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Rising Bilateral Trade And Investment Trends Of India And China

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***Abstract:** China and India are often portrayed as competitors in a race for economic power. However, there are also opportunities for the two economies to grow together, learn from one another and collaborate to overcome shared problems and achieve shared goals. Opportunities for cross-border trade and investment will continue to increase dramatically in the years ahead, especially if efforts to create a free trade agreement gain momentum.*

India begins to prepare itself for a second wave of growth in the aftermath of what has indeed proven to be a difficult financial crisis for Asia, questions are now being asked as to the extent of competition India really brings to global markets when measured up against China. .In recent years, businesses between China and India increased in large quantity. The paper studies the rising trade between India and china, rising investment in India and China trends and changes in the composition of exports and imports of Indian trade after China's accession into WTO. This paper also attempts to evaluate the foreign investment inflows, and also discusses the likely effect of these developments on the future prospects on Indian trade. Emerging trends indicate that both India and China would remain highly competitive in the global and regional trade and economic domain, and would continue to compete for status and influence in the Asian region in general, and in South Asia in particular.

***Keywords:** India, China, Bilateral Trade, Trade Pacts, Fdi Future Prospects In Trade*

I. INTRODUCTION

China and India are often portrayed as competitors in a race for economic power. However, there are also opportunities for the two economies to grow together, learn from one another and collaborate to overcome shared problems and achieve shared goals. Opportunities for cross-border trade and investment will continue to increase dramatically in the years ahead, especially if efforts to create a free trade agreement gain momentum. China and India are two neighbouring countries in Asia who share the two largest population of the world and in fact added together they represent nearly one third of humanity. Globalisation has imposed internal pressure and external pressure to bear on both India and China. For most Chinese and Indians alike, economic life is hard despite the fact that reforms and globalisation have created various new opportunities and as such both countries have witnessed an emerging middle class with americanised tastes and preferences, irrespective of this however, both countries remain very poor. Although the two countries went to war in 1962 due to some border dispute, they have since tried to normalise relations and in 1995 for the first time trade had exceeded US$1 billion between them. China is perhaps the only country in the world that has witnessed continuous economic growth at about 9 percent a year over the past 25 years. If this growth rate continues, it has been predicted that China may become the world's largest economy around the year 2020 (IMF, 1993; Cable and Ferdinand, 1994) [India continues to be an open, participatory, multiparty democracy, while China has an authoritarian, one party regime, though it is liberalizing. After recounting the differing rationales as well as the similarities and differences in the content of their reform agenda.

China and India are the most populous countries of the world. The total population of China is nearly 1.3 billion and India has nearly 1.027 billion. The total population of two countries would be one third of that of the world. Both the countries are also geographically adjacent to each other. China and India both have a long history and friendship between the two countries could date back to Han Dynasty. India and

China had relatively little political contact before the 1950s. Despite this, both countries have had extensive cultural contact since the first century, especially with the transmission of Buddhism from India to China. Trade relations via the Silk Road acted as economic contact between the two regions.The Chinese traveler Hiuen Tsang who visited India (B.C 604) further strengthened the relationship between India and China but the relation between the China and India deteriorated during the rest of the 1960s due to border disputes which resulted in a short war between the People's Republic of China and India in 20th October 1962. In the coming years the relationship between the two revived due to China's entry into WTO

The World Trade Organisation (WTO) successfully concluded negotiations on China's terms of membership on September 17, 2001 and accepted China as its 143rd member on December 11, 2001. Accession to the WTO will provide China's exports with steady access to world markets, without dependence on yearly renewals of the most favored nation treatment by US and other major trading partners. This will provide greater stability to China's economy in general and exports in particular. As a result of 15 years of economic reform, India achieved an average GDP growth of around 8% during 2003–2005 with 8.1% growth in 2005. India is expected to grow at the rate of 8–8.5% during 2006–2010 (Asian Development Outlook, 2006). India accounts for only 2.4% of the world surface area but constitutes about 17% of world population. Almost one third of the world's poor people reside in this country. Therefore, increased integration of India with the rest of the world will have significant impact on the development of Asia and the World. The China's uninterrupted growth is characterized by higher productivity, lower wages, and exploitation of economies of scale among other parameters. China's GDP grew by 9.9% in 2005 due to buoyant domestic investments and exports. Its GDP is expected to double by 2010 and likely to quadruple by 2020 that would make it the world's third largest economic power. The country accounts for 22.0% of the world's population.

