India's dependency on China upstream imports on the rise

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India is becoming increasingly dependent on upstream imports from China for goods that are then exported to markets such as the US and Europe, according to McKinsey & Company's research on shifting patterns of global trade.

At the same time, India's exports to China are declining, suggesting an emerging asymmetrical trade relationship between the world's two largest developing economies.

India's trade evolution is evident in its rising imports from China, which grew in value by an average of 6 per cent per year between 2017 and 2023. This increase was driven by chemicals (including pharmaceuticals) and machinery, where imports grew at an average annual rate of 10 per cent.

Imports of microprocessors, memory chips, and semiconductor manufacturing equipment grew tenfold during this period, rising from a combined value of less than $500 million in 2017 to $5 billion, with the upward trajectory continuing into 2024.

Analysts say a key factor behind this trend is the Indian government's decision to restrict Chinese foreign direct investment following the Galwan border conflict, limiting China's ability to establish manufacturing units in India, particularly in electronics. This policy is now under review.

WHAT MCKINSEY REPORT SAYS

- **Indian imports from China have risen** by an average of 6% per year from 2017 to 2023
- **Imports of electronics like microprocessors, semiconductors, and memory chips from China** to India have increased tenfold over the same period
- **India's exports to China, in dollar terms,** have declined by an average of 2% per year between 2017 and 2023
- **The share of electronics exports** to the US and Europe has risen from 40% in 2017 to 65% in 2024

Meanwhile, India's trade with the US and Europe 30 — which includes the 27 European Union (EU) member states, Switzerland, Norway, and the UK — has remained stable and is rising, driven by exports that grew at an annualised rate of 8 per cent and 9 per cent, respectively, over this period.

In the electronics sector, the share of exports to Europe 30 (which refers to Bulgaria, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Luxembourg, Malta, Poland, Romania, Slovakia, Slovenia, and Iceland — essentially Europe excluding the EU-5 and EU-15) and the US increased from less than 40 per cent in 2017 to nearly 65 per cent in 2024. For instance, India's largest export to the US by Harmonized System code is mobile phones, largely dominated by Apple iPhones.

However, on the export front, India's dollar-value exports to China declined by an average of 2 per cent per year between 2017 and 2023. The net effect of rising imports and falling exports is that China's share of India's overall trade has decreased by 0.2 per cent annually over the same period.

Interestingly, Chinese imports are also rising in the Association of Southeast Asian Nations (Asean) countries, while exports to the US from the region are increasing. This is important as many of India's competitors in global trade, particularly in electronics, are based in Asean. Between 2017 and 2023, the value of Asean's electronics exports to the US grew at an annual rate of 18 per cent, although growth has moderated in 2024.

On the import side, China supplied 25 per cent of Asean's total imports in 2023, up from 20 per cent in 2017. China also gained a larger share of Asean imports in sectors such as electronics, chemicals, machinery, textiles, and apparel.

According to McKinsey, these trends point to a new trade dynamic emerging between China and the US, with Asean economies increasingly serving as intermediate steps in the global value chains linking the two largest economies. As a result, China's value-added contribution is embedded in the goods that Asean exports to the US.