India’s trade dilemma with China

Why in news?

China has emerged as India’s top source of imports and the share of China in India’s total merchandise imports has steadily increased.

What is the status of India’s imports and exports?

- **Exim imbalance –** India exports primary, low value added produce, but imports intermediates and manufactured items
- **China’s domination –** India has signed many Free Trade Agreements with different countries, however, there has been no noticeable decline in China’s market share in India’s total imports.
- **China+1 –** Contrary to the global slogan of “China plus One”, trade deficit between India and China has been high and growing.

What are the commodities that constitute the Indo-China trade basket?

- **Harmonized System (HS) –** The HS of global trade is a standardised numerical method of classifying traded products.
- Using the dataset on international trade maintained by the Ministry of Commerce, 10 product groups’ account for about 80% of India’s total imports from China.

Import basket

- **At HS 2-digit level –** Among these, the top three product groups, make up for more than 60% of India’s total imports from China.
- These product categories include products like electronic goods, mobile phones, semiconductors, electrical appliances, organic chemicals including pharmaceuticals.
- In each of these three product categories, China’s share in India’s total imports varies between 40 and 50%.
- And for the last 10 years these top 3 product categories have remained unchanged.
- **At HS 4-digit level –** India’s top 10 imports from China are mostly value-added manufacturing products.
- These are electrical goods and machinery, electronics and semiconductors, organic chemicals and pharmaceuticals.

Among India’s top imports from China, a few are final goods, but the others are mostly intermediate goods which are used as inputs in Indian industries.

Export basket

- India's exports to China have been more volatile and the latest data show that in 2022-23, India's exports to China has declined in absolute terms.
- India's merchandise imports from China was more than 6 times of its merchandise exports to China.
- **Refined petroleum –** These products have become India's most important export item to China.
- **Agri products –** Other than that, India's exports to China have been mostly dominated by agricultural goods and metals.
- **Metal ores –** Iron ores, semi-finished products of iron, copper and copper products, cotton and cotton yarn, fish and marine products, vegetables, vegetable oils and rice are India's major export items to China.

What does these trade patterns indicate?

- **More import than export –** Such trade pattern reveals that trade is not only highly unbalanced between China and India, but India is also primarily exporting low value added products.
- India mostly imports value-added manufacturing goods and intermediate goods from China.
- **Low value exports –** India's exports are mostly resource intensive primary or semi-processed products.
- In international trade, it has been observed that countries which operate at the lower end of the value chain tend to gain much less from trade.
- This is because gains from exports depend to a large extent on domestic value addition and export sophistication.
- While China has emerged as a big export market for India, India ends up exporting low value-added goods to China, then its gains will be limited.

Does manufacturing sector gain from this trade pattern?

- **Cheap inputs –** It can be argued that certain manufacturing sectors in India may be gaining from Indo-China trade as availability of cheap intermediate inputs from China.
- **Competitive markets –** The cheap inputs has possibly helped them stay competitive in the domestic and international markets.
- However, it is also true that some sub-sectors of Indian manufacturing may have been adversely affected because of imports from China.
- However, such inter-sectoral trade-offs are inevitable in international trade.

What can India do?

- **High value exports –** If India wants to make a mark in the global value chain and at the same time emerge as a manufacturing giant, then Indian exports need to move up the value chain.
- Over the years, quality, complexity, and sophistication of exports all over the world are growing rapidly and India is no exception.
- **Impetus to manufacturing –** The renewed emphasis on manufacturing in India

should further improve the quality of Indian exports.
- Given that China is the world's second largest economy, it is a huge market and India must look to break into the higher value-added segments there.
- India's trade strategy needs to be linked up with China in a more organic manner and come out from its current pattern.

What is the way forward?

- There is no economic logic suggesting that in international trade, each pair of countries needs to have balanced trade.
- Depending on the country's comparative and competitive advantage, trade will take place in different dimensions and different product categories, qualitatively and quantitatively.

Reference

1. The Hindu Business Line | India's trade dilemma with China