In recent years, business between China and India increased in large quantity .In the year 2000, the trade between the two reached 3 billion US dollars. President Zhu Rongji's has made bilateral connection much closer. China, which was never a focus area in the 1995 trade matrix, emerged the third major destination for India's exports in 2004-05. India's trade with China has been growing very rapidly since the mid-1990s. In 1994–1995, India's export to the China was $254.3 million, which grew to $5,344.88 million during 2004–2005 registering an exponential growth of 35.60 per cent per annum and a growth of 80.87 per cent over 2003– 2004. During this period, the growth of India's overall export was only 26.15 percent and the share of the China in India's total export was 6.64 percent.

China and India are, today, the engines of growth in the midst of rapid economic transformation and make for a positive impact on the global economy. In fact, according to a report by the World Bank, five countries – the US, China, Japan Germany and India – account for nearly half of the world's gross domestic product (GDP). Both India and China have also been major contributors to the global centre of economic gravity moving towards Asia, and are expected to play a significant role in making the 21st century largely about Asia. By 2050, China and India will be the two largest economies in the world; it is inevitable that bilateral trade between them will become the most important economic relationship in the world. (Anil. K Gupta, 2008) .Thus what we find that China's integration into the world economy is one of the most important developments affecting the structure and evolution of the global system at the dawn of the 21st century. With WTO accession China will increase its demand will have major implications for China and present opportunities and challenges for East Asia.

II. LITERATURE SURVEY

Asia has been a region of economic dynamism over the past four decades and between 2005 and 2010, Asia's economy is expected to expand 25% more rapidly than the rest of the world. A consensus is emerging that global economic power is passing to Asia in the 21st century and to China and India in particular. Despite representing only 6% of the world's gross domestic product (GDP) in 2004, these two countries accounted for 12% of its growth and their rapid rise is profoundly reshaping the dynamics of trade and power within Asia and throughout the world.(K.Sudan, 2008). Both China and India are now globally integrated Both India and China had highly restrictive trade regimes until the late 1970s. Both employed a variety of overlapping restrictions, some of which were either redundant or mutually canceling. Both began to open to international trade in the late 1970s in modest ways but China moved faster. The author discusses composition of trade of India and china from a period 1982-2003 and briefly compares the foreign direct and portfolio investment flows in the two countries during the period 1990-2005 (Panagariya, Arvind ,2006**)**.China's WTO accession will have major implications for China and present both opportunities and challenges for the East Asian economies. Ianchovichina Elena and Terrie Walmsley (2003) say that WTO accession, China will continue the process of opening its markets to other countries' exports and improving its business climate. This will lower input and transaction costs and benefit both China and its trading partners. Increased exports from China to the region will also lower the import prices of its trading partners and improve their competitiveness. India is not a serious concern for most countries in the region. By referring to Agarwal, Pradeep, and Pravakar Sahoo (2003**)** in their paper attempts to evaluate the implications of China's accession to the WTO in terms of its impact on the country's exports, imports and foreign investment inflows; and also discusses the likely effect of these developments for the Indian economy. They argue that in case of China, the changes consequent to accession to WTO will see an increase in economic activity, leading to a higher GDP growth rate. Rumbaugh Thomas and Nicolas Blancher (2004) in their talks about China's increasing integration with the global economy have contributed to sustained growth in international trade. Trade reforms and commitments made as part of China's accession to the World Trade Organization (WTO) have been crucial in promoting its integration with the global trading system. They also studied the changes in the

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composition of trade of China from period 1980 to 2003. With the integration of China in WTO, it will be a gain and a loss for India.

China entered the WTO without market economy status (MES), meaning that other countries can easily use the WTO international settlement body in antidumping procedures against Chinese firms. Since joining the WTO, Chinese authorities have repeatedly attempted to gain this status, arguing that considerable progress has been made in dealing with dumping, and that the transition process from a planned to a market economy (ME) has been considerable.(Jose Marie, Rinaldi- Larribe, William S. Lightfoot, Zhognxu Zhao, 2009)**.**

Open regionalism and trade cooperation between the world's two largest developing countries, the People's Republic of China (PRC) and India, can foster outward-oriented development and intra-regional trade based on comparative advantage and available factor endowments. *India* is *China's* second largest *trading partner* after U.S.A. China and India, the two giants of Asia, have been talking (unconvincingly) of the possibility of a bilateral free trade agreement since several years.Bhattacharya, Swapan K. and Bhattacharyay, Biswa N (2007) makes an attempt to estimate the likely benefits in terms of gains or losses in imports of both India and China due to different preferential trading arrangements and free-trade arrangements using the gravity model. Empirical results show that in the short run India's potential gain is relatively lower compared to China's because of its high tariffs but in the long run, India's gains are higher than China's once its tariff levels are brought at par with them. Free-trade arrangement is a win-win situation for both countries and is consistent with their growing dominance in international trade.

