Chapter I
INTRODUCTION
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Chapter I

INTRODUCTION

The term ‘trade’ is commonly understood to mean exchange of goods, wares or merchandise among people. To understand every species of exchange or dealing in goods. Internal and external are part of trade. Internal trade means transaction taking place within the geographical boundaries of a nation. It is also known as intrarregional or domestic trade. External trade means exchange of goods and services between one country and another country. Briefly, ‘international trade’ and within the territory of a nation ‘internal’ trade. Today, international trade is highly organized due to improvement in the means of communication and transportation.

In today’s world of unlimited wants, no nation by itself can produce all the goods and services which its people require for their consumption. Nature has distributed the factors of production unequally over the surface of the earth. Countries differ in terms of natural resource endowments, climatic conditions, mineral resources and mines, labour and capital resources, technological capabilities, entrepreneurial and managerial skills and a whole host of other variables which determine the capacities of countries to produce goods and services. All these differences in production possibilities lead to situations where some countries can produce some goods and services more efficiently than others; and no country can produce all the goods and services in the most efficient manner, i.e., at the lowest possible cost of production. For example Japan, can produce automobiles or electronic goods more efficiently than any other country in the world. Malaysia can produce rubber and palm oil more efficiently than other countries can do. Their capacity to produce
these goods like electronics or rubber is far in excess of their capacity to consume them. Therefore Japan and Malaysia can, export these goods to other countries at relatively lower prices. Brazil or Thailand can import these goods at lower price from Japan and Malaysia, and in return Japan and Malaysia can import Brazilian coffee or Thailand rice at a lower price, because Brazil and Thailand have the capacity to produce coffee and rice at much lower costs of production and hence to sell them at lower prices to Malaysia or Japan or the other countries. International trade is an engine of economic growth which has increasing significance particularly during the last few years.

1.1 Emergence of the International trade:

Following factors are responsible for the emergence of the international trade. (1) Differences in natural resources and geographical conditions (2) increase in the demand for the commodities throughout the world. (3) Non-availability of a particular of resource in an economy (4) limitation of resources (5) difference in the perfectness (6) no country can claim self-sufficiency in all the goods (7) a large number of new requirements, for example, technical know-how, machines, etc (8) difference in the cost of production (9) comparative immobility of labour and capital and (10) differences in specializations.

1.2 NEED OF INTERNATIONAL TRADE:

Foreign trade has an important place in the economy of a country. According to Robertson, “foreign trade is an engine of economic growth”. Because of foreign trade a country can make efficient use of its natural resources. It can export its surplus production and much needed foreign capital, machines and essential raw materials can be imported to facilitate
industrialization. The need of international trade follows from the fact that it benefits. Smith stated forcefully that international trade enables each nation to increase her wealth and national well being by making extended use of the principle of division of labour that makes specialization in production possible.  

1.3 TERMS OF INTERNATIONAL TRADE:

International trade is a significant part of most International economies. The theoretical tools of economics have been applied to answer such question as why nations trade rather than pursue self-sufficiency, why a nation will import specific types of goods and services and export others, and what are the domestic effects of international trade. The following are the principal terms of international trade.

i) A type of goods that exhibits significant differences in real or perceived characteristics or features.

ii) Scale economies exist when per-unit production costs decline steadily as the rate of production.

iii) Competition among producers of a type of product that is based on the characteristics and features of the product.

iv) The cost of production of a goods that must be given up in order to increase the production of other goods.

v) The cost of production of goods compared to the cost of production other of goods.
VI) The price paid to purchase of a goods compared to the market prices of other goods.

Vii) A type of goods with little or no variation in characteristics or features; also referred to as a homogeneous product.

viii) The quantity of exports exchanged for a given amount of imports

1.4 DIFFERENCE BETWEEN INTERNATIONAL & INTERREGIONAL TRADE:

Internal trade refers to trade between regions within a country. It is what Ohlin calls inter-local trade. Thus internal trade is domestic trade. International trade, on the other hand, is trade between two nations or countries. A controversy has been going on among economists whether there is any difference between internal trade and international trade. The classical economists held that there were certain fundamental differences between internal trade and international trade. Accordingly, they propounded a separate theory of international trade which is known as the theory of comparative costs. But modern economists like Bertil Ohlin and Haberler contest this view and to comment on that the differences between interregional and international trade are of the degree rather than of kind.⁴

Nevertheless, there are several reasons to believe the classical view that international trade is fundamentally different from internal trade.

