 2011-12—a 28-fold increase. In contrast, India has not been able to penetrate Chinese markets very well; its exports have lagged its imports from China by a considerable margin, thus giving rise to the spectre of unbalanced trade. The high trade deficit that India faces indicates this clearly. In 2011-12, the deficit exceeded $39 billion and was more than twice the level of India's exports to China. It is not just the absolute trade deficit that should worry India, but the rate at which it has increased. In the last fiscal, the level of trade deficit was twice as high as that recorded two years back.

Further puts many questions whether the trade pattern is requiring a change or not? The current trade pattern has been found deviating from its path as the China-India trade is largest only in commodity terms. If thought Not really, if services and other things, are included, the United States remains a larger trading partner - but in commodity terms yes, India-China trade relationship is a major one, and the largest one that way. And the Chinese also do very large sub-contracting business in India - so there're rich, big stakes. On large grounds there has not been look by the PLA (People's Liberation Army) and the (Community) party with regards to what's at stake in terms of the larger economic and other questions in the India relationship. The Chinese companies are deeply interested in expanding their business in India. The problem is, the Indian goods, et cetera, do not have a very open market in China.

The current China Imports from India analysis based on the products that have shown an increase in the percentage of trade are shown below:

Table 2 Based on the analysis above (Table. 1) the formulated data with respect to products required given focus is as follows :

Product label	**China's imports from India**			
	Value in 2010	**Value in 2011**	**Value in 2012**	**% increase over years**
Cotton	2149910	3199070	4095638	10.91
Copper and articles thereof	871814	2156777	2174958	58.74
Pearls, precious stones, metals, coins, etc	839045	1195721	1307569	21.28
Organic chemicals	706617	989931	1183439	12.27
Salt, sulphur, earth, stone, plaster, lime and cement	431991	514174	589408	3.22
Animal, vegetable fats and oils, cleavage products, etc	261159	326606	414845	-1.23
Raw hides and skins (other than Furskins) and leather	257884	301049	386398	-7.75
Bird skin, feathers, artificial flowers, human hair	141790	224303	226698	35.73
Edible vegetables and certain roots and tubers	28861	78357	217132	-0.74
Optical, photo, technical, medical, etc apparatus	113019	138589	166814	1.53
Tanning, dyeing extracts, tannins, derivs,pigments etc	104347	109136	114314	-0.14
Essential oils, perfumes, cosmetics, toiletries	39269	55125	110741	-21.46
Vehicles other than railway, tramway	22770	65367	74109	53.37
Zinc and articles thereof	47730	65781	66511	26.34
Articles of apparel, accessories, not knit or crochet	23786	58673	64797	50.01

Vegetable textile fibers nes, paper yarn, woven fabric	33564	53788	56462	32.86
Coffee, tea, mate and spices	17291	30828	52670	2.44
Articles of leather, animal gut, harness, travel goods	12562	41414	46732	58.29
Lac, gums, resins, vegetable saps and extracts nes	12530	16914	37220	-28.64
Articles of apparel, accessories, knit or crochet	17148	26815	30103	25.13
Footwear, gaiters and the like, parts thereof	11213	18453	26801	8.08
Furniture, lighting, signs, prefabricated buildings	6308	17951	19042	59.13
Impregnated, coated or laminated textile fabric	4358	5899	11929	-24.43
Carpets and other textile floor coverings	5921	9774	10284	34.46
Cocoa and cocoa preparations	2485	3345	10225	-41.58
Miscellaneous manufactured articles	1950	4144	4520	44.62
Stone, plaster, cement, asbestos, mica, etc articles	3855	4358	4367	11.33
Sugars and sugar confectionery	141	1785	4201	34.59
Nickel and articles thereof	438	471	3382	-79.06
Wood and articles of wood, wood charcoal	2013	2721	2933	18.79
Miscellaneous edible preparations	1203	1562	1632	18.69
Clocks and watches and parts thereof	248	500	786	14.01
Live trees, plants, bulbs, roots, cut flowers etc	255	398	547	8.69
Headgear and parts thereof	87	132	207	-2.14
Tobacco and manufactured tobacco substitutes	147	174	184	10.09
Beverages, spirits and vinegar	61	88	162	-15.00

*Sources: ITC calculations based on General Customs Administration of China statistics since January, 2012

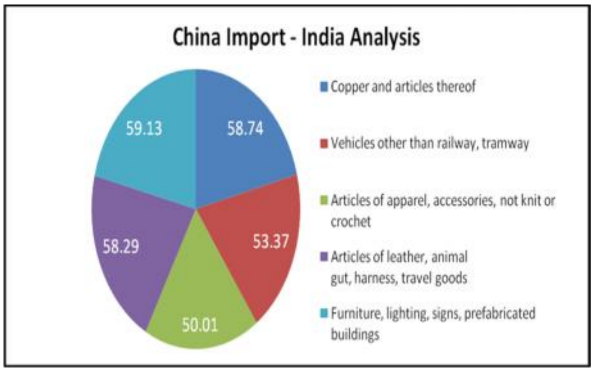


Fig. 1 China-India Import Analysis

But the question lies is that whether China, the fastest growing economy really is in need or short of the above commodities as a result the percentage rise has gone beyond 50%, the answer is no the major concern has been the declining trend in the production of China's productivity which has brought about a change in the trade pattern as a result brought India into further deficit crisis as Imports to China has risen above the level.

