Internationalisation and Trade Policy of China: Changing Perspectives and Lessons for India

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Abstract

China’s re-entry into the world economy after the installation of the Communist Government in 1949 began very slowly. By 1980, China accounted for only 0.94% of world trade and was the world’s 32nd largest exporting country. Its average inflow of private Foreign Direct Investment (FDI) was US$595 million. However, by 2001 China accounted for almost 5% of world trade with a total trade of US$505 billion and is now host to total FDI flow of US$320 billion, making it the third largest recipient of FDI in the world and first in the developing world.

India was a late starter in its economic reforms and restructuring until it was triggered by a BOP crisis in 1991. Since then, a series of measures have been introduced for macro-stabilization and trade policy reforms in India. Though some improvement in growth and spread of foreign trade has been achieved in India in the last ten years, it is incomparable to the gigantic growth of China’s foreign trade in the similar period.

Various studies attribute three main causes to China’s rapid trade expansion in the last two decades: market oriented economic reforms and open door policies; fast growth of Township and Village Enterprises (TVEs); massive flow of FDI associated with the fast trade growth of foreign funded enterprises. An adjunct to this could be the role and contribution of Chinese Special Economic Zones (SEZs).

The main focus of this paper is to analyze the evolution of trade policy and strategy of China in the 80’s and 90’s and their role in transforming the Chinese trade and economy as a whole. An attempt has also been made to identify where
India went wrong in its strategy and policy approach to foreign trade and what lesson can be learnt from the Chinese success story. Any analysis of Chinese success can not be complete without the study of the impact and role of the Town and Village industries and its emerging private sector, Foreign Invested Enterprises (FIEs), Special Economic Zones (SEZs) and the Foreign Direct Investments (FDI). However, due to constraint of space and time, major focus of this paper has been on the trade policy and strategy aspects of the China’s foreign trade growth while other aspects listed above have been covered in passing.