

India's Imports From China Are Deteriorating Trade Balance Of India

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ABSTRACT: Balance of payment has two components, capital account and current account. Current account can be divided in to two components visible and invisibles. Visible can be further divided in to two components exports and imports. Trade balance means export minus import. Trade balance can be either trade deficit or trade surplus. Trade deficit arises when import exceeds export of any country. India's economy facing trade deficit with china. This study focuses on India's imports and trade deficit with china and their impact on India's trade deficit during the period of 2000 to 2018.

KEYWORDS: balance of payment, trade deficit.

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I. INTRODUCTION

India's total deficit has been increasing with china which will deteriorate the condition of Indian economy as it may lead to balance of payment crisis, if it goes on increasing day by day.

Trade balance = export - import,

When Import > export = trade deficit and when Export > import = trade surplus.

II. OBJECTIVE OF STUDY

To study the impact of India's imports from china on India's trade balance.

Research Hypothesis

H0: There is no significant relationship between India's imports from china and total trade deficit of India

H1: There is significant relationship between India's imports from china and total trade deficit of India

III. RESEARCH METHODOLOGY

Type of data collected: Secondary data

Tools opted for data analysis: Graphs, percentage and regression analysis.

Time period: From 2000-01 to 2017-18.

Research variables: Independent variable: - Imports from china

Dependent variable: - Trade balance (since, here import > export, so it is trade deficit)

IV. DATA ANALYSIS & INTERPRETATIONS

Table: 1 Trade statistics (Value in Rs. Crore)

| Year | Export to china | Import from china | Trade balance with china (trade deficit) | India's total trade balance (trade deficit) |
|---------|-----------------|-------------------|--|---|
| 2000-01 | 3,797.76 | 6,862.70 | -3,064.94 | -27,301.75 |
| 2001-02 | 4,540.04 | 9,711.92 | -5,171.89 | -36,181.75 |
| 2002-03 | 9,560.39 | 13,512.15 | -3,951.76 | -42,068.60 |
| 2003-04 | 13,579.06 | 18,625.14 | -5,046.08 | -65,740.87 |
| 2004-05 | 25,232.97 | 31,892.31 | -6,659.34 | -106,032.02 |
| 2005-06 | 29,924.91 | 48,116.65 | -18,191.74 | -117,773.04 |
| 2006-07 | 37,529.78 | 79,008.61 | -41,478.83 | -268,727.03 |
| 2007-08 | 43,597.42 | 109,116.07 | -65,518.66 | -356,448.18 |
| 2008-09 | 42,661.33 | 147,605.60 | -104,944.26 | -533,680.32 |
| 2009-10 | 54,713.93 | 146,048.61 | -91,334.68 | -518,201.90 |
| 2010-11 | 64,315.14 | 198,079.08 | -133,763.93 | -546,502.69 |
| 2011-12 | 87,470.82 | 265,465.62 | -177,994.80 | -879,503.85 |
| 2012-13 | 73,529.56 | 284,384.59 | -210,855.02 | -1,034,843.67 |
| 2013-14 | 90,561.09 | 309,234.96 | -218,673.87 | -810,409.71 |
| 2014-15 | 73,030.43 | 369,565.36 | -296,534.93 | -840,328.58 |
| 2015-16 | 58,939.41 | 404,050.84 | -345,111.43 | -773,919.37 |
| 2016-17 | 68,250.92 | 411,103.29 | -342,852.37 | -728,237.60 |
| 2017-18 | 85,994.30 | 492,236.17 | -406,241.87 | -1,044,514.20 |

Source: ministry of commerce and industry, commerce.gov.in, export-import data bank