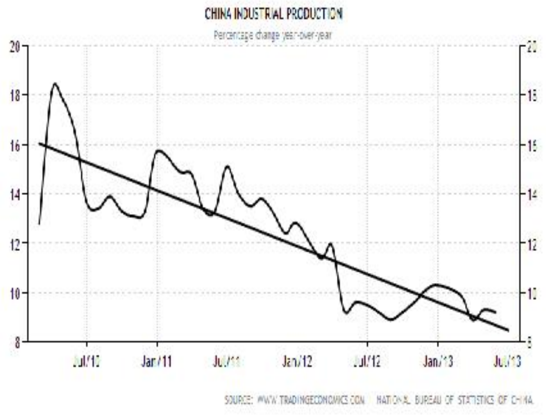


Fig. 2 China Industrial Production Analysis

Over the last few years, there has been an increase in the number of companies from India exploring Opportunities in China and vice-versa. Automobiles, Information Technology, Mining, and Textiles are some of the industries of mutual interest to the two countries. Many Indian companies have set up operations either in the form of joint ventures or wholly owned Subsidiaries in China. Axis Bank, Union Bank of India, ICICI Bank, Punjab National Bank have representative offices in China while banks like Canara Bank, Bank of Baroda, State Bank of India operate branch offices there. Similarly, companies like Bharat Heavy Electricals Limited (BHEL) and Adani have overseas operations in China; Larsen & Toubro has manufacturing facilities while Engineers India Limited (EIL) operates through a representative office. Pharmaceutical companies like Lupin, Piramal Healthcare and Sun Pharmaceuticals and chemicals companies like Reliance Industries and Jubliant Organosys have also forayed into China. Chinese companies have also invested in India.

3.1 Is It Enough? Good or Bad.

During his recent visit to India, Chinese Premier Li Keqiang visited TCS' headquarters in Mumbai. As he promised to open up China's services industry, it came as a breeze of cool air in the scorching heat for the Indian IT services sector

He believes that the opening up of the IT sector in China will be a win-win situation for both economies as it will not only provide ample opportunities for the Indian companies, but could also improve the **efficiency** of Chinese firms. Moreover, given the growing demand for **outsourcing services** in China, TCS claims that it is very well positioned to meet the demands of the Chinese economy with its wide range of offerings.

TCS says it has over 400 clients in China, including China Foreign Exchange Trade System, Bank of China, Hua Xia Bank, and Guangdong Provincial Rural Credit Cooperative Union. TCS provides a host of cloud-based solutions that aim at integrating urban management services to promote economic, social and sustainable growth in China under the project name city.

Boost in Automobile: TATA Group is the biggest Indian conglomerate present in China., TATA's Jaguar Land Rover entered into a joint venture with China's Chery Automobiles with an investment of RMB 10.9 billion.

4. INDIA IMPORT- DOWNSIZING

On the other part of the coin, the India's imports of major commodities from China have too been dominating not so well for China as there has been a decline in its imports but the recent signing of agreements has brought a positive impact in the trade trend but how long will it stay is the hypothetical question. Moreover the slower growth pace in China in recent years, together with overcapacity in the steel and iron sectors and the Chinese government's tightening policies in the real estate sector, reduced demand for Indian raw materials, mainly iron ore and iron sand (Fig. 3), which account for the bulk of Indian exports to China. That's the reason behind India's increasing trade deficit with China, Liu told China Daily.

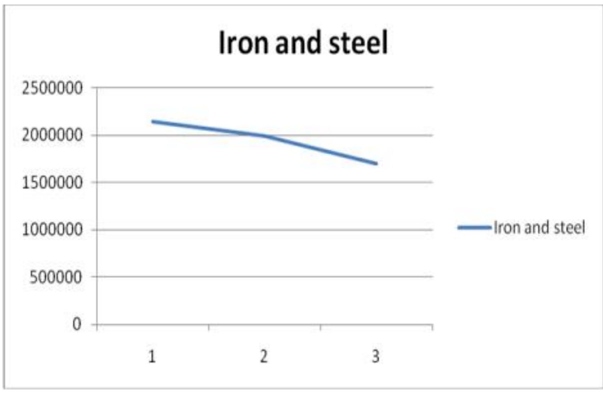


Fig. 3 India's Import analysis of Iron & steel

In the first four months of the year, Sino-India trade declined 6.2 percent year-on-year. Chinese exports increased 3.6 percent and imports decreased 24 percent, yielding a trade surplus of USD 8.83 billion, according to China's General Administration of Customs. In 2012, bilateral trade dropped 10.1 percent, and China's exports went down 5.7 percent while its imports plunged 19.6 percent, leaving a trade surplus of USD 28.87 billion, compared with USD 27.17 billion in 2011 and USD 20.08 billion in 2010, according to customs data.

The current India Imports from China analysis based on the products have shown an increase in the percentage of trade over 2 years but the increase is traced on to be at decreasing rate trend. The complete figures are provided below:

Product label	India Import from China			
	Value in 2010	Value in 2011	Value in 2012	% increase over years
Machinery, nuclear reactors, boilers, etc	7219613	9791615	10234001	21.94
Organic chemicals	3741420	4080427	4622128	-3.41
Plastics and articles thereof	783290	1212401	1271999	30.71
Optical, photo, technical, medical, etc apparatus	641739	921063	1096210	14.35
Vehicles other than railway, tramway	685281	1008626	1034878	29.52
Miscellaneous chemical products	539431	599993	618158	7.16
Furniture, lighting, signs, prefabricated buildings	369619	521268	558032	22.50
Aluminum and articles thereof	241228	474675	502861	43.58
Impregnated, coated or laminated textile fabric	323980	422765	434054	20.77
Tanning, dyeing extracts, tannins, derivs,pigments etc	228853	347612	356380	31.70
Toys, games, sports requisites	214921	303706	319513	24.29
Glass and glassware	241988	269884	278271	7.32
Knitted or crocheted fabric	163655	243696	274645	21.58
Footwear, gaiters and the like, parts thereof	146064	208542	226336	22.10
Miscellaneous articles of base metal	142712	192001	220052	12.92
Tools, implements, cutlery, etc of base metal	91122	156801	215803	14.55
Stone, plaster, cement, asbestos, mica, etc articles	110353	152138	183899	10.19
Articles of leather, animal gut, harness, travel goods	93806	150669	171298	25.70
Miscellaneous manufactured articles	122778	142963	155350	6.15
Other base metals, cermets, articles thereof	89511	129801	148214	18.62
Vegetable textile fibres nes, paper yarn, woven fabric	56426	95235	109388	27.81
Railway, tramway locomotives, rolling stock, equipment	66437	54161	70407	-45.74
Albuminoids, modified starches, glues, enzymes	39895	52091	64985	3.57
Aircraft, spacecraft, and parts thereof	16343	53994	60872	58.43
Soaps, lubricants, waxes, candles, modeling pastes	21180	46897	60866	31.89
Special woven or tufted fabric, lace, tapestry etc	39628	53936	59429	17.28

