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INDEX

Sr. No.	Title	Author	Subject	Page No.
1	Current Issues In Indian Capital Market	Bhavin S. Shah	Accountancy	1-3
2	Accounting Standard (AS) 30 Accounting for Financial Instruments	Kalola Rimaben A, Chauhan Lalit R.	Accountancy	4-6
3	A Study on Lithology and Petrography of the Tipam Sandstones Exposed along the Tipong Pani River Section of Upper Assam Basin	Dr. Pradip Borgohain	Applied Geology	7-11
4	Study of Fluvial Geomorphic Features of the Lower Subansiri Basin, North-East India using Remote Sensing and GIS.	Dr. Uttam Goswami	Applied Geology	12-14
5	Sheared volcanics in the north of Pugging, East Siang District, Arunachal Pradesh	T. K. Goswami, P. Bhattacharyya, D. Bezbaruah	Applied Geology	15-18
6	Heavy Metal Biosorption Using A Biopolymer Chitin	D. Saravanan, P. N. Sudha	Chemistry	19-23
7	Impact of peripheral cues on rural consumer buying decision for FMCG products with special reference to Palitana (Gujarat)	Dr K.S. Vataliya, Bhavik .P. Parmar	Commerce	24-26
8	A Growth of Rural Postal Life Insurance in India [A Study with special Reference to Dharmapuri District]	Dr. A. Vinayagamoorthy K. Senthilkumar	Commerce	27-28
9	Promotional Strategies for International Markets with respect to Agricultural Products	Dr. B. B. Bhosale	Commerce	29-30
29	Business Risk And Financial Risk - Indian Corporate Sector	Dr. M. Dhanabhakyam, P. Balasubramanian	Commerce	31-33
10	“Customer Relationship Management”- In Banking Industry	G.V. Kori, Sri. Basavaraj Huggi	Commerce	34-36
11	Role of Investment Banks and Institutions in Economic Development	Jitendra Dhirajlal Karia, Dr. (Prof.) Vijay Kumar Soni	Commerce	37-38
12	Nature Of Information Shared And Communication Methods Used In Small Manufacturing Firms	Vipul Chalotra	Commerce	39-41
13	China’s WTO Accession: An Empirical Assessment of Merchandise Trade with India	Anjali Tandon	Economics	42-45
14	Regional Disparities - Social Sector Expenditure in Rural-Urban India	Dr. Shankar B. Ambhore, Dr. Ashok S. Pawar	Economics	46-47
15	(Presenting Thought About Industry,Trade And Co-operation Of Rajarshri Shahu Maharaj)	Dr. Ashok Shankarrao Pawar, Dr.Sunita J. Rathod	Economics	48-49
16	An Assessment On Poverty Alliviation Programmes In Rural India-A Case Study	Dr. Parvathamma G. L.	Economics	50-55
17	Liveability in Guwahati: A Factor Analytic Approach	Dr. Daisy Das, Dr. Ratul Mahanta	Economics	56-58
18	Backward Class Disparities in higher Education in India	Dr. Shankar B. Ambhore, Dr. Pawar Ashok S.	Economics	59-60
19	Revenue and Expenditure Pattern of Municipal Corporations of Punjab	Naresh Kumar	Economics	61-66