The strong economic complementarities between China and India has a bright future for economic cooperation. Eichengreen, Barry, Yeongseop Rhee, Hui Tong (2004**)** analyzes the impact of China's growth on the exports of other Asian countries. They have used the gravity model, to disaggregate among commodity types and account for the endogeneity of Chinese exports. They confirmed with their findings that china‘s export has the tendency to crowd out the exports of other Asian countries.Lall and Albaladejo (2004) examine China’s competitive threat to East Asia and conclude that China is a tough competitor in low-technology products. However, with imports outpacing exports, China also acts as an engine for export growth for its neighbours..Bussière, Matthieu and Arnaud Mehl (2008) analyses the integration of China and India into the global economy. The key characteristics of the two countries’ domestic economies that are relevant to their global integration and analyses their financial linkages with the rest of the world.

Thus from literature survey regarding India- China studies we find that China’s international trade has expanded steadily since the opening of the economy in1979. Exports and imports have grown faster than world trade for more than 20 years and China’s share in global trade has increased steadily. China’s integration with the world economy is a landmark event with implications for both the global and regional economies. Increased market access overseas is the most immediate benefit from WTO accession for China. China is permanently granted most-favored-nation (MFN) treatment by other WTO members. China’s emergence is affecting the export competitiveness of the country’s neighbors has important implications at the national, regional and global levels.

China and India are often portrayed as competitors in a race for economic power. However, there are also opportunities for the two economies to grow together, learn from one another and collaborate to overcome shared problems and achieve shared goals

III. INDIA CHINA TRADE AND ITS IMPACT

India China trade relations are the most important part of bilateral relations between India and China. From a temporary decline in the the influx of Chinese imports in the Indian markets, the scenario seems to have changed – India is enjoying a positive balance of trade with China. The India China trade relations are regulated by the India China JBC, which ensures a free exchange of products and services between the two nations.

India & China signed a Trade Agreement in 1984 which provided for Most Favored Nation Treatment and later in 1994, the two countries signed an agreement to avoid double taxation. The bilateral trade crossed US$13.6 billion in 2004 from US$ 4.8 billion in 2002, reaching $18.7 billion in 2005. The India China trade relations have been further developed from 2006, with the initiation of the border trade between Tibet, an autonomous region of China, and India through Nathu La Pass, reopened after more than 40 years. The leaders of both the countries have decided to enhance the bilateral trade to US$ 20 billion by 2008 and further to US$ 30 billion by 2010. Foreign direct investment is considerably lower in India than in China, with a corresponding loss in expertise, productivity spillovers and benefits from competition .Emulating China, Indian authorities have created “Special Economic Zones”, which offer tax benefits to and simplified procedures for export-oriented investments, in order to attract foreign direct investment (see Kim and Qiao, 2006).China has emerged as India's largest trade partner which was revealed by the Economic Survey for 2007-2008. China's trade share during April-October 2007 was even higher than that of the US by Rs.600 crore. As and when India's final trade statistics are released for the year 2007-08, China will be shown as India's No. 1 trade partner. The development marks the culmination of a trend that has been picking up momentum in recent years. Only six years ago, the volume of trade between India and China was barely one-fourth of the trade between US and India. In fact, the UK, Belgium, Germany, UAE and Switzerland were all larger trading partners than China at that stage. China's emergence as the largest trading partner should not, however, induce a sense of complacency. China's export growth has always outpaced import growth, allowing it modest trade surpluses on a year-to-year basis. Thus the immediate challenge for India, therefore, is to diversify the export basket to China through focus on expanding non-traditional items of export. Such efforts, when matched by greater market access for Indian goods in China, will help to bridge the rising trade deficit between the two countries.

However, if the bilateral trade has to reach figures comparable to what China has with its other neighbours, both countries will have to negotiate a regional trade agreement (RTA) which is a long-term solution. Four major impacts can be noticed by increasing India China trade. First, considering trade in goods, the overall degree of China’s trade intensity is higher than fundamentals would suggest, whereas the converse is true for India. Second, Chinese goods exports seem to compete increasingly with those of mature economies, while Indian exports remain more low-tech. Third, China’s exports of services tend to complement its exports of goods, while India’s exports are growing only in deregulated sectors, such as IT-related services. Last, China’s and India’s roles in the global financial system are still relatively limited and often complementary to their roles in global trade (Bussière, Matthieu and Arnaud Mehl, 2008).

By exploring the export performances and specialization patterns of China and India, Saeed Mahvash and Guanghua Wan (2008) assessed the trade competitiveness and complementarily vis-à-vis each other as well as with the rest of the world.

IV. TRADE BETWEEN INDIA AND CHINA

India’s trade to and from China, its growth rates, and trade balance are shown in Table 1. The trends of India’s trade to and from China are also shown in Graph. 1. Trade has been the integral part of the burgeoning bilateral economic relationship between the two countries. India-China trade has been growing very rapidly since the mid-1990.

