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INDIA'S ECONOMIC ENGAGEMENT WITH CHINA

INTRODUCTION

Amid the ongoing border standoff between India and China, there has been nationwide call for ban on Chinese goods. The move seems pertinent and in the interest of domestic industries. Also, India has been showing negative balance of trade in its bilateral trade with China. However, the anti-Chinese sentiments need to be explored in light of various important aspects of India-China economic, trade and technology relations.

These aspects include understanding the extent of imbalance in India-China relations, what are the reasons for increased Chinese presence in the Indian market, how this overwhelming presence is impacting the domestic industries, in this backdrop, can India afford to boycott China at this juncture and if not what are India's options in this regard. Moving further we will also have a look at the government steps taken to restrict the Chinese dependence and also to promote the domestic production. In the end we will explore various suggestions and way forwards which can aid government's steps to achieve holistic development of domestic manufacturing and limiting the Chinese imports.

WHAT IS THE EXTENT OF IMBALANCE IN INDIA-CHINA TRADE RELATIONS?

➤ Chinese dominance in trade

- The **bilateral trade has increased** from USD 38 billion in 2007-08 to around USD 89.6 billion in 2017-18.
- In 2013-14, the **Chinese import** was approximately to the tune of about 11.6 % of all Indian imports. By 2017-18, it had increased to about 16.6%.
- While India's imports from China have increased manifold, the same cannot be said for **India's exports to China.** China formed 6.5% of India's exports in FY10, which is the highest in the last 10 years. In FY20, China accounted for 5.3% of India's total exports. However, **China is the 3rd top destination for India's exports.**
- The **trade deficit with China** at around $63 billion constitutes more than **40% of India's total trade deficit.**
- **COVID-19 opened another dimension of dependence -** India's imports from China have risen in the month of June and July 2020 by about 7.2% whereas the exports to China have contracted by 1.4% despite the demand slowdown due to COVID-19.
  - ✓ The primary reason for increased import is the immediate need for medical supplies like masks, PPE kits and other emergency equipment.

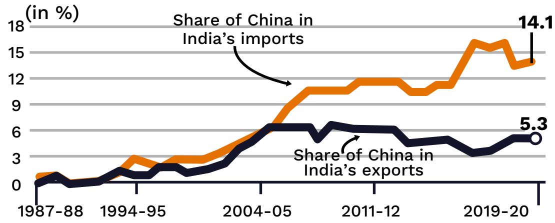
NATURE OF IMPORTED PRODUCTS FROM CHINA

From gadgets to toys, simple to complex, essential to non-essential, raw materials to intermediates to finished goods, China's presence in the Indian import basket is overwhelming.

To ascertain India's dependence on Chinese imports, and its substitutability, **three factors need to be considered within a product:**

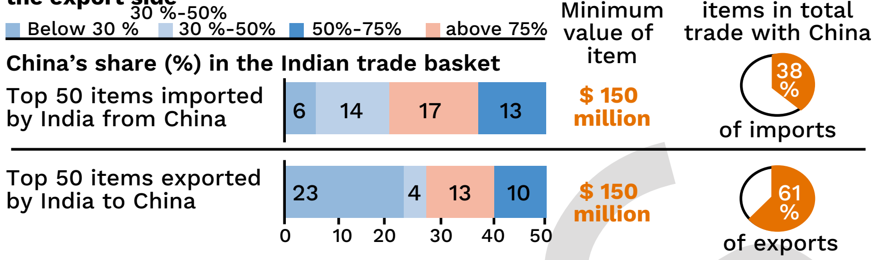
- Volume of imports of that product from China.
- The share of China in India's imports for that product.
- The end use of that product in India.

Both nations initially gained from easing of trade barriers, but then china broke away