20	Livelihood Security of Traditional Fishermen of Kerala: Analysing and Identifying the Roles of Self Help Groups	(Dr.) D. Rajasenan, Rajeev B.	Economics	67-70
21	Levels and Types of Questions Raised by EFL Teachers In Southern Al-Mazar Directorate of Education	Dr. Jihad Al-Turki	Education	71-74
22	Issues And Recommendations Of National Knowledge Commission In Higher Education System	Vidhi Bhalla	Education	75-77
23	Multiple Sequence Alignment of Different Species	Prerna, Pankaj Bhambri, Dr. O.P. Gupta	Engineering	78-82
24	Analyzing the Phylogenetic Trees with Tree- building Methods	Jasmine, Pankaj Bhambri, Dr. O.P. Gupta	Engineering	83-85
25	Low Power High Speed with Improved Noise Margin for Domino CMOS Inverter.	Pushpa Raikwal, Dr.Vaibhav Neema, Dr.Sumant Katiyal	Engineering	86-88
26	Analysis of Drag for an Aircraft Wing Model with and without Winglet	Mitul Patel, Sharvil Shah, Dharmendra Dubey	Engineering	89-91
27	Cognitive Radio	Chauhan Jayesh R.	Engineering	92-95
28	Problems In Teaching English As A Compulsory Subject	Prof. Madhvi R. Acharya	English	96-97
30	Financial Banking Is The Science Of Managing Money: Indian Financial System	Dr. Shailesh N. Ransariya, Dr. Shailesh N. Ransariya	Finance	98-100
31	Carbon Trading a Step towards Green Environment	Ashok R. Bantwa	Finance	101-102
32	Effect of Supplementation of A Multinutrient Chocolate Bar on Nutritional Status and Athletic Performance	P. Muhtulakshmi, Dr. M. Sylvia Subapriya	Home Science	103-104
33	Imperatives of Inclusive Growth for Sustainable Development of Indian Economy Post Globalization	Dr Mahalaxmi Krishnan	Indian Economy	105-107
34	RIGHT TO INFORMATION ACT AND THE ROLE OF PRESS, MEDIA & NGO'S	Dr. Krushna Chandra Dalai	Law	108-109
35	``Thesis: A Powerful Source Of Information``	Arvind M Bhadrashetty	Library Science	110-111
36	Present Day English and Inflections	Dr Syed Mohammed Haseebuddin Quadri	Literature	112-113
37	Jigsaw II: An Effective Strategy To Develop Reading Comprehension Of High School Students	Dr. P. Nagaraj, Sindhu Thamba	Literature	114-115
38	CAPITAL STRUCTURE ANALYSIS (An Empirical Study of Paper Mills in India)	Ashok Mundhra	Management	116-118
39	Emerging Trends In Indian Rural Market	Dr. N. Ramanjaneyalu	Management	119-121
40	Credit Card Usage in Coimbatore	G. Murali Manokari, Dr. R. Ganapathi	Management	122-126
41	Micro Credit – Two Sides of the Same Coin	R. Durga Rani, J. Gnanadevan, Dr. R. Ganapathi	Management	127-130
42	Work Place Stress and Yoga Therapy	K. Revathi, Dr. R. Ganapathi	Management	131-132
43	Customer's Satisfaction Towards Modernized Petrol Stations With Reference to Coimbatore City	Dr. R. Ganapathi	Management	133-137

44	Evaluation Tactics: A tool to evaluate success of corporate training programme	Dr. Shobha Dedhia	Management	138-140
45	A Preliminary Study On Issues And Challenges Faced In Measurement Of Social Media Return On Investment	Khushbu Pandya	Management	141-142
46	Profitability Analysis (A Case Study of Selected Public and Private Sector Companies)	Manish Manglik	Management	143-144
47	Performance Management System	S.Jayakrishna, N.Sainath, M.V.Subbareddy, N.Raji Reddy	Management	145-147
48	A Study On Organizational Culture In Bharath Heavy Eletrical Limited, Ranipet	S.Sridhar, D.Yuvaraj, V. Kandasamy	Management	148-150
49	Cost Effective Transportation	Sarada Prasanna Patra Dr. Manjusmita Dash	Management	151-154
50	A Study On Efficiency Of Outbound Training With Reference to Titan Industries, Hosur	V. Kandasamy, D. Yuvaraj, S. Ragothaman	Management	155-157
51	Performance Improvement Enhance The Efficiency	Vidya L. Hulkund	Management	158-159
52	Packaging- The Salient Seller	Vidya L. Hulkund	Management	160-161
53	An Empirical Study Of Student Satisfaction With Reference To Gujarat Technological University (Gtu)	Dr. Vijay K. Patel	Management	162-163
54	Maximizing Customer Profitability in Retailing Industry (Durable Goods) - Role of Analytical CRM -A Case Analysis	Dr.A.R.Krishnan, R.Selvamani	Management	164-165
55	Financial Inclusion - Role Of Banking Industry	Dr. K. Marutha Muthu, Ms.T. A.Tamilselvi	Management	166-167
56	The Growth of Self Help Groups in India: A Study	S.Ravi, Dr. P. Vikkraman	Management	168-170
57	Role of E-Banking	K. K. Devi	Marketing	171-172
58	Reasons after the war of going Green –Green Marketing	Kavita A. Trivedi	Marketing	173-175
59	Strongly Minimal Generalized Boundary	K. Chandrasekhara Rao, P . Padma	Mathematics	176-177
60	ACCESSORY RENAL ARTERY: A CASE REPORT	Archana U Shekokar, Vandana A Tendolkarndolkar	Medical Science	178-179
61	Fibrinous Pericarditis: A Case Report	Vandana A Tendolkar, Archana U Shekokar	Medical Science	180-181
62	Social life, Addictions and Subjective Wellbeing of the Transsexuals	Seemanthini.T.S, Manjula. M. Y	Psychology	182-184
63	Using E-Content In Science Class: The Effect Of Treatment, Gender, And Their Interaction On Science Achievement	Suman Rani	Psychology	185-188
64	Bullying - Societal Curse- A Serious Issue	Latha Janaki. R, Dr.Kalyani Kenneth	Social Science	189-191
65	Factor Influencing Foetal Wastage	Dr. Dipti Bhavsar, Dr. C. D. Bhavsar	Environment	192-195
66	Approach Of Universilization Educational And Women Empowerment Of Rajarshri Shahu Maharaj	Dr. Ashok Shankarrao Pawar, Dr. Sunita J. Rathod	Economics	196-199