YEAR	*INDIAN EXPORTS TO CHINA Unit Iin US $ Million*	RATE OF GROWRTH	*INDIAN IMPORTS FROM CHINA (US $ Million)*	RATE OF GROWTH	TOTAL TRADE	GROWTH OF TOTAL TRADE	TRADE BALANCE
1990-91	18.2		31		49.2		-12.8
1991-92	48.2	164.83	20.9	-32.58	69.10	40.44715	27.3
1992-93	141.3	193.15	126	502.87	267.3	286.8307	15.3
1993-94	279.1	97.52	302	139.68	591.1	117.3962	-22.9
1994-95	254.2	-8.92	760.8	151.92	1015.0	74.66873	-506.6
1995-96	332.7	30.88	812	6.72	1144.7	12.77833	-479.3
1996-97	614.8	84.79	756.9	-6.78	1371.7	19.83052	-142.1
1997-98	718.1	16.80	1119.3	47.87	1837.4	33.95057	-401.2
1998-99	472.2	-34.24	1096.7	-2.01	1568.9	-14.613	-624.5
1999-00	538.8	14.10	1286.7	17.32	1825.5	16.35541	-747.9
2000-01	831.3	54.28	1502.2	16.74	2333.5	27.82799	-670.9
2001-02	952.0	14.51	2036.4	35.56	2988.0	28.06514	-1084.4
2002-03	1975.5	107.51	2792.1	37.10	4767.6	59.53688	-816.6
2003-04	2955.1	49.58	4053.2	45.16	7008.3	46.99849	-1098.1
2004-05	5615.9	90.04	7098	75.12	12713.9	81.41204	-1482.1
2005-06	6759.1	20.35	10868	53.11	17627.1	38.64432	-4108.9
2006-07	8290.7	22.65	17399	60.09	25689.7	45.7398	-9108.3

Source: RBI And Computed

Table 1: India’s Trade With China (Us Million $)

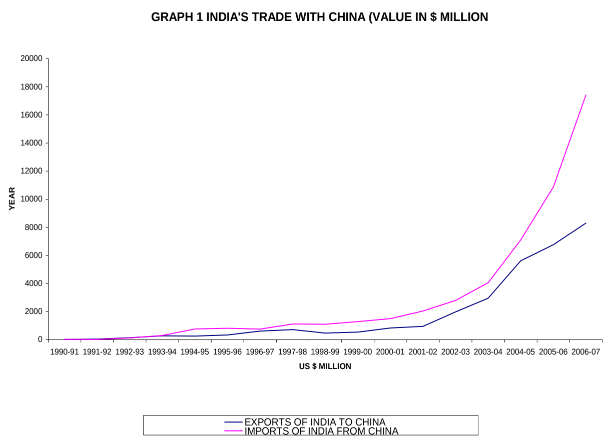

Figure 1

A. EXPORTS TO CHINA FROM INDIA

The export of India to China in 1990-91 was $18.2 million which increased to $254.2 million in 1994-95 which further grew to $5,615.9 million during 2004–2005 and $82970.7 in 2006-07. (Table 1).The growth rate of exports and imports shoes a wider range of fluctuations during the study period. While seeing the growth rate of exports we find that it was 193.87percent in 1992-93 which became negative in 1994-95. The highest growth rate in exports was shown in year 2002-03 which was around 107.51 percent which declined to 22.65 in 2006-07.While seeing the trends in growth rate of imports we find that it does followed a uniform pattern through out the study period. It was-32.58 percent in 1990-91 which increased to 502.87 in 1992-93.India's exports to China, likewise, have grown nearly ten-fold – from US$ 831.3 million (accounting for 1.87 per cent of total exports) in 2000-01, to US$ 8290.7 million (6.56 per cent of total exports) in 2006-07. The growth continued in 2007-08, with exports to China touching US$ 7868.6 million during April-January 2007–08 – as against US$ 6572.8 million in the same period last fiscal. However the average growth rate of exports to China during the period 1990-91 to 2006-07 was 37.23%.

Significant exports from India to China include cotton, organic chemicals, iron, steel and inorganic chemicals among others. Iron ore is the single largest item of India's exports to the China during 2004–2005 and the trend has been increasing over the years. This is the most important item in India's export basket followed by primary and semi finished iron and steel, which is the second largest of India's exports to China. Other major product/product categories of India's export basket to the China are plastic and linoleum products; processed minerals; inorganic/organic/agro chemicals; ores and minerals; drugs, pharmaceuticals, and fine chemicals; machinery and instruments; residual chemicals and allied products; nonferrous metals; marine products; cotton yarn, fabrics, and made-ups; etc.

