Trade Openness, Conflicts and Sino-Indian Relations: Identifying Impacts on Poverty in Eastern India

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Abstract

This paper examines how free flow of trade between India and China had impacted Eastern India during the pre-forty seven period. Our result suggests current economic backwardness in Eastern India is due to closing of normal trade flows between the two nations. Historically, trading relationships in these two economies were quite strong partly due to geographical proximity and the degree of complementarity. We find considerable evidence of less poverty in Eastern India during pre-forty seven period compared to other Indian States.

JEL code: F 15, F 43, F 63, F 64

Keywords: British India, China, Trade Openness, British Eastern India, North East India, Poverty, Relative Prosperity, Independence of India.

I

Introduction

China and India, two of the world's oldest civilizations have long history of association and collaboration. The items of trade transported along the trade routes between ancient India and China, had helped in promoting social, political, economic and cultural relations between the two nations. There were three main types of players engaged in the Sino-Indian trade in the eighteenth century: (I) the East Indian Company (EIC); (II) private European (mostly British) merchants staying in India and Indian merchants (Parsis, Hindus and Muslims); (III) employees of the EIC permitted to engage in trade using company ships (Zhilong, 2005). India exported items like cotton, opium, cloth, pearls and sandalwood while goods exported by China were white sugar, silk, chinaware, silver, zinc, tea etc. Between 1795-1840 Calcutta was one of the prominent regions in India exporting goods (opium, cotton and cereals) to China. There occurred a huge deficit in the trade between Canton (Guangzhou) and Calcutta in Calcutta's favour. After the Treaty of Nanking (1842) Shanghai opened to the outside world to become the centre of China's foreign trade. Companies in China actively traded with enterprises or clients in Calcutta and Bombay. Between 1871-1893, India was perhaps the most important trading partner of China. Dwarkanath Tagore, founder of the Jorasanko Tagore family in East India, is noted for his substantial contribution to Sino-Indian trade. Tagore’s company owned large stakes in enterprises transplanting Chinese tea crop to the plains of Assam. He had invested in shipping, shipbuilding for expansion of business and also got engaged in opium trade with China. Apart from him, other Indians like Jamsetjee Jeejeebhoy, a Parsi also owned fleet of ships and traded with China.

Active trade between the two nations prior to the mid-nineteenth century was largely controlled by the EIC. The ‘country trade’ between China and the European and the Indian merchants also had continued to grow in the eighteenth and the nineteenth century. In the late nineteenth century the Sino-Indian trade was monopolized to a great extent by powerful companies.

Although, it is now well established, at both theoretical and empirical level, that liberalization in China in 1978 and India in 1991 brought radical changes with evidence of large sections of the population benefitting from the same with significant decline in poverty. For example, reform in agriculture in China led to a large growth in the agricultural sector and as extreme poverty existed mostly in the rural sector, this led to a large reduction in poverty. Prior to late 1970s China's commodity trade was highly protected and entirely controlled by economic planning. The import plan covered most of the imports while export strategies stipulated the physical quantities of more than 3,000 individual commodities. (Lardy, 2003). A handful of foreign trade corporations owned and controlled by the Ministry of Foreign Trade and dealing with a narrow range of commodities were responsible for carrying out the trade plans prior to liberalization.

In India a number of studies have demonstrated that with trade openness in 1991 poverty declined both at the national and regional levels. However the association between trade openness and poverty has several explanations as well. Again, Sundaram and Tendulkar (2003) reported incidences of poverty based on the social groups and found that in the 1990s the Scheduled Castes, agricultural labour (rural) and casual labour (urban) experienced declining trends in poverty although Scheduled Tribe (ST) households continued to suffer. However, it has been hard to identify the magnitude of costs and benefits of free trade between India and China before 1947 particularly in the context of Eastern India, China, Myanmar and other South East Asian Economies.

For example, the North East had extensive links with the neighbouring regions of Tibet, Bhutan, Burma and Indo-China. It formed the southern trail of the Silk Road (Sadangi, 2008). However, as India became an significant colony for Great Britain, barriers were erected between Bhutan and Assam, while traditional connect with other countries attained a strategic character. Soon Burma and Tibet became the Empire’s buffer against the French in Indo-China and Russia in the north, disrupting economic ties (Baruah, 2004). Baruah calls this disruption of old trade routes as ‘colonialism’s most enduring negative legacy.’