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China's WTO Accession: An Empirical Assessment of Merchandise Trade with India

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ABSTRACT

This paper tries to assess the impact of China's WTO accession on its trade with India. Empirical evidence in this paper shows that China's WTO compliance had an altogether positive impact on its trade with the world. On bilateral front vis-à-vis India, despite an increasing trend in total bilateral trade, volume of trade continued to be low. Bilateral trade concentrated in few sectors only. Moreover, India witnessed to have a trade deficit with China, which widened over the years. Increase in India's exports to China over the period 2001-2005 could largely be attributed due to easier access to the Chinese market after China's entry into WTO. After acceding to WTO, China further liberalised foreign participation in its domestic manufacturing industries and syncronised FDI into sectors with higher export orientation. Consequently, India witnessed larger imports from China under these categories.

Keywords : WTO, Bilateral Trade, China, India

Background

Owing to growing importance of China and India in global economy, many studies have been conducted about the impact of their global integration on rest of the world and on each other. Political leadership has committed itself to enhancing bilateral trade. In this context, an immediate question perplexes the mind: How has bilateral trade pattern evolved over past years? This paper is primarily focused on their bilateral trade relations and attempts to assess the impact of China's WTO accession on its trade with India.

Expansion of external sector - China and India

The Chinese economy grew from a GDP of $147.3 billion in 1978 to $2657.9 billion in 2006, thus exhibiting an average annual rate of 10.3 per cent over this period. By the same parameter, size of Indian economy increased from $267.5 billion in 1991 to $916.3 billion by 2006, exhibiting an average growth of 7.3 per cent. Undoubtedly, both nations recorded improvement in their per capita GDP and social indicators such as literacy, health, poverty and sanitation. In addition, their governments realized benefits of foreign investment in stimulating economic and social growth.

As both countries adopted policies that promoted external trade, their volume of trade as per cent of GDP increased. Trade to GDP per cent in China increased from 13.8 per cent in 1978 to 72 per cent in 2006 (Table 1). The same indicator for India increased from 17.2 per cent in 1991 to 47.2 per cent in 2006. Net inflows of foreign direct investment in China were reported at $0.08 million in 1979. Net inflows of foreign direct investment in China increased from almost negligible in the late seventies to $78.1 billion in 2006 and in India from $0.07 billion to $17.5 billion between 1991 to 2006.

Infact, the accession to World Trade Organization (WTO) by India in 1995 and by China in 2001 has been globally regarded as a commitment to open-up their borders for international trade.