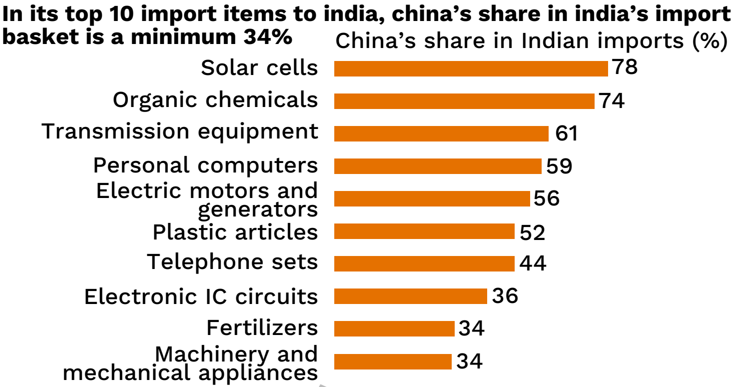


Data for 2019-20 for 11-month period from April 2019 to Feb 2020

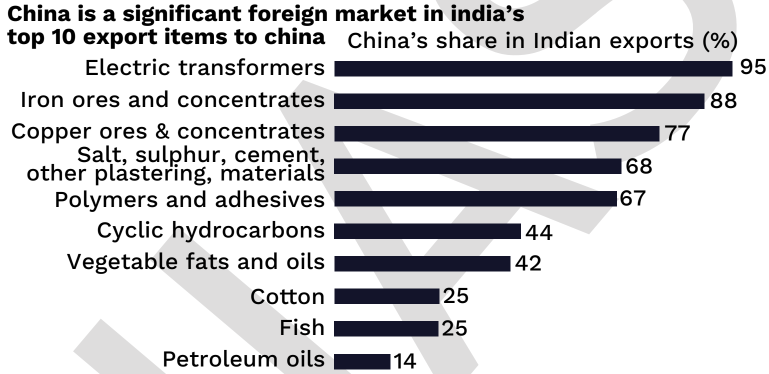
China matters for india, both on the import and the export side



In its top 10 import items to india, china's share in india's import basket is a minimum 34%



China is a significant foreign market in india's top 10 export items to china



WHAT ARE THE SECTORS THAT ARE DEPENDENT ON CHINA?

- **Pharmaceuticals:** About 2/3rd of the total **API requirement** and about **75% of the APIs used in the formulations of NLEM (National List of Essential Medicines) are sourced from China.** Owing to its dominance in APIs/key starting material (KSMs) and Intermediates, the Chinese bulk pharmaceuticals products also have competitive edge in our domestic sector/market.
- **Auto:** The industry's direct as well as indirect Chinese imports are significantly high. For instance, China is a key supplier of sub-components used in engine, electrical/electronics, tyres and the largest import is alloy wheels. Chinese smartphones brands, led by Xiaomi, Vivo and Oppo, are market leaders in India with an estimated 72% share put together, leaving Samsung and Apple behind.
- **Solar Industry:** The National Solar Mission is dominated by imports from China. Almost 84% of solar equipment requirement in the country is met through imports from China.
- **Chemicals & agro chemicals:** The Indian agrochemical industry imports a large amount of raw materials from China. The **import dependency ranges between 10-50%** depending on the product portfolio. The companies with generic product portfolios have even higher dependency for raw material from China.
- **Infrastructure:** About **$1 billion rail projects are won in joint venture (JV) with Chinese players** in the past five years. Key reasons for Indian firms to enter in JVs are technical expertise and a means to reduce competition through partnership. Incrementally, **$10 billion-plus tenders are in the pipeline** in metro rails in different states.

- **Chinese Investments in India:** The influx of Chinese capital has been beneficial to both countries, and to the broader relationship as well, emerging as a potential factor of stability.
  - According to Invest India, there are roughly **800 Chinese companies in the India's domestic market.** They have roughly **75 manufacturing facilities** for smartphones, consumer appliances, construction equipment etc. Oppo, Vivo, Fosun Internationaland Midea are some of the largest Chinese brands and manufacturers in India.
  - **Chinese Investment in India's startups:** Chinese tech investors have put an estimated $4 billion into Indian startups. As of March 2020, **18 of India's 30 unicorns are Chinese funded.** These include Big Basket, BYJU's, Flipkart, Ola and Paytm etc.These startups are often been lauded by the government as having the potential to **address India's unemployment problems and other socio-economic challenges.**
  - However, the **scale of Chinese investments in India is unclear,** as official figures from China and India vary. While the Department for Promotion of Industry and Internal Trade (DPIIT) puts the figure at over $2 billion, the China's official agencies have put the figure at $8 billion.
    - ✓ The primary reason for this is that the Chinese funds & companies often **route their investments in India through off shore offices** located in Singapore, Hong Kong, and Mauritius. E.g. Alibaba Group's investment in Paytm came via Alibaba Singapore Holdings. (This is generally done by flouting the Rules of Origin norms.)

