GTRI Brief

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India-China trade:

Low exports and not high imports is the real challenge for India.

1-Overview

The merchandise trade data released by China Customs on January 13, 2023, led to concerns in India over high imports from China.

Data revealed:

- India's exports to China fell from $28.1 billion in CY 2021 to $17.48 billion in CY 2022.
- India's imports from China rose from $97.5 billion to $118.5 billion during the same period.
- The merchandise trade deficit with China crossed the $100 billion mark for the first time.

A quick GTRI scrutiny suggests that:

- India's imports from China are in keeping with global trends. Other countries have similar level of imports.
- While India must contain imports, the real issue is not high imports but India's low exports to China.

2-Imports from China

China is usually the largest supplier to most countries. China's share in import baskets of most countries remains high. India is no exception. (Table 1).

- China's shares in global imports of Japan, Korea, the EU, and the US are 24.0%, 22.5%, 22.3%, and 18.5%, respectively.
- China's share in India's global imports is a sober 15.3%. India fairs better than most significant countries.

Why the world buys so much from China is well known: China, the factory of the world, supplies 15 percent of world merchandise exports with a value exceeding $3.36 trillion (2021). Look at the high value of China's major global exports. Electronic products ($900 billion), Machinery ($550 billion), Textiles and apparel ($310 billion), Steel products ($160 billion), Furniture ($150 billion), Plastics ($130 billion), Automobiles ($120 billion), Toys ($100 billion), Medical equipment ($100 billion). The figure in the bracket shows China's export value in 2021. The world buys most laptops, mobile phones, washing machines, refrigerators, apparel, toys, and household goods from China.

3-Exports to China

The real issue for India is its low exports to China. India fairs worse than many other countries.

Shares of China in global exports of Japan, Korea, and the EU are 21.6%, 25.3%,10.1%, and 3.9%, respectively.

But, the shares of China in global exports of India is just 5.8%.

Therefore, the real problem for India is the low level of exports to China.

Among major powers, the US does worse with just a 3.9% share.

Table 1-% Share Of China In a Country's Global Export and Import In CY2021			
S. No	Country/Region	Export	Import
1	Vietnam	16.7	33.2
2	Russian Federation	14.0	24.8
3	Japan	21.6	24.0
4	Sri Lanka	2.2	23.7
5	Philippines	15.5	22.7
6	Korea, Rep.	25.3	22.5
7	European Union	10.1	22.3
8	Saudi Arabia	3.9	19.8
9	United States	8.9	18.5
10	Mauritius	1.8	17.8
11	India	5.8	15.3
12	Nepal	0.5	15.1
13	United Arab Emirates	1.1	14.9
14	World	10.1	14.8
15	United Kingdom	3.9	13.3
Source-WITS, Reporter-China			

4-Why are India's exports to China low?

Two factors explain India's low exports to China.

- Both countries specialize in similar sectors, and
    - India's core strength lies in labor-intensive products like textiles, clothing, leather, and engineering products. <u>China need not buy</u> as it is the world leader in these products.
- But China stifle competitive imports from India through complex regulations.
    - China's annual imports exceed $2 trillion. Half of this is in products India exports globally. For example, India has emerged as a competent global supplier of polished diamonds, small cars, generic medicines, buffalo meat, etc. China imports these products in large quantities for domestic consumption but not from India.

5-How does China reject Indian products?

Quality cannot be a problem as India exports these products to over 100 countries, including the US and EU.

China uses four significant barriers besides tariffs — regulatory, internal market, trade defense, and political to regulate imports. A brief look at each of these.

5A-Regulatory barriers

A firm needs to register its product with the specified Chinese authority. This means submitting many documents, including details about the firm and its products.

The next step is meeting the inspection, product testing, and quality certification requirements. Chinese experts would visit and inspect Indian factories. The costs are to be borne by the Indian side. Only Chinese labs do product testing. And there can be no appeal on their decisions. Let us take the case of medicines, industrial, and food products.

India imports 90 percent of bulk drugs or APIs from China and allows easy access through a simple registration system. After registration, there's no rule for checking off each consignment at the time of import.

Not so in China, though. Registration takes one to three years. Testing takes place again at the time of imports. And China cancels registration even if one batch has issues.

The provinces do not recognize USFDA certificates and need new clinical trials, even on generic drugs. This increases the cost.

To export industrial products such as electric wires, cables, IT products, motorcycle parts/accessories, and electrical tools to China, one must first get a NOC from the China compulsory product certification system or CCC. The NOC may come after detailed laboratory testing, factory inspection, and labeling.

More stringent processes await food, meat, fish, and dairy exporters. They must get NOC from the General Administration of Customs China (GACC) and relevant administrative ministries.

They will also have to follow the China food safety standards and applicable sanitary and quality regulations. Products like oatmeal need further clearance from China's Agriculture Ministry.

After obtaining all the NOCs, it is still not done. A firm needs an import quota for products like rice and sugar to avoid exorbitant tariffs. And state agencies get most of the quota.