Table 1: Structure of Trade - China and India

	China				India			
	1978	1991	2001	2006	1978	1991	1995	2006
As % of GDP								
Exports of goods and services	6.6	21.0	22.6	39.9	6.4	8.6	11.0	22.1
Goods exports	-	15.6	20.1	36.5	4.8	6.8	8.8	13.5
Service exports	-	1.9	2.5	3.5	1.2	1.8	1.9	8.2
Imports of goods and services	7.1	17.3	20.5	32.1	6.7	8.6	12.2	25.1
Goods imports	-	13.3	17.5	28.3	5.5	7.9	10.7	18.2
Service imports	-	1.1	3.0	3.8	1.1	2.2	2.9	6.9
Total trade	13.8	38.3	43.1	72.0	13.1	17.2	23.1	47.2
Goods trade	-	29.0	37.6	64.8	10.3	14.6	19.4	31.7
Service trade	-	2.9	5.5	7.3	2.3	4.1	4.8	15.2
As % of World								
Exports of goods and services	-	1.5	3.9	7.2	0.5	0.5	0.6	1.4
Goods exports	-	1.7	4.3	8.2	0.5	0.5	0.6	1.0
Service exports	-	0.8	2.1	3.2	0.6	0.5	0.5	2.7
Imports of goods and services	-	1.2	3.5	5.9	0.6	0.6	0.8	1.6

Goods imports	-	1.4	3.8	6.4	0.6	0.6	0.8	1.4
Service imports	-	0.4	2.5	3.8	0.5	0.6	0.8	2.4

Source: World Bank, World Development Indicators CD-ROM, 2008
- Not available

China's WTO commitments
The major commitments undertaken by the Chinese government are specified as follows:

- Provision of MFN treatment to all WTO members.
- Eliminations of dual pricing policy.
- Adoption of the systematic reforms there by meaning an effective and uniform application of its revised domestic legislation in a transparent manner.
- Elimination of export subsidies on agricultural items.
- Withdrawal of price controls being used as a measure of domestic protection.
- Removal of enterprise restriction on right to export and import within three years of accession, with permitted exemptions (WTO News: Press Release, September 17, 2001).

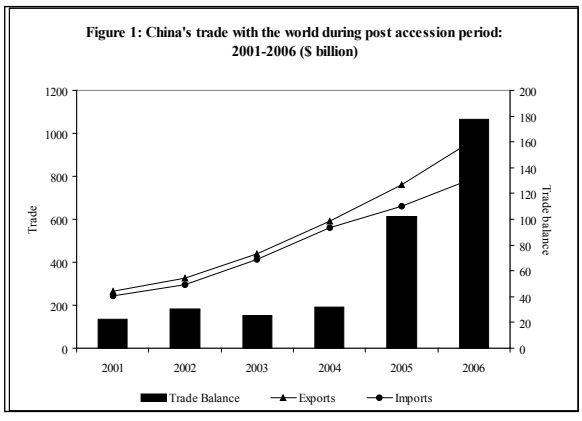
China agreed to implement the above measures in a systematic, transparent and predictable manner ensuring their legal enforcement. Some of the sectoral commitments are mentioned below:

a. Trade in Goods: China's average bound tariff level decreased to 15 per cent, with tariffs on agriculture products ranging between zero per cent to 6.5 per cent with an additional obligation of limiting to subsidise its agricultural products by not more than 8.5 per cent of the value of output. Average bound tariff on industrial goods was brought down to 8.9 per cent, with commodity-wise tariffs ranging from zero per cent to 47 per cent. China agreed to eliminate export subsides on all industrial goods.

b. Services: The limits for foreign ownership were gradually raised from 25 per cent initially, to 35 per cent within an year of accession, and 49 per cent within three years of accession.

Methodology and Data
The analysis is based on chapter-wise bilateral (2-digit level) trade flows for reference period 2001-2005. Information has been sourced from UN Comtrade using WITS interface for HS 1996 nomenclature.

Surge in China's trade post the WTO accession
During 2001 China exported goods worth $266.1 billion accounting for 4.5 per cent of the world exports (Figure 1). Consequent to its WTO membership, China's exports grew at an average annual rate of 25.8 per cent during the period 2001 to 2006. In 2006, China's merchandise exports had reached $968.9 billion, with its share in world exports rising to 8.6 per cent.



Source: World Bank and UNCTAD, **WITS Database**

Under its market access commitment, China reduced domestic tariffs. In 2002 its weighted average tariff reduced to 6.8 per cent (Table 2).

