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TRADE POLICY REFORMS IN INDIA AND CHINA: A COMPARATIVE ANALYSIS

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ABSTRACT

China and India two developing nations, one an economic powerhouse and the other potentially a superpower are among the fastest growing nations. Their performance in recent decades becomes a matter of avid discussion and their economic experiences of reform process offers lessons in affirmative action. The present papers particularly discuss one aspect of their reform process that is liberalization of their external sector. Trade liberalization theoretically is argued one of the important factors for economic growth. So the present paper will discuss trade liberalization strategies of India and China till present since the start of their trade Reform policies since 1978 in China and 1990 in case of India. The primary purpose of this paper is to provide an analysis of evolution of foreign trade policies in China and India and to compare the approaches through which they implement these policies. Further to suggest lessons that India can learn from China's achievements on the external front as well as the inconsistencies that should be avoided by India.

Section-1

1.1 INTRODUCTION

During 1950,s India and China like many other developing countries chose the import substitution strategy for industrial development which was based heavy investment through public sector .Subsequently there has been a paradigm shift from import substitution to outward orientation in both countries. China started trade liberalisation specifically in 1978 but in India most pronounced overhoul of trade policy regime occured during early 1990s in response to severe Balance of Payment crisis. It is argued that trade liberalisation leads to greater competition which induce the production units to improve productivity which is instrumental for accelerating overall economic growth .In an open economy firms respond to world market signals and the commodity structure of the country's trade would undergo changes in accordance with changing patterns of specialisation. H-O-S Model of conventional international trade theory suggest that trade liberalisation would induce reallocation of productive resources from import competing industries to those industries where a country has comparative advantages. An influential view concluded that Countries with a more open trade orientation have tended to grow faster through time (Krueger 1997), (Michely et.al 1991).Now miraculous growth rate of India and China in last decades has prompted a great deal of study among economists.There is a rich empirical litrature which finds that trade liberalisation and economic growth in China and India, has a strong positive correlation as "The empirical evidence from a number of studies point to a strong and significant effect of openness to trade on growth performance" Srinivasan(1998). Kumar (2000), Thomas Nash (2000) Attri (1996) also favoured this argument .

Section-2

2.1 TRADE POLICY REFORMS

Parior to reforms both India and China followed a relatively autarkic trade policy accompanied by a battery of trade and exchange controls ,cutting the link between domestic and world relative prices(lal 1995) .Subsequently there has been a paradigm shift from import substitution to outward orientation in both countries .So following is a brief summary of reforms in India and China respectively .

2.1.1 China's major trade policy reforms

- Increased the number and type of enterprises eligible to trade beyond handful of centrally controlled foreign trade corporations
- Quantitative restrictions were reduced substantially and even abolished altogether.
- The tariff rates were reduced more broadly and significantly average tariff rate from 43.2 percent in 1992 to 9.9 percent in 2011.
- Exchange rate reforms were implemented as exchange rate unification and currency convertibility at a unifying rate.
- Administrative reforms by developing trade related regulatory and international law system. All these administrative reforms will smoothen the process of international trade by bringing Chinese trade practice more in line with international standards.
- The reform programmers has been extended to service sector and foreign direct investment .The liberalization of service industry combined with FDI encouragement has given a further impetus to development of international trade.
- Liberalization of import of intermediate inputs and capital goods.
- Liberalization of labour market, particularly in non state sector.
- Major tariff exemptions for processing trade and foreign investment.
- WTO accession in 2001.

2.1.1 India

In India partial liberalization of trade reforms started in 1980s but major reforms on external front were adopted in 1991 after a severe balance of payment crisis. After 1991 there has been a significant reduction in tariff and non tariff barriers in India .Exchange rate policy was also rationalized and Indian rupee is fully convertible on current account. There significant improvement in foreign investment inflows due to effective foreign investment policy. India is a founding member of WTO.

Major Trade Reforms in India:-

- Significant reduction in tariff rates and their dispersion
- Devaluation of rupee and rationalization of exchange rate policy
- Abolition of import licensing
- Phased Removal of Quota restrictions on imports
- Liberalization of restrictions on capital.

After introduction of above trade reforms in India and China ,Trade as a share of world trade increased continuously and both of the economies are able to achieve a higher economic growth. China outpaced India's performance in many respects because of favourable Exchange rate, low wages, availability of labour, large domestic market, huge volume of FDI inflows etc. India also achieved significantly on external front and its trade as a share GDP is increasing continuously.