Clocks and watches and parts thereof	40862	51567	57368	10.65
Wadding, felt, nonwovens, yarns, twine, cordage, etc	38009	49303	51774	18.13
Wool, animal hair, horsehair yarn and fabric thereof	21692	40114	41308	43.03
Musical instruments, parts and accessories	15103	15252	23395	-33.83
Lac, gums, resins, vegetable saps and extracts nes	7578	13787	21882	8.04
Umbrellas, walking-sticks, seat-sticks, whips, etc	12621	19302	20285	29.77
Vegetable, fruit, nut, etc food preparations	11289	15737	19365	9.53
Bird skin, feathers, artificial flowers, human hair	6444	8264	9555	8.51
Milling products, malt, starches, inulin, wheat gluten	5703	5747	9505	-38.77
Arms and ammunition, parts and accessories thereof	39	594	1219	42.16
Vegetable plaiting materials, vegetable products nes	302	346	953	-50.98
Cork and articles of cork	295	328	702	-43.22

*Sources: ITC calculations based on General Customs Administration of China statistics since January, 2012

Table. 3

On a general note it has been observed that the number of commodities which India imports from India are more than the China Imports from India as a result deficit would come into its place.

So without any doubt it has been clearly understood that India has to Increase its exports to China for it to resolve the trade deficit issues or putting in other words the China has to increase its imports from India if not in quantity but definitely in its value preposition.

5. INDIA A POTENTIAL MARKET – CHINA ?

"India's trade deficit with China is expanding. In the short term, that's hard to resolve. The imbalance is mainly because India has limited exports to China, while Chinese manufactured goods have a competitive advantage in the Indian market," Liu Xiaoxue, a researcher on South Asian studies at the Chinese Academy of Social Sciences said.

The trade imbalance is rooted in India's trade structure. India's trade deficit with China will not be reversed in the foreseeable future. Any change depends on whether India can export products that meet the demand of the Chinese market," Hu Shisheng, director of the Institute of South and Southeast Asian and Oceania Studies at the China Institutes of Contemporary International Relations said.

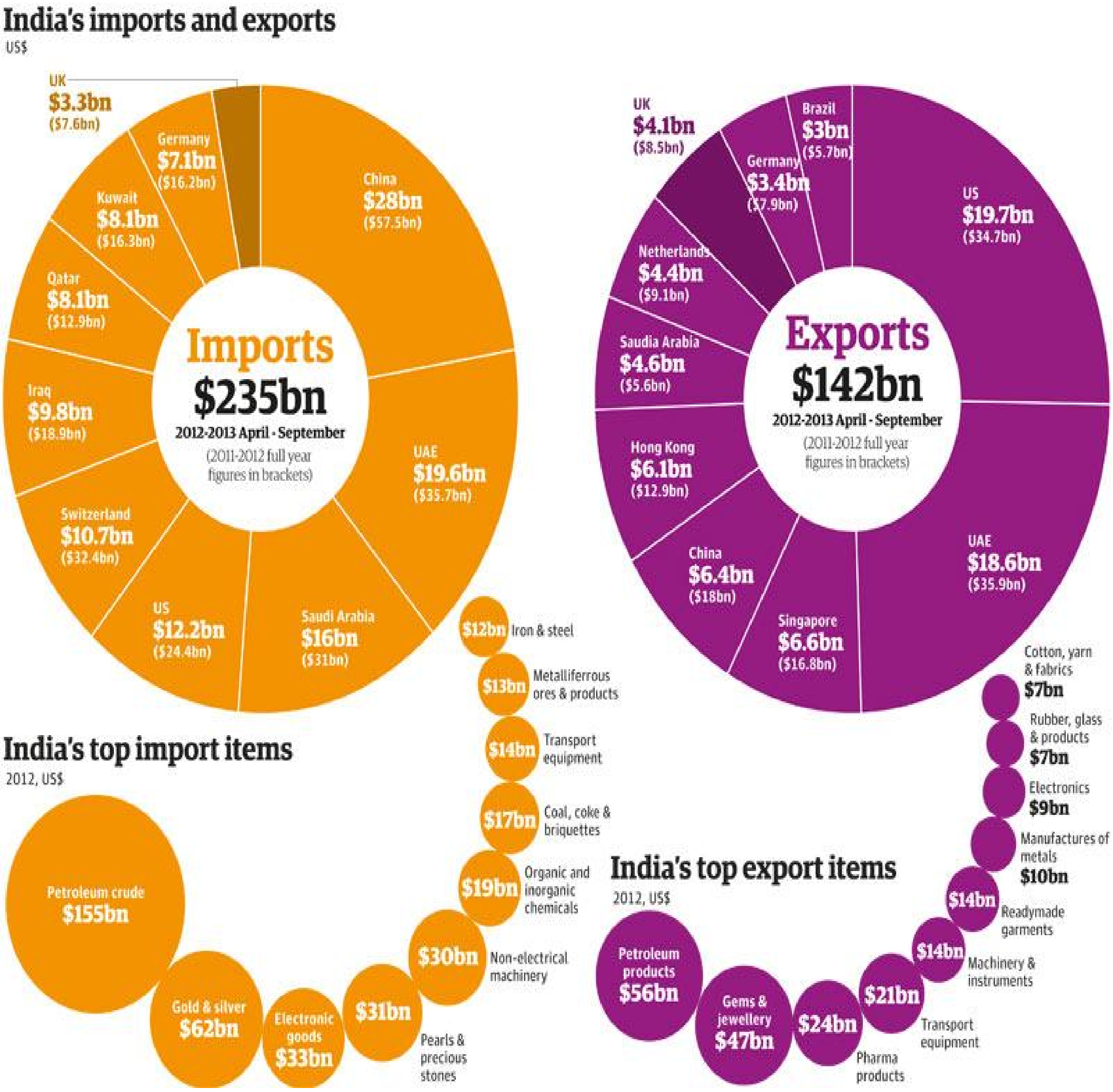
The expanding trade deficit with China, which accounts for one-third of India's overall trade deficit, that has been a concern for India for many years and partially accounts for the frequent trade remedy investigations it launches into imports of Chinese products, the Chinese analysts said. Trade probes from India will remain frequent in the coming years as India's imports of low-end manufactured products from China dent its efforts to revive its manufacturing sector. Hu added that **India's trade deficit with China is "no big deal and far from a safety concern".**

India should seize this period when Chinese exports have good quality and low prices, as prices of Chinese exports are rising. Expanding imports from China just benefits India because they lower its costs of economic transformation, enhance the living standard of its citizens and increase its exports to markets such as the United States and the European Union. Wang Shouwen, director of the Foreign Trade Department of the Ministry of Commerce, said that the Chinese and Indian economies are **highly complementary and that bilateral trade has huge potential.**

As a result of the above concern and potential observance, both the two countries set USD 100 billion trade target for 2015.

