

# A Comparative Study of Indo-China Trade with Special Reference to (Chinese Toys in Indian Market)

Sadiya Siddiqui  
Research Scholar  
Integral University  
Lucknow

Prof. (Dr.) Aftab Alam  
Faculty of Management and Research  
Chairman  
Integral University  
Lucknow

**Abstract:** India and China, the two Asian giants are changing the face of the global economy. World Bank estimates they are the fastest growing economies in the world. They play a dominant role in today's world economic affairs with a GDP growth rate of 7.4% in India and 6.3% in China in the year 2016.

Bilateral trade relation with China, the world's two most populous countries, has expanded substantially in recent years. They are the fastest growing economies in Asia as well as in the world scenario. They have achieved tremendous progress in multi-sector co-operation. China has gained a large footprint in international trade and investment flows: today it is the world largest exporting nation while India's export has grown over the years. However challenges still exist in the bilateral relationship. (Dr. Joginder Singh, 2014).

This paper is an attempt to examine and compare bilateral trade between these two economies, compares the export and import performances and the nature of product differentiation between these two labour abundant nations. This paper also focussed on the Indian toy manufacturing industries, the problem and the challenges faced by the these industries from the products ( toys and games) imported from China in abundance.

**Keywords-** *Bilateral Trade, India-China trade, GDP, Chinese toys*

## Objective

- To find out trading pattern between India and China from 2005-2016.
- To examine the percentage of Chinese electronic toys in India.
- To draw suggestion based on findings.

## Methodology

The study is purely based on secondary data and it is collected from RBI bulletin, economic survey, journals, articles, paper etc.

**Tools Applied:** Time series(Trend analysis)

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## I. INTRODUCTION

China-India relations also called Sino-Indian relations or Indo-China relations refer to the bilateral relationship between People Republic of China and the Republic Of India. The history of bilateral relation between India and China dates back in the year 1950s. India became the first non-socialist bloc country to establish diplomatic relations with People Republic of China. In 1954 Prime Minister Jawaharlal Nehru visited China to strengthen the ties between the two nations. But the year 1962 gave a serious setback to their ties on the outbreak of war (border disputes) between the two nations.

In the year 1984 India and China entered into Trade Agreement which provided them with a status of Most Favoured Nation (MFN). Since 1991 reforms the engagement has evolved more in terms of economic aspects. It was in 1992 when both India and China involved in a full-fledged

bilateral Trade Relations. The year 1994 which marked the beginning in India and China economic relations and in the same year they both entered into an agreement which avoided double taxation between two nations. The government of both the countries also took initiatives to become partners in Associations of South East Asian Nations (ASEAN).

China joining WTO in the year 2001 proved to be a landmark event in the global economy. This event has completely changed its economic structure. Most importantly China joining WTO led to a positive shift in its trading environment its trading relation with most of its trading partner changed especially with that of India. India and China bilateral trade sets a new record in 2001 with trade volume reaching \$3.6 billion (according to the statistics revealed by China's general administration of customs).

### **Overview of India-China Toy Industry**

The scenario of the toy Industry in India has changed substantially after the advent of globalization and liberalization in the nineties. With the lowering of tariff barriers, melting of international trade boundaries, the domestic market is now open and the Indian industries are facing the challenge of competition from distributors and multinational competitors who import cheaper products mainly from China.

According to industry statistics, the toy sector is estimated to be growing at 8 per cent, with the organized sector growing at 18 per cent, against a negative growth in the unorganized sector. Per capita spending on toys in India is very low and there is a good potential for the domestic market to grow. The largest share of this market goes to electronic toys segment, followed by plastic Board games & puzzles and stuffed toys. The dominant player in this market is China, which accounts for 52% of the total world production.

Like many other industries, the Chinese competition is a major issue for domestic toy manufacturers, which has resulted in a chaotic market condition. With international quality toys available in India, the average spending on toys has increased substantially and this process is supported by an increase in disposable income at the customer end.