B. INDIA'S IMPORTS FROM CHINA

The total import of India from China in 1990-91 was $31 million which increased to $ 812 million in 1995-96 which further increased to $1502.2 million in 2000-01. India's imports from China have increased from US$ 1502.2 million (accounting for 2.97 per cent of total imports) in 2000-01, to a whopping US$ 17399 million (9.53 per cent of total imports) in 2006-07. Furthermore, during April-January 2007–08, imports have increased by 60.1 per cent to US$ 22592.3 million against US$ 14108 million in the corresponding period last fiscal. Total trade between the China and India touched $18.00 billion in 2005 and is expected to reach $50 billion in the next 5 years (i.e., by 2010). The average growth rate of imports during the period 1990-91 to 2006-07 was 41.30 %.The trend of imports of India from China is shown in Table 1 and Graph 1.

Imports from China are highest in the category of electrical machinery and equipment, organic chemicals, mineral fuels, oil and oil products. India's major import item from the China has been electronic goods. Import of this item has been consistently increasing over the period of the study. The second largest import items are coal, coke and lubricants. India imports substantial amount of coal from the China, which suddenly shot up at a very high level during 2004–2005, although it was modest in the early years. Organic chemicals are the third largest import items from the China in last several years. Other important import items are: non electrical machinery; electrical machinery; medical and pharmaceutical products; textile yarn, fabrics, and made-ups; silk yarn and fabrics; nonferrous metals; silver; iron and steel; inorganic chemicals; raw silk; nonmetallic manufactures; manmade filament/spun yarn/waste; metaliferrous ores and metal scrap; and others.

In fact, this surge in bilateral trade between the two countries has resulted in China displacing US to become the number one trade partner of India. During April-January 2007–08, Indo-China trade was US$ 30.46 billion against the Indo-US bilateral trade level of US$ 28.27 billion. This is no mean achievement, considering the fact that, bilateral trade between India and China was only about one-fourth of Indo-US trade in 2001-02.

India-China bilateral trade in 2010 surpassed $60 billion target at $61.7 billion, driven by the surge in Indian imports of Chinese telecom and power generation machinery to aid the country's infrastructure expansion. The ever increasing buoyancy, however, is also cause of concern to India as the trade imbalance amounted to $20 billion, reflecting higher imports by India than exports. India is keen awaiting China to open its markets for IT, Pharmaceuticals, Agro products and Engineering services. The dip in Indian exports was mainly caused by drop in iron ore exports as China diversified to other countries finding market uncertain. China's exports to India on the other hand surged as the Country is cashing on the massive infrastructure modernisation currently under going in India.

Telecom and power equipment constituted the bulk of the Chinese exports to India.

a. TRADE DEFICITS

Another significant trend is that trade deficit between the china and india, which stood at $12.8 in 1990-91 which increased to $ 479.3 in 1995-96.During the whole period the trade deficit has shown a increasing trend .It was $1,482.04 million in 2004-05 from $1098.04 million of the previous year(2003-04).the trade deficit increased to $-9108.3 in 2006-07. If the growth rate of India's exports to the China is maintained at the present level, this gap is expected to narrow down in coming years.

Thus during the period 1990-91 to 2006-07 the total trade between India and China showed an increasing trend. The imports increased more than the exports showing a trade deficit. If the growth rate of India's exports to the China is maintained at the present level which is around 8 percent, this gap is expected to narrow down in coming years

b. INDIA TOTAL TRADE AND CHINA'S SHARE IN INDIA'S TOTAL TRADE

The total trade of India has shown an increasing trend over the years. The total trade of India was $42217.7 in1990-91 which increased to$31794.9 million in 1995-96.in 2006-7 the total trade of India increased to $319897.1. The China share in India's total trade is shown in Table 2. While seeing the China's share in India's total trade we find that the share was increasing over the years. The share of China in India's total trade in year 1990-91 was just 0.11 percent which increased to 1.67 percent in 1995-96 and futher to 2.11 percent in 1999-2000. When China became the member of WTO in 2000-01, we find that it has the major impact on the India trade. The share of China in India's total trade increased continuously. In year 2000-01 it was 2.45 percent which increased to 4.93 percent in 2003-04 and then to 6.98 percent in 2005-06.In 2006-07 it increased to by two percentage points and became 8.10 percent.

Thus we can conclude that the share of China in India's total trade has increased during the whole study period and the major increase was observed from the year 2000-01 when China became the member of WTO and liberalized its trade restrictions.