I. Difference in natural resources.

II. Different markets.

III. Geographical and climatic differences.
IV. Factor Immobility.
V. Problem of Balance of payments.
VI. Transport costs
VII. Different currencies.
VIII. Different national policies.
IX. Different political groups.

According to Heckscher-Ohlin theory of trade, the main reason for international trade lies in differences in factor endowments of different countries. The theory assumes two factors of production labour and capital. Some countries are endowed with abundance of labour while some countries have abundance of capital. Those countries which are capital abundant will export capital intensive goods while labour abundant countries will export labour intensive goods.

Globalization, Privatization and liberalization it seems, have today come the three power houses of change in the modern world. Never the before in the world’s history have the different economies come together to give a practical shape to the concept of a “global village”.

Globalization has become today’s buzzword. It has also become a battle ground for two radically opposed groups. There are the anti-globalists, who fear globalization and stress only its downside, seeking therefore powerful intervention aimed at taming, if not (unwittingly) crippling. Then there are the “globalist” who celebrate globalization instead, emphasize its upside, while seeking only to ensure that few rough be handled through appropriate policies that serve to make globalization yet more attractive. Globalization describes the political, economic and cultural atmosphere of today. Globalization is one of the most charged issues of the day. It is
everywhere in public discourse-in, TV sound bites and slongans on playcards, in web-sides and learned journals, in parliameants, corporate board rooms and labor meeting halls. Extern opponents charge it with impoverishing the word’s poor, enriching the rich and devastating environment, while Fairview supporters see it as a high-speed elevator to universal pear and prosperity.

Broadly speaking the term ‘Globalization’ means integration of economies and societies through of information, ideas, technologies, goods, services, capital, finance and people. Cross border integration can have **Several dimensions**: cultural, social, political and economic. The fear of “Cultural hegemony” hants many. Limiting over selves to economic integration, one can see this happen through the three channels of (A) trade in goods and services. (B) movement of capital and (C) Flow of finance. Besides, there is also the channel through movement of people. The term globalization as such denotes adjustment of national economy with of the world economy. It is conversion of a national market into international one which facilitates. The international mobility of factors of production or commodities thereby taking the best benefit of the factors of production. In other words, it may describe as the integration of national economy with that of global economy. The concept of globalization is based on the market size, market, hypotheses: when it expands the size of the market, it yields to the economy of large scale production. Beside this, it ensures almost utilization of resources for which we have been making Endeavour’s so far.

The term globalization is often considered from different angles and these different perceptions reflect the difference dimension of globalization. Definitions of globalization from three angles: economic, sociological and corporate.
1.5) ECONOMIC DEFINITION:

“Globalization may be define as the process of integration of Economies across the world through cross-border flow of factors, products and information”.

1.5.1) SOCIOLOGICAL DEFINITION:

“Globalization has important sociological dimensions. Increasing social interaction across the globe is an important feature of globalization. The term global village epitomizes the sociological definition of globalization. A village can not a closely-knit community, characterized by a great amount of communication and intereraction between the members of the community and a considerable extent of commonality in the tastes preferences, needs, view etc.

1.5.2) CORPORATE DEFINITION:

“Form a corporate perspective globalization in its true senses is a way of corporate life necessitated, facilitated and nourished by the transnationlisation of the world economy and developed by corporate strategies. Different scholars have given a variety of definitions of the globalization.

According to Malcolm S. Adiseshiah “globalization of the economy may be defined as the global dimension of the evolving world economy”. This term covers all facts of life- economic, political, social & cultura.
World Bank defines “globalization as: gradual abolishment of import control over all items including rate of import duty and privatizing public sector units”.  

