India China Trade Ties

This editorial is based on India’s intriguing trade ties with China which was published in The Hindu Businessline on 03/05/2023. It talks about despite slowdown in China, trade deficit between India and China remains high.

For Prelims: Fiscal Deficit, Gross Domestic Product, COVID-19 pandemic, free trade agreements, RCEP

For Mains: India China trade Relations, Factors responsible for higher trade deficit,

Despite the ongoing trade war between China and the US and the **COVID-19 pandemic,** China's role in global merchandise trade has not been affected. China is India's biggest source of imports, and its share in total Indian imports is more than double. India's dependence on China for non-oil imports can be as high as 25% or more.

India's trade relations with China are significant as China has been India's largest source of imports for the past 15 years. Despite India's efforts to reduce its dependency on China through import substitution and **free trade agreements (FTAs)** with Asian countries, China's share in India's imports has increased over the years. Due to increasing trade deficit with China India needs to look closely its trade relations with China.

How is India-China Trade Relations?

- **Import from China:**
    - The slowdown in China and supply disruptions have not reduced China's share in India's total imports, and in absolute terms, India's imports from China in 2021-22 are significantly higher than its pre-Covid level of imports.
    - In 2020-21 and 2021-22, **China's share** in India's imports **reached a record high** of **16.53% and 15.43%,** respectively, while the UAE was the second-largest source of imports for India with an **import share of 6.7% and 7.31% in 2020-21** and 2021-22, respectively.
    - China's dominance in **total non-oil merchandise** imports is even more pronounced as India's dependence on China for non-oil imports can be as high as **25% or more.**
    - **Items of Import:**
        - India primarily imports **electrical and electronic goods, organic chemicals including pharmaceuticals, and plastic items** from China.
        - These items **account for more than 70% of India's imports** from China.
- **India's Exports to China:**
    - **According** to data from the **Ministry of Commerce and Industry,** India's **exports to China** have been **growing** steadily in recent years.
        - In the financial year 2020-21, India's exports to China were worth $21.2 billion, up

from $16.7 billion in 2019-20.

- **Items of Export:**
    - The major items that India **exports to China** include **organic chemicals, cotton yarn, copper, and ores.**
    - However, India's exports to China are still much lower than its imports from China, resulting in a large trade deficit.

- **Bilateral Trade Deficit:**
    - India's bilateral trade deficit with China is large and growing. In 2021-22, India's trade deficit with China was around $73.3 billion, and it is expected to cross $100 billion in FY23.
    - India's **trade deficit with China accounts for 38-40%** of India's total merchandise trade deficit in the post-Covid era.

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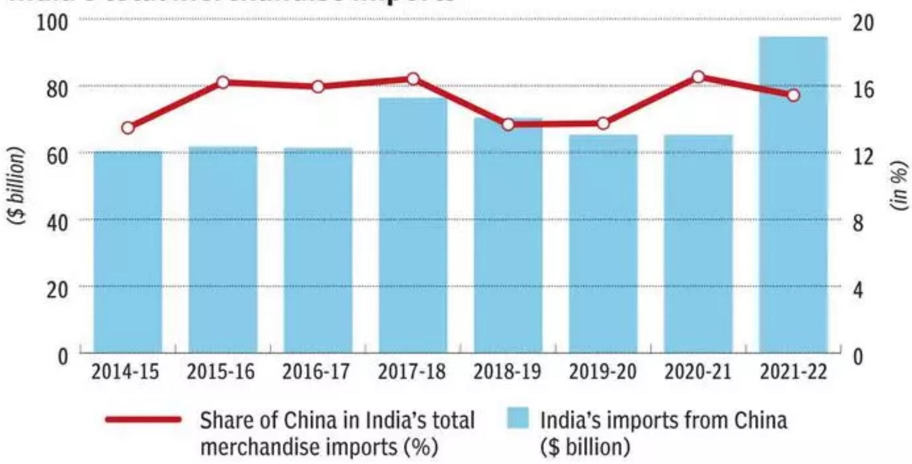
Dissecting India-China trade

Imports from China and share of China in India's total merchandise imports

CHART



Merchandise trade with China and India's total merchandise trade

TABLE

($ billion)

	Imports from China	Exports to China	Trade deficit with China	India's total trade deficit
2014-15	60.41	11.93	-48.48	-137.69
2015-16	61.71	9.01	-52.7	-118.72
2016-17	61.28	10.17	-51.11	-108.5
2017-18	76.38	13.33	-63.05	-162.05
2018-19	70.32	16.75	-53.57	-184
2019-20	65.26	16.61	-48.65	-161.35
2020-21	65.21	21.19	-44.03	-102.63
2021-22	94.57	21.26	-73.31	-191.05

What are the Reasons for Intriguing Trade Relations?

