Comparing Trade Performance of China and India

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China and India have achieved remarkable growth in recent decades, sustained by rapid trade expansion. There are however evident disparities between the two and both have considerable room to grow. For China, commodities trade has not only expanded rapidly but undertaken considerable restructuring and upgrading. In addition to liberal trade policies, such transformation has been promoted by active participation of foreign invested enterprises, especially those from neighbouring economies in East and Southeast Asia. Consequently, China has become a key link in an intensifying regional production network. For India, in contrast, trade expansion has not brought substantial structural changes and commodities export remains weak, while trade in services continues to play a dominant role. In part, this is due to the lack of export-oriented foreign investment and, as a result, India is much less integrated with economies in Asia.

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THE TWO ASIAN GIANTS, China and India, are the world's most populous countries and jointly made up nearly two-fifth of the world population (37%) in 2006[1]. Both have registered extraordinary growth performance in recent decades, China since late 1970s and India in the last decade, and consequently attracting growing global attention. Indeed, continued growth in the two nations is much anticipated to sustain world economic development as the economic prospect in the industrial world darkens.

The year 2008 marks the 30th Anniversary of China's economic reform and opening up. Over the past three decades, China's rapid growth contributed considerably to the world economy. Between 1978 and 2007, China has sustained almost unprecedented economic increase of nearly 10% a year, albeit from a very low base. Valued at Purchasing Power Parity (PPP) terms, China has been the world's second largest economy since 2000. Even when measured at market exchange rate, China's GDP amounted to US$3.3 trillion in 2007 and was the world's fourth largest behind the US, Japan, and Germany. Between 2000 and 2006, China contributed around 15% of the total increase in world GDP.

India also entered its third decade of economic transformation and the economy has moved progressively towards a more market-based system, since it started successive reforms in the mid-1980s. Economic performance has improved considerably, especially since more dramatic liberalisation measures were being implemented in the 1990s. In 2007, India's GDP, valued at US$1098 billion, amounted to about one third of China's GDP (Appendix Table A). When PPP is used, India is the world's fifth largest economy.

Perhaps more important than economic growth, China and India affect the world economy through their rapid trade expansion. Between 1978 and 2006, China's share in world export of goods and services jumped by more than five times, from 1.4% to 7.6%. During the same period, India's share in world export of goods and services grew from 0.4% to 1.2%, an equally impressive three-fold increase.

Nonetheless, India is still a minor player in world trade, compared to China. This is also true for their trade with countries in Southeast Asia. For example, in 2006, export to India by the five original members of ASEAN (ASEAN-5), including Indonesia, Malaysia, the Philippines, Singapore, and Thailand, accounted for only 2.5% (Table 1) of the group's total export. The share of export to China in the same year was 8.8%, up from only 1% in 1980. The contrast is even more prominent when evaluating imports to ASEAN from the two countries. In 2006, China supplied 11% of ASEAN-5's total import, while India supplied only 1.6%.

Accordingly, one would expect India to continue its quest for trade expansion and rapid economic growth and soon contribute more to regional and world trade as well as growth. This is especially important as China's future expansion is constrained by rising domestic costs and an appreciating currency. To better comprehend India's prospect in growth and trade, especially in comparison with China, the two countries' trade performance during the past decades was examined.

In fact, while both achieved remarkable progress, there are substantial differences in the two countries' trade development. China's trade expansion may be characterised by four main aspects. First, overall trade has grown rapidly and considerably, in the volume and as a ratio to the economy. Second, as trade expands, China has sustained

TABLE 1: SHARE OF CHINA AND INDIA IN ASEAN-5'S TRADE												
	Export (%)						Import (%)					
	1980	1985	1990	1995	2000	2006	1980	1985	1990	1995	2000	2006
China												
Indonesia	0.0	0.5	3.2	3.8	4.5	8.5*	1.8	2.4	3.0	3.7	6.0	11.5*
Malaysia	1.7	1.1	2.1	2.7	3.1	8.8*	2.4	2.0	1.9	2.2	4.0	12.9*
Phillippines	0.8	1.6	0.8	1.2	1.7	9.8	2.7	5.4	1.4	2.3	2.4	7.2
Singapore	1.6	1.5	1.5	2.3	3.9	9.7	2.6	8.6	3.4	3.2	5.3	11.4
Thailand	1.9	3.8	1.2	2.9	4.1	9.0	4.4	2.4	3.3	3.0	5.4	10.6
ASEAN 5	1.0	1.3	1.9	2.7	3.6	8.8	2.7	5.1	2.9	2.9	4.8	11.0
India												
Indonesia	0.2	0.2	0.2	0.8	1.9	4.3*	0.4	0.1	0.7	1.2	1.6	2.2*
Malaysia	2.2	2.8	1.6	1.1	2.0	3.3*	0.9	0.8	0.7	0.7	0.9	1.4*
Phillippines	0.3	0.3	0.0	0.1	0.2	0.3	0.1	0.1	0.7	0.6	0.5	0.8
Singapore	2.3	2.1	2.1	1.6	2.0	2.8	0.5	0.8	0.6	0.7	0.8	2.0
Thailand	0.4	1.0	0.3	0.5	0.7	1.4	0.5	0.4	1.6	0.9	1.0	1.3
ASEAN-5	1.2	1.5	1.2	1.1	1.6	2.5	0.5	0.6	0.9	0.8	0.9	1.6

*Note: * - the percentage share is for year 2007.*

growing amount of trade surpluses since 1990s and especially in recent years. Third, although trade in both commodities and services have grown rapidly, export and import of goods continue to account for a majority. And finally, as trade expands, there have been continuing and considerable structural changes, especially within the manufacturing sector.

For India, while overall trade has also increased rapidly in recent years, it continues to suffer from large trade deficit. Furthermore, trade in services has played a much more significant role, relative to China. There have also been much less structural changes in traded goods and the share of manufactured goods in total export has not increased as a result of overall trade expansion, especially in recent years. Finally, India has played only a limited role in intra-regional trade and is much less integrated with economies in East and Southeast Asia.