### **II. Literature Review**

Radha Raghuramapatrani,(2013), "*Indo-China Trade Potential : An Analysis of Revealed Comparative Advantage*". the author analyse trends and patterns of growth, trade intensity and the commodities traded between India and China and concluded that various constraints and barriers need to be relaxed to boost up the trade between the two nations. Nilanja Kumari (2014) , "*India's Foreign Trade with China with Special Reference to Agricultural Commodities.*" In this paper the author made an attempt to analyse the trade relation and trade intensity from pre-to-post liberalisation period between the two countries and concluded that open regionalism and trade cooperation should be encouraged to sustain rising trends of trade between the two nations. Dr.Joginder Singh, Santpal (2014), "*A Comparative Study of India China Bilateral Trade*". The author focuses on trade relation, export-import performance from ( 2006-07 to 2012-13) and composition of commodities traded between the two countries.EvelyS.Devadason,(2016), "*Global Interaction of*

*China and India : Divergent Paths of Trade*". In this paper the author makes an attempt to examine the core factors, integration mode between and explores the global position of India and China in merchandise trade. He came to a conclusion and suggested that differences in the structural and demand of China and India dictate the divergence in the profile of their trade determinants. Enrico, Marelli & Marcello Signorelli,(2011) "China and India, Openness, Trade and Effects on Economic Growth". This author identifies economic growth performance, degree of openness, flow of FDI, and the top most commodities traded between India and China.Kalpna Agrawal, Dhanesh Purohit" Import of Chinese Toys in Indian Market: An Empirical Analysis"Rajeev Kumar Panda et al (2014)"*Impact of Country of Origin on Brand Equity*" This paper highlights the impact of country of origin on brand equity that states a country having a favourable image in the minds of the consumers tend to have a positive impact on brands of the same country. The consumers are generally aware and attracted towards the brand which are highly advertised. Laiq Mohammad Khan et al,(2012) "*A Comparative Study of Consumer Perception of Product Quality: Chinese versus Non-Chinese Products*"This paper compare the Chinese vs. on-Chinese product in terms of quality and price. The results state that Chinese products are perceived price effective by consumers but the quality factor is lacking in it. The author suggested that for the Chinese to maintain its position in the market it need to strengthen its product quality.

### **Trade Relation between India and China**

Both India and China are the growing Asian tigers. India is among the top most trading partner of China. While, China is largest trading partner of India. The introduction of Economic reform in both the nation led to the development of these two Asian economies. But the Growth in India was low Despite growing and economic ties, several issues continue to strain Indo-China relation with the increase of bilateral ties between the two nation. India faces huge trade deficit in favour of China. it trade deficit with China jump to( \$53 billion) in 2015-16(as per *ECONOMIC TIMES*). Its trade deficit is expanding because it has limited exports to China. In other words Chinese have been making inroads to the Indian market at a much quicker pace than any of its export destination (*Radha Raghuramapatrani, Volume 4, Issue 1*)

# **Comparison of Export and Import of India to China from 2005-06 to 2015-16**

**Table 1** (value in Rs crores)

Sr.No.	Years	Export	Import	Balance of Trade
1	2005-2006	29,924.91	48,116.65	-18191.74
2	2006-2007	37,529.78	79,008.61	-41478.83
3	2007-2008	43,597.42	1,09,116.07	-65518.65
4	2008-2009	42,661.33	1,47,605.60	-104,944.27
5	2009-2010	54,713.93	1,46,048.61	-91,334.68
6	2010-2011	64,315.14	1,98,079.08	-133763.94
7	2011-2012	87,470.82	2,65,465.62	-177994.8
8	2012-2013	73,529.56	2,84,384.59	-210855.03
9	2013-2014	90,561.09	3,09,234.96	-218673.87
10	2014-2015	73,030.43	3,69,565.36	-296534.93
11	2015-2016	58,932.74	4,04,043.38	-345110.64