Despite this legacy, prior to 1947, the region comprising of the North East had substantial economic and social intercourse with the neighbouring countries. East Bengal (later called East Pakistan and ultimately Bangladesh) was well integrated with the North East. There is evidence that trade and migration into territories today comprising Tibet, Myanmar, Yunnan province of China, Nepal, Bhutan and Sikkim were important to the economy of the region (Baruah, 2004).

The rest of the paper proceeds as follows. Section II deals with the Survey of the Literature, Section III puts forth the Objective of the Study, Sections IV-V describe sources of data and the empirical analysis respectively, and the finally Section VI deals with Summary and Conclusion.

II

Review of Literature

Trade openness or liberalization is a serious policy matter in a country with respect to its economic development and allocation of resources. On a positive note, being open to trade and investment means efficient allocation of domestic resources with the economy specializing on those activities in which it has comparative advantage, freedom of movement of capital and labour and access to fruits of innovation at different parts of the globe (Srinivasan, 2008). However it may be assumed that with trade openness, the economy opens up more to imports and the importcompeting industries tend to suffer with their declining output and employment whereas surge in exports imply higher output and employment for export industries.

On the other hand, eradication of poverty and reduction of regional inequalities occupy the top agendas in the development objective of a country. Thus when considering trade openness the impact of liberalization on these issues needs to be taken into account. Scholars and researchers differ on the association between trade liberalization and regional disparities and that between openness and poverty. While some put forth that opening to international trade reduce spatial disparities (Krugman and Elizondo, (1996); Barua and Chakraborty, 2006) others found evidence of the positive relation between the two (Paluzie, 2001, Gonzales, 2007). Interestingly Daumal (2010) presented two contrasting scenarios based on India and Brazil where Brazil's liberalization contributed to the decline in income inequality across states whereas greater global integration of India in international trade enhanced regional disparities. A possible explanation in case of Brazil is that it is due to the reallocation of some industrial activity to the peripheral sectors whereas in case of India it is claimed that possibly the shift from exports in agriculture to exports in manufacturing goods probably have resulted in such an outcome. It may also noted here that it is difficult to compare China and India based on inequality as much of the inequality data presented in studies based on this context are usually for income inequality for China and consumption expenditure inequality for India (Bardhan, 2009). It is noteworthy that there is also dearth of studies based on the effect of trade openness on poverty in East India during the pre-1947 period.

The views of the researchers are again divided on the effect of trade openness on poverty. Many argue that openness stimulates growth bringing more players into the market thus reducing uncertainty as well as poverty. Openness can bring in reduction in price level and more employment to benefit the society. Winters et. al (2004) offered some interesting observations like: i) the impact of trade liberalization on poverty depends on the environment in which it takes place and it should not be seen in isolation; ii). additional or complementary policies will sometimes be needed to enhance its impact on poverty as the poorer households may be less able than the richer ones to protect themselves against the adverse effects or to take advantage of positive opportunities created by policy reforms. However trade liberalization can be an essential constituent of a “pro-poor” development strategy. In developing countries, with the crumbling of trade barriers, workers in sectors unable to reap benefits from competitive advantage normally face unemployment. Thus there lies a need to absorb those workers to the newly developing sectors with education, newer training policies etc.

Topalova (2005) based on a study on Indian districts found that post-liberalization inequality in the country remained stable in both rural areas and urban areas. It was also established that in the presence of limited factor mobility, no statistically significant relationship could be found between trade exposure and poverty in urban India whereas rural areas with high concentration of industries that were disproportionately affected by tariff reductions, experienced slower progress in poverty reduction. In contrast, Khan and Chowdhury (2013) found evidence that trade liberalization in India has contributed to reduction in poverty at national as well as sector level and the rural areas were benefitted more as compared to the urban ones. Kalirajan and Singh (2010) in their paper focused on FDI and the pace of poverty reduction across Indian states and concluded that post-liberalization, FDI has not contributed much to poverty reduction though was successful in bringing structural changes with respect to industrial sector. The states with dominant industrial sector were able to reduce poverty faster than those dominated by agriculture. Several plausible links in globalization-growth-poverty reduction chain could be suggested in theory, but the reality is far more complicated and many links could be absent in some countries at some points in time (Srinivasan, 2008).

