Global Interactions of China and India: Divergent Paths of Trade?

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Abstract:
This paper explores the global positions of China and India in merchandise trade. It first compares the integration models of China and India and, thereafter, examines the core factors that drive the trading relationships. With respect to their global trading partners, there are considerable differences in the influence of economic drivers of trade for China and India. Combined larger markets, similar consumer preferences, similar factor endowments, and linguistic links enhance global exports of China. Alternatively, smaller market size, discrepancy in consumer demands, dissimilar factor endowments, and combined stocks of foreign direct investments drive India's global trade. The findings suggest that differences in the structure and demand of China vis-a-vis India dictate the divergence in the profile of their trade determinants. Such divergence in trade drivers, however, dissipates when taking into account Chinese and Indian partnerships on a regional basis – with East Asia, MENA, Latin America, EU, and Africa.

Similar factor endowments are found to be consistently important for establishing regional partnerships for China and India, while export links between China and India with Latin America seem to be growing along the traditional view of specialization, based on comparative advantage. By and large, similar patterns in the export determinants profile of trade partnerships are noted between China and India with Africa, relative to the other regions. Whilst the diverging paths of global trade between both China and India have been clearly understood, there is a plausibility of some converging stylized facts in the profile of their trade partnerships on a regional front, following common interests in their regional pursuits.

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