Source: (<http://commerce.nic.in/eidb/iecnttopn.asp> accessed on February 24,2017)

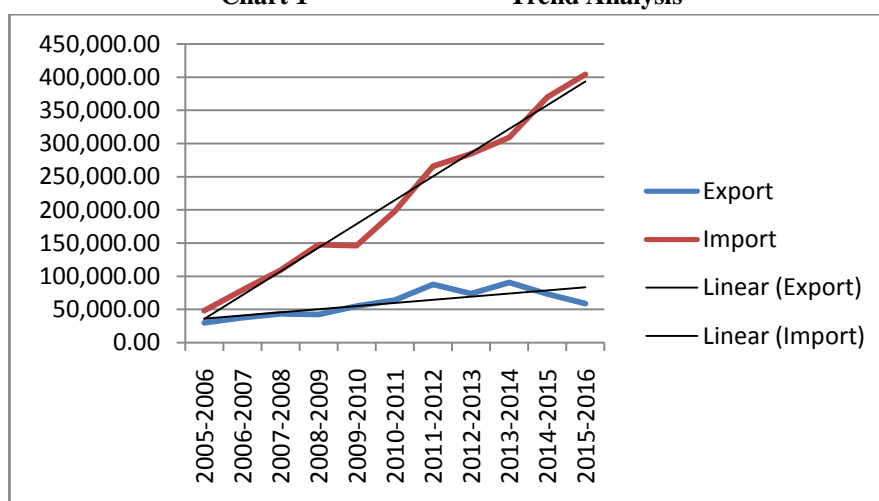
**Table 1** explains India's total export and import and trade deficit with China from 2005-06 to 2015-16 . The total export of India to China increased Rs 29,924.91cr from 2005-06 to Rs 87,470.82cr in 2012-13 except 2008-09 and 2012-13 where it was reduced by Rs 936.09 cr and 13,941.26 cr in comparison to the previous year. India export to China showed a maximum growth in the year 2013-14 Rs. (90561.09)cr at all-time high. The year 2014-15 and 2015-16 India's export decline by Rs.(17,530.66)cr in 2014-15, 14097.69cr in 2015-16 .The growth of import from China has been more robust against export. The total import increased from Rs (48116.65)cr in 2005-06 to Rs ( 4,04,043.38) cr in 2015-16.Imports from China shows

increasing trend over a period. Thus, rising import lead to huge trade deficit balance with China.

The Balance of Trade showed huge deficit during all the 12 years of study period in absolute terms. It is increasing continuously except 2009-10 which is a huge matter of concern for Indian government. Hence, this table reveal that China has always been the most important destination for India's import the Balance of trade with China was unfavourable due to more increase in import to export business. So, India should try to increase their export in China Market and decrease import to obtain favourable balance of trade in future.

## **EXPORT**

**Chart 1** **Trend Analysis**



## **Graphical presentation of trading pattern between India and China**

Chart 1 clearly shows the India's export to and import from China. It depicts the trend of both export and import is going upward. But the trend line of import is growing at much

faster pace than India's export. Though both the economies followed somewhat same strategies to economic reforms .opening up of trade , with entering the decade later(1991), and China(1979). Today, China has emerged as the second largest import market after US ( WTO report) and third

largest recipient of FDI in the world. One of the reason that China leads India is that Chinese government laid emphasis on manufacturing sector while India seemed to skipped the

industrialisation phase and directly transitioned from agriculture to service sector.