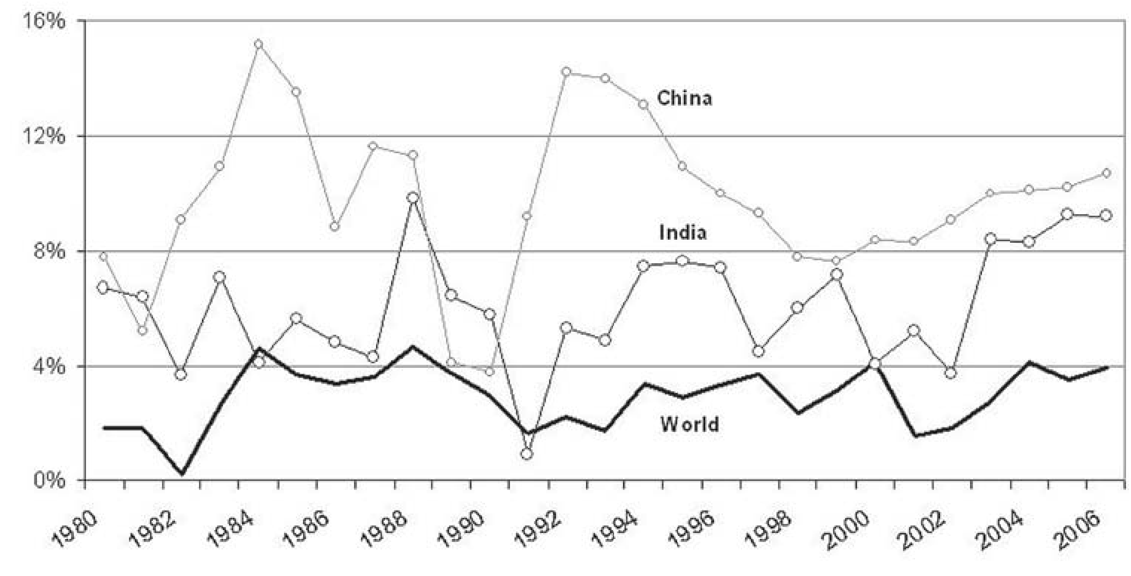
Overall, it seems premature to expect India to soon become an important player in world trade, or as an equivalent to China. Although India's trade has expanded rapidly in the last one and a half decade, especially since 2000, the domestic industry, manufacturing in particular, remains under-developed and its international competiveness weak. Moreover, as India depends heavily on the import of energy and resource goods, its industry is more vulnerable to price fluctuation in the world market.

Strong Growth Sustained by Surging Trade

Much has been discussed about the notable growth experience of China in the past 30 years. To some extent, India's growth performance since 1990s has also been remarkable. Since 1980s, China has outpaced the world in economic growth, often by a large margin (Figure 1). Similarly for India, economic growth since 1992 has also been superior to the world average, especially since 2003. An essential feature to both countries' economic achievements is their rapid trade expansion.

For China, total nominal trade, valued in current US dollar, grew by 17.5% a year from 1978 to 2006. Export and import each increased from around US$10 billion in 1978 to US$981 billion and US$878 billion respectively in 2006 (Figure 2a). Moreover, there has been an apparent acceleration in trade after China joined the World Trade Organisation in late 2001. Average annual growth reached 26.8% and 26.5% respectively for export and import between 2001 and 2006, compared to 16% and

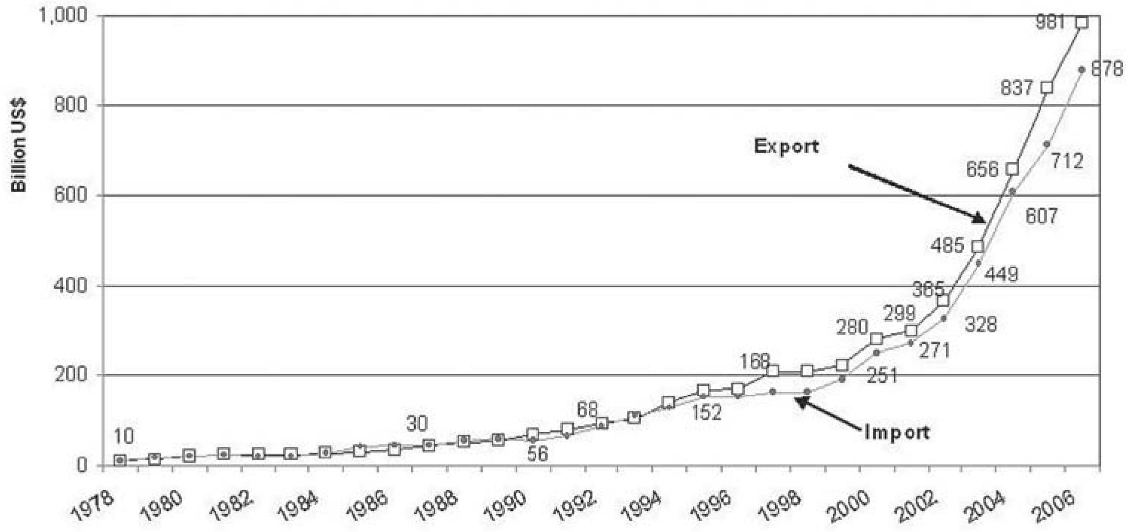
FIGURE 1 GDP GROWTH, CHINA, INDIA AND WORLD AVERAGE, 1980-2006



15.2% for the years prior to 2001. In 2007, China's overall trade grew by another 16.9% to a record US$1,218 billion for export and US$ 956 billion for import

India's trade performance since the 1980s has been almost equally outstanding. Between 1978 and 2005, nominal export and import, valued in current prices, grew more than twice as rapidly as the overall economy, at 11.7% and 11.3% a year, respectively. From about US$10 billion each in 1978, similar to China's trade figures at the time, India's export and import of goods and services reached a respective US$164 billion and US$188 billion in 2005. These are equivalent to 20% to 25% of China's figures in export and import, respectively (Figure 2b). India's trade growth has also accelerated since 2001, even more so than China's. Nominal export and import growth were respectively 28% and 30.2% between 2001 and 2005, compared to 9.1% and