Interestingly Sundaram and Tendulkar (2003) considered the relative performance in rural poverty across the major states of India over the two periods 1980s and 1990s based on certain indicators. In Bihar, Gujarat, Haryana, Karnataka, Kerala, Maharashtra, Punjab, Rajasthan and Uttar Pradesh the performance in terms of poverty reduction was better during the 1990s. Additionally, in Assam, the situation was somewhat better in the 1990s. Whereas performance in Andhra Pradesh, Madhya Pradesh, Orissa and West Bengal, worsened during the 1990s based on all the indicators taken for the study. In Tamil Nadu, the pace of decline in poverty in the 1990s was slower. In the urban areas of Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu and West Bengal and even Punjab the 1990s performance was better. However Assam, Bihar, Haryana, Kerala, Orissa and Uttar Pradesh fared worse in the 1990s.

In a study based on China on relative prosperity and poverty Ravallion and Chen (2007) found evidence that though China's progress against poverty during 1981-2001 was noteworthy, it was uneven with some provinces progressing rapidly compared to others. Absolute inequality increased appreciably both between and within both urban and rural areas though higher in urban areas. While migration to urban regions helped reduce poverty nationally the bulk of the decline came from rural regions with the growth in agriculture and agrarian reforms.

Marjit and Kar (2008) documented that the growth patterns in the 1990s exposed major regional imbalances with the western and southern states performing comparatively well compared to the north and east. Some of states like Assam and Orissa, reported very little reduction in rural poverty between 1993-94 and 1999-2000. Cain et al. (2010) however advocated that trade openness for India is more beneficial in states with more flexible labour market institutions, better connectivity and more developed financial systems and that states with flexible labour market institutions, that experienced higher cutback in employment-weighted tariff, would have faced greater decline in urban poverty.

Based on the two nations China and India, Bardhan (2009) has also documented that regional disparity in income (or consumption) has been more in China than in India. In 1990s China's backward regions have grown at rates almost comparable to its advanced regions. The provinces with more global exposure did not face larger rise in inequality and it seemed that both intra-urban and urban-rural disparities contribute more to the rises in income inequality in the nation. With trade liberalization in India, the poorer states (largely concentrated in central and eastern regions) have grown much slowly compared to the richer states (mostly in the west and the south).

III

Objectives of the Study

This paper contributes to emerging literatures on the effects of flow of trade between India and China on Eastern India during the pre-1947 period. We offer several interpretations of the dynamics of free trade during the subject study period. It is also possible to examine the magnitude of current economic backwardness in Eastern India due to closing of normal trade flows between two nations. There are a number of reasons to believe that Mesopotamia was the first primary civilisation and China was second. But the patterns were not entirely pre-determined. The West's lead collapsed and China pulled ahead as the Roman Empire declined and fell in the 5th century AD. The gap narrowed as China and the West both experienced crises in the 14th century, but China remained more advanced. In the 17th century, China and India may have accounted for 60-70 percent of world GDP. It is interesting to note that historically, free trade mechanisms, in all likelihood aimed at reducing poverty and improve living standards right across regions than any other man–made political boundaries.

IV

Sources of Data

The trade data for the observed variables come from "British India" trade information developed by Royal Statistical Society, London. It covers merchandise trade across countries during the period 1800-1947. It is well known that trade has grown quickly since the Second World War and that reflected in this data set. Population and real GDP data have been obtained from Maddison (2007).[1]

V

Analysis

To investigate how the free flow of trade between India and China during the pre and post 1947 has affected poverty in Eastern India, the following tables have been examined.

Table 1

Changing Patterns of World GDP, 1820-2030

	1820	1950	1973	2003	2030
Western Europe	23.0	26.2	25.6	19.2	13.0
US	1.8	27.3	22.1	20.7	17.3
Other Western offshoots*	0.1	3.4	3.3	3.1	2.5
West	**25.0**	**56.8**	**50.9**	**40.4**	**32.8**
China	32.9	4.6	4.6	16.8	23.8
India	16.0	4.2	3.1	6.1	10.4
Japan	3.0	3.0	7.8	6.1	3.6
Other Asia**	7.4	6.8	8.7	13.6	15.4
Latin America	2.1	7.8	8.7	7.7	6.3
Eastern Europe & former USSR	9.0	13.1	13.8	6.1	4.7
Africa	4.5	3.8	3.4	3.2	3.0
Rest	**75.0**	**43.2**	**49.1**	**59.6**	**67.2**
Asia as % of world	**59.3**	**14.9**	**24.2**	**42.6**	**53.3**