### Analysis of GDP trend in India vs. China

Chart 2

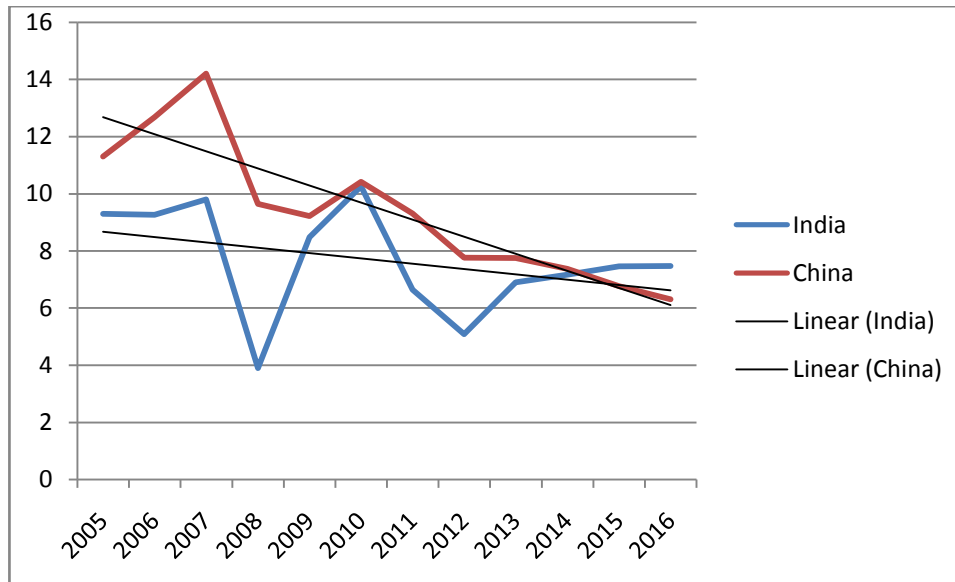


Chart 2 shows the trend of India and China GDP. India GDP and China GDP are likely to grow in their own ways. In the year 2005 the GDP of China was 17.7% times higher than India. From 2005-2007 China GDP grew at much faster rate than India, where it reached to 9.80% as compared to India which was 14.20% in 2007. The global financial crisis of 2008 has resulted in the decline in both the country's GDP where India and China GDP gone down to 3.89% & 9.64%. In the year 2010 both countries GDP jumped to 10.41% & 10.26%, respectively in 2010. But it was expected that it will remain more or less the same in the forthcoming years. Thereafter, in three consecutive years from 2011-2013 China's GDP gone down to (10.41% - 7.76%) and shows declining trend as against India. India outpaced China as the world fastest growing economy in 2015. Where it GDP surpass China (6.76%) during the study period.

According to the IMF it happened in 1981, 1989, 1990 and 1999, and 2015 was the first instance in this millennium. Again in the year 2016 before Demonetisation move in India. Indian economy expanded at (7.47%), outpacing China (6.30%) for the second year in a row. India performance has improved from past. Overall there is a declining trend in the GDP of China as compared to India. Economic reforms and globalization played an important role in attaining growth in both the economies. The growth in GDP of China has resulted from the upward rise in the manufacturing sector and has become one of the largest exporters in the world. The growth in India is due to the various structural and policy changes brought up by the government.

### Toys Industry in India

Indian toy industry is facing tough competition with Chinese products. As per (Export/Import Data) huge amount of goods are imported from China. Indian Markets are being flooded with cheap Chinese products which is in a way killing domestic manufacturers. Most of the small scale industries have been closed and some of them are on the verge of closing down. A study by ASSOCHAM state that only 20% of the Indian market is served by domestic manufacturers and rest by imports of toys from different countries like US, China and Italy. The Chinese are offering toys at a very low prices and large varieties to choose from. Price being the important aspect in product evaluation and China being a low cost producer gets this advantage and this is why people don't hesitate to buy Chinese products and maximum demand of Indian toys are met by China's import. Guangdong Alpha Animation & Culture Company is an important domestic player in China which represents 3.2% of the Chinese market of traditional toys and games. In addition, it also exports toys and games to UK and number of regional and neighbouring countries.

### Electronic toys and games

Research indicates that electronic toys and games are the most preferred and popular among kids having multiple features over traditional ones. Games like iPads, phones, videogames etc, they retain child's interest and don't get bored and they spend long hours playing with them. These games are not only popular among kids but also but also

among teenagers and adults. This is one of the reason, why electronic items are one of the biggest item that India import from different parts of the world.