Year	India's total Exports	India's total Import	Total trade of India	India's total trade with China	Share of China's trade in India's total trade(%)
1990-91	18145.2	24072.5	42217.7	49.2	0.116539
1991-92	17865.4	19410.5	37275.9	69.1	0.185374
1992-93	18537.2	21881.6	40418.8	267.3	0.661326
1993-94	22238.3	23306.2	45544.5	581.1	1.275895
1994-95	26330.5	28654.4	54984.9	1015	1.845961
1995-96	31794.9	36675.3	68470.2	1144.7	1.671822
1996-97	33469.7	39132.4	72602.1	1371.7	1.889339
1997-98	35006.4	41484.5	76490.9	1837.4	2.402116
1998-99	33218.7	42388.7	75607.4	1568.9	2.075061
1999-00	36822.4	49670.7	86493.1	1825.5	2.110573
2000-01	44560.3	50536.5	95096.8	2333.5	2.453815

2001-02	43826.7	51413.3	95240	2988.4	3.137757
2002-03	52719.4	61412.1	114131.5	4767.6	4.177287
2003-04	63842.6	78149.1	141991.7	7008.3	4.935711
2004-05	83535.9	111517.4	195053.3	12713.9	6.518167
2005-06	103090.5	149165.7	252256.2	17627.1	6.987777
2006-07	126331.1	190566	316897.1	25689.7	8.106638

Source: R.B.I and Computed

Table 2: India Total Trade And China's Share In India's Total Trade (Us Million $)

V. INVESTMENT FLOWS IN CHINA AND INDIA

Foreign direct investment is the locomotive of globalisation and because both China and India unlike many other third world countries have a sizeable number of highly skilled workers as well as an enormous supply of low unskilled labour, their development are closely linked to similar sectors in which they have comparative advantage and therefore face similar challenges.(Navind Beeharry,)

India was among the ten fastest growing economies of the world since 1980 and projected that in the next decade its growth rate would accelerate and China would remain the fastest growing economy in the world during the first decade of the 21st century. By 2050, both China and India will become high-income countries, with India lagging China by about a dozen years in reaching this category and the gaps will be completely eliminated by the end of the century, thus restoring the position that prevailed in the early 1980s. It is, therefore, imperative for China and India to normalize their bilateral relations based on mutual respect and recognition of each other's role in Asia and across the World. As China is the stronger power its attitude to relations with India will be an important driver of the India-China relationship. China is likely to emerge as a global manufacturing hub while India will become a global hub for services, which is quite a likely scenario since services already account for over half of India's GDP, whereas in China it is industry that accounts for over half of GDP. India and China will witness steady high growth rates of 8.8 and 10 per cent respectively in 2010, and Asia will continue to lead global recovery, according to the latest communication by International Monetary Fund (IMF) officials in April 2010.

Furthermore, India and China continue to attract high rates of investment. At 35 per cent and 42 per cent of gross domestic product (GDP) respectively in 2008-09, the levels of gross domestic fixed capital formation in India and China are the highest in the world. The rising rates of investment in India and China, as opposed to declining rates in Japan and South Korea, have led to the former replacing the later as Asia's powerhouses.

A. SHIFTS IN FOREIGN INVESTMENT AND FINANCE

According to the 2010 Foreign Direct Investment Confidence Index published by global consultancy firm A.T. Kearney, several emerging markets are attractive to foreign investors. The index tracks the impact of probable political, economic and regulatory changes on the investment intentions and preferences of top companies around the world. China, India and Brazil are in the top five, while emerging markets with large consumer bases, such as Indonesia and Vietnam, also rank highly. China remains the top-ranked destination by foreign investors, a title it has held since 2002. The United States retakes second place from India, which had surpassed it in 2005. India, Brazil and Germany complete the top five favored investment destinations. Investors also expressed the most optimism about the future outlook for China, India and Brazil.

India and China are both vast countries just opening to development, filled with opportunity and risk for private equity investors. Inevitably, the two countries' rising economic fortunes invite debate over which offers the better climate for investment

The major difference in investing in India and China lies in the industry sectors. In China, he says, deals flow across multiple industries, from auto dealer consolidation, to cell phone gaming companies, to medical leasing, while in India the focus is almost entirely on technology and services. India is developing some retail financial service businesses, he said, but China's consumer economy is more advanced.

With increased mergers and acquisitions (M&A) both India and China are aggressively redrawing the global landscape through their M&A deals. According to UK-based Chartered Management Institute's study released in March 2008, India and China (along with Brazil and Russia) would exert a greater influence on business markets and transform the business landscape by 2018.

India and China are expected to see the highest-ever rise in private equity (PE) investments from new and existing investors over the next two years, according to a survey by global PE firm Coller Capital, titled "the Global PE Barometer" report, which was released in June 2010. As per the bi-annual survey of trends PE, investors — mainly from Europe — plan to boost their exposure to the Asia-Pacific region over the next three years. "Of those, China and India will see by far the largest increase in PE investment from new and existing investors. Over the next two years. The survey further revealed that 44 per cent of the global PE investors studied, want to either expand or invest in India, while 53 per cent plan to do the same in China.