* Australia, Canada and New Zealand; ** includes Bangladesh & Pakistan from 1950
Source: Maddison (2007a)

Table 1 depicts that though during 1820s China and India both occupied a major share in World GDP, their share declined to a large extent around 1947. China's decline was quite steep compared to that of India. The two nations maintained their lower share in the global GDP till 1970s. The gradual control of the Sino-Indian trade by the powerful companies in the nineteenth century along with the discontinuation of free trade through

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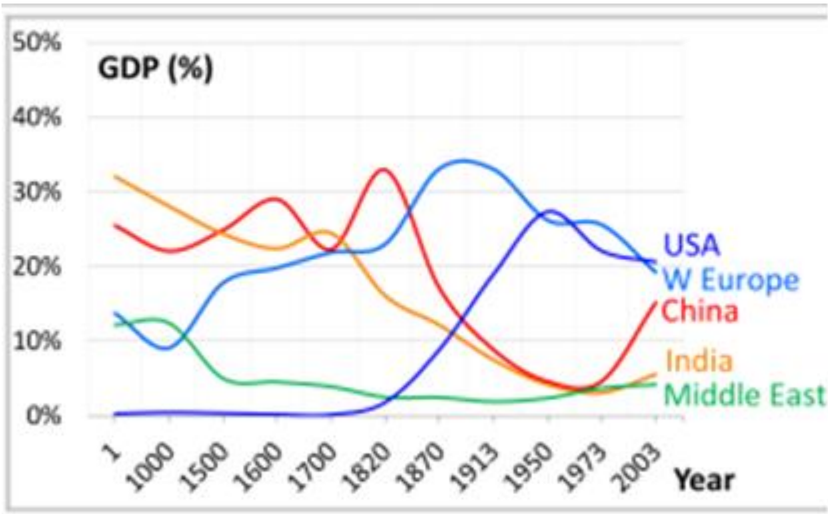
[1] See Maddison (2007): Historical Statistics for the World Economy: 1-2003 AD

the ancient routes during 1947 due to partitioning and delineation of Indian boundaries might have played a major role in this decline. However, post 1970s China recovered with larger share whereas India's growth relative to China was sluggish as restrictive trade policy undertaken by the Indian economy had hindered the growth of the nation. Figure 1 reveals that between 1 A.D. - 1820 A.D. China's contribution of world's GDP was between 20-35%, but there was a continuous decline after 1820s reaching to less than 10% around 1973. Again, the share increased to some extent post 1970s possibly due to the liberalization. India on the other hand witnessed continuous decline from 1-1973 A.D., after which the scenario had improved to a little extent, particularly after 1990s when trade exposure and deregulation created favourable opportunities for GDP growth and poverty alleviation.

Figure 1

Contribution of World's GDP by Major Economies: 1 A.D.-2003 A.D.



Source: Based on Maddison's estimates.

Table 2

Changing Patterns of World population and GDP (PPP basis)

Year	India		China		Germany		UK		Japan		USA	
	% Share of Pop	% Share of GDP	% Share of Pop	% Share of GDP	% Share of Pop	% Share of GDP	% Share of Pop	% Share of GDP	% Share of Pop	% Share of GDP	% Share of Pop	% Share of GDP
1700	27.3	24.4	22.9	22.3	2.5	3.6	1.4	2.9	4.5	4.1	0.2	0.1
1820	20.1	16	36.6	32.9	2.4	3.8	2	5.2	3.0	3.0	1	1.8
1870	19.9	12.2	28.2	17.2	3.1	6.5	2.5	9.1	2.7	2.3	3.2	8.9
1913	17	7.6	24.4	8.9	3.6	8.8	2.5	8.3	2.9	2.6	5.4	19.1
1950	14.2	4.2	21.7	4.5	2.7	5	2	6.5	3.3	3.0	6.0	27.3
B R E A K IN T R E N D												
1973	14.8	3.1	22.5	4.6	2.0	5.9	1	4.2	2.8	7.7	5.4	22
1998	16.5	5.0	21	11.5	1.4	4.3	1	3.3	2.1	7.7	4.6	21.9
2010	17.1	5.4	19.1	13.6	1.1	3.9	0.8	2.9	1.8	5.8	4.4	19.7