- **China's Domestic Consumption Policy:**
    - India's increasing trade imbalance with China is intriguing for some special policy reasons.
    - China's GDP **growth rate has slowed down** since the **Covid crisis,** and the country has shifted its policies more towards domestic consumption.
    - However, this policy shift has not affected Chinese exports to India.
- **India's Withdrawal from RCEP:**
    - India has signed FTAs with several East and Southeast Asian nations, which should have taken some market share away from China, but this has not happened.

- India withdrew from the Regional Comprehensive Economic Partnership (RCEP), which puts India at a disadvantage compared to other FTA partners of China.

What Does Heavy Import Reliance on China Imply?

- From the perspective of the government, the political and security challenges are deepened when the state is dependent on importing products and services from an unfriendly country.
- India imports most of the Active Pharmaceutical Ingredients (APIs) it uses in its pharmaceutical industry from China. The **cost of Chinese APIs is cheaper than the Indian ones** even on the Indian market.
  - The depth of the problem was revealed during the Covid-19 pandemic when due to travel restrictions, exports of Chinese APIs to India were temporarily restricted and consequently India had to cut its exports of APIs too.
- Approximately **24% of coal energy generated in India** may be coming from plants that are using **critical equipment imported from China.** This, therefore, may not necessarily be considered a strategic dependence, but is certainly a form of a security challenge.
  - While there are demands to limit or even block such imports from China, this would simply mean forcing private Indian power companies to suffer higher costs.

What are Factors Responsible for the Trade Imbalance between India and China?

- **China's manufacturing dominance:**
  - China has **become a manufacturing hub for the world,** with a vast industrial base that enables it to produce goods at a lower cost than India.
  - This has led to China exporting a wide range of products to India, from electronic goods to textiles.
- **India's dependence on Chinese goods:**
  - India is heavily dependent on Chinese goods, as it imports a significant amount of raw materials and finished products from China.
  - This includes items such as **machinery, electronics, and chemicals.**
- **Non-tariff barriers:**
  - There are several non-tariff barriers to trade between India and China, including complex regulatory requirements, intellectual property rights violations, and lack of transparency in business dealings.
  - These barriers can make it difficult for Indian businesses to access the Chinese market and compete with Chinese firms.
- **Infrastructure and Logistics:**
  - India's inadequate infrastructure and logistics facilities result in higher transaction costs for exporters, making Indian goods less competitive in the Chinese market.
- **Currency exchange rates:**
  - The exchange rate between the Indian rupee and the Chinese yuan also plays a role in the trade imbalance.
  - The **Indian rupee has been weaker than the Chinese yuan,** which makes **Indian exports more expensive** for Chinese buyers and Chinese imports cheaper for Indian buyers.
  - This further exacerbates the trade imbalance between the two countries.

What Should be the Way Forward?

- **Diversify Imports:**
  - India needs to **reduce its dependence on Chinese imports** by diversifying its imports from other countries such as **Vietnam, South Korea, Japan, Taiwan, and Indonesia.**
- **Boost Exports:**
  - India can focus on increasing its exports to China.
  - India should focus on exporting high-value products like **engineering goods, electronics, pharmaceuticals, and chemicals.**
  - These products h**ave a higher profit margin** and will help to increase India's **foreign**

exchange earnings.

- **Develop Domestic Industries:**
  - India needs to **develop its domestic industries** to reduce its reliance on imports. The government can **provide incentives to domestic companies** to manufacture goods that are currently imported.
  - This will not only help reduce the trade imbalance but **also create employment** opportunities in India.
- **Review FTAs:**
  - India needs to review its free trade agreements with other countries to ensure that they are not hurting domestic industries.
  - India should also **consider signing an FTA with China** to increase exports and reduce the trade deficit.

Drishti Mains Question:

Analyze India's trade relationship with China and explain the reasons for its growing trade deficit with China. What policy measures can be taken to reduce this deficit and increase self-reliance?

UPSC Civil Services Examination Previous Year's Question (PYQs)

Prelims:

Q. Which of the following best describes the term 'import cover', sometimes seen in the news?(2016)

(a) It is the ratio of value of imports to the Gross Domestic Product of a country.
(b) It is the total value of imports of a country in a year.
(c) It is the ratio between the value of exports and that of imports between two countries.
(d) It is the number of months of imports that could be paid for by a country's international reserves.

Ans: (d)

Exp:

- 'Import cover' is a concept of Economics which deals with the stability of a country's economy in dealing with foreign trade and Balance of Payment.
- It entails with country's international reserves, which is adequate as a hedge against a crisis to meet the payment for import bills.
- In simple terms, it can be said to mean the number of months of imports that could be paid for by a country's international reserves.
- **Therefore, option (d) is the correct answer.**