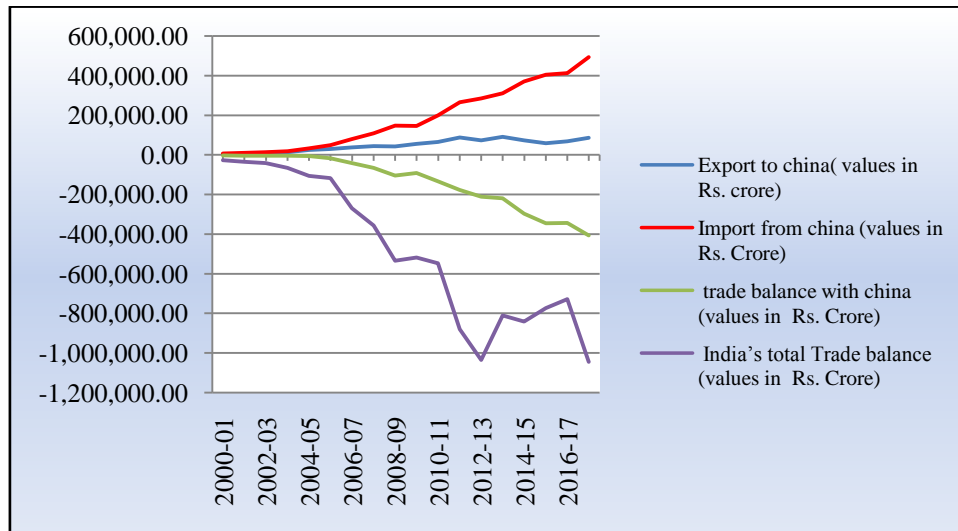


Figure 1: Trade statistics

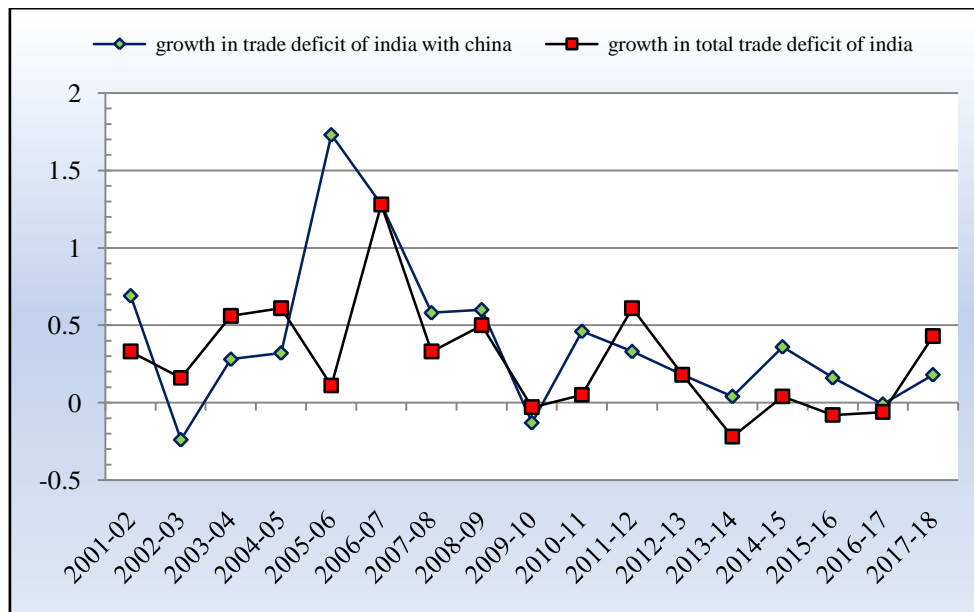


Figure 2: Growth in trade deficit

Interpretations

Growth in India's trade deficit with china was -0.01 and 0.18 in the year 2016-17 and 2017-18 respectively. However it was 1.73 in the year 2005-2006 and it was the highest growth in trade deficit with china during the period of 2000-2018. Similarly growth in India's total deficit was -0.06 and 0.43 in the year 2016-17 and 2017-18 respectively. It was 1.28 in the year 2006-2008 and it was the highest growth in India's total trade deficit during the period of 2000-2018. Share of India's trade deficit with china to India's total trade deficit was highest in the year 2016-17 with the value of 47% whereas it was lowest in the year 2004-2005 with the value of 6%.

Table: 2 Hypothesis testing result

| Regression Statistics | | | | | | | | |
|----------------------------------|--------------|----------------|----------|----------|----------------|-----------|-------------|-------------|
| Multiple R | 0.88972 | | | | | | | |
| R Square | 0.791602 | | | | | | | |
| Adjusted R Square | 0.778578 | | | | | | | |
| Standard Error | 172241.2 | | | | | | | |
| Observations | 18 | | | | | | | |
| ANOVA | | | | | | | | |
| | df | SS | MS | F | Significance F | | | |
| Regression | 1 | 1.8E+12 | 1.8E+12 | 60.7763 | 7.74E-07 | | | |
| Residual | 16 | 4.75E+11 | 2.97E+10 | | | | | |
| Total | 17 | 2.28E+12 | | | | | | |
| | Coefficients | Standard Error | t Stat | P-value | Lower 95% | Upper 95% | Lower 95.0% | Upper 95.0% |
| Intercept | -156426 | 58521.63 | -2.67296 | 0.016669 | -280486 | -32365.8 | -280486 | -32365.8 |
| India's trade Deficit with china | 2.38749 | 0.306249 | 7.795916 | 7.74E-07 | 1.738272 | 3.036709 | 1.738272 | 3.036709 |

Linear Regression Analysis

$$y = b_0 + b_1x$$

t-test statistic = 7.795916

Since t-test statistic > t-test critical values so reject null hypothesis in favor of the alternative hypothesis and

The null hypothesis is rejected if the P-value < α

Here P-value = 7.74E-07 < α , therefore reject the null hypothesis so there is significant relationship between India's import from china and total trade balance of India.

Trade balance is called trade deficit when import exceeds export or in other words when trade balance is negative then it is termed as trade deficit. There is strong positive relationship between India's import from china and total trade deficit of India. India's total trade deficit will increase by 2.38749 for every one point increase in India's import from china.

V. CONCLUSIONS

India's increasing imports from china are deteriorating India's trade balance. Efforts should be made to increase the export but instead of increasing our export to china, we are losing our percentage shares in china's import. Reasons may be low demand, non availability of our products in domestic as well as Chinese market or china is switching from India to some other country for its import. So there is need to consider reasons why this is happening so and effort should be made to curb this trade deficit with china.

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