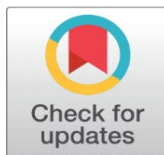


INDIA-CHINA TRADE RELATIONS: AN ANALYSIS

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ABSTRACT

Among the various regions with which India have trade relations; China has been the top trending partner of India. During the past decades, both India and China have expanded their trade significantly, and it has been crucial to sustaining their remarkable economic growth. However, an analysis with respect to their structural changes indicates many significant disparities. India is still a minor player in world trade, compared to China. This paper is an attempt to examine the trend, pattern and future prospects of trade relations between India and China using secondary data. The paper suggests that India's trade deficit with China has been increasing over the years.

Keywords: India-China Bilateral Relations, Trade Deficit

1. INTRODUCTION

India's economic relations among the neighboring nations have undergone significant changes in the last few years. There has been a drastic change in India's foreign trade after the New Economic Reforms of 1990s (Ray et al, 2005). Among the various regions with which India have trade relations; China has been the top trending partner of India. During the past decades, both India and China have expanded their trade significantly, and it has been crucial to sustaining their remarkable economic growth. China has achieved much better scores in trade growth and transformation, which contributed to its better economic performance. China being the second largest economy in the world is considered to be a significant player in world trade when it comes to the importing and exporting of goods. At the same time India is also considered as one of the emerging economies of the world. However, an analysis with respect to their structural changes indicates many significant disparities. There have been recent changes in the bilateral trade between India and China due to difficulties in India-China relations and economic problems caused by the global coronavirus pandemic. In recent years, China-India bilateral trade has been a highly discussed topic due to various factors, ranging from challenges caused by import dependency in particular sectors to economic opportunities as the global supply chain possibly import goods from China to India.

China and India affect the world economy and there has been a rapid trade expansion between both the countries. Between 1978 and 2006, China's share in world export of goods and services jumped by more than five times, from 1.4% to 7.6%. and that of India grew from 0.4% to 1.2%. India is still a minor player in world trade, compared to China. This

is also true for their trade with countries in Southeast Asia. Chaudhuri and Ray (2015) in their paper highlights that India’s trade deficit arises from China’s export driven growth model which prioritize manufacturing sector growth. Again according to Mehta and Mukherjee (2021) the trade deficit of India with China has widened after 2015 due to China’s dominance in global value chains. The structural imbalance in India is due to its huge dependency on Chinese intermediate goods (Swamy, 2018). This paper is an attempt to analyze the trend and pattern of trade relations between India and China during last decade.

The rest of the paper is divided into four sections. Section 1.2 discusses the objectives and methodology of the paper. Section 1.3 analyses the bilateral trade pattern between India and China. Finally section 1.4 concludes the paper.

1.1. OBJECTIVES AND METHODOLOGY

The basic objectives of this paper has been framed as

- 1) To examine the existing bilateral trade between India and China
- 2) To analyze the future prospects of trade between India and China

The study is a descriptive one. For analyses purpose, secondary data has been collected from various sources.

1.2. ANALYSES AND FINDINGS

1.2.1. INDIA CHINA BILATERAL TRADE

The bilateral trade between India and China has grown four-fold in the past decade. But the trade was tilted more in favour of China. India had unfavorable balance of trade with China. While China continues to enjoy a huge favourable balance of trade vis-à-vis most other smaller states of the South Asian region, it is only the India-China trade that has remained to be China’s most balanced trade in South Asia. However, both these nations are growing very fast and can propel the future world economy with a pool of the world’s largest skilled work force.

| Year | Total Trade (USD Billion) | India’s Exports to China | India’s Imports from China |
|------|---------------------------|--------------------------|----------------------------|
| 2014 | 72.3 | 16.3 | 56.0 |
| 2015 | 71.6 | 13.4 | 58.2 |
| 2016 | 70.2 | 11.8 | 58.4 |
| 2017 | 84.4 | 16.3 | 68.1 |
| 2018 | 95.5 | 18.8 | 76.7 |
| 2019 | 92.9 | 17.1 | 75.8 |
| 2020 | 87.6 | 20.9 | 66.7 |
| 2021 | 125.6 | 28.1 | 97.5 |
| 2022 | 135.9 | 17.5 | 118.5 |

Source Ministry of Commerce, GOI

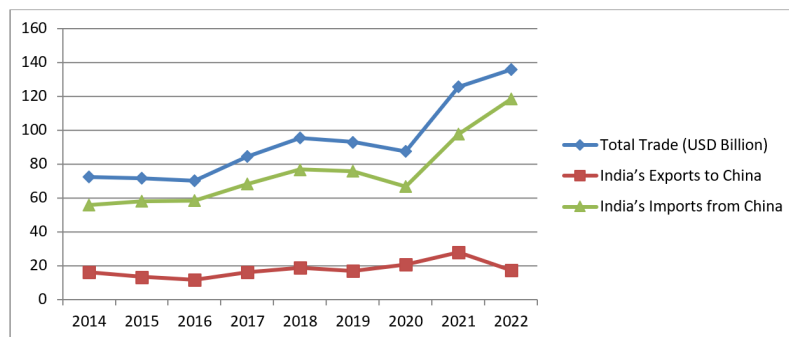


Figure 1

During the year 2013, China overtook UAE to become India's biggest trading partner. Presently, China is India's 4th biggest export destination whereas the biggest import source. The trade figures between India and China witnessed a tremendous jump from USD 2.71 billion in 2001 to around 70 billion in 2016. Importantly, majority of the trade remained in favour of China as it exported around 60.48 billion and imported 9 billion during 2016. Astoundingly, India's share in China's imports stood at a meagre 0.6% during 2016 revealing insignificant presence of Indian products in Chinese markets.