The complicated and non-transparent system ensures that it takes years to get the green signal. Or it may never come.

5B-Internal market barriers

Only a tiny part of China's imports enter the domestic market. Most imports act as inputs for making export products. Most electronics and machinery trade between China and Japan-Korea-ASEAN falls in this category.

This trade happens at zero duty outside the FTAs (free trade agreements). Internal market barriers also apply to firms producing in China.

They have to clear extra barriers to selling in the Chinese domestic market. Preference is always for domestic firms.

5C-Trade defense measures

An importing country can impose anti-dumping, countervailing, or safeguard duties. If a foreign firm exports at a price lower than it charges in its domestic market, the importing country can impose an anti-dumping duty.

Countervailing duty neutralizes the effect of any government subsidy provided by the exporting country. Safeguard duties contain any general surge in imports of a product. China is not alone here. The USA, Japan, Korea, India, and many other countries also levy these duties. These duties are generally higher than the regular import duties and restrict imports. Factor this into the cost.

5D-Business is Geopolitics

China uses trade to meet political ends. India may not be alone. For example, China is Australia's largest trade partner, buying a third of Australian exports. Problems precipitated in Apr 2020 when Australian Prime Minister Scott Morrison favored an inquiry into the role of China in the origins of COVID-19. China retaliated on the trade front. It soon restricted the import of beef, delayed customs clearance of lobsters, and imposed an 80 percent tariff on barley and a 218 percent anti-dumping duty on wines from Australia. China also advised its firms not to buy coal, cotton, and timber from Australia. ECTA will provide much-needed relief to Australian firms. The bigger the engagement with India, the larger the benefits.

Such issues persist in many countries. China used to buy a large number of bananas from the Philippines regularly. But when the Philippines questioned China's claim over the South China Sea, China suddenly stopped buying its bananas.

6-What should India do?

India should simultaneously focus on minimizing Imports and promoting exports.

India's 65% imports from China are limited to just 3 product groups. Electronics (30% share), Machinery (21%), and Organic chemicals, including APIs (15%). Here are significant products along with imports values during Jan-Nov 2022: Mobile phones, telecom equipment, parts (US$ 6.4 billion), Solar cells (US$ 4.7 billion), Laptops, PCs (US$ 5.7 billion), Laptop memories (Hard disk RAM), ICs, parts (US$ 4.7 billion), Lithium Ion battery, etc. (US$ 2 billion).

Why India's imports are growing? We are critically dependent on China for our day-to-day use and industrial products. Mobile phones, laptops, components, solar cell modules, ICs, and more. Lithium-ion battery imports surged more than 92% during Jan-Nov 2022 over the previous period. The adoption of Electric vehicles will increase this value steeply shortly.

We list a few more products and the value of India's imports from China during the Jan-Nov 2022 period. Textiles and apparel ($3.7 billion), Medical and lab equipment ($2 billion), Fertilizer ($2 billion), Glassware (782 million), Furniture (734 million), Paper and board (665 million), shoes (321 million), Toys (227 million), knives, nail cutters, combs. The list of such products that India can produce in India is long.

We are moving in the right direction with initiatives like Make in India and the reshoring of production by global firms to India. This will gradually raise India's export profile and contain imports. India must invest in deep manufacturing. For

EV batteries, we must produce Lithium-ion cells; for Laptops, we must make PCB; for Mobile phones, we must make components.

India must take up all market access issues faced by its exporters with China on a priority basis. India may consider applying mirror regulations to imports from China.

World and China are slowing down. To keep the factories running, China may resort to active dumping of products. India must watch out.

7-Myth: India always had a high trade deficit with China.

False.

India had a trade surplus with China in 2004-5, as per data reported by China.

During 2006-22, imports from China zoomed, and India's trade surplus turned into a deficit of $101 billion in 2022.

Table 2-India's merchandise trade with China-US$ billion-Chinese data

Year	Exports	Imports	Balance
2004	7.7	5.9	Surplus
2005	9.8	8.9	Surplus
2006	10.3	14.6	Deficit
2007	14.6	24.1	Deficit
2008	20.3	31.6	Deficit
2009	13.7	29.7	Deficit
2010	20.8	40.9	Deficit
2011	23.4	50.5	Deficit
2012	18.8	47.7	Deficit
2013	17.0	48.4	Deficit
2014	16.4	54.2	Deficit
2015	13.4	58.2	Deficit
2016	11.8	58.4	Deficit
2017	16.3	68.0	Deficit
2018	18.8	76.7	Deficit
2019	18.0	74.8	Deficit
2020	21.0	66.7	Deficit
2021	28.1	97.5	Deficit
2022	17.5	118.5	Deficit
Source-WITS, Reporter-China, China Customs			

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GTRI aims to create high-quality and jargon-free outputs for governments and industry on issues related to trade, technology and investment from the perspective of development and poverty reduction.

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Feedback

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