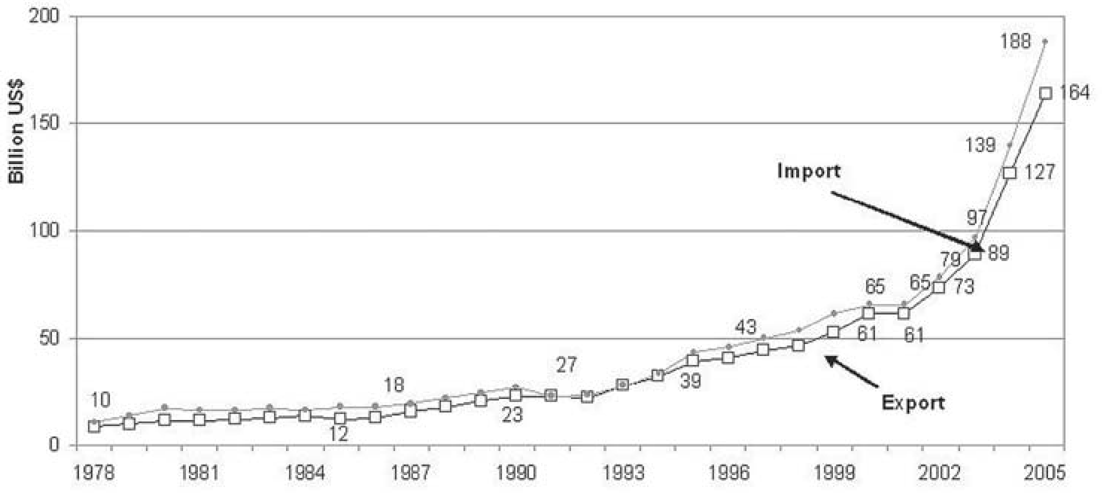
FIGURE 2A CHINA'S EXPORT AND IMPORT OF GOODS AND SERVICES, 1978-2006



8.3% for the period between 1978 and 2001.

With decades of trade liberalisation and trade expansion, China and India have become considerably more open, as measured by trade to GDP ratio. In 1978, trade to GDP ratio for both countries was estimated to be about 14%, while the world average was about 34%. China's trade to GDP ratio has since increased considerably to 43% in 2001 and further to 70% in 2006, significantly higher than the world average. In comparison, India's trade to GDP ratio remained relatively stable through most of the 1980s but had started to increase considerably since the late 1980s. Between 1987 and 2001, India's trade to GDP ratio doubled from 13% to 26%. Since then, it had increased more rapidly to reach 44% in 2005 (Figure 3). While this is lower than the

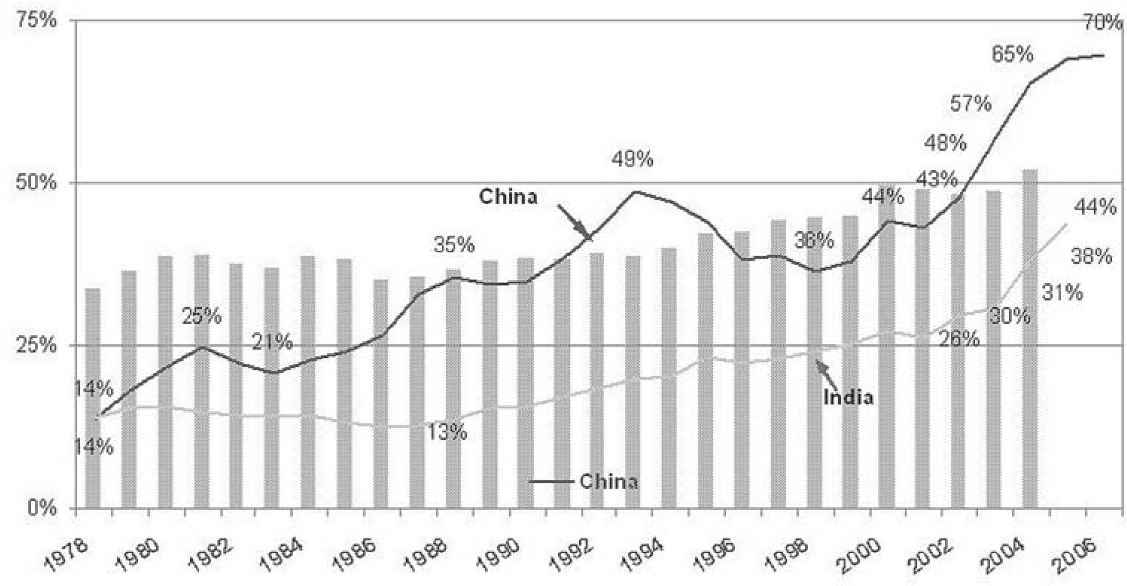
FIGURE 2B INDIA'S EXPORT AND IMPORT OF GOODS AND SERVICES, 1978-2005



world average (52% in 2004), it is considerably higher than that for many large economies, including the United States, Japan and Brazil.

China has now become a significant player in world trade. In 2006, it was the world's third largest trading nation, following the United States and Germany. Between 1983 and 2006, the share of China's commodities export in the world total rose substantially from 1.2% to 8.2%. Similarly, the share of China's commodities import in the world total also increased from 1.1% to 6.5% over the same period. To a lesser extent, India has also achieved respectable growth in trade. In 2006, India was the world's 28th largest exporting nation and the 17th largest importing nation, while total trade ranked number 18. From 1983 to 2006, India doubled its share in world total export (from 0.5% to 1.0%) and import (from 0.7% to 1.4%).