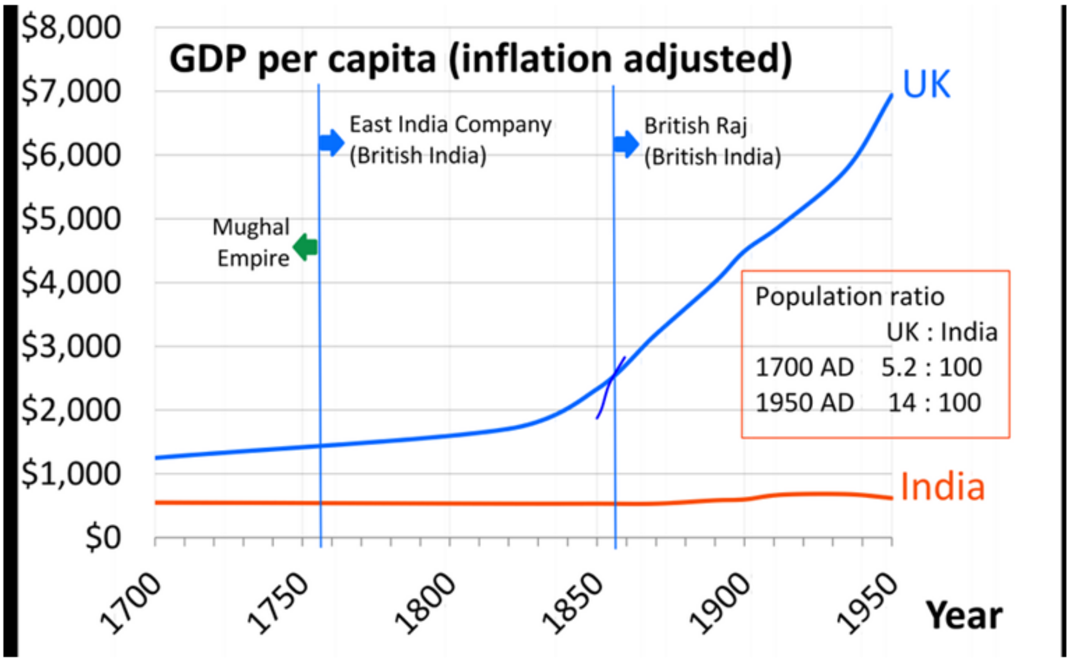
Source: Maddison (2007)

Table 2 discloses the same trend as depicted in Figure 1 for China and India during the period 1700-1913 with the two nations occupying the large share in global GDP, but there has been a declining trend for both, with only improvement around 1820s for China. It implied that other countries started performing better in comparison to the two nations from the late nineteenth century as the Sino-Indian trade gradually became monopolized and restricted. It is noteworthy that China's share of world population pre and post 1947 has been more or less stable with the absence of major deviations from one period to the next during most of the phases considered. Whereas, there was a declining trend for India. However 1973 onwards both the nations have again observed rising trend with respect to their share of World GDP. Whereas, the developed nations like Germany, Japan and USA have witnessed the opposite scenario during the period.

Interestingly, India's GDP per capita (inflation adjusted) has been steady all throughout, under the Mughal Empire, East India Company and British Raj (Figure 2). The figure shows that UK was benefitted the most in British India as not only the per capita GDP increased under the East India Company till 1850, it continued to progress at an increasing rate post-1850's till 1950.

Figure 2

GDP per Capita (inflation adjusted) India and United Kingdom under Mughal Empire, East India Company, British India



Source: Based on various publications published by Royal Statistical Society, London.

Table 3

China's Trade Share with Select Countries: 1865-1900

(Average % to total)

Imports		**Exports**	
Hong Kong	41.36	Great Britain	31.65
Great Britain	24.82	Hong Kong	26.94
British India	18.23	Continental Europe	11.86
Japan	5.80	USA	11.07
USA	2.65	Russia	5.82
Continental Europe	2.31	Japan	4.93
Other Countries	4.84	Other Countries	7.73

Source: Keller et al , China's Foreign Trade –Perspectives from the Past 150 Years, Department of Economics, Princeton University, 2010 *mimeo*.