According to Prof. C.T.Kuriean, “The global economy must be viewed as a collection of heterogeneous units with different agendas interacting with one on other in a variety of ways and thus changing character over time”. Globalization today is far removed from similar processes, which prevailed in the past. It has been a qualitative change for society, economy, institution and world order which has generated a three-tier structure of society consisting of the elites, the well-to-do middle class and the marginalized. The divide cuts across nations, while re-structuring the role, the power, as well as authority of nation states in their new incarnation.

1.6 HISTORICAL DEVELOPMENT OF GLOBALIZATION:

Globalization has been a historical process with ebbs and flows. During the pre-world war I period of 1870 to 1914, there was rapid integration of the economic in terms of trade flows, movement of capital and migration of people. The growth of globalization was mainly led by the technological forces in the fields of transport and communication. There were less barriers to flows of trade and people cross the graphical boundaries indeed there were no passports and visa requirements and very few non-tariff barriers and restrictions on funds flows. The pace of globalization however, decelerated between the first and the Second World War. The inter-war period witnessed the erection of various barriers to restrict free movement of goods and services. After World War II all the leading countries resolved not to repeat the mistakes they had committed previously by opting for isolation.
Although after 1945, there was a drive to increased integration; it took a long time to reach the pre-world war level. Most of the developing countries which gained independence from the colonial rule in the immediate post-world war II period followed an import substitution industrialization regime.

The soviet Bloc countries were also shielded from the process of global economic integration. However times have changed. In the last two decades, the process of globalization has processed with greater vigour. The former soviet Bloc countries are getting integrated with the global economy. More and more developing countries are turning toward outward-oriented policy of growth. Yet, studies point out that trade and capital market are no more globalised today than they were at the end of the 19th century. Nevertheless, there are more concerns about globalization now than before because of the nature and speed of transformation. What is striking in the current episode is not only the rapid pace but also the enormous impact of new information technologies on market integration, efficiency and industrial organization.¹³

1.7 GLOBALIZATION AND INTERNATIONAL TRADE:

Since early 1990s world economies have witnessed a paradigm shift towards market oriented economic policies and a careful dismantling of obstacles in international trade. This has helped the smaller, emerging economic gain access to world markets, modern technologies and collaborations. This has also given them a window to the developing world and helped them to understand the significant role of globalization as an instrument, which could be utilised not just to achieve economic efficiency, but eradicate poverty.
Globalization has also resulted in the creation of a new business framework. More change can be expected in the business scenario specification in terms of openness, adaptiveness and responsiveness. The most important dimensions of economic globalization are:

(A) Breaking down of national barriers
(B) International spread of trade, financial and production activities and
(C) Growing power of transnational corporations and international financial institutions in these processes.

While economic globalization is a very uneven process with increased trade and investment being focused in a few countries almost all countries are greatly affected by this process.

The issue that concerns developing countries is how one can ensure greater participation of the weaker economies in the global process and what needs to be done to ensure that the course of globalization benefits more people in more countries. The uneven and unequal nature of the present globalization benefits more people in more countries. The uneven and unequal nature of the present globalization is manifested in the fast growing gap between the rich and poor people of the world and between developed and developing countries; and by the large difference among nations in the distribution of gains and losses.

On the positive side, globalization has compelled developing countries to improve overall economic management, and make their economies efficient. To get a share of global capital and technology developing countries have to upgrade their social and economic institutions through administrative, legislative and legal reforms. The quality of governance has to improve to
encourage productivity and efficiency.\textsuperscript{14} Globalization is an irreversible trade and developing countries should, therefore, carefully consider how to restructure the world trading system to accommodate developing economies. By enabling them to benefit from globalization while minimizing external shocks. The world trade organization (WTO) should work more effectively; through an enlargement of waiver clauses while recognize the weaker position of developing countries.