6. ROOM FOR NEW TRADE PATTERN OR A CHANGE ?

India's total merchandise trade has increased over three-fold from $252bn in 2006 to $794 in 2012 - both exports and imports have trebled during this period according to the Export-Import Bank of India (Exim bank). The bank is the premier export finance institution of the country and was set up for the purpose of financing, facilitating, and promoting foreign trade of India.



*Sources:
http://www.guardian.co.uk/news/datablog/2013/feb/22/cameron-india-trade-exports-imports-partners#zoomed-picture

Fig. 4 India's Import & Export analysis

6.1 India's exports to the world

Exports in India increased to 1348.08 INR Billion in May of 2013 from 1313.95 INR Billion in April of 2013. Exports in India are reported by the Directorate General of Commerce. Historically, from 1978 until 2013, India Exports averaged 243.47 INR Billion reaching an all time high of 1678.36 INR Billion in March of 2013 and a record low of 3.75 INR Billion in May of 1978. India's main exports are engineering goods (19 percent of total exports), gems and jewelry (15 percent), chemicals (13 percent), agricultural products (9 percent) and textiles (9 percent). India is also one of Asia's largest refined product exporters with petroleum accounting for around 18 percent of total exports.

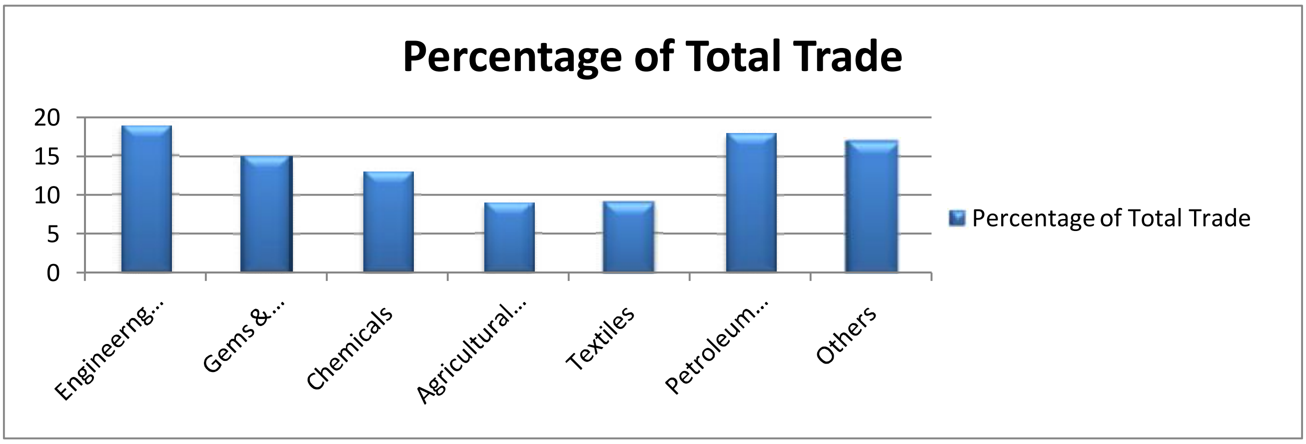


Fig. 5 Percentage of total trade

Below includes a chart with historical data for India Exports.

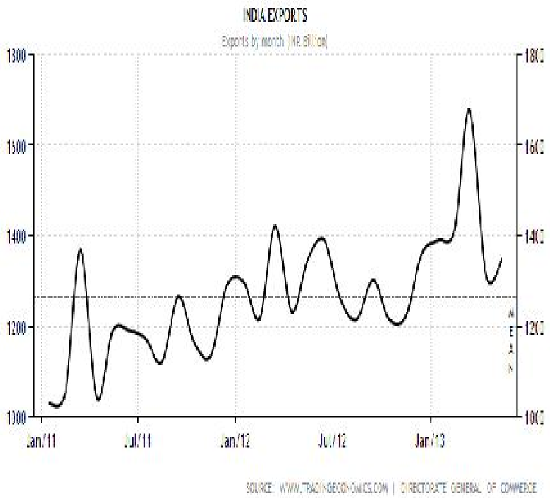


Fig. 6 Graph of Indian Exports

7. BIG MARKET IN CHINA – YET TO BE USED POTENTIALLY FOR TRADE

China has become the fifth largest **exporter of major conventional arms worldwide**, according to new data on international arms transfers published today by the Stockholm International Peace Research Institute (SIPRI). This is the first time China has been in the top five arms exporters since the end of the cold war. Overall, the volume of international transfers of major conventional weapons grew by 17 per cent between 2003–2007 and 2008–12.

The five largest suppliers of major conventional weapons during the five-year period 2008–12 were the United States (30 per cent of global arms exports),

Russia (26 per cent), Germany (7 per cent), France (6 per cent) and China (5 per cent). This is the first time that the UK has not been in the top five since at least 1950, the earliest year covered by SIPRI data. China's displacement of the UK is the first change in the composition of the top five exporters in 20 years.

The volume of Chinese exports of major conventional weapons rose by 162 per cent between 2003–2007 and 2008–2012, and its share of the volume of international arms exports increased from 2 to 5 per cent.' China's rise has been driven primarily by large-scale arms acquisitions by Pakistan,' said Dr Paul Holtom, Director of the SIPRI Arms Transfers Programme. 'However, a number of recent deals indicate that China is establishing itself as a significant arms supplier to a growing number of important recipient states.'