### India's Market potential

The Indian toy industry consists of large number of manufacturers and few leading companies. It is mainly based on small and cottage industries, around 4000 manufacturers (KP Sunny et al 2012). This industry is basically divided into two main categories "organised" and "unorganised" segment. It is the organised market that attract large international toy manufacturer like Hot Wheels, Disney, Lego, Hasbro, Fun School etc. While, the unorganised market gets supplies from wholesalers, who supplies either from domestic manufacturers or Chinese sources. It is estimated at about 400 million US dollars and had generated only 0.5 per cent of global market. However, a continuing growth promises a rapid rise this sector, the increasing income of the middle class lead to increasing demand for quality and luxury goods.

The toy manufacturer is mostly located in Mumbai, Punjab, Bangalore and Haryana. Among the domestic manufacturers 58% still focused on unbranded and cheap toys with no safety standards that attract price sensitive consumers.

### Focus on Quality

Indian consumers pay more attention to high quality products and branded articles. Although price being an important factor in the product evaluation, its importance becomes less significant in case branded toys that promise quality.

### Size of the Industry

The size of the Indian toy Industry's is approximately 250 crores, where 90% constitutes of unorganised sector, and remaining 10% constitutes of organised sector.

India has ranked 9<sup>th</sup> while, US ranked 1<sup>st</sup> for the toy industry in the world. As per the toy Association of India an average Indian kid at present spends Rs 250 on a toy, while US kid spends US\$281.

### Employment Opportunities

With, an increasing population and growing demand, Indian companies have great opportunities to produce variety of toys for the children in the country. They also have tremendous potential to create employment and speed up the economic development of the country.

### Global Toy Market

Global toy market report(NPD/ICTI) provide analysis to help toy companies to take the advantage of the opportunity available at a global level. As per the reports more than 70% of world toys are manufactured in China. They are considered as one of the most important imports from China. The percentage of the worldwide market for toys are as follows:

- America-41%
- Europe-29%
- Asia/Ocenia-30%
- Africa-1%

With changing time, the market is influenced by changing consumer taste and preferences , children opting more sophisticated video games and electronic toys. Hence, in order to succeed in this competitive era toys and game manufacturer are required to come up with new products on regular basis, and focus on innovation and technological advancements,

**Table 3 World Toy Market- Top 10 Countries in the World in 2015**

Countries	Country share in World Toy Market	Spending per Kid	Kid Population	Market 15 years old(%)
United States	26.3	284	62.4	19
Japan	7.5	312	16.9	16
China	6.7	23	238.3	2
United Kingdom	5.4	365	10.8	12
France	4.9	307	12.0	10
Germany	4.0	247	11.0	19
Brazil	3.9	59	53.3	4
Australia	2.8	86	4.0	17
India	2.7	6	352.8	0
Canada	2.5	317	5.4	17

Source: (International Council of Toy Industry access on 5 March 2017)

Table 3 presents the detail regarding the top 10 major Toy countries in the world along with the country share, Kid population, spending per kid etc. It may be noted that USA is the top toy market in the world with 26.3% total share in the world. While China rank third largest toy market with 6.7% shares, against India which rank ninth with 2.7% share among ten major top toy market in the world. In case of spending per kid Australia reported highest spending at US\$ 486 while it is only US\$23 in China and US \$6 in India. Among the nations India reported highest

Number of kid population at 352.8 million. This also indicates that there is tremendous market potential for toys in India.