FIGURE 3 TRADE TO GDP RATIOS, CHINA, INDIA AND WORLD AVERAGE, 1978-2006

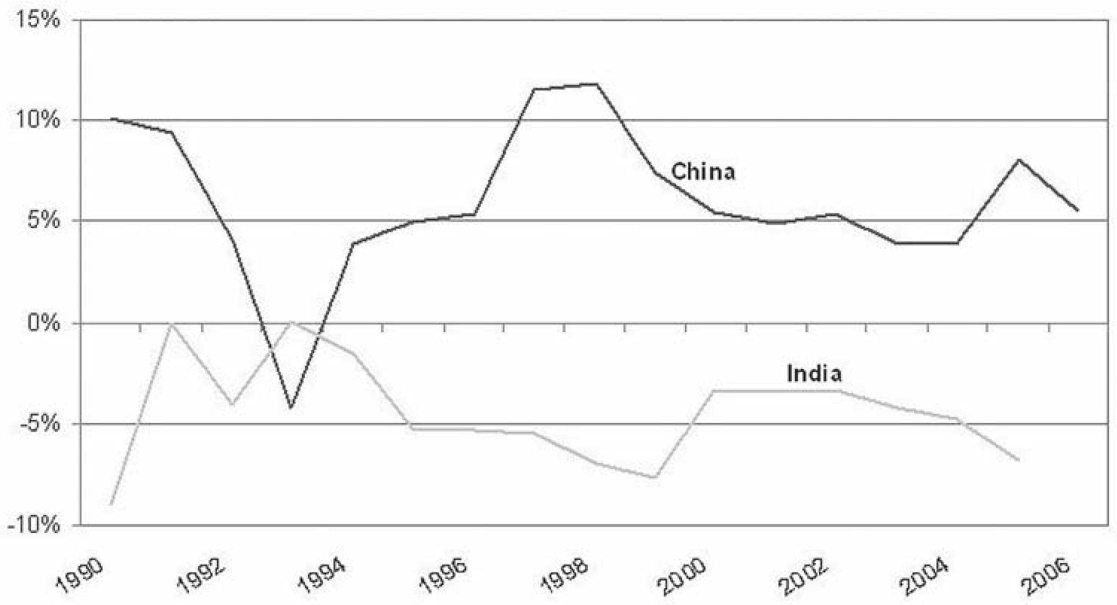


Indeed, the strong growth performances of both China and India have been sustained by even stronger trade expansion. Nonetheless, it is essential to recognise that trade development in the two countries exhibits many important differences. One primary disparity concerns the direction of trade imbalances. In the case of China, while total trade had been largely in balance before the mid-1990s, it has accumulated large and increasing amount of trade surplus since 1994. Although the ratio of surplus to total trade was mostly below 5% (Figure 4), China's trade surplus reached US$125 billion in 2005. In contrast, India's trade has been in a persistent deficit since 1978. Overall trade deficit had increased rapidly in the late 1990s and since 2001, reaching US$24 billion in 2005. The ratio of India's trade deficit to total trade was 6.8% in 2005. To a large extent, this diverging pattern in trade balances reflects the different underlying trade structures and their transformations.

Diverging Patterns of Trade Structure

China and India differ significantly in trade structure and, more importantly, in its transformation over time. First of all, China's trade and trade expansion have been dominated by the export and import of commodities. For India, service trade has played

FIGURE 4 RATIO OF NET EXPORT TO TOTAL TRADE, CHINA AND INDIA, 1990-2006



a much more important role in overall trade development. The divergence has become even more evident in recent years. The share of commodities in China's total export went up from 86% in 1994 to 91% in 2005, while that for India declined from 82% in 1996 to 72% in recent years (Figure 5).

Moreover, commodities trade also contributed differently to the two countries' trade imbalances. In China, large and increasing surplus in commodities trade more than offsets its deficit in service trade, resulting in huge overall trade surplus (Figure 6a). In India, on the other hand, there is a persistent deficit in trade of commodities which has increased considerably in recent years. While there has been an increasing surplus in service trade, it is far from sufficient to make up for the large deficit in commodities trade (Figure 6b).

The composition of goods traded by the two countries also differs considerably. In China, the transformation is characterised by the continuous increase in the export of manufactured goods. Between 1980 and 1985, for example, manufactures accounted for about half of China's total export. The figure had since increased rapidly to 74% in 1990 and further to 95% in 2007 (Figure 7).

The transformation for India has been neither consistent nor significant. Between 1988 and 1999, the share of manufactured goods in India's commodities export fluctuated between 73% and 82%. Since then, it has been declining, and rather sharply since 2003, to 69% in 2006. To some extent, this reflects the lack of structural