The elimination of NTBs such as quantitative restrictions, export licenses, canalization encouraged China's imports (Table 3). The elimination of domestic subsidies on some items also encouraged imports of these items.

Table 2: Changes in average statutory tariff rates in China (per cent)

Year	All products		Primary products		Manufactures	
	Simple	Weighted	Simple	Weighted	Simple	Weighted
2001	16.6	12.0	21.6	17.7	16.2	13.0
Post-Accession	9.8	6.8	13.2	3.6	9.5	6.9

Source: As given in Ianchovichina et al, 2003, pp [9]

Table 3: Changes in import coverage of non-tariff barriers from 1996 to 2001 (per cent)

	Licenses & Quotas	Tender-ing	Licens-ing only	State Trad-ing	Desig-nated Trading	Any NTB	No NTBs	Total
2001	12.8	2.7	0.5	9.5	6.2	21.6	78.4	100.0
1996	18.5	7.4	2.2	11.0	7.3	32.5	67.5	100.0

Source: Mei Zhen as quoted in Ianchovichina et al, 2003, pp [7]

China's imports more than trippled during post accession period till 2006 growing at an average rate of 23.8 per cent over 2001-2006. Consequently, its share in world imports increased from 4 per cent in 2001 to 6.9 per cent in 2006.

A higher growth in overall exports as compared to imports has credited China with a trade surplus with rest of the world continuously (Figure 1). Moreover, the surplus in China's external trade increased almost continuously, except for in the year 2003.

Impact on bilateral trade with India
In 2001, India's exports to China constituted 2.2 per cent of its world exports and imports from China accounted for 4 per cent share in overall imports of India (Table 4). Accordance to WTO encouraged China's exports to India (as part of its overall exports) due to MFN treatment and increased FDI in China (in export oriented areas). However, exports also suffered due to withdrawal of export subsidies. Apparently the net effect of the above influences was negative for India. This is evident from the observed acceleration in imports from China and consequent widening of the trade deficit for India.

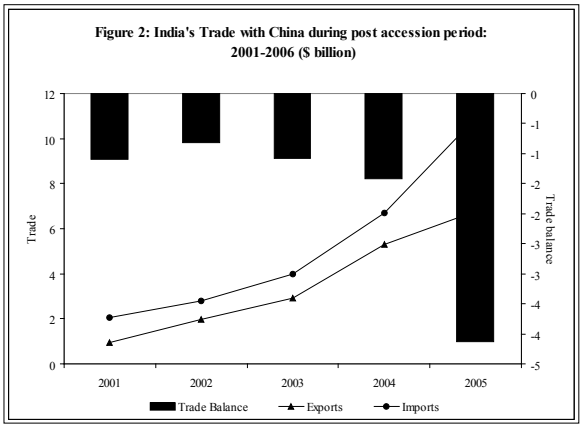
Post WTO, China lowered its tariffs and NTBs and opened its borders to rest of the world. Being a WTO member, India received MFN treatment and was required to pay only minimum tariffs. Further, existence of significant overlaps in China's imports with India's export structure influenced India's exports positively. Exports to China increased at an average annual rate of 55.3 per cent over 2001-2005. By 2005, 6.6 per cent of India's overall exports were destined to China. Imports from China grew at an average rate of 48.8 per cent over the same period. By 2005, 7.3 per cent of India's total imports had Chinese origin.

Table 4: India's trade with China, 2001-2005

	India's exports to China		India's imports from China		Trade balance	Total trade
	as % of Total exports	% Growth	as % of Total imports	% Growth	$ billion	$ billion
2001	2.2	14.0	4.0	34.7	-1.1	3.02
2002	3.7	104.3	4.5	35.1	-0.8	4.75
2003	4.6	48.5	5.2	44.1	-1.1	6.92
2004	6.6	81.6	6.2	67.6	-1.4	12.01
2005	6.6	28.0	7.3	62.6	-4.1	17.70

Source: World Bank and UNCTAD, **WITS Database**

Despite an increasing trend in total bilateral trade, volume of trade continued to be low as is evident from lower shares (compared to other trading partners). Moreover, India was found to have trade deficit with China, which had only widened over the years (Figure 2). Thus bilateral trade between the two nations has not yet taken off, further highlighting need for India-China trade relations.