Table 4

Major Sources of Chinese Imports: 1900-1946

(% to total)

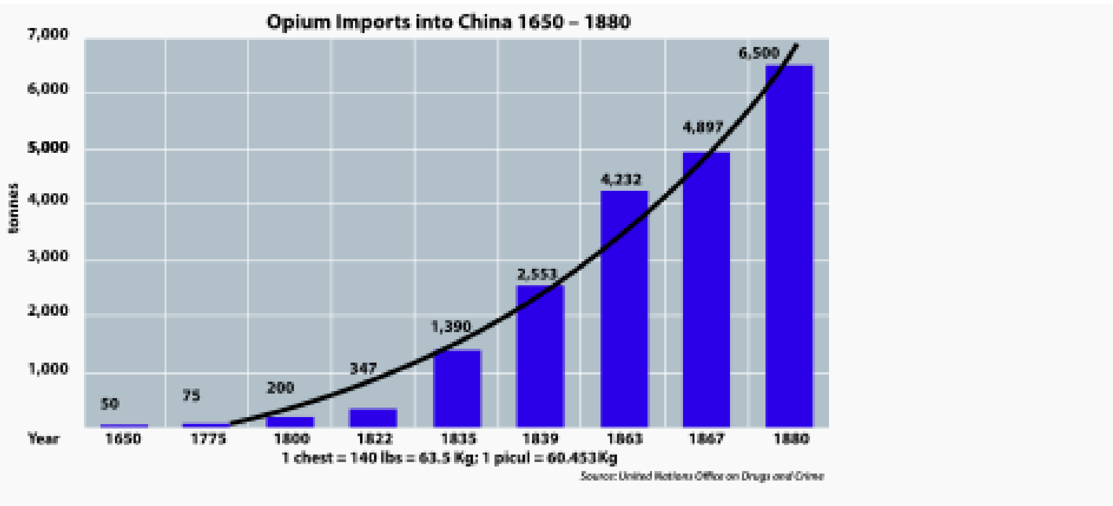
Japan	24.51
USA	22.05
Great Britain	17.02
British India	9.65
Germany	4.19
Java (Dutch East Indies)	2.91
French Indo-China	2.39
Russia (Soviet Union)	2.10
Belgium-Luxemburg	1.85
Singapore	1.56
Australia	1.25
Other Countries	10.53

Source: Keller et al , China's Foreign Trade –Perspectives from the Past 150 Years, Department of Economics, Princeton University, 2010 *mimeo*.

Table 3 & 4 again illustrates the significance of the Sino-Indian Trade in the pre-1947 period with China's import from British India during the 1865-1900 being 18.23% , the third highest in terms of its import trade. British India as discussed previously has been also one of the major exporters to China during 1900-1946 (Table 4).

The history of opium in China commenced with the use of opium for medicinal purposes during the 7th century. During the 17th century, the practice of mixing opium with tobacco for smoking spread from Southeast Asia, generating high demand (Figure 3).

Figure 3



The 19th and early 20th century observed increase in poverty in India during the colonial era.[2] Over this period, the colonial government de-industrialized the nation by reducing manufacture of clothes and other finished products by Indian artisans and stressing on import of these items from Britain's growing industry with innovations, while

[2] See Wikipedia: Poverty in India

simultaneously boosting conversion of more land into farms and agricultural exports from India. Eastern India along the Ganges river plains, viz. eastern Uttar Pradesh, Bihar, Jharkhand and West Bengal, were dedicated to producing poppy and opium, to be exported to southeast and east Asia particularly China, with the trade being an exclusive monopoly first of East India Company, and later the colonial British institutions. The economic significance of this move from industry to agriculture in India was huge. By 1850, nearly 1,000 square kilometers of poppy farms in India was created in its fertile Ganges plains and this led to two opium wars in Asia, with the second war fought between 1856-1860. After China acknowledged opium trade, the colonial government dedicated more land exclusively to poppy, there was enormous growth in opium agriculture in India from 1850 through 1900, when over 500,000 acres of the most fertile Ganges basin farms were allocated to poppy cultivation. Opium processing factories owned by colonial officials were expanded in Benares and Patna, and shipping expanded from Bengal to the ports of East Asia such as Hong Kong, all under exclusive monopoly of the British. By early 20th century, most of the Indians were engaged in agriculture, famines were common, and per capita food consumption plummeted in each decade. In London, during the late 19th century, British parliament debated the repeated occurrence of famines in India, and the impoverishment of Indians due to this diversion of agriculture land from growing food staples to growing poppy for opium export under the instructions of the colonial British empire.