Section-3

3.1 TRADE OPENNESS MEASURES: AN ANALYTICAL FRAMEWORK

It may be useful to make India's Trade Policy comparison with China because both the countries are comparable in terms of population and both have a history of inward looking trade policies .Further China's selective liberalisation amounted to a release from a command economy while India's reforms occurs in the context of a controlled economy. Moreover China's trade characterized by high fraction of re-exports, in particular via Hong Kong, so that trade volumes measures may not capture China's true level of openness .Despite these drawbacks comparison of India's trade Policy regime with China's yields useful policy lessons.

3.2 Trade Policy liberlisation Comparisons

Now we are going to analyse how Indian and Chinese authorities reduced tariffs on agricultural and non-agricultural products. A simple unweighted tariff, suggest that India is much more restrictive to trade as compared to China.

Table-1: MFN average applied tariff rate %

	Year	Mean tariff%	Dispersion	Weighted mean tariff%
	1986	38.1	NA	NA
China	1995-99	18.9	0.7	16.4
	2000-04	13.7	0.8	10.3
All products	2005-07	9.9	0.8	4.5
	Latest	9.7	0.8	4.4
Agriculture	1995-99	27.7	NA	48.3
	2000-04	21.1	-	36.5
	2005-07	15.8	-	15.1
	Latest	15.6	-	14.8
Non-agriculture	1995-99	17.6	NA	14.4
	2000-04	12.6	-	9.1
	2005-07	9.0	-	4.1
	Latest	8.8	-	4.0
India	1986	100	NA	NA
	1995-99	31.5	0.4	24.4
All products	2000-04	31.8	0.5	24.8
	2005-07	17.4	1.1	12.1
	Latest	14.1	1.3	6.6
	1995-99	31.4	NA	25.4
Agriculture	2000-04	39.0	-	54.1
	2005-07	36.0	-	55.9
	Latest	32.1	-	19.9
	1995-99	31.6	NA	24.3
Non-agriculture	2000-04	30.7	-	22.9
	2005-07	14.5	-	10.2
	Latest	11.4	-	5.9

Source: World Bank

Both weighted and unweighted average tariff reduction suggest that India is more restrictive as compared to China .Another finding of above data is that pace of trade reforms in India is more as compared to China because China started early reforms in 1978 and in 1986 it has average tariff 38.1 while at that time India's tariff average is 100.India started full fledged reforms in 1990s, so it has period of 2 decades to reduce tariff while China use three decades for tariff reduction to 10%.The tariff rate of India shows a tendency of rise since 1999 this is largely pronounced for primary products but holds also for manufactured products. This is largely the result of the conversion of quantitative restrictions to tariff barriers required because of GATT's Article XI.In agriculture India's average tariff of 32 % is about seven times that for non agricultural products (11%) and one of the highest in the World whereas in China Agricultural tariffs are higher than tariff on non agricultural products but much lower as compared to India.

3.3External Environment

The external environment faced by any open economy decides the extent of its global integration. So now there is analysis about the external restrictions on the exports of these two countries which we measure by an index of world market access, rest of world (ROW) applied tariff rate faced by exports and zero duty exports as a percentage of total export.

Table-2: External Environment (2008)

Country	MA-TTRI	ROW applied tariff Agriculture-Non agriculture		Zero duty Exports(% of total exports	Exports with FTAs/CUParteners % of total Exports	Preference (EU+US) utilisation rate%
India	3.5	10.3	4.3	38.7	6.6	80.2
China	3.9	17.1	3.4	54.0	39.1	59.7

Sources: world trade indicators

The Market access Trade tariff restrictive index (MA-TTRI) shows that India face most favourable external environment in case of its exports because lower value of index shows lower level of applied tariff and other NTBs .With regard to Rest-of –World weighted average applied tariff on non agricultural exports of China face somewhat higher non-tariff Barriers while agricultural exports are subject to higher tariff(17.1) but also in India tariff on agricultural products was more than twice that for non agricultural products. A generalised system of preference (GSP) beneficiaries with a number of industrialised countries both India and China's utilisation rate of EU and US preferences is 80.2 percent and 59.7 percent respectively. However China's 40 percent exports are flow towards its Free trade agreements partners and custom unions partners, where India has a very less ratio of total exports flow towards its FTA partners. Now we will use another indicator to express openness is by overall trade restrictive index which Includes applied tariffs, preferences and non tariff measures. So if we analyse the extent of the protective methods as tariffs, NTBs and preferences the level of India's trade restrictiveness is much higher than China and other developing countries as Brazil Mexico and Russia. On the other hand on the basis of OTRI (overall trade restrictiveness index) China's trade regime much more open than East Asia Pacific where trade regime is extremely liberalised.