In the period 2008–12 Asia and Oceania accounted for almost half (47 per cent) of global imports of major conventional weapons. **The top five importers of major conventional weapons worldwide—India (12 per cent of global imports),** China (6 per cent), Pakistan (5 per cent), South Korea (5 per cent), and Singapore (4 per cent)—were all in Asia.

Other regional players are seeking to establish or strengthen submarine fleets, including several South East Asian countries and Australia, which is also acquiring large surface warships and combat aircraft. These developments come at a time of heightening tensions over territorial disputes in the East and South China seas.

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TIV of arms exports from China, 2009-2012

	2009	2010	2011	2012	Total
Algeria		18			18
Argentina		1			1
Bangladesh		12	161	301	473
Benin		0			0
Bolivia			21		21
Cambodia	4			15	19
Congo	1				1
Ecuador			22	22	44
Egypt	35	35		1	71
Equatorial Guinea	34				34
Ghana	10	2	56		68
Indonesia	10	2	10	19	40
Iran	47	62	62	44	214
Kenya		13			13
Laos				15	15
Malaysia	5				5
Morocco		220			220
Myanmar			329	216	545
Namibia	4			57	61
Niger	1				1
Nigeria		156			156
Pakistan	803	864	760	852	3279
Peru	1	1			2
Saudi Arabia	33				33
Seychelles			5		5
Sierra Leone			2		2
Sri Lanka		5			5

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Syria		20			20
Tanzania	22		67	51	140
Thailand	12		5	25	41
Timor-Leste		18			18
Venezuela	54	89	8	115	266
Zambia				51	51
Total	**1076**	**1518**	**1506**	**1783**	**5883**

*Source: SIPRI Arms Transfers Database

Table 4 China Exports to other countries

From the above TIV of arms exports from China, 2009-2012 data it has been observed clearly that India has no role to play in arms and ammunition exports from china being among the largest importers of world. The reasons could be political or economical but a thought has to be given by both country governments with regard to trade.

TIV of arms exports to India, 2009-2012

	2009	**2010**	**2011**	**2012**	**Total**
France	15	17	22	23	77
Germany (FRG)	42	55	45	8	150
Israel	92	101	117	254	563
Italy		12	306	15	332
Netherlands	10	20	1	1	32
Russia	2060	2298	2449	3966	10772
South Africa			4	11	15
UK	112	120	140	290	662
Ukraine			28	59	87
USA	2	51	190	139	383
Uzbekistan	209	209	209		627
Total	2542	2883	3511	4764	13700

*Source: SIPRI Arms Transfers Database
Table 5 India Exports to other countries

The table. 4 forecast the potential market for India in trade for arms and ammunition by China as India has been the largest importer of arms from Russia. So it is inferred that potential is observed for mass trade if both countries open up.

A good start would be for China to take a lead in efforts at the United Nations for the creation of a treaty regulating the international arms trade. It has given guarded backing to the proposal, expressing support while sticking firmly to its line that any agreement has to respect national sovereignty and be grounded in consensus. The global arms industry is valued at trillions of dollars and the nation has a slice estimated at 8 per cent - an economic advantage that the government does not want decimated by the pact.

7.1 Room for Expansion in Current Trade

On March 2013, aircraft manufacturer Boeing and China Eastern Airlines celebrated the delivery of the 1,000th Boeing airplane for China, a 737-800 emblazoned with a daring peacock livery. At the event, executives said the outlook for the industry is as bright as the aircraft's paint job - Boeing experts said in September China's commercial aircraft fleet would grow to 5,980 by the end of 2031 compared with 1,910 by the end of 2011.

The civil aviation administration of China, or Caac, said the country planned to build 82 airports and expand 101 existing ones across the country from 2011 to 2015. Last year, the national development and reform commission, the country's top economic planning agency, approved 24 projects to build new airports and expand existing airports, with an estimated investment of about 100 billion Yuan.

At the moment, China has to import its commercial aircraft and most of the aircraft owned by Chinese airlines must be repaired and maintained overseas. That could be about to change.
There are hopes of a major boost to the industry from a significant aircraft engine research and development project, which is now under review by China's cabinet, the State Council. The programme, which is focused particularly on technology, design and materials related to aircraft engine manufacturing, is currently going through approval procedures in the state council, and it may be approved shortly. The programme is expected to have an estimated capital injection of at least 100 billion Yuan.

“At present, China's aircraft engine design and manufacturing have weak links in terms of materials, key parts, manufacturing equipment, processing precision and measurements," an unnamed professor at the Beijing University of Aeronautics and Astronautics told the Xinhua news agency. Among the companies taking part are Shenyang Liming Aero-Engine Group, Avic Xi'an Aero-Engine Group and research institutes, including Beijing University.

China's domestic engine industry is also advancing. The China North Industries Group recently said one of its units had developed a 36,000 tone extruder that will allow it to produce turbine disks in much bigger numbers than is currently possible.

Central to China's domestic aviation ambitions is the country's homemade narrow body commercial airliner, the C919. The C919 is a 168-seat, single-aisle, medium-range aircraft designed to give Boeing's 737 and Airbus' A320 a run for their money.

7.2 India Liberalizes Aircraft-Import Rules, “The Wall Street Journal”

India's existing airlines as well as private aircraft owners and flight training institutes no longer need federal government approval to import planes, Civil Aviation Minister Ajit Singh said Thursday. "The decision is another major step toward liberalization in the civil-aviation sector after allowing 49% foreign-direct investment in airlines," the statement said. It will "remove duplication [of procedures] and also reduce delays in seeking approval and will do away with the cumbersome procedure which airlines have to follow before acquisition of aircraft," it added.

The Indian government last September permitted foreign carriers to buy stakes of up to 49% in local airlines. Before that only foreign investors, and not airlines, were permitted to invest in Indian carriers.

The requirement for airlines to seek the ministry's permission to add new planes was part of a strategy to regulate aircraft imports to prevent addition of excessive seat capacity by bigger airlines and also to hold off any fare wars which could hurt smaller airlines more.
Further the airlines had argued for letting them import as many planes as they required so that they could plan on expanding their capacities in advance and boost air connectivity in the country.

