

India's trade dilemma with China

EXIM IMBALANCE. India exports primary, low value added produce, but imports intermediates and manufactured items

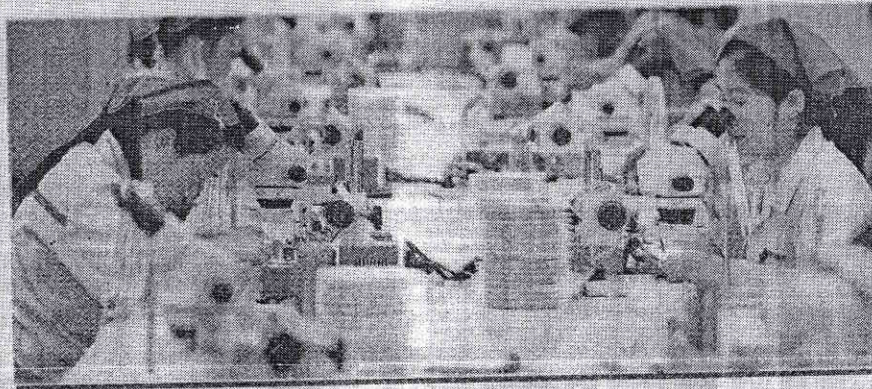
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The fact that China has emerged as India's top source of imports and the share of China in India's total merchandise imports has steadily increased is by now well-known.

During the last decade or so, while India has signed many Free Trade Agreements with different countries, there has been no noticeable decline in China's market share in India's total imports.

Contrary to the global slogan of "China plus One", and India's initiatives towards boosting up its own manufacturing exports, trade deficit between India and China has been high and growing. For 2022-23 India's trade deficit increased to \$83 billion, which accounts for 31.6 per cent of India's total trade deficit.

But what are the commodities that constitute the Indo-China trade basket? The Harmonized System (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, we can see that at sectoral level (2-digit HS), 10 product groups account for about 80 percent of India's total imports from China.

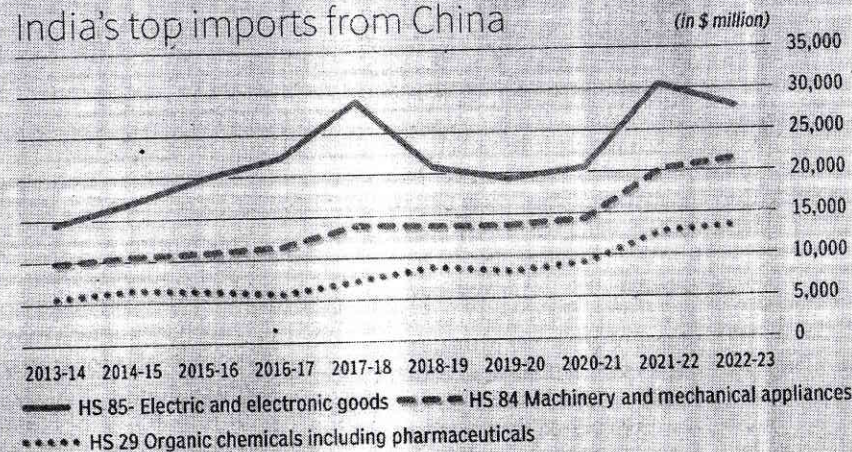


products. While India mostly imports value-added manufacturing goods and intermediate goods from China, its exports are mostly resource intensive primary or semi-processed products which are mostly at the lower end of the value chain.

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 as 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, if India ends up exporting low value-added goods to China, then its gains will be limited.

These issues are well known to the Indian authorities. The Indian Embassy in Beijing mentions categorically, "The growth of trade deficit with China could be attributed to two factors: narrow basket of commodities, mostly primary, that we export to China and second, market access impediments for most of our agricultural products and the sectors where we are competitive in, such as pharmaceuticals, IT/IteS, etc" (https://www.eoibeijing.gov.in/eoibeijing_pages/MjQ).

India's top imports from China



Source: Ministry of Commerce, Government of India

IMPORT BASKET

Among these, the top three product groups, make up for more than 60 per cent of India's total imports from China (Figure). These product categories include products like electronic goods, mobile phones, semiconductors of different types, electrical appliances and machinery and organic chemicals including pharmaceuticals and organic chemicals used as intermediate goods.

In each of these three product categories, China's share in India's total imports varies between 40 and 50 per cent. And for the last 10 years these top three product categories have remained unchanged.

At a more disaggregated HS 4-digit level, we see a similar picture. 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.

However, among the electronic goods and semiconductors, imports of some products show high volatility, which is possibly due to the chip-shortage that happened in China since the Covid crisis. The disaggregated data also show that 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. For some products like Antibiotics (HS 2941, last five-year

Top export items to China (In \$ million)

HS Code	Commodity	2019-20	2020-21	2021-22	2022-23	Average
2601	Iron Ore	2,134.16	4,245.45	2,485.72	1,396.83	2,565.54
2710	Petroleum products other than crude	2,098.44	1,017.58	1,830.28	1,907.02	1,713.33
2902	Cyclic Hydrocarbons	1,409.53	956.97	988.29	268.39	905.8
306	Marine Products	911.52	602.87	822.69	924.34	815.36
7403	Copper Unwrought	242.82	734.18	1,068.32	378.71	606.01
5205	Cotton Yarn	585.01	666.55	776.04	204.53	558.03
7601	Aluminum unwrought	54.32	399.18	1,268.29	213.53	483.83
1515	Vegetable Fats	339.34	422.02	513.85	525.67	450.22
2516	Granite	429.56	454.32	499.28	378.66	440.46
904	Pepper	308.8	425.61	420.94	422.97	394.58

Source: DGCIIS

average), and Semiconductors (for certain years) more than 80 per cent of India's total imports come from China.

On the other hand, India's exports to China have been more volatile. The latest data show that in 2022-23, India's exports to China has declined in absolute terms. Consequently, China's share in India's export basket came down to 3.4 per cent in 2022-23 from 5.04 per cent in 2021-22. The lopsided nature of trade between India and China

Indian imports from China are dominated by electrical, electronics, semiconductors and pharma inputs, whereas exports to China largely constitutes of agricultural goods and metals

can also be gauged from the fact that in 2022-23 India's merchandise imports from China was more than six times of its merchandise exports to China. To put the magnitude of India's exports to China in perspective, in the 2022-23, India's merchandise exports to the US was of \$76 billion.

A more disaggregated look at India's exports to China show that in the last few years, refined petroleum products have become India's most important export item to China. Other than that, India's exports to China have been mostly dominated by agricultural goods and metals. 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.

Such trade pattern reveals that trade is not only highly unbalanced between China and India, but India is also primarily exporting low value added

MANUFACTURING GAINS

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 has possibly helped them stay competitive in the domestic and international markets. But it is also true that some sub-sectors of Indian manufacturing may have been adversely affected because of imports from China, but such inter-sectoral tradeoffs are inevitable in international trade.

Overall, 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. But 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. India is no exception. 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.

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