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## 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?

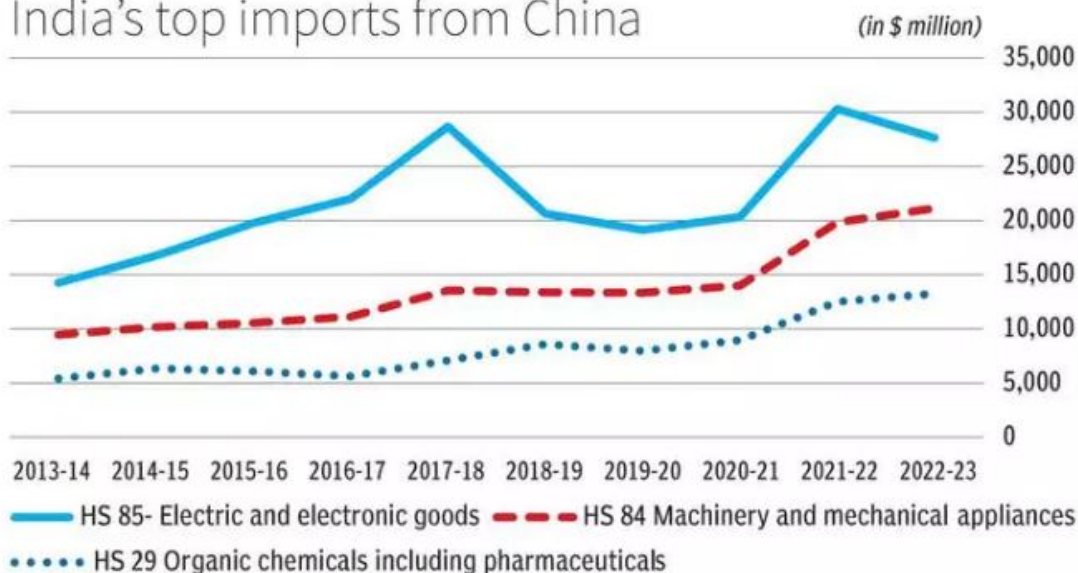
- **Harmonized System (HS)** - The HS of global trade is a standardised numerical method of classifying traded products.
- Using the dataset on international trade maintained by the Ministry of Commerce, 10 product groups' account for about 80% of India's total imports from China.

### 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.*

## India's top imports from China



### 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](#)



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