Moreover India refuses to be an international pariah by reverse engineering. India is respectful of intellectual property rights and has latest Western technology available. DRDO does not get enough funding to complete proper research on LCA, Kaveri and subsystems leaving imports and JVs to fill the gaps. Good news is China is not so far ahead as they still import Russian engines and radar on so called "indigenous" J-10. With infusion of French technology from Rafale and Snecma-Kaveri tie up, IAF will be 15 years ahead of China.

7.3 New Hand Shakes – A New Beginning?

India and China have signed a memorandum of understanding for promotion of exports of Indian handicrafts. A high-level delegation led by Zohra Chatterji, Secretary, Textiles, visited China for increasing handicraft trade and brand image promotion of Indian handicrafts and textiles in the Chinese market.

A MoU was signed between the Export Promotion Council for Handicrafts and the China Council for the Promotion of International Trade (CCPIT) to explore the possibilities of enhancing handicrafts from India to important markets of China. The MoU will focus on promotion of exports of products such as ethnic and contemporary furniture, wooden handicrafts including furniture from Jodhpur and Saharanpur, imitation jewellery and fashion jewellery and art metalware from Moradabad.

India will also organise the first exclusive exhibition of Indian handicrafts in China.
Further exchange of techniques, craft exchange programmes and Reverse Buyer Seller Meets will also be organised by both the countries. The delegation also held meetings with Shanghai Textile Association, Shanghai Textile Trade Association, Shanghai Import & Export Chamber and Shanghai Mart.

Apart from above India and China have signed three agreements on areas including buffalo meat and pharmaceuticals, a move which will help in bridging the widening trade deficit. "This Memorandum of Understandings (MoUs) will address the growing trade deficit between the two countries," a Commerce and Industry ministry statement said. Both the countries signed three MoUs on buffalo meat, fisheries and pharmaceuticals; and on feed and feed ingredients.

The MoUs are part of agreements entered into by the two countries during the current visit of Chinese Premier Li Keqiang to India. "The signing of the MoUs is a good beginning to address the issues India is raising with China from time to time. All the sectors are of immense trade importance to India and India has clear price and quality competitiveness in these sectors to compete in the world market," it said quoting Commerce and Industry Minister Anand Sharma. A MoU for the export of buffalo meat from India to China was signed between Chinese General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) and India's Agricultural and Processed Food Products Export Development Authority (APEDA). "The export of buffalo meat is not allowed from India to China and this has been a long pending issue between two countries."With the resumption of trade, India hopes a big merchandise trade that will not only be helpful in reducing trade imbalance of India but also in Chinas food security by providing quality and hygiene meat products," it said.

The Marine Products Export Development Authority (MPEDA) and AQSIQ signed a MoU on cooperation in import and export trade of fishery products. The MOU aims to institutionalize cooperation in promoting trade of fishery products and healthy development of trade between the countries.

Further, a MoU was also inked between Pharmaceuticals Export Promotion Council of India and The China Chamber of Commerce for Import and Export of Medicines and Health Products. "India has been finding it difficult to expand its trade with China in the pharmaceutical sector. The signing of the MoU is expected to facilitate access to the China market in pharmaceuticals," it said. The average imports of medicinal and pharmaceutical products from China during last five years were $4.33 billion via--via exports from India of $692.44 million.

An agreement was also signed between Export Inspection Council of India (EIC) and AQSIQ on trade and safety of feed and feed ingredients. "India hopes a big merchandise trade for feed and feed ingredients after the resumption of trade as China has suspended import of feed and feed ingredients since January 1, 2012," it said.

India is expecting more exports from India to China through this cooperation As a result the bilateral trade between India and China had gone up from $2.09 billion in 2001-02 to $67.83 billion during the 2012-13.

With the bilateral trade between India and China going up it has been expected that deficit concern of both countries would profound to go down as deficit could only be understood and reduced when the trade between the both countries move up a level higher to a new journey for many agreements to become intact and more handshakes take place in the near future.

8. ANTI-DUMPING (AD), A CHALLENGE IN TRADE

Between 1991, when India initiated its first AD case, and the first quarter of 2012, India initiated 650 AD cases against its trading partners. In 1994, India initiated its first AD case against China on Isobutyl Benzene, imposing a specific duty for five years from 1995 to 2000. On the whole, 148 AD cases were initiated against China which is roughly 23% of all

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cases. Over the 2000s, India has not only become the main user of AD policy worldwide, but is also the country with the largest number of initiations against one single trading partner worldwide.

Indian AD cases that were initiated against China

YEAR	NO: OF CASES	YEAR	NO: OF CASES
1994	4	2004	7
1995	3	2005	11
1996	2	2006	8
1997	5	2007	11
1998	7	2008	15
1999	6	2009	11
2000	10	2010	11
2001	14	2011	5
2002	14	2012	7
2003	6	TOTAL	157

*Source:http://siteresources.worldbank.org/INTTRADERESEARCH/Resources/544824127291603663l/7031714-1273098072069/DSUD-WTO_2012.xls

Table: 6

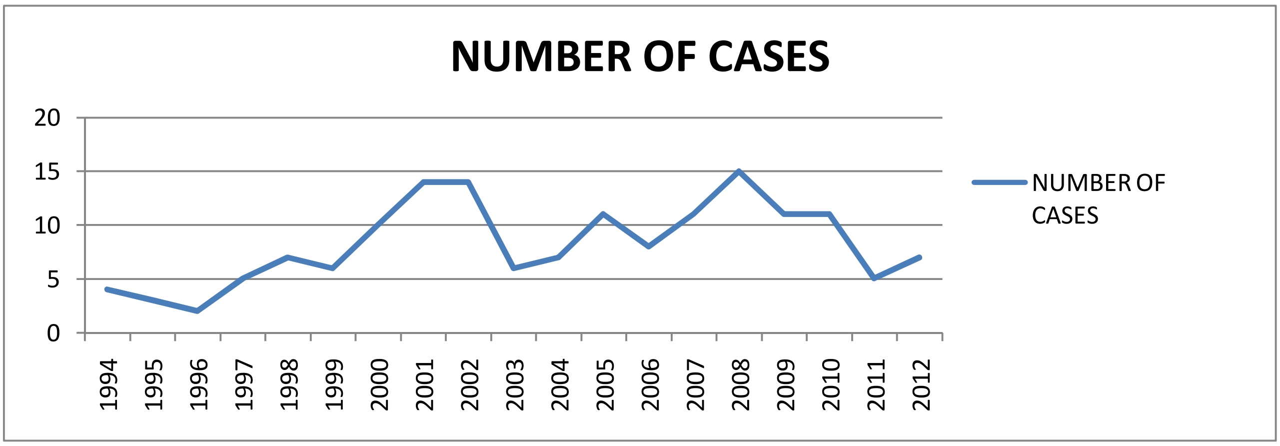

Fig. 7 Chinese AD cases that were initiated against India

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YEAR	NO: OF CASES
2002	1
2003	1
2004	-
2005	1
2006	-
2007	1
2008	-
2009	-
2010	-
2011	-
2012	1