In recent years, the India-China bilateral relationship has been characterized by historical animosities and border disputes. Nevertheless, the economic ties have grown since the early 2000s and have been at the forefront of this relationship. Trade and investment have provided a cushion to this otherwise tricky relationship.

China forms an integral part of the global supply chain, and India too is heavily dependent on Chinese imports, ranging from a variety of raw materials to critical components. India's export to China includes iron ore, drug intermediates, dyes, frozen shrimp, fish, raw cotton, yarn, polished diamonds, petroleum, plastics etc. On the other hand India's import from China includes smartphones, semiconductors, industrial machinery, telecom gear, pharmaceuticals, organic and inorganic chemicals, manufacturing raw materials aluminium products, toys, furniture, textiles etc. The electronics and Pharma API's consists about 45% and 70% imports from China.

China is the largest import partner of India exporting worth \$101.5 billion in 2023. China is India's third-largest trading partner. India's import from China includes consumer electronics, telecommunications equipment, hardware and components, electrical equipment, fertilisers, and chemicals. In spite of the efforts to reduce trade deficit with China since tensions flared in 2020, imports of electronic instruments rose to 14 %, while that of the organic chemicals, iron and steel products rises to 9 % and 12.3 % respectively. Thus, India's trade gap with China has increased by 13.5% in fiscal 2023 year.

According to data from 2019, a staggering 70% of electronic components, 45% of consumer durables, 70% of Active Pharmaceutical Ingredients (APIs), and 40% of leather goods come from China. India has the world's third-largest pharmaceutical industry for which 2/3rds of its key ingredients come from China.

Table1 India China Bilateral Trade

| | | | |
|------------------------------------|----------------|------------------------------------|----------------|
| India's overall merchandise import | \$484bn | India's overall merchandise export | \$325bn |
| Merchandise import from China | \$85bn | Merchandise export from China | \$29bn |
| % imports from China | | % exports to China | |
| Electrical Machinery | 34% | Gems/ Jewellery | 36% |
| Nuclear Reactor | 18% | Mineral/Ores | 15% |
| Organic Chemicals | 10% | Organic Chemicals | 11% |
| Gems/Jewellery | 6% | Acquaculture | 5% |
| Iron & Steel | 4% | Electrical Machinery | 4% |
| Plastic Goods | 4% | Cotton | 4% |
| Fertilisers | 2% | Plastic/Polymers | 3% |
| Medical Components | 2% | Nuclear reactor | 3% |
| Auto components | 2% | Iron & Steel | 3% |

Source Money control, CRISIL

The growth in trade deficit with China could be attributed to the fact that India exports a narrow basket of commodities to China like iron ore, cotton, copper etc. which have been replaced by Chinese exports of electronics, machinery, telecom equipment, organic and inorganic chemicals, fertilizers etc. Moreover market access barriers for most Indian agricultural products, dairy etc. has also contributed to this trade deficit. Chinese goods are cheaper than India's domestic production. Cost is a vital reason why Chinese products dominate markets across sectors. Products such as fertilizers are 76% cheaper, electronic circuits are 23% and data processing units around 10% cheaper if made in China. Chinese API's, lithium-ion batteries, electronic components, solar panel etc. has a major and critical control on Indian market.

1.2.2. THE WAY FORWARD

Policy measures like PLI and Atmanirbhar Bharat aims at reducing dependency on Chinese goods but in order to reduce this deficit there is a need to develop long term manufacturing upgrades as well as industrial development in India. There has also been an effort to reduce India's dependence on Chinese goods. The Indian Railways, for instance,

cancelled an INR 471 crore deal with a Chinese firm. Similarly, state-owned telecom firm BSNL was instructed not to use gear from Chinese firm Huawei for a network upgrade. The government has mandated all products to have the Country of Origin tag for products on the Government e-Marketplace in an effort to identify Chinese-origin goods. In early July 2020, the Ministry of Power restricted power supply systems and networks import from China citing cyber and security threats, which constitute about 30% of the total imports from China. In the last 10 years, 12,540 MW out of 22,420 MW of the supercritical power plants were built using Chinese equipment. India also extended safeguard taxes on imports of solar cells and modules as well as imposed anti-dumping duty on several goods. In July, India placed colour television sets imports under the restricted category, thus requiring a license to import; and air conditioners under the prohibited category. The effects of these moves cannot be measured immediately.

But the Indian economy is deeply intertwined with Chinese exports. China's share in Indian imports for intermediate goods, capital goods, and final consumer goods is 12%, 30%, and 26% respectively. India depends on China in many key industries from electrical machinery and appliances to pharmaceutical drug API. In recent years, there have been certain mobile companies shifting their assembly lines to India, which is a step in the right direction but still, all the key high-end manufacturing components like the display, chipset, and memory are being imported from China. India has banned key imports in the electrical machinery sector citing the availability of technology in India but what needs to be seen is how competitive it is, quality and cost-wise.

It will be hard to substitute or compete with those prices. Since the pandemic, there are calls to diversify the supply chain. The Indo-American Chamber of Commerce said that around 1,000 firms were planning to leave China but only 300 of them were serious about investing in India.

2. CONCLUSION

This indicates that India's trade deficit with China has been increasing over the years inspite of rising geopolitical friction. India thus needs to undertake a series of reforms like land and labour reforms to foster growth and investment. India also needs to take active steps to have a more long term perspective on what it wants to do with the relationship with China. Further it should scale up domestic production in key sectors including electrical machinery and pharmaceuticals to replace those imports. Without any of these key reforms, the Prime Minister's call for 'Aatmanirbhar Bharat' will remain a mere slogan. Future research should explore sectoral competitiveness and alternative supply chain models.

CONFLICT OF INTERESTS

None.

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None.

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