FIGURE 5 SHARES OF COMMODITIES IN TOTAL EXPORT, CHINA AND INDIA, 1978-2005

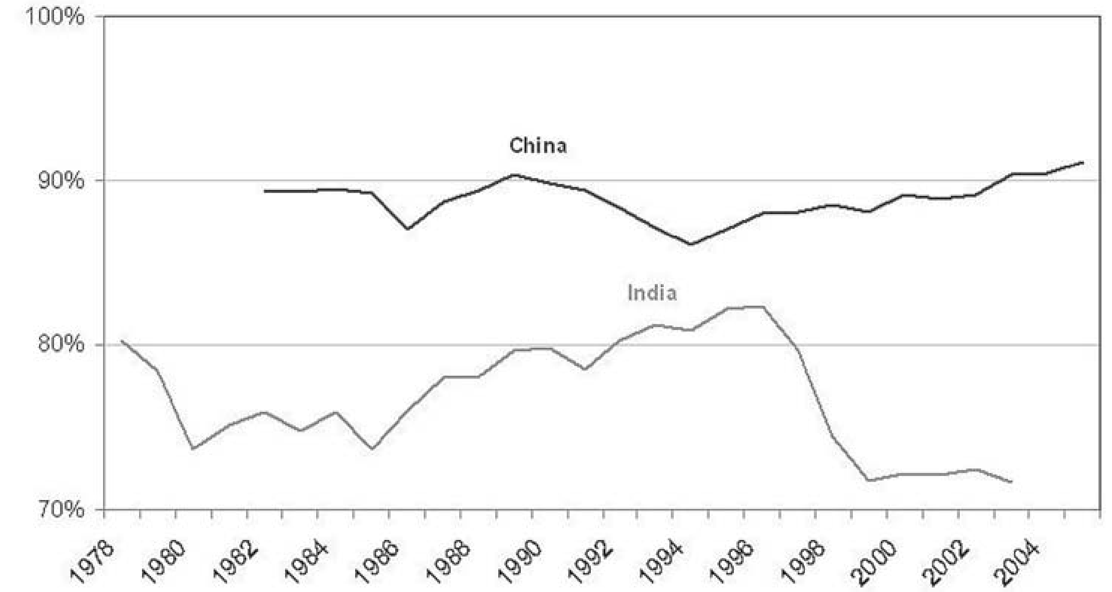
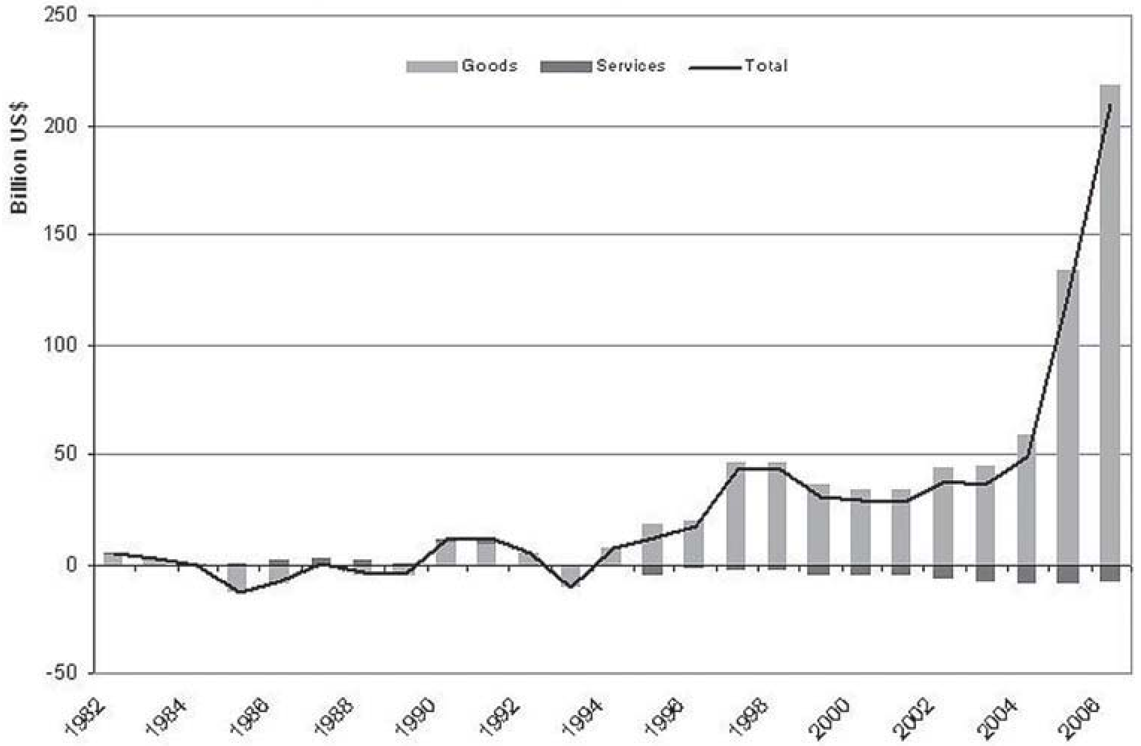


FIGURE 6A CHINA'S TRADE BALANCES, 1982-2006



transformation in the domestic economy. Appendix Table B shows that the contribution of industry to India's GDP remains at less than 30%, considerably less than that of China where industry contributes to about half of the country's GDP.

Indeed, structural changes in India's trade have been much less intensive, compared to China's. This can be shown more clearly by examining the composition of the country's