Siemens Group plans to invest US$ 43.25 million by 2013 in India and China to strengthen local operations of its wholly-owned metal and mining technology solutions firm Siemens VAI. The investment will fund expansion of local production, engineering and project handling capabilities. In India Siemens VAI has one plant and employs around 800 people across its operations in Kolkata and Mumbai. France's Sodexo is looking at double-digit revenue growth in India and China over the next couple of years, according to Michel Landel, Chief Executive of the company.

According to Franklin Templeton Investments, India offers better long-term returns on stocks than China, given the outlook for economic growth and corporate earnings.

India's economy may sustain faster expansion from a smaller base as "favourable" demographics boost consumption, said Stephen Dover, Managing Director and International Chief Investment Officer for Franklin Templeton Investments' Local Asset Management Groups. According to him, India is still quite underinvested. India offers an opportunity to investors to participate in its growth.

B. INCREASING SYNERGIES

Both India and China provide huge investment opportunities across a range of sectors. Significantly, many Indian and Chinese companies are collaborating to create a new competitive force.

- ✓ TKM, the wholly-owned subsidiary of TM International Logistics, the JV between Tata Steel and Germany's Martrade, has opened an office in Shanghai to undertake freight forwarding business.
- ✓ Two-wheeler maker, Bajaj Auto, has begun production of its bikes in China for exports to Nigeria, a potential market for low-cost and unbranded bikes.
- ✓ The India-China Business Technology Summit took place in March 2010 in Beijing and was attended by officials of over 300 top-end Chinese companies, including those of government-owned undertakings. Officials of top Indian IT firms made presentations in an attempt to showcase India's IT prowess and to attract the local Chinese companies.
- ✓ Mr KV Thomas, Minister of State for Agriculture on a visit to China in June 2010, said that India and China will extend mutual support in the field of food grain storage. Technical experts and engineers from India's leading agriculture warehousing and storage agencies, including the Food Corporation of India (FCI), will visit China to study modern warehouse construction and preservation methods for food grain storage. Similarly, a group of technical experts from China will be invited to visit India during October-November 2010 to visit storage facilities in India and interact with the officials of FCI.

VI. THE FUTURE OF INDIA AND CHINA

Economic ties between India and China are rapidly emerging as one of the most important bilateral relationships in the world. Three questions are of utmost important to policy makers in both countries: Is the current magnitude of trade between India and China too little or too large? Should India grant Market Economy Status (MES) to China? Finally, what are the prospects for investment links between India and China? Regarding the magnitude of India-China trade, several observations can be made about the two countries. First, trade between the two countries has grown very robustly. Each country's aggregate international trade is expanding by 23-24% annually .In comparison, India-China trade grew at a 50% rate during 2002-2006 and will increase by a further 54% during 2007 to reach $37 billion. Second, after adjusting for partner GDP (i.e., bilateral trade divided by the trading partner's GDP), India's trade with China is greater than that with Japan, the US, or the entire world. After similar adjustments, China's trade with India is only slightly below that with Japan, the US, or the entire world. Third, China already is (or will shortly become) India's number one trading partner. From China's side, India already is one of its top ten trading partners. Also, China's trade with India is growing much faster than with any of the other nine. Thus, India is rapidly becoming an increasingly important trading partner for China. Fourth, India's overall international trade is significantly below that of China's, in terms of both absolute figures (for 2006, $306 billion vs $1,760 billion) as well as relative to GDP (34% of GDP vs. 65% of GDP). Fifth, even if the growth rate in India-China trade slows down to 25% annually (a conservative projection) from the current rate of over 50%, bilateral trade between them will be almost $75 billion in 2010 and $225 billion in 2015, i.e., as large as China-US trade just three years ago. These are very large numbers. Political and business leaders need to start getting ready now for this radically different world. Trade theory tells us that, in an increasingly flat world, trade between two countries should be a multiplicative function of their GDPs. Since it is almost certain that, by 2050, China and India will be the two largest economies in the world, it is inevitable that bilateral trade between them will become the most important economic relationship in the world. While government subsidies do remain an issue in some industries in China, there is no evidence that this problem is endemic throughout large sectors of the Chinese economy. Also, other countries (such as Russia) which suffer from similar problems already enjoy a Market Economy Status.

Whether or not a country grants MES to China has minimal impact on trade balance with China. Even though the US has not granted MES to China, its trade deficit with China was $162 billion in 2004, $202 billion in 2005, and $232 billion in 2006. Thus, from China's point of view, whether or not a country grants MES to it has little substantive value. The value is entirely "symbolic" and, as we know well, symbolism is a hugely valued commodity in China. China will automatically get the Market Economy Status around 2015-16. Thus, for China, the symbolic value of getting MES goes down with each passing year.