Source: World Bank and UNCTAD, **WITS Database**

India's exports to China: 2001-2005

While the export values were found to have increased for most chapters, no clear picture emerged in terms of export shares of most chapters. However, greater export concentration in fewer chapter-wise exports was a clear finding from our analysis. During 2001, share of top 10 exports accounted for 82 per cent, while in 2005 only top 7 product exports together accounted for more than 82 per cent exports. The export share of Ores, slag & ash increased from 27.6 per cent during 2001 to 51.3 per cent in 2005. Significance of exports of Cotton, Iron & steel and Inorganic chemicals increased during 2005 in comparison to 2001. Increase in India's exports to China over the period 2001-2005 could perhaps be attributed to easier access to the Chinese market after China's entry into the WTO. As part of its commitments to WTO China was compelled to extend MFN status to all WTO members and also address its domestic distortions such as production subsidies. Indian exports were major beneficiaries of the same. Clearly, structure of bilateral exports is dominated by resource based exports such as mineral and chemical products; and metal & metal products all of which have low value addition component and are also labour intensive segments. The high growth performers included vegetable products, foodstuffs, beverages & tobacco, chemical products, textiles category, footwear category, metals and transport equipment.

India's imports from China: 2001-2005

During the post accession period for China, value of chapter-wise imports to India mostly increased though mixed trends have been noticed in terms of chapter-wise shares in India's total imports from China. The imports concentration has remained almost unchanged. While top 10 imports accounted for 77.2 per cent of total imports from China during 2001, top 10 chapter imports constituted 77.3 per cent in the year 2005. Light machinery, nuclear reactors and organic chemicals emerged as the most significant import categories by 2005 in terms of their shares in total imports from China. Other important importing categories included mineral fuels, precious or semi-precious stones, metals such as iron & steel along with some in the textile category such as man made filaments. Incidently, these were the sectors marked with high performance of China's world exports. After acceding WTO, China further liberalised foreign participation in its domestic manufacturing industries and syncronised FDI into the contemporary strong exporting sectors namely office machines & automatic data-processing machines; articles of apparel & clothing accessories; telecommunications & sound recording equipment; electrical machinery, apparatus & appliances; miscellaneous manufactured articles; textile yarn, fabrics, made-up articles; manufacture of metals; general industrial machinery & equipment; road vehicles and furniture and parts thereof. Consequently, India witnessed larger imports under these categories. It can be seen that a large proportion of imports was under labour intensive industries, particularly with a content of unskilled labour, where China traditionally had a strong foothold. Among the items grew at highest rates include imports under live animals, dairy products, fish & crustaceans, starches, transport equipment such as locomotives & parts of aircrafts & spacecrafts, explosives and leather products such as furskins.

Conclusions

The composition of bilateral trade confirms a high concentration. Major items exported to China are primary or semi-finished goods that have a low value addition component. Imports from China are concentrated in electrical and electronics.

The analysis in this paper shows that China's WTO compliance had an altogether positive impact on its trade with the world. A higher growth in overall exports as compared to imports credited China with a trade surplus with rest of the world continuously till 2006. Moreover, the surplus in China's external trade increased almost continuously, except for in the year 2003. On bilateral front vis-à-vis India, despite an increasing trend in total bilateral trade, volume of trade continued to be low as was evident from lower shares in comparison to other trading partners. Moreover, India was found to have trade deficit with China, which had only widened over the years. Thus bilateral trade between the two nations has not yet taken off further highlighting the need for strengthening India-China trade relations.

Further, existence of significant overlaps in China's imports with India's export structure influenced India's exports positively. Greater export concentration in fewer chapter-wise exports was a clear finding. The increase in India's exports to China over 2001-2005 could perhaps be attributed to easier access to the Chinese market after China's entry into WTO. As part of its commitments to WTO China was compelled to extend MFN status to all WTO members and also address its domestic distortions such as production subsidies. Indian exports have been major beneficiaries of the same. Clearly, the structure of bilateral exports has been dominated by resource based exports from India such as mineral and chemical products, and metal & metal products all of which have low value

addition component and are also labour intensive segments. The high growth performers include vegetable products, foodstuffs, beverages & tobacco, chemical products, textiles category, footwear category, metals and transport equipment.

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