Various studies reveal that poverty was intense during the colonial era in India. Frequent famines and epidemics killed millions. During 1876-

1879, famine in South of British India starved and killed over 6 million people, while many including children starved to death during the Bengal famine of 1943.

The colonial strategies relocated unemployed artisans into farming, and transformed India to a region characterized by abundant land, unskilled labour, low productivity and dearth of skilled labour, capital and knowledge. On an inflation adjusted 1973 Rupee basis, the average income of Indian agrarian labourer was Rs. 7.20 per year in 1885, against an inflation adjusted poverty line of Rs. 23.90 per year. Thus, not only was the average income below the poverty line, the severe intensity of poverty was also observed. The intensity increased from 1885 to 1921, then began a reversal. However, the absolute poverty rates continued to be very high through the 1930s. The colonial policies on taxation and its recognition of land ownership claims of *zamindars* and *mansabdars*, or Mughal era nobility, made a minority of families wealthy, while it weakened the capacity of poor peasants to command land and credit. The resulting rising landlessness and stagnant real wages intensified poverty. We find that poverty level in relative terms in Eastern India appeared to be better compared to the other states in British India partly explained by the free trade arrangement between British East India and her neighbourhood.

It is imperative to mention here that, partition and independence in 1947 ended whatever remained of this association. The partition converted the region at the crossroad of emerging Asia, into a landlocked outpost of a large continental economy (Sadangi, 2008). The huge landmass comprising the seven states of Assam, Arunachal, Manipur, Meghalaya, Mizoram, Nagaland and Tripura, approximately 225,000 sq. km., was now detached from its hinterland by the creation of East Pakistan. Linked by 37 km. wide Siliguri corridor with the rest of India, it soon lost its natural advantage as its amalgamation with the economy in the south and the west was disrupted by trade and industrial policies pursued by independent India.

The partition of the country along with gradual decay of rail, road and river links with the territories of East Pakistan, due to increasing hostilities, further disturbed trade and economic activity in the North East. This isolation was accentuated during the mid-1960s as war on Kashmir, communal violence in East Pakistan led to tearing of rail lines and closure of bus routes.

In the first two decades of planned development, the region was transformed from a potential outpost for trade with neighbouring countries emerging from colonial rule and war, into a small captive market for the produce of the Indian hinterland. Its tea and forest produce exports, though an important source of export earnings initially for India, soon lost their significance as Indian exports diversified towards manufacturing. Its petroleum, crude or processed, ultimately shifted towards the major markets in the north and western states of India.

Though there is little research on the link between the effect of isolation and trade disruption on the extent of poverty in the North East, there is little doubt that the impact on the region was highly regressive (Verghese, 2001).

Today, the region also has very high levels of absolute poverty, measured as number of persons with income below US$ one per day. The eastern region of India has poverty levels ranging between 41% for West Bengal to 58% for Bihar while the North East states fall in between this range. In other words, the eastern region has absolute poverty ranging between 42-58% making this one of the most backward regions in India. Its per capita income too is far below the national average, with Assam having a per capita income of Rs 10,000 in 2001-02, compared to Rs 18,000 for India.

VI

Summary and Conclusions

From the entire study it has been found that till the mid-nineteenth century, Eastern India or specifically Calcutta was very prominent in the Sino-Indian Trade and Eastern India was a significant route assisting in such trade thereby enabling India and China occupy major share in the World GDP. However with the partition in 1947 and gradual shift of political focus from East India towards the north and the west, the eastern region of India started to lose access to the resources that were once available to them via trade. Hence it can be inferred that this led to the increase in poverty in these states post 1947. Whereas pre-1947, the Eastern states fared better in terms of poverty. The tables therefore revealed fall in GDP share for both the China and India after 1947. Further fall in India in terms of GDP after 1950s can be explained due to the enactment of the restrictive trade policies in India. However data has revealed break in this trend and improvement in GDP for both China and India post 1970s due to the gradual trade exposure.

UK was benefitted the most under the East India Company and British Raj possibly due to the fact that the Indian artisans were not allowed to manufacture finished goods and garments and items were imported from Britain to boost its growing industry.

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