#### Trading of toy products between India and China

Although China rank second in Global Toy market and excel in toy manufacturing as compared to India. Still some exports take place from India to China

**Table 4** **Export of Toys to China** (Value in crores)

Sno.	HS code	Commodity	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	9503	Puzzles of all kinds	.25	1.6	3.4	.09	1.2	32.8
2	9504	Video game	.05	.12	.38	.60	.30	.45
3	9505	Festive and other entertainment article	.03	4.7	.18	.24	.44	1.0

Source –(Department of Commerce, Export Import Data Bank, GOI) access on 27 February 2017

Table 4 provide the details of toys exported to China from India from the period 2010-11 to 2015-16 where it can be very well seen that import of Puzzles(9503), Video game(9504) and Festive and other entertainment article(9505) items have been considerable increased during the study period. It clearly shows that performance of India in this sector is not very satisfactory. The export of Puzzles

has shown increasing trend during six years of study it was 0.25 crores in 2010-11 and reached to Rs 32.8 crores in 2015-16. The export of Video game have also increased it was highest in 2013-14 Rs0.60 crores but in 2014-15 its value decline and reached to Rs 0.30 crores. In 2015-16 it showed an improvement in comparison to the previous year.

**Chart 4**

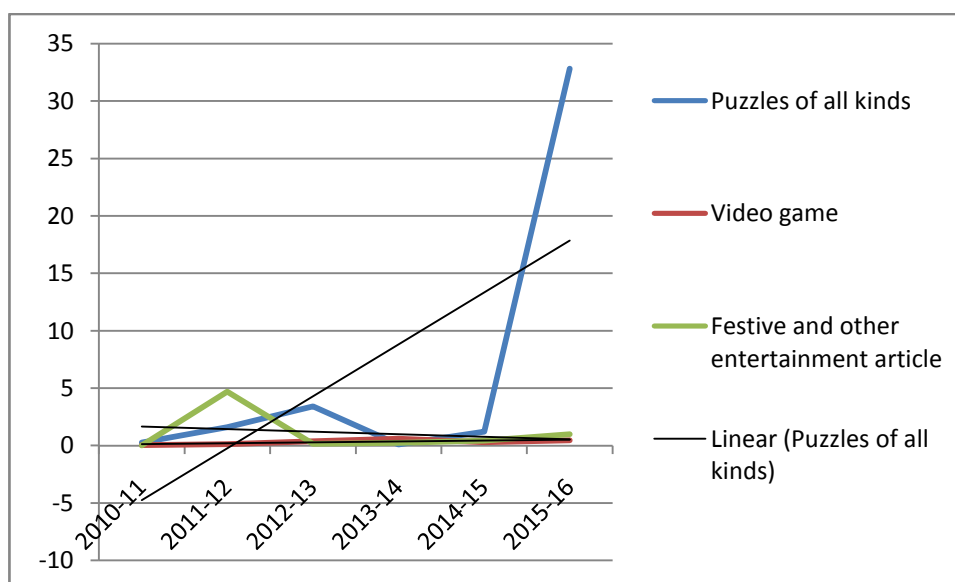


Chart 4 shows the trend of the toy products and games that are exported from India to China.(9503) Puzzles of all kind shows a upward trend where it was (1.2 crores) in 2014-

2015 and reaches to (32.8 crores) in 2015-16 and The trend line of both video game(9504) and Festive and other entertainment article(9505) shows declining trend.