FIGURE 6B INDIA'S TRADE BALANCES, 1978-2006

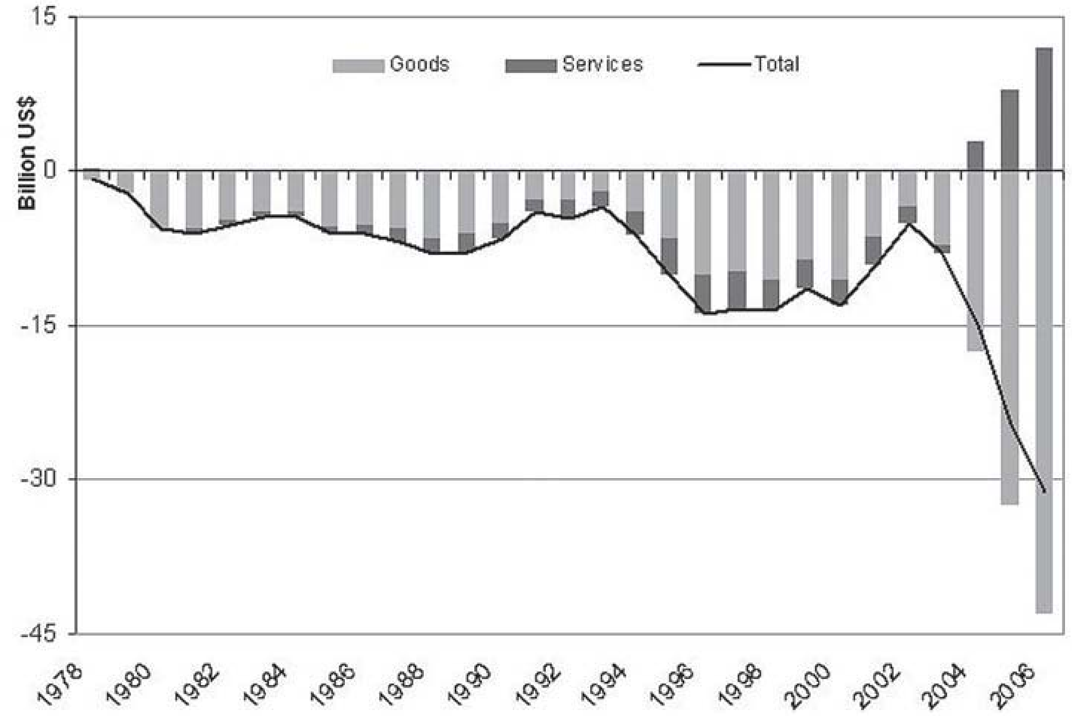
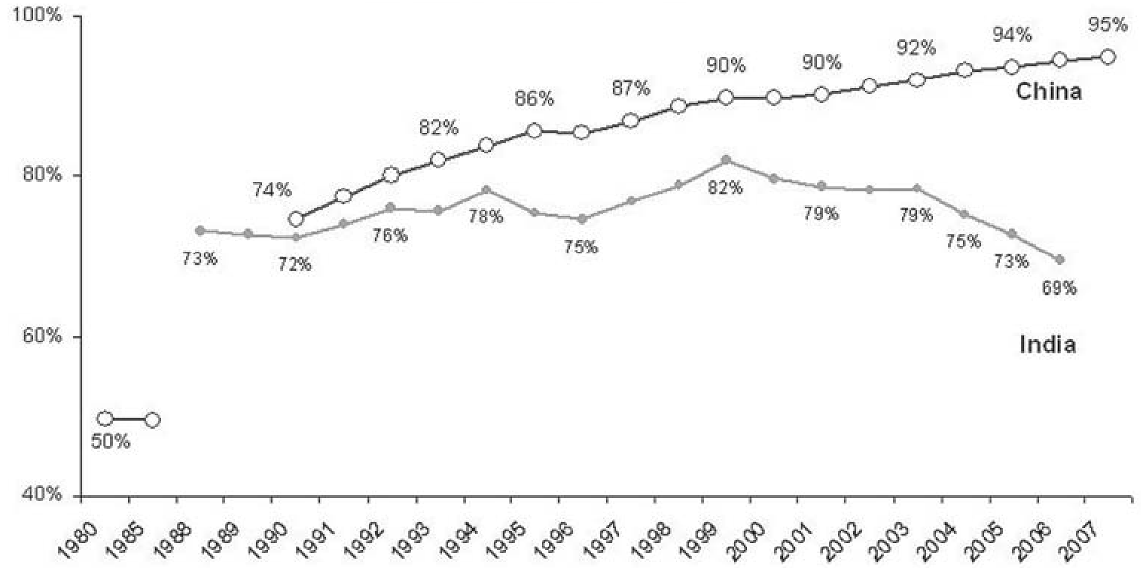
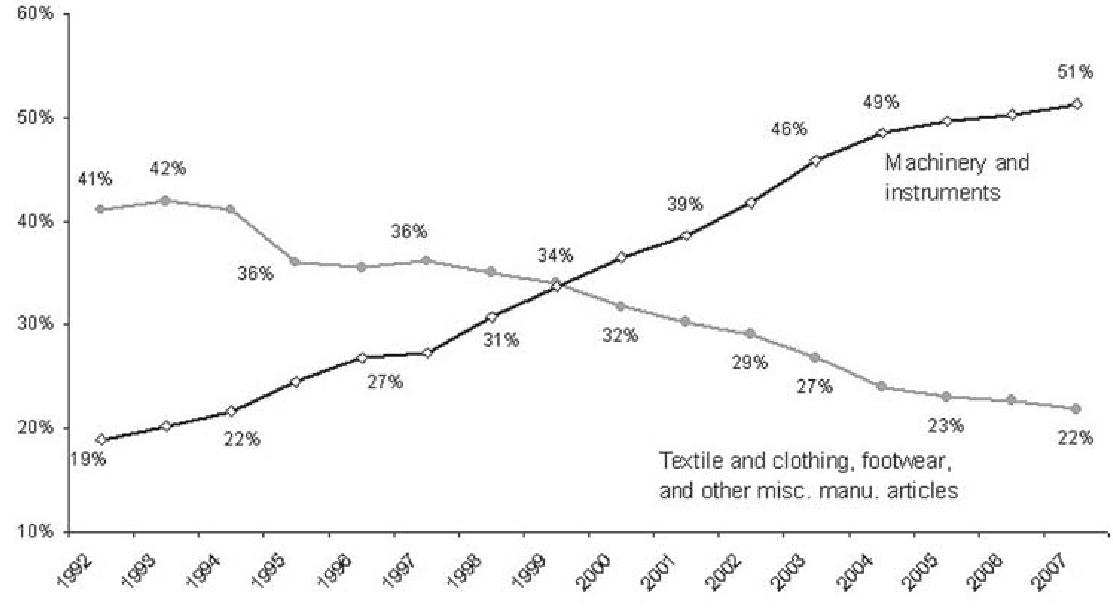


FIGURE 7 SHARES OF MANUFACTURES IN COMMODITIES EXPORTS, CHINA AND INDIA, 1980-2007



traded goods. Over the last decades, the major components of China's trade have changed considerably. In 1992, the category with the higher proportion in total export, based on "HS Section and Division", was "textile and textile articles", accounting for 29% of the overall export. In 2007, it was "machinery and mechanical appliances; electrical equipment, etc", accounting for 43% of the total. Between 1992 and 2007, the export share of labour intensive goods such as "textile and clothing, footwear, and

FIGURE 8A SHARES IN CHINA'S TOTAL EXPORT, SELECTED PRODUCTS, 1992-2007



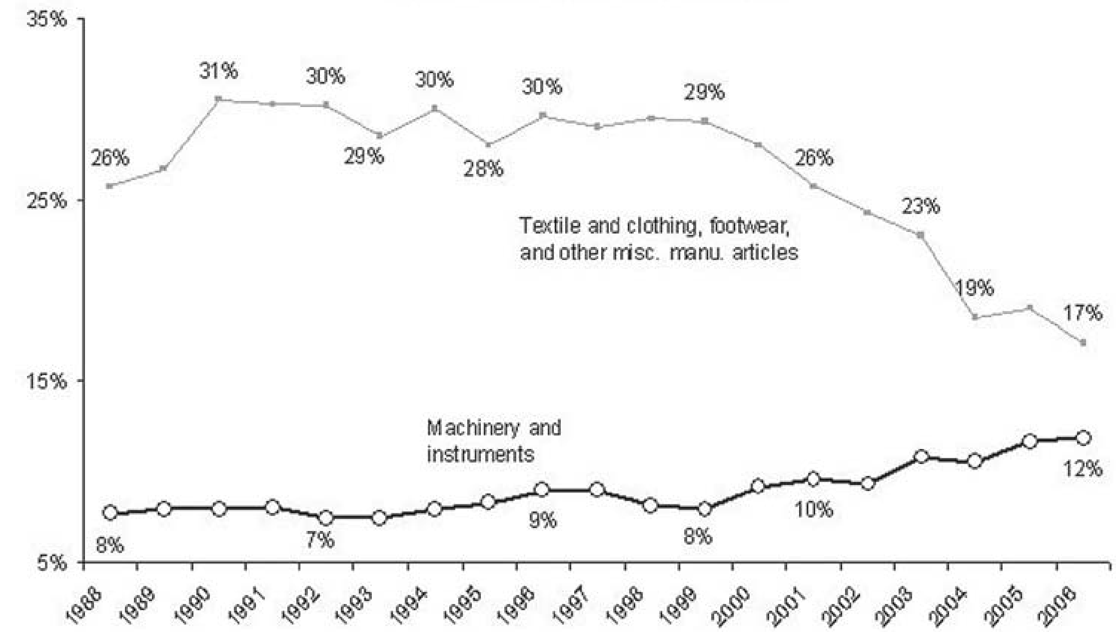
other miscellaneous manufactured articles" dropped from over 40% of total export to 22% (Figure 8a).