*Source: http://siteresources.worldbank.org/INTTRADERESEARCH/Resources/544824-1272916036631/7031714-1273098072069/DSUD-WTO_2012.xls

Table: 7

From the above evaluation of the data, it has been very clear that India has been initiating quite large number of Anti- Dumping cases on China for which there has to be an immediate solution proclaimed as it could be HUGE challenge in the process of trade and henceforth possess a threat towards the growth in the trade figures between the two nationals. With total 157 cases out of which more than 60% cases yet to be revoked is a major concern for both the countries. On the other hand china initiating only 5 cases in the last 10 years has shown a positive approach of china with its neighboring country India.

AD policy seems to be applied to a large extent in the food and beverages industry, but also in chemicals, plastics and rubber, and textiles. The import value from China that is covered by AD measures exceeds 50% in some sectors, so that AD policy is rather the rule than the exception in these sectors. A recent finding is that AD policy has started to be applied on capital goods and consumption goods during the Great Recession. However, AD cases on intermediate goods are clearly dominating Indian AD cases against China.

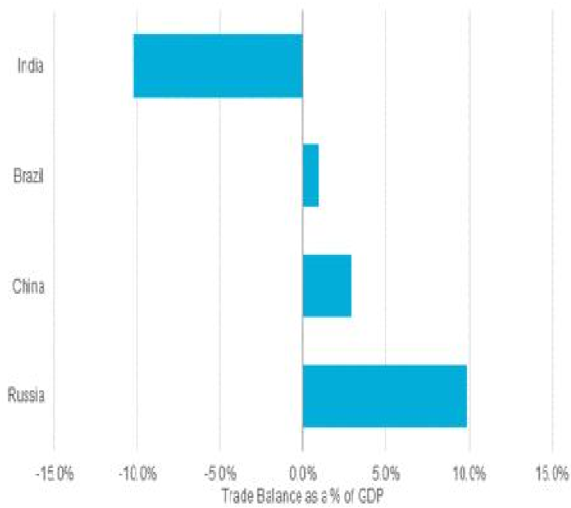
9. INDIA'S CHALLENGES IN TRADE: UNIQUE AMONG BRICS

In 2013, the prospects for trade for the BRIC economies (Brazil, Russia, India and China) will diverge. While the BRIC economies have been at the forefront of emerging market growth for the past decade, weaker export demand from the developed world since 2012 is impacting the trade balances of each BRIC country. The widening trade deficit for India in particular, the only BRIC member in which imports outstrip exports, is threatening the country's growth prospects for the year.

India's trade deficit widened in 2012 to 10.3% of GDP, as high oil prices further increased the cost of the country's imports, while export growth slowed, leading the imbalance to worsen. This is compared to 2.9% surplus in China, 9.9% surplus in Russia and a 0.9% surplus in Brazil in 2012. Both Russia and Brazil's exports are buoyed significantly by primary resources, such as oil and gas.

Euro monitor International expects India's trade deficit to widen to 12.3% in 2013, making it the second largest deficit, in absolute terms of the 66 economies forecasted.

Trade Balance of BRIC Economies: 2012



Source: Euromonitor International from trade sources/national statistics

Fig. 8

India's situation is unique. The country has not posted an annual trade surplus since at least 1977, primarily due to two key factors. First of all the country is highly dependent on imports of energy to maintain the country's energy consumption. For example, the country imports 75.2% of the crude oil that it consumes, as a result, in 2012, imports of mineral fuels accounted for 33.9% of the country's import bill. The rising costs of fossil fuels after 2010, as well as the low levels of energy efficiency have exacerbated India's trade deficit issues;

Secondly, the economy's external sector remains comparatively small in comparison with the other BRIC economies. The Indian economy has maintained growth through rising domestic spending and a burgeoning services sector, which in 2012 made up 53.4% of the economy. As a result, India's exports made up just 15.7% of the country's GDP in 2012, compared to 25.3% in China and 27.2% in Russia; Brazil is the exception with exports making up just 10.8% of GDP in the year;

However, over the majority of the period studied, the trade deficit has been offset by capital accumulation in India from FDI inflows into the country. Since 2006, a rapid acceleration in imports has led to a much larger trade deficit, while the financial crisis of 2007-2008 has meant FDI flows have tightened across the world. The trade deficit is therefore, a growing burden for India, as capital is diverted from India's economy to fund rising import costs.

Although there are challenges for India's external sector in 2013, the economy has seen very high trade growth, the fastest of the BRIC economies. Between 2007 and 2012, exports increased by 103.6% in US$ terms, while imports increased by 123.2%. Growth will continue in 2013, with 15.2% increase in exports and a 22.2% increase in imports. The rapid growth is a result of a burgeoning middle class and the development of export industries in the country. The long term prospects for India remain bright as a result, as the growing population and continued economic development offer considerable opportunities for investment. However, the trade deficit will continue to drag on economic growth until investor confidence in India returns.

Although inter-BRIC trade is growing strongly, all four nations remain heavily reliant on trade with the West and Japan. The day when Brazil, Russia, China and India will have shouldered their way past the developed markets and claimed global economic dominance is still a way off yet. But, as Dawar notes: "If current trends continue, by the end of [this] decade inter-BRIC trade may begin to rival BRIC-to-developed-economy trade in absolute size."

10. THE OTHER HURDLES ON THE TRADE PATH

For years, India and China have been involved in re-shaping the global economic architecture to make the functioning of the multilateral institutions in the areas of trade and finance democratic.

