China’s Economic Rebalancing: Impact on India

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Abstract: This paper examines the extent of comparative advantage of India in the world market in the context of China’s recent economic rebalancing. China’s economy is more than five times that of India’s and its manufacturing sector is ten times that of India. China contributes 13 per cent in 2015 to the world export; occupies rank-1; whereas India’s share is 1.30 per cent and occupies rank-21 in the world exports. The share of exports of India to the world market remained stagnant at 1.7 per cent in 2013 and 2015 and started declining thereafter. The India’s export to China of all commodities since 2003-04 to 2016-17, shows an inverse U trend. There are some products, such as food items, agricultural raw materials, ores and metals and fuels for which the RCA index is much higher for India than that of China, whereas the RCA value is much higher for China in case of manufactured goods.

Keywords: China’s Economic, Indian Economy

1. Introduction

China’s initiative for rebalancing its national economy is a hot topic in the hearts of many economists so as to discuss its impact on other countries. Not much research has been done to study the impact of China’s rebalancing on other countries. China can not rebalance its economy alone. It is the largest manufacturing trading country and second largest economy after US in the world. China’s rebalancing national economy has serious impact on its export and import with other partner countries. The external dimension of its rebalancing must be mirrored with the rest of the world. China has moved towards a more consumption driven and less investment driven growth pattern. The structure of such economy will change the consumption expenditure pattern of its demography. Unless these changes in consumption pattern perfectly match with the changes in domestic production, China’s pattern of imports and export will also change accordingly.

The impact of China’s rebalancing on India has been a topic of debate among senior economists in India. India’s finance minister in a gathering at Columbia University said that China’s economic rebalancing will not have an impact on Indian economy as it is not a part of Chinese supply chain and India could become an ‘additional shoulder’ the global economy needs to stand on. Similarly, NITI Aayog, Vice Chairman, Dr. Arvind Panagariya said India will not be impacted as long as India’s reform initiative continues. He said “If China is going to reorient its domestic demand; it would also mean that it would be exporting less and certainly its export growth will be slow down. That gives us the opportunity to take part in the market space that China currently occupies’.

However, RBI Governor, Raghuram Rajan had contradicted the government assertions, and said that “China’s pain of economic slowdown is India’s pain too”. He said that China’s slowdown has impacted global growth and India is very well integrated into the global economy. Some experts also indicate that China is passing through a phase through which all the developed countries have once passed, which is called as middle income trap. China is also restructuring its economy for domestic consumption. Hence, the overall slowdown might be slightly fuelled by this and should not be a cause for concern. China’s economy grew at 6.9 per cent in 2015, but that was a lowest growth rate for the world’s second largest economy in 25 years. The IMF has projected China’s growth rate to be 6.0 per cent in 2017.

With this flavour, the paper discerns (i) current status of Indian economy in comparison with China (ii) an analysis of the pattern of comparative advantage of China and India in the world market to know whether India and China are competing or complementing each other in some commodities export to the world and (iii) to find out if there is any scope for India to take advantage of China’s economic rebalancing in the world market.

2. Trends in growth of economies—India and China

During 1980–90, the annual average growth of world GDP was 6.43 per cent as against 2.81 and 5.87 per cent for China and India respectively. During, 1990–2000, the growth rate of GDP has remained around 4 per cent for world economy and India whereas China’s GDP grew at 11. 42 per cent. The annual average growth of GDP was as high as 21.07 and 15.28 per cent for China and India respectively in 2005–10.
During this period, the world economy grew at 6.75 per cent. China and India’s growth rates of GDP have outperformed the world annual average growth rates significantly in 2005–10. During 2010–12, the growth rate of GDP for China declined by about 5 per cent whereas growth rate of GDP for India declined by 10 per cent. Growth of GDP of China and India had further declined to 9.64 and 5.33 per cent respectively in 2013–14 (Fig. 1). The Chinese economy has been showing systematic decline from 2010, but Indian economy appears to be a more volatile economy as compared to China.

Fig. 1: Average Annual Growth Rates of GDP (Million US dollars)

Source: Handbook of Statistics

2.1 Trends of Contribution of GDP of India and China to the World GDP

In 1980, the share of GDP of China and India was about 1.70 per cent each to the world GDP. In 1990, the share had reduced to 1.45 and 1.59 per cent of India and China respectively. In 1995, the share of India has further declined to 1.20 per cent whereas the contribution of China has increased to 2.39 per cent. The share of China’s GDP increased by about 5 times from 3.62 per cent in 2000 to 14.80 per cent in 2015. The share of India increased from as low as 1.43 per cent in 2000 to 2.82 per cent in 2015 (Fig. 2).