Despite distortions and aberrations, globalization is a reality. Development in information and communication technologies is unifying markets and people, cutting across barriers of space and time. At the end of the day, one has to understand and accept that globalization is the stratagem for the new millennium. Every country (developed and developing) has to accept this and formulate their economies around it.\textsuperscript{15}

1.8 INDIA-CHINA ECONOMIC & POLITICAL RELATIONS:

If we examine the history of India-china relations, we notice that the relationship has gone through a tortuous process. Initially there was friendship, but it was followed by conformation. The two countries become engaged in an armed around conflict the memory of which even after more than four decades is yet to be completely wiped out. Conformation was followed by détente which in turn was followed by normalization of relations. Ambassadorial relations were restored in 1976. From 1981 the two countries have been engaged in border talks. But in spite of protracted negotiations which have been going on for more than a quarter century, India and china have not been able to settle the problem. \textsuperscript{16} Some progress may have been
made in these negotiations, but a resolution of the problem still seems quite far off.

India and China are two of the world’s oldest civilizations with a history of close contacts. Buddhism arrived in China from India. Two Indian Buddhist monks—Kasyapa Matanga and Dharmaratna—went to China in 65 A.D. The golden period of Buddhist influence in China lasted 8 centuries from the 5th to 12th century A.D. Tang dynasty in China played an important role in promotion of Buddhism. Among the well-known Chinese scholars who visited India was Fa Hien (early part of 5th century A.D.), Xuan Sang (633 to 643 A.D.) and Yi Aing (673-695). However, the first travelers from China to India were not Buddhist scholars. They were traders who came from south western China to northern India. The Chinese travelers introduced silk, vermilion and items made of China’s bamboo.

For almost a decade few slogans were more popular or more uncritically accepted in India than the one which described the Indians and the Chinese as brother—Hindi Chini Bhai Bhai. In fact, it was more than a mere slogan; constant reiteration had almost turned it into an article of national faith. Leaders, platform speakers and columnists all swore by the “age-old”, “Historic” and “eternal” friendship between India and China.

China and India established diplomatic relations on April 1, 1950. India was the second country to establish diplomatic relation with China among the non-socialist countries. In 1954, Chinese premier Chou Enlai and Indian prime minister Pandit Jawaharlal Nehru exchanged visit and jointly initiated the famous five principles of peaceful coexistence. Indian Prime Minister Rajiv Gandhi’s visit to China in December 1988 facilitated a warming trend in
relations. The two sides issued a joint statement that stressed the need to restore friendly relations on the basis of ‘Panchsheel’ and noted the importance of the first visit by an Indian prime minister to China since Nehru’s 1954 visit. India-China economy agreed to broaden bilateral ties in various areas, working to active a “Fair and reasonable settlement while seeking a mutually “acceptable solution” to the border dispute.”

C.V. Ranganathan, a former Indian Ambassador to China, aptly remarked, “It was a symbolic, yet tangible signal at the highest political level that India-China relations would no longer be mired in the past and that the two governments would be forward looking and impart a momentum to an all round development of relations”. In 1991, Chinese premier Li Peng visited India and then in 1993 Prime Minister Narasimha Rao went to the people’s Republic of China. Chinese president Jiang Zemin’s visit to India in 1996 was another landmark event in China-India relations. It was the First visit by Chinese Head diplomatic ties. During this visit the two countries agreed to build a constructive and co-operative relationship oriented to the twenty-First century on the basis of the Five principles of peaceful co-existence.

India-China bilateral trade was initiated in 1951. In 1954, the government of the two nations endorsed a trade agreement, which is renewed in August 1984. Seven Yearly Trading Agreements have been signed in sequence since 1986. The bilateral trade between China and India has been developing in a rapid pull with trade volume increasing continuously and variety of exchanging commodities gradually expanding. Since 1999 interactions between the economic and trade circles of China and India have kept expanding, and the bilateral trade volume has grown even faster. In 1991, the total trade volume between China and India registered only US$265
Millions, whereas in 1999 it rose to US$1988 Million. In 2000, it shot up to US$ 2910 million (an increase of 46.4 per cent) of the previous year, of which China’s exports amounted to US$ 1560 million and imports to US $ 1350 million (an increase of 34.3 percent and 63.9 per cent) respectively. India has become China’s largest trading partner in south Asia.