Bilateral economic relations between India and China have gone through interesting phases in the past decade. Towards the middle of the previous decade, the two governments were in active consultations for commencing negotiations for a free trade agreement (FTA). These preparations went astray as the Indian government faced opposition from major industry associations. These associations were apprehensive about their ability to stand up to competition from the relatively cheap Chinese products and, were therefore, unwilling to allow lowering of tariffs through an FTA.

Commenting on the issue Salman Khurshid, External Affairs Minister, said, "We would have them as a friend. We need to have them as a friend. But I would like to articulate it in this way. India wants to be port of the solution, not part of the problem." He further added that, "They have suggested a Regional Trade Agreement - What we have said is that the Regional Trade Agreement should come sequentially after we have addressed the issues of trade that we have because whatever we do beyond that will finally have to take into account other countries in our neighborhood and we should first make sure that everything is sorted out with China."

Policymakers may have failed to bring the two economies together in a closer relationship through a FTA, but the market had worked out its own plan. Rapid expansion of trade since the beginning of the previous decade indicates this clearly. In 2001-02, India-China trade was just less than $3 billion. This increased to $75.6 billion in the last fiscal, registering a 25-fold increase. More significantly, China has emerged as India's largest trade partner since 2009. Currently, India-China trade accounts for nearly 12% of India's total trade.

Besides the trade imbalance, the commodity composition is also skewed against India. In 2011-12, raw materials and intermediate products made up for more than 90% of India's exports to China. In other words, India was feeding the factory of the world that China is. But one noticeable change that has occurred in the past three years is that while in 2008, raw materials were nearly 80% of India's exports to China, in the previous year, the share of raw materials had declined while those of intermediate products has increased to nearly 34%. This probably indicated that component manufacturers from India are getting involved in the production networks spawned by Chinese enterprises.

In contrast, raw materials and intermediates were less than 40% of India's total imports from China. The share of these products was as high as 70% in the beginning of the previous decade, but has declined rapidly as China implemented a policy to restrict exports of raw materials. India has thus got into a division of labor with its neighbor wherein it exports low value-added products and imports high value-added and technologically sophisticated products. Perhaps the only cause of comfort for India could be that China has developed this trade pattern with most of its major trading partners, including Brazil and South Africa

The Chinese side not only proposed several measures to address the deficit but also made a strong pitch for a FTA. But it has been learnt that India wants more active engagement on this issue before committing on FTA talks. The Chinese also gave assured that it will promote sale of Indian Goods in China especially the once which enjoy a competitive advantage and it will do so by relaxing import norms and the Chinese will also promote Indian tourism, so that more and more Chinese tourist come to India. Meanwhile, India pitched for buying of more Indian generic products as well as Indian IT products by Chinese PSUs, who are major buyers across the globe. The Indian side also called for a quick notification of the three joint working groups from the Chinese side, as issue which has been pending since last August, adds Bhuyan. Chinese analysts believe the imbalance is likely to keep growing in the short term due to structural problems.

"India's trade deficit with China is expanding. In the short term, that's hard to resolve. The imbalance is mainly because India has limited exports to China, while Chinese manufactured goods have a competitive advantage in the Indian market," Liu Xiaoxue, a researcher on South Asian studies at the Chinese Academy of Social Sciences said. The slower growth pace in China in recent years, together with overcapacity in the steel and iron sectors and the Chinese government's tightening policies in the real estate sector, reduced demand for Indian raw materials mainly iron ore and iron sand, which account for the bulk of Indian exports to China. That's the reason behind India's increasing trade deficit with China, Liu told *China Daily*. "The trade imbalance is rooted in India's trade structure. India's trade deficit with China will not be reversed in the foreseeable future.

11. CONCLUSIONS

This paper brings home the message that there is massive untapped potential for broader economic cooperation between China and India, notwithstanding that competition may co-exist with cooperation. The recent trade talks and signing of agreements have led to a new beginning between the two major economies of world. There are huge potential markets in both the countries that are yet to be utilized or brought into the picture, reasons are many like economical, political, global impact and many more.

Further the deficit issue would remain the same until and unless a new trade pattern is formulated as the current trade pattern is showing towards an off-track trend there by leading to increase in trade deficit. The figures of trade either being import or export from India or china are not that apart from one another, it's just that the countries with relying on other factors have started to find new source for their commodities as a result of which the trade has been affected.

The challenges too between the nations are many including the Anti-dumping cases against china by India crossing a 150 level margin putting the way of Chinese trade again in the darkness. Many policy makers are trying for a Free Trade Agreement which has not yet come into existence just because the "Indian government feels itself unprepared", said ChinaDaily. Thereby building up of equal trust between the nations could help merge the two nations and trade levels will move up striking to be the top trade partners of the world.

The hunger for resources in energy and raw materials to feed their growing economies is another factor motivating the two countries to seek increased ties internationally, from Africa and the Middle East to South America. Both are for the first time emerging as donors providing development aid to poorer countries, setting up a Forum on China-Africa Cooperation and an India-Africa Fund respectively to assist their efforts.

The unconventional approach that both countries have pursued towards economic development - albeit with more success in China than India – is fuelling interest internationally and rekindling old debates. Greater government involvement in the economy, captive banking sectors and less openness mark them out from the paradigm of the Washington Consensus.

Further on the shorter aspect India has been shaken by a recent border spat with China and is cautious about Beijing's friendship with rival Pakistan. New Delhi is also concerned about a ballooning trade deficit with China and a flood of cheap Chinese-made goods undercutting local manufacturers.

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While India's relations with the United States are cordial and it is a major purchaser of its weapons, New Delhi has stayed away from a close strategic alliance.

"We would not like to see India become a tool of other major countries, especially the U.S., to counterbalance or check or contain China," said Hu Shisheng, an India specialist at CICIR, a Chinese government-backed think tank in Beijing.

Irrespective of all these troubles and contradicts it's amazing to see the two countries showing concern for one another and looking up to shake hands in broader terms and bring about a huge change in its trade and help solving the deficit issue. Further "CHINDIA" setting a target for 100$ Billion Trade by 2015 is not less than a challenge by its own.

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