However, India has recently emerged as the fastest growing economy expecting 7.6 per cent GDP growth in 2015–16, whereas China has recorded a slowdown from double digit to 6.8 per cent—lowest over last 25 years. Based on the past and current performance of Indian economy—GDP growth as well as share of GDP to the world economy—the expectation for shouldering upon to the world’s growth due to slow down of China’s economy may be a distance dream. Even if the transforming India reform “Make in India” is accomplished at a same pace as “Make in China” reform, it will be a challenge for India to achieve it. This is mainly because; India’s manufacturing sector’s growth has remained stagnant as it has contributed to only about 24 per cent to the Indian GDP over last 10 years.

Fig. 2 Contribution of GDP of China and India to the World GDP

Source: Handbook of Statistics
2.2 Contribution of China and India to the world Export (% share)

Figure 3 presents the trends in the share of export of China and India to the world export since 1980. The share of China’s export has been continuously rising to the world market. China contributed 13 per cent in 2015 to the world export—still occupies Rank 1; whereas India contributes 1.30 per cent and occupies Rank 21. The share of export of India in 2013 and 2014 remained stagnant at 1.7 per cent and started declining thereafter. Since this is the trend, the ambition that India will be an additional shoulder of world economy may be treated as base less.

Fig. 3 Share of China and India to the world Export (%)

Source: Handbook of Statistics

3. Export and Import from India to China and China to India

As Dr Raghuram Rajan said in an interview with Hong Kong-based South China Morning Post “The Chinese slowdown is a concern for the whole world. There is a lower demand for some of our exports (India) to China. But indirectly too, many of the countries are not exporting to China as much as they did and they are buying less from us”. In order to validate this statement, Fig. 4 presents the pattern of export of all commodities from India to China. The principal items of Indian exports to China are ores, slag and ash, iron and steel, plastics, organic chemicals, and cotton. India also exports large number of agricultural and non-agricultural commodities to China. China’s economic rebalancing impact on India may be judged from the Fig. 4. India’s export to China of all commodities between 2003–04 to 2016–17, shows an inverse U-trend. This implies the inverse impact on India and losses of revenue. Secondly, India imports more from China. The main items India imports from China comprise electrical machinery and equipment, cement, organic chemicals, nuclear reactors, boilers, machinery, silk, mineral fuels, and oils. Value added items like electrical machinery dominates Chinese exports to India. This implies that China’s exports to India are fairly diversified and include resource-based products, manufactured items and low and medium technology products. Figure 5 presents the extent of Indian export to China and import from China. India exports less to China whereas India imports more from China. This implies imbalance of trade between India and China.

Fig. 4 Extent of export from India to China, all commodity (MT) (Rs, crore)

Source: Agricultural & Processed Food Products Export Development Authority
4. Comparative Advantage in Export in China and India

It is a well-known fact that export is essential for developing countries for economic growth. India became a member of WTO in 1995, since its formation, whereas China became a member since 2001. Therefore, it is expected that it would have an impact on export composition which reflects in comparative advantage of both the countries in the world market. Even though China’s economy is more than five times higher than India’s economy and its manufacturing sector is ten times that of India; it is surprising that India has some of the world’s largest reserves of iron ore, bauxite and manganese.

4.1 Sources of Data

The data has been taken from the various issues of the Handbook of Statistics published by United Nation Conference on Trade and Development (UNCTAD). For country-wise comparison, the Export structure by destination and by major commodity groups are available in five sub-groups such as (i) all food items – consists of SITC 0+1+22+4 (ii) agricultural raw materials- consists of SITC 2+22+27+28, (iii) Fuels-SITC3, (iv) ores and metals- consists of SITC 27+28+68 and (v) manufactured goods – consists of SITC 5 to 8 less 68.

4.2 Methodology

In this study, Revealed Comparative Advantage (RCA) index has been used to assess the comparative advantage for India and China in export profile with the world average to find out in which commodities India has a comparative advantage over China. Balassa developed this Index in 1965, which was originally introduced by Liesner in 1958. The RCA index has been widely used to capture the degree of trade specialization of a country.