Table-3: Overall Trade restrictiveness Index

Years	India	China
2005-07	21.2	9.9
2007-latest	20.7	9.8

Source: World Bank

China is a party to Asia –pacific Economic cooperation (APEC), The Asia Europe Meeting (ASEM), and The Asia pacific trade agreement (APTA), Work under ASEAN+3 Framework. China has recently signed FTA with ASEAN, Chile, Pakistan and New Zealand .Feasibility studies on India-China were initiated in late 2007.Whereas

India has several agreements in force with EU as agreement on sugarcane, custom cooperation agreement .Regionally India is a member of Overseas countries and territories (OCT), SAFTA, BIMST-EC, The tripartite agreement, and the Bangkok agreement and a signatory of FTA with Sri lanka and a CECA with Singapore, also pursuing FTA negotiation with Thailand and ASEAN and the Gulf Cooperation Council to broaden its trade relations within Asia. But India's tense relations with Pakistan limit bilateral trade as well as Asian regional trade of India. So the above comparative analysis gives a simple overview of trade scenario in both the countries .Main finding are that both countries liberalised their external sector extensively but pace of reforms in India much more faster than China .China, s foreign trade is widely liberalised according with WTO commitments as compared to India .India applied more tariff protections on primary product which is one of the highest in the world also non-tariff measure frequency ratio is highest. So there is ample room for service trade liberalisation in India.

Section-4

Since we have discussed the level of openness in both of the countries, so in the present section will shows the level of development ,changes in structure of economies and changes in trade outcomes as a result of trade libaralisation in the two nations. The macro economic indicators in both countries gives us glimpse of the real situation of growth . National income is three times higher in China as compared to India .Both national income and per capita income grow at higher rate in China but differances in growth rates in PCI(par capita income) is much more higher than GDP growth rate which is result of effective population growth policy and double digit growth in last few decades.Investment rate and gross capital formation is also much more higher in China however in recent years India's recent investment rate is also nearly 40 percent.

Table-4:Key Economic Indicators

Year	GDP (US$Billion)		GDP (annual growth rate)		Gross capital formation/GDP		GDP per capita growth rate		Current account balance /GDP		Total debt/GDP	
	China	India	China	India	China	India	China	India	China	India	China	India
1988	309.5	293.1	10.5	5.5	37.9	23.6	9.2	3.5	-1.2	-2.9	13.7	21.0
1998	1,019.5	416.3	9.9	7.2	37.1	22.6	9.2	5.6	3.1	-1.0	14.1	23.7
2007	3,382.3	1,176.9	13.0	9.1	43.1	38.7	12.4	7.6	11.0	-1.5	11.1	17.4
2008	4,327.0	1,159.2	9.0	6.1	44.4	39.7	8.4	4.7	9.8	-2.6	8.7	19.9

Source:Recent World Devlopment Indicators

In case of current account balance as a ratio of GDP is much more favoural in case of China and unfavourable in Indian case because of higher imports .Debt reduction is one of the main objective reform process in both countries ,China is able to reduce debt ratio to GDP continuosly however in India till present debt ratio to GDP is approximately 20 percent.But if we have look on indian scenerio absolutely most of the indicatives has impressive improvement except debt ratio.

4.1 The Structural Changes

The structural changes that took place in the reform period in Indian and Chinese economy are shown by table-5. Agriculture share in economy declined continuosly in both countries but in China agriculture share in GDP is less than Indian agricuture share .Most spactacular fact is that in China industry have its share nearly 50 percent and also industry grow a double digit growth in reform period however in India industry share is nearly 30 percent however industrial growth is higher than agricuture growth but this nearly half than that of China's industrial growth. however in service sector india have more share in GDP nearly 55 percent which is 40 percent in case of China .