India-China trade relations are the most important part of bilateral relations between temporary declines in the influx of Chinese imports in the Indian market. Trade between China and India are growing so quickly that China is expected to supplant. India’s exports in 1990-90 were US $ 18 million and in the year 2003-04 the exports reached to 3 billion US $. India imports China to 35 million were USD which gone to 4 billion USD in the thirteen years. Indian exports to China declined during the years 2008-2009 and china’s exports declined during the year 2009-10. However total trade between India and China last three years has been increasing gradually. The details about bilateral trade between India and China during the last three years are as follows.

**Table no.1.1**

**India-China trade for period 2007-08 to 2009-10**

(Value in US dollars in million)

<table>
<thead>
<tr>
<th>year</th>
<th>Exports to China</th>
<th>Imports from China</th>
<th>Total trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>10871.34</td>
<td>27146.41</td>
<td>38017.75</td>
</tr>
<tr>
<td>2008-09</td>
<td>9353.5</td>
<td>32497.02</td>
<td>41850.52</td>
</tr>
<tr>
<td>2009-10</td>
<td>11617.88</td>
<td>30824.04</td>
<td>42441.90</td>
</tr>
</tbody>
</table>


Exports are the main thrust of the India’s trade policy. It is a core sector in the economic growth of the country. Here the focus remains on inducing foreign investor to set up export oriented units in India. Today the
challenge for India is to achieve to share in world trade commensurate with its size. India has made much progress in terms of the share in world trade. While India’s share in world export was higher than those of China till 1954, they started lagging thereafter. In 1990, the share in world exports of china and India was 1.8 percent and 1.3 percent respectively

1.9 Objectives of the research study:

The following objectives were set for the research study.

1] To examine trade policies of India and China.

2] To examine the nature, composition, trends and fluctuations of foreign trade between India and China.

3] To study the features of India and China trade relationship.

4] To examine the trends in exports, imports and balance of payments between India-China.

5] To examine India-China’s trade relations, opportunities and challenges.

1.10 Hypotheses of the study:

The following were the hypotheses of the study.

1] Trade relations are growing after globalization between India and China.

2] During the globalization era India’s imports from China rapidly grown than the exports to China.

3] After 1990 India and China have made reforms in their foreign trade policies.
1.11 Research methodology:

The adoption of sound methodology in any research work is more important to achieve the objectives of the study.

The present study was based on the secondary data. The main sources of data were Government publications, such as Director General of commercial and statistics, Indian Institute of foreign trade, Central statistical organization, Ministry of Information and their publications, various International trade related reports etc.

The statistical tools such as arithmetic mean, Averages, regression analysis, diagrams were used for the purpose of analyses and presentation of the secondary data.

1.12 Significance of the study:

There is increasing trend of imports and exports among India and China after globalization. These two economies are rapidly growing economies in the world. These two countries is also having cultural, historical, political background. There is tremendous potential related to international trade between these two countries. Through bilateral agreements and trade negotiation these two countries can come together and establish themselves as good partners at the international trade level. There is tremendous scope for improving trade relations between India and China. This is an challenging issue to be studied so I have selected this topic for research considering its significance.
1.13 Chapter scheme:

The present study has been divided into six chapters. These chapters are as follows-

1) INTRODUCTION:

In this chapter, the meaning of the concepts related to the international trade, globalization, India-China trade relations, objectives, hypotheses, scope of the study, research methodology and the chapter scheme has been given.

II) REVIEW OF LITERATURE:

The review of literature related to the research study has been taken in this chapter.

III) INDIA-CHINA FOREIGN TRADE AFTER GLOBIZATION:

COMPOSITION AND TRENDS:

The analysis about composition and trends in the trade relations between India and China has been made in this Chapter.

IV) INDIA-CHINA FOREIGN TRADE POLICY AND ITS TRADE RELATIONS:

In this chapter the review about India-China foreign policy and its trade relations has been taken.

V) GLOBAL ECONOMIC OPPORTUNITIES AND CHALLENGES FOR INDIA-CHINA:
The analysis related to the global economic opportunities and challenges for India-China trade relations has been considered in this chapter.

VI) CONCLUSION AND SUGGESTIONS:

This chapter summarizes conclusions and suggestions related to the research study.

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