The RCA index is defined as the ratio of two shares. The numerator is the share of country’s total exports of the commodity of interest of its total export. The denominator is the share of the world exports of the same commodity in total export. To compare the competitiveness of each country in the export of a particular commodity group, the RCA index is computed using the following method:

$$RCA_{ij} = \frac{ \frac{X_{ij}}{\sum_{j} X_{ij}} } { \frac{ \sum_{j} X_{ij}}{\sum_{i,j} X_{ij}} }$$

The RCA index, thus, contains a comparison of national export structure (the numerator) with the world export structure (the denominator). When RCA equals 1 for a given sector or product in a given country, the percentage share of that sector or product is identical with the world average. Where RCA is above 1 the country is said to have a comparative advantage (and specialized) in that sector of product and vice versa where RCA is below 1.

5. Result and Discussion

5.1 RCA index of ‘All Food Items’ of China, India and developed countries

The index of RCA reveals that India has a significant comparative advantage over China, and developed countries as the RCA indexes are well above one in case of ‘all food items’ in all the years under consideration. In 1990, the RCA index for China was 1.37 which had declined to 0.34 in 2014; whereas the RCA index for India had declined to 1.34 in 2014 from 2.1 in 1995. The RCA index remained between 1.04 to 1.17 during the period under study for developed counties; implying thereby that the export share in developed countries is less volatile (Fig. 6).
5.2 RCA index of ‘Agricultural Raw material’ of China, India and developed countries

In 1990, India’s index of RCA for ‘agricultural raw material’ was 1.37 and declined to 0.46 in 1995. The RCA index has increased to 1.87 in 2013 from 0.63 in 2000. In 2014, the RCA index shows a slight decreased to 1.47. This implies, during 1995 to 2005, the export of agricultural raw material remained low; the extent of export started increasing after 2005 and gained the comparative advantage. In case of China, the RCA index was 1.17 in 1990 and continuously declined to 0.33 in 2014 (Fig. 7). The RCA index for developed countries is slightly less than 1 for all the years.

5.3 RCA index of Ores, Metals and precious stones of China, India and developed countries

The RCA index for India in case of ‘Ores, Metals and precious stones’, has been well above 1 in all the years except 2000. India performed much better in 2005 to 2010. The index of RCA for China was 0.58 in 1990 and declined to 0.22 in 2014. In case of developed countries, the RCA index declined to 0.89 in 2014 from 1.06 in 1990. The RCA for India is considerably higher than unity indicating that, this is a competitive export item for India in the world market, as we discussed that India has world’s largest reserves of iron ore, bauxite, etc.(Fig. 8).
5.4 RCA index of Fuels of China, India and developed countries

India’s comparative advantage in export of ‘fuels’ shows continuous increase in RCA index from 0.26 in 1990 to 1.17 in 2014. Whereas China, was at comparative disadvantage throughout the period as the RCA index continuously declined from 0.76 in 1990 to 0.09 in 2014. (Fig. 9). Whereas in case of developed countries the RCA index for ‘fuels’ increased to 0.85 in 2014 from 0.73 in 1990.

5.5 RCA index of manufactured goods* of China, India and developed countries

China has been performing much better in manufacturing sector as compared to India and developed countries. The RCA index has been well above 1. The RCA index was 1.01 in 1990, which has increased to 1.45 in 2014; whereas the index for India was 0.99 in 1990 and declined to 0.85 in 2014. In case of developed countries the RCA index remained stable and above 1 for all the years under consideration. Therefore, it is plausible that China has a comparative advantage in case of manufacturing products in the world market. The RCA index for manufacturing products of developed countries remained stable throughout the years (Fig. 10).
Fig. 10 Trends of RCA of Manufactured goods of China, India and Developed countries

Notes: *includes Chemicals, Metals products, Iron and steel, machinery & transport equipments, Textile products and other manufactures

6. Conclusion

The exports of manufacturing products of China and India have been increasing and occupy a sizable place in the world market. China’s comparative advantage in export of manufacturing products shows continuous increase and indicates that China has comparative advantage in case of manufacturing products as compared to India and developed world. In other commodities like all food item, agricultural raw materials, fuels and ores, metals, India has comparative advantage in the world market. It is to be mentioned that India’s gain of the market share in some commodity groups not necessarily means the China’s loss in same products or vice versa. Both the countries have been expanding their exports by specializing in different products for example China’s specialization in manufacturing products. China has been much richer country as compared to India and quite successful in manufacturing industry. In case of manufacturing sector—which is the growth engine for any country—India remained behind due to bottlenecks and rigidities that stand in the way of resource reallocation between and within industries. China’s economic rebalancing is a concern for whole world. China’s economic rebalancing is negative for India as export commodities from India to China have declined. However, India has a comparative advantage of essential commodities in the world market.

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