Table-5: Structure of Economies

Year	Agriculture (% of GDP)		Industry(% of GDP)		Services(% of GDP)		Agriculture (annual growth rate)		Industry (annual growth rate)		Service(annual growth rate)	
	China	India	China	India	China	India	China	India	China	India	China	India
1988	25.7	30.5	43.8	26.2	30.5	43.4	4.4	3.1	14.1	6.1	10.6	7.0
1998	17.6	26.0	46.2	26.1	36.2	47.9	3.9	2.7	11.1	7.6	10.5	8.9
2007	11.1	18.1	48.5	29.5	40.4	52.4	3.7	4.9	14.7	8.1	13.4	10.9
2008	11.3	17.5	48.6	28.8	40.1	53.7	5.5	1.6	9.0	3.9	9.5	9.7

Source: World Devlopment Indicators

So higher industrial growth is positively related with its trade structure under which 90 percent of Chinse exports are merchandise however in indian exports services and parimary products have more share.

Table-6: Trade Outcomes

Year	Real growth in Trade%		Export growth rate		Imports growth rate		Trade as % of GDP		FDI inflow (% of GDP)		Merchandise share in total exports%		Service share in total exports%	
	China	India	China	India	China	India	China	India	China	India	China	India	China	India
1995-99	9.6	13.3	10.2	13.4	9.1	13.3	38.0	24.9	4.4	0.6	88.0	78.1	12.0	21.9
2000-04	23.6	12.7	25.0	15.9	28.2	9.4	51.5	30.1	3.1	0.9	89.6	71.1	10.4	28.9
2005-07	19.6	19.8	23.4	13.7	15.2	11.6	71.9	45.6	3.6	1.6	91.1	63.4	8.9	36.6
latest	11.0	6.2	10.4	5.5	12.4	6.8	75.8	54.8	4.8	2.7	91.1	65.1	8.9	35.0

Source:World devlopment indicators

4.2 Trade Outcomes

China and India both integrated to world economy to a greater extent before reform adoptation in both of the countries they have world trade share less than 1 percent but due to export led growth stratagy this share now 7 percent in case of China and nearly 2 percent in India Trade as a percentage of GDP is more than 75 percant in China however in india it is 55 percent.Exports in China grow at more higher rate a compared to India.Foreign direct investment's contribution in GDP in China is double as compared to india .Another important fact is that China is mainly exports merchandise exports which more than ninety percent of its total exports however india's comparative advantage is in service exports however merchandise have also sufficient share.Trade in China grow at higher rate but growth in exports is much more spactacular.

Section -5

CONCLUSIONS AND POLICY IMPLICATIONS

Both India and China adopt major economic reforms to integrate their economies to world economy but China is more ahead of India by having a share in world trade nearly 8 percent however in case of India it is less than two percent.Both are permanent member of WTO whereas India is a founding member of GATT but more accession commitment on the part of China as compared to India and there is ample room to reform its external sector for the later.However Chinese trade growth indicators are less reliable due to high fractions of re-exports in particular via HongKong,So that trade volumes measures may not capture China 's true level of openness .But on the basis of weighted and unweighted tariff India is more restrictive as compared to China.The tariff rate in India shows a tendency of rise in case of agricultural products which is largly due to conversion of quantitative restrictions to tariff barriers required because of GATT's article IX. Average tariff on agriculture in India is one of the highest in the world .Still India faces more favourable environment in foreign markets whereas Chinese agricultural products face higher tariff barriers and its labour intensive non agricultural exports are facing a growing number of anti-dumping cases in addition to rising NTBs.India's trade integration enhanced substantially since 1990s from 24.9 to 45.2 as a percentage of GDP whereas China,s trade share is one of the highest in the world. China 's merchandise trade has more comparative advantage whereas in India comparative advantage in service exports.Further Gross capital formation is higher in China as compared to India during reform period .One of the reason is higher FDI inflow in China due to high ease of doing bussiness in China as compared to India.At present India and China become the epicentre of world economic power and whole world is amazed by their ability to come out the worst world economic recession because of which many western economy are still in crisis. China adopted a selective reform process which is favourable to its domestic conditions and due to better implementation able to achieve a sufficient part in world trade whereas India is largest democracy in the world and liberalised its economy due to conditionalities of World Bank and IMF.India's trade performance enhanced in recent decades but till now its share in world trade is less than two percent .China is enhancing its regional integration and its 40 percent exports are going to its RTA and FTAs partners .So there is more scope for india to regionally integrate its trade with other Asian Economies and ,researchers and government should have a look on feasibility of Indian trade with South Korea ,China and other Asian nations and role of India in Asian Economic Integration.

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