If India were to grant MES to China now (rather than after Japan, the US, or the EU have done so), the symbolic value to China will be much greater than if India were to be a mere follower. Granting MES to China will not take away India's rights to file legitimate anti-dumping cases. Even after China is granted MES, it has to provide verifiable information to the country filing an anti-dumping complaint. If such information is not provided, the latter retains the right to use the best information available, including third-country (surrogate) information. As it is, the current anti-dumping cases filed by India against China total less than 5% of China's annual exports to India. India will have a $9-10 billion trade deficit with China in 2007; however, MES has little if anything to do with the trade deficit. If India were to grant MES to China before Japan, the US, and the EU do so, the symbolic value to China will be very high. If India is smart, it should exploit this opportunity to the maximum by getting concessions from China on issues that matter enormously to India (e.g., a settlement of the border disputes).

In essence, India should look at MES for China as an issue whose salience rests almost totally in non-economic rather than economic domains.

At the margins, granting MES to China will put greater pressure on Indian manufacturers to become more efficient .This pressure is likely to be a net plus. India's political and business leaders have always responded with vigour to external economic pressures and competition. Trade is only one of the two major economic ties that bind nations. The other is investment. At present, investment links between the two countries are relatively modest. India and China have a great deal in common. Both are enormous economies seeking to diversify and to compete across the board on global markets. Indian software companies are moving into China and Chinese technology hardware companies are expanding their presence in India, building research and development (R&D) facilities and targeting the increasing purchasing power of India's middle classes.

Haier and Huawei have significant presence in India. Similarly, Bharat Forge, TCS, and Infosys are building a noteworthy presence in China. These types of greenfield investments will continue to grow. The quantum leap will come as some of the bigger companies from India and China acquire third-country companies that already have a significant presence in the other country (e.g., if an Indian auto company were to acquire a western auto company with significant presence in China). It is certain that, over just the next five years, we will see a growing number of foreign acquisitions by Indian and Chinese companies. As these acquisitions materialise, it is inevitable that investment linkages between India and China will grow rapidly.

China's ability to attract FDI has caught the attention of the world. It has been made possible by the Chinese government's efforts to develop an investor-friendly environment, including the establishment of special economic zones (SEZs) that provide the infrastructure, and the legal and tax conditions, necessary to kick-start new sectors. In contrast, foreign investors in India often complain about its stifling bureaucracy, unreliable infrastructure, inflexible labour laws and complex, burdensome taxation rules – not an enticing package. Despite these weaknesses, India's overall institutional framework is, by and large, superior to China's, with a stronger legal system, better financial supervision and, crucially, a clearer rule of law. China would do well to learn from India's vibrant capital markets, with regulatory and institutional frameworks that have been strengthened regularly since 1991. Along with India's strategic strengths, the strategic challenges are also important. These are weak infrastructure, poor roads and transport connectivity, unreliable power supply, and poor telecommunications, which have been a major impediment to growth and greatly escalated costs. In the recent past, there has been significant improvement, but India has still a long way to go.

VII. CONCLUSION

Both China and India are throwing up competition for countries like Hong Kong (china), the republic of Korea, Singapore and Taiwan as the main sources of FDI in developing Asia. During the period 1990-91 to 2006-07 the total trade between India and China showed an increasing trend. The imports increased more than the exports showing a trade deficit. However, share of China in India's total trade shoed an increasing trend which further increased due to China's accession into WTO.

The share of India and China in the total global FDI outflows has been increasing continuously, While both accounted for 10 per cent of total FDI outflows in 2005 in the Asian region, it increased to 25 per cent in 2007.With such rapid growth, the bilateral trade target of us$ 20 billion by 2008 was achieved well ahead of time, since India and China compete in the exports of many commodities, especially labour intensive manufactures (such as textiles, garments, leather articles, and light machinery), china's accession to WTO could have some negative influence on India's exports and foreign investment inflows, while India's imports are unlikely to be affected much. The Chinese challenge can be overcome only if we further strengthen the competitiveness of our economy by undertaking additional reforms and improving infrastructure. Also, the next Indo-China bilateral trade target of us$ 60 billion by 2010 is likely to easily achievable. Further, to cement the rapidly strengthening bilateral trade ties, both countries are planning to sign a free trade area agreement at the earliest.

With an acceleration of industrialisation and the flow of foreign capital, automatically development will have a spill over effect in the rural areas as the main industrial areas will be too congested and for expansion and also due to higher costs of labour in cities, some industries will have to delocalise while leaving important business areas, to shift into the service sector, a phenomenon already happening in India. Critics of globalisation suggest that an equitable distribution of benefits should become a reality for according to the Economist social uprising may be the response if growth in GDP's are not matched by a corresponding sense of well-being and security among ordinary citizens. This argument is applicable to both China and India.

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