On the other hand, export share of the relatively more capital and technology intensive goods such as "machinery and instruments" increased considerably from 19% in 1992 to 51% in 2007. More recently, trade of goods with higher sophistication also grew substantially. In 2007, for example, import and export of high-technology products respectively accounted for 30% and 29% of the total, up from 26% and 18% in 2001.

In the case of India, considerable structural transformation within the trade of goods did not take place till after 2000. Even then, the changes have been much more modest, relative to those of China. In 1988, the top three categories with the higher export shares were "textile and textile articles" (23%), "natural or cultured pearls, precious or semi-precious stones" (22%), and "vegetable products" (11%). In 2006, export was still dominated by resource products and low-skilled labour intensive goods. The top three items were "mineral products" (20%), "textile and textile articles" (15%), and "natural or cultured pearls, precious or semi-precious stones" (13%). As is shown in Figure 8b, although export share of labour intensive goods such as "textile and clothing, footwear, and other miscellaneous manufactured articles" was almost halved from around 30% in the early 1990s to 17% in 2006, export share of more sophisticated manufactured "machinery and instruments" increased only slightly from 8% in 1988 to 12% in 2006. High technology exports only amounted to less than 5% of India's total export in 2004.

There is thus evident disparity between China's and India's trade development, particularly in their structural transformation. A key factor underlying such divergence is in the different role of foreign investment. In China, foreign direct investments are essential to China's trade expansion and subsequent structural upgrading. In the process, investment from neighbouring economies in East and Southeast Asian economies has been particularly important. Initiated as an export platform for many businesses from

FIGURE 8B SHARES IN INDIA'S TOTAL EXPORT, SELECTED PRODUCTS, 1988-2006

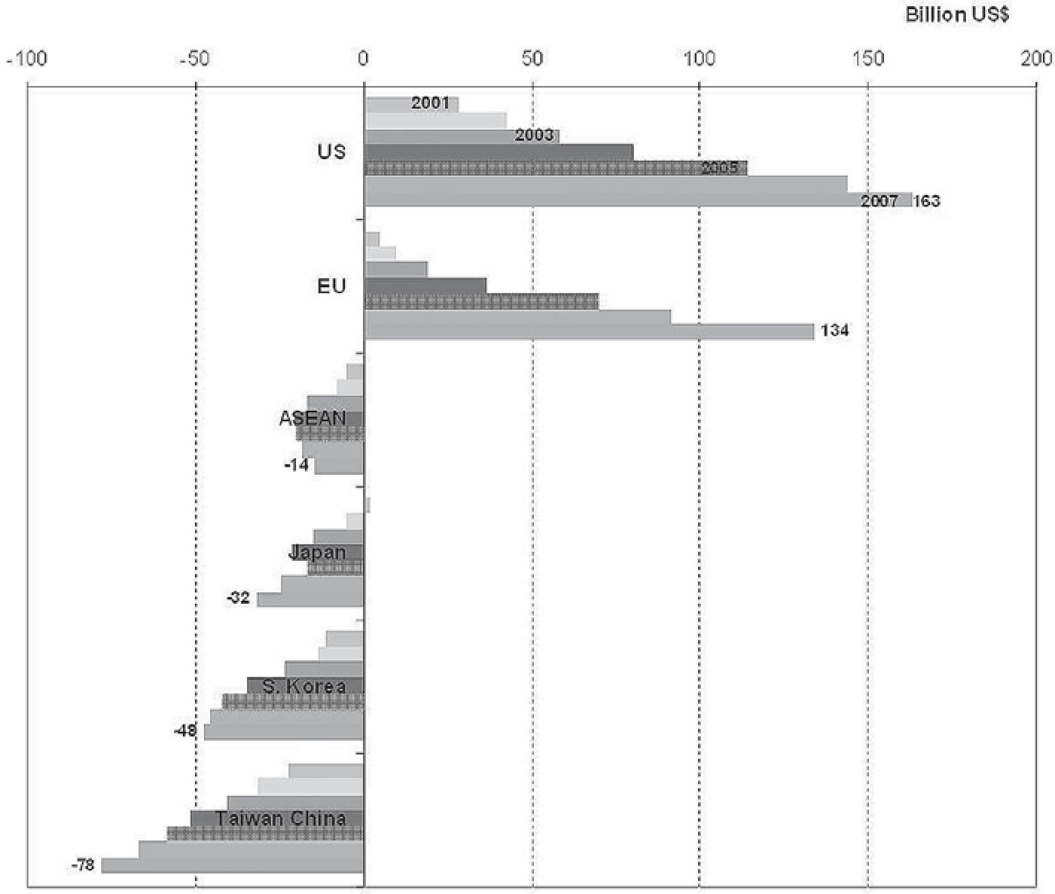


the region, China has grown to become a critical link in Asia's growing regional production network. Consequently, China has considerably reshaped trade relations within Asia as well as Asia's trade relations with the developed countries in the West.