**Table 5** **Import of Toys from China** (Value in crores)

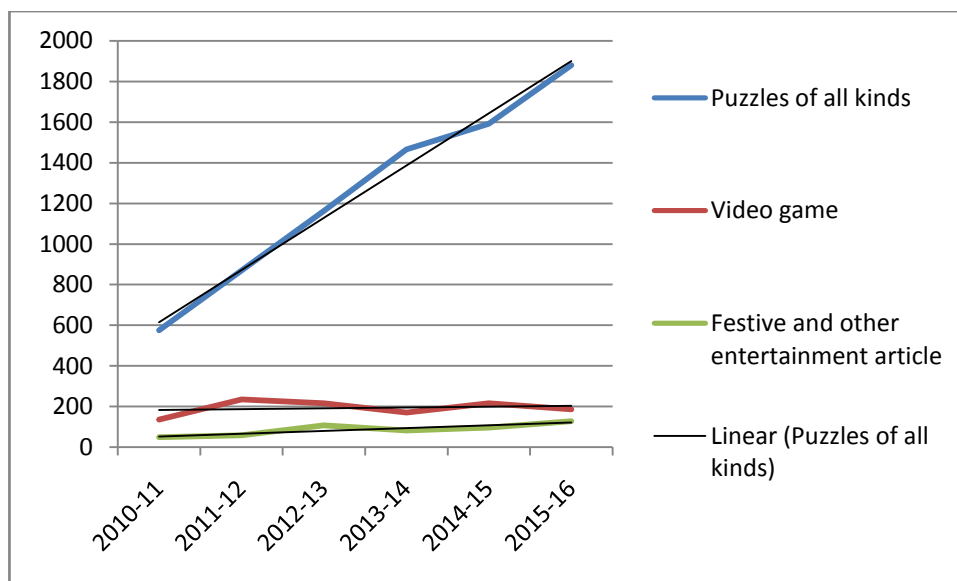
Sno.	HS code	Commodity	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	9503	Puzzles of all kinds	574.7	869.0	1162.5	1465.2	1592.1	1879.9
2	9504	Video game	135.4	233.8	215.4	170.3	215.8	185.5
3	9505	Festive and other entertainment article	48.0	56.9	107.1	81.6	95.9	127.3

Source(Department of Commerce, Export Import Data Bank, GOI) access on 27 February 2017

Table 5 provide the details of toys imported from China to India from the period 2010-11 to 2015-16 where it can be very well seen that import of Puzzles (9503), Video game (9504) and Festive and other entertainment article (9505) items have been considerable increased during the study period. The demand for toys have undergone a major change from 1996-2015 because the concept of “**education**” toys have emerged. Today toys no longer serve the purpose of

entertainment for children but also used as a skill development of a child. And Chinese toys manufacturer are making use of this concept and providing wide variety of toys at much affordable price . The inexpensive Chinese toys have replaced branded Indian toys. It has been estimated that approx. 80% of toy market have been overtaken by Chinese manufacturer.

**Chart 5**



The trend of Puzzles of all kind(9503) has been considerably increased over the years and its import was the maximum in the year 2016 reaching to (1879.9 crores Festive and other entertainment article). While, the trend pattern of video game (9504) showed a constant growth thought the period. There is a slight increase in the Festive and other entertainment article(9505) showing an upward trend from 2010-11 to 2015-16.

### III. Conclusion drawn

The Sino-Indian relation became more poignant when China became India’s largest trading partner in 2008. Introduction

of economic reforms and liberalisation rewarded both the nation in integrating with the world economy and attaining higher growth. Somehow, China is in a better position to utilise its resources and grew at much faster rate than India. India’s export is fairly low against its import which resulted into a huge trade deficit with China. Indian market is flooded with Chinese product especially with Chinese toys which is giving tough competition to our domestic producer and manufacturer of Indian toy industry. India’s increasing import, with respect to export shows that India’ global competitiveness with respect to toy products are going down year after year.

If we compare the development process of the two economies. The development of China started from( Agriculture -Industry-Service sector) against India's development which is only from( Agriculture-Service sector) , the lacking factor in India's development is Industrial sector which is a major cause of concern . Government need to invest in manufacturing industries and infrastructure facilities for the up lifment of the economy that will result into attracting more FDI which is one way to increase its export

Indian manufacturers need to understand, the changing consumer taste and preferences and should come up with new products on regular basis, as children are more accustomed to changing toys and games more frequently. Thus more emphasis should be laid on innovation and technological advancements in order to give cutthroat competition to inexpensive Chinese toys.

Secondly. it need to tap into diverse sectors of Chinese markets ranging from labour intensive to various technology intensive products. Recently in 2015 India surpass China's GDP in 2015. At this stage Indo-China bilateral trade is the most important economic relationship in the world and if they work together to unite and concentrate on their comparative advantages these two can become major powerful economies in the world.

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