By hosting increasing number of export-oriented foreign businesses, often targeting at consumers in the industrial world, China is accumulating huge trade surpluses, especially with the United States and the European Union. On the other hand, China is incurring growing trade deficit with its neighbouring economies in East and Southeast Asia. Between 1994 and 2001, China had an average trade surplus of US$24 billion a year, or about 7% of total trade. Since 2001, when China joined the World Trade Organisation, trade surplus had further surged rapidly, from US$23 billion in 2001 to US$262 billion in 2007, a nominal increase of 51% a year. It is important to point out that foreign invested enterprises are the main contributor to China's trade surplus. In 2007, for example, China's foreign-invested enterprises (FIEs) had a trade surplus of US$136 billion, 52% of the country's total.

Trade surpluses with the US and EU are the main source of such huge trade surplus, each amounting to US$163 billion and US$134 billion in 2007. On the other hand, China's trade deficit with its Asian neighbours also rose rapidly. The three economies with which China has the largest trade deficit are Taiwan, Korea and Japan, each amounting to US$78 billion, US$48 billion and US$32 billion in 2007. China also has trade deficit with ASEAN in recent years although the amount has decreased since 2006 (Figure 9). In effect, China is importing heavily from the more developed neighbours in Asia, particularly parts and components for processing and assembling, before exporting finished products to consumers in the developed world. This reflects the strength of China's integration with economies in Asia. In fact, Asia provides about two-thirds of China's total import, while receiving about half of China's total export.

FIGURE 9 CHINA'S NET EXPORT TO KEY TRADING PARTNERS, 2001-2007



Growing foreign investment, in total amount and in technological complexity, has contributed significantly to China's trade expansion and restructuring. Most importantly, it enabled China to broaden and deepen its trade relations and production sharing with neighbouring economies. In comparison, foreign investment has played a much smaller role in India's trade development. Consequently, India is less integrated with other economies in Asia. Although India has strengthened its trade relations with Asian economies in recent years, especially since 2000, the overall effects are still limited since the total volume remains small.

Before the 1990s, India traded little with its Asian neighbours, with the exception of Japan and oil exporting countries in the Middle East. In the past decade, especially after 2000, India has strengthened its trade relations with mainland China and ASEAN members. In 1980, for example, the only East Asian country included in the top 10 markets for India's export was Japan. In recent years, a number of East Asian economies have climbed up the list of India's main trading partners, especially Chinese mainland. In 2006, while the United States remained India's largest export market (15% of the total), Chinese mainland, Singapore, Hong Kong Special Administrative Region (HKSAR), and Japan were among the top ten export destinations for India. In comparison, however, India's export of US$19 billion to the US in 2006 amounted to less than 10% of China's export to the US. For import, China was the largest source in 2006, accounting for 9.4% of the total. A number of Asian economies have also become more important in providing exports to India, including Singapore (3%), Malaysia (2.9%), Korea (2.6%), Japan (2.5%) and Indonesia (2.2%).

Although India has strengthened its trade relations with its Asian neighbours, India is still much less integrated with regional economies and its overall impact limited. In 2006, for example, trade with India accounted for about 0.7% of Japan's overall total. For China, export to and import from India accounted for a respective 2% and 1.5% of the country's total in 2007, up from 0.6% in 2000. In 2006, Korea's export to India amounted to US$4.8 billion, equivalent to only 5% of its export to China.

Room to Grow

During the past decades, both India and China have expanded their trade significantly, which have been crucial to sustaining their remarkable economic growth. However, a close examination of the key features of the two countries' trade development, especially with respect to their structural changes, reveals many significant disparities. Overall, China has achieved much better scores in trade growth and transformation, which contributed to its better economic performance.

First of all, China is considerably more open to trade, as measured by trade to GDP ratio, and contributed more significantly to world trade. Moreover, trade in goods is the dominant force in China's trade expansion, while trade in services has played a much more important role in India's trade growth. More importantly, foreign direct investment has been essential to China's trade expansion and transformation. On one hand, export-oriented foreign invested enterprises are, to a large extent, responsible for China's rising trade surpluses. On the other hand, trade activities involving foreign invested enterprises have facilitated China's integration with economies in the region as well as China's structural upgrading.

In contrast, while total trade has increased considerably, India continues to incur a trade deficit. This has been associated with limited restructuring in its commodities trade. To some extent, this is due to the lack of foreign investment. Consequently, India has not been integrated into the intensifying regional production network, which underscored China's rapid trade development.

There is plenty of room for India to catch up, including both domestic economic transformation and trade liberalisation. This would be important for India to sustain its recent economic growth and development. More importantly, continued economic development in India, as well as in other developing countries such as China, is crucial to the world economy, as the current financial crisis is fast spreading to all corners of the globe.

APPENDIX TABLE A
ECONOMIC PERFORMANCE: SELECTED ASIAN ECONOMIES

	Population (million)	GDP Per capita	GDP Total	GDP Annual Growth (%)						
		US$	US$ bn	1960-1970	1970-1980	1980-1990	1990-2000	2000-2005	2006	2007
	2007	2007	2007							
China	1,321	2,460	3,250	5.2	5.5	10.3	9.7	9.3	11.1	11.9
India	1123	977	1,098	3.4	3.6	5.8	5.5	6.3	8.8	8.7
ASEAN-6										
Singapore	4.6	35,162	161	8.8	8.3	6.7	7.4	3.4	6.9	7.7
Indonesia	225	1,924	433	3.9	7.2	6.1	3.8	4.8	5.2	6.3
Malaysia	27	6,947	186	6.5	7.9	5.3	6.5	4.4	5.5	6.3
Philippines	88	1,624	144	5.1	6	1	3.3	4.4	5	7.3
Thailand	66	3,736	245	8.4	7.1	7.6	3.8	5	4.5	4.7
Vietnam	86	818	570	-	-	-	7.3	7.4	8.8	8.5

Sources: IMF; World Development Reports *(various years)*

APPENDIX TABLE B: GDP COMPOSITION (VALUE ADDED, % OF GDP)

	1980	1985	1990	1995	2000	2005	2006
India							
Agriculture	36	31	29	26	23	18	18
Industry	25	26	27	28	26	28	28
Services, etc.	40	43	44	46	50	54	55
China							
Agriculture	30	28	27	20	15	13	12
Industry	49	43	42	47	46	48	48
Services, etc.	21	29	31	33	39	40	40

Source: World Development Indicators 2007, World Bank