THE CHALLENGES ASSOCIATED WITH CHINESE INVESTMENT

- The **separation between the Chinese state & private business is blurry:** Within China, the Chinese private sector, and particularly tech firms, work closely with the government & the Communist Party in pursuing many of its goals at home.
  - In this context, **safeguarding access to private data by government agencies** that could be potentially misused is a challenge as this investment varies from payment apps that record every user's private transactions to the country's most widely used mobile browser.
  - **5G Conundrum:** This government and private sector connection is what makes Huawei (a Chinese telecommunication company developing 5G equipment) a potential privacy & national security threat. As of September 2019, the **U.S., Australia, and Japan have blocked Huawei from their 5G plans,** while **India has not taken a final call,** although allowing the Chinese company to participate in initial 5G trials. **Huawei has already supplied equipment to build India's 3G and 4G networks,** but the security implications of 5G have made the Indian government sceptical.
- **The expanding footprint of Chinese stakes in new areas,** such as news and entertainment apps have not received adequate attention of the Indian government. Investment and control in potentially sensitive newly emerging sectors such as fin-tech services, especially ceding controlling stakes to Chinese firms could **further increase India's technology dependency** & make those sectors vulnerable to fluctuations in India-China relations.
- **Chinese companies have escaped the kind of scrutiny in India** that their investments have **attracted in the West,** despite several high-profile investments and acquisitions.

WHAT ARE THE REASONS BEHIND INCREASED CHINESE PRESENCE IN THE INDIAN MARKET?

- **Low share of Manufacturing in the GDP vis-à-vis domestic needs**
  - Despite the **National Manufacturing Policy (2011)** and **Make in India (2014),** brought to strengthen the manufacturing sector, the **share of manufacturing in GDP has remained stuck between 15 and 17 per cent.** Significant share of this additional demand is filled by Chinese imports.
  - **Foreign Direct Investment (FDI) Regime:** The liberalisation of FDI policies which have gained momentum in the previous decade, have also had a negative impact on the manufacturing sector. Companies already weakened by adverse import competition, became easy targets for foreign investors. This was evidenced by the **steeply increasing cases of takeovers of Indian entities** in recent years.
- **Liberalization of trade:**
  - **Fast-tracked trade liberalisation** resulting in the **lowering of average import duties** on industrial products from **33% in 2000 to below 9% in 2008** is a major factor. India also had to **remove all the quantitative restrictions on imports,** such as import licensing, in 2001. An expansionist China was thus provided an opportunity.
  - **Poor global competitiveness of domestic industries:** Marketplace model deterred taking any significant measures to **prepare the industrial sector for an open economy.** On the contrary, China had adopted industrial policies, which enabled their industries to not only face import competition, but to also become globally competitive in the process.
- **Chinese competitiveness:**
  - Chinese goods are much more competitive than Indian goods mainly due to the efforts and support of the Chinese Government. A large number of companies which are dominant player in exports are Government controlled enterprises. **(China is not recognized by WTO as a market economy** mainly because of the lack of transparency in its trade policy.)
  - The **Standing Committee on Commerce** in its report on **'Impact of Chinese Goods on Indian Industry'** in 2018 noted that Chinese Government gives export rebate to the tune of 17% to their exporters. Effectively, this makes **Chinese goods being imported cheaper by 5-6%** than their Indian counterpart.

- **Ineffectiveness of trade remedial measures and enforcement:**
  - Dumping has been flagged as the major threat to domestic industry. As the Parliamentary Standing Committee on Commerce noted, **India's anti-dumping duties on Chinese goods are being evaded by misclassification of products.** E.g. Chinese non-alloy steel is being imported by wrongly declaring it as alloy steel which, otherwise, is value added and expensive steel, both in terms of usage and price.
  - Apart from this, there is a **general reluctance on the part of the Government** to review the effectiveness of anti-dumping measures. Parliamentary Standing Committee on Commerce noted that there is **no provision to carry out any impact assessment** of the anti-dumping duty /Countervailing Duty.
  - Committee also identified **poor infrastructure for scanning of containers and cargo at ports** and points of entry which helps in detection of cases of smuggled goods.
  - India suffers with a **large base of informal traders with poor record-keeping infrastructure.**
- **Absence of Quality Control and Standardization of Products**
  - The **infrastructure required to address the demands of quality checks is inadequate** and Indian consumers get attracted to Chinese products for their **low price.** Poor quality products are being sold in unorganized retail where it is the price that matters and not the quality.
  - **Delays in firming up the Quality Control Orders (QCO)** helps the Chinese industry monopolise its low-quality goods in the market.

WHAT IS DUMPING?

A product is said to be dumped when a country or company exports a product at a price that is lower in the foreign importing market than the price in the exporter's domestic market.

Duties imposed by India to check dumping and protect domestic industry

- **Anti-dumping duty (ADD):** Protectionist tariff that a domestic government imposes on foreign imports that are priced lower than their value in their home market.
- **Countervailing duty (CVD):** Additional import duty that is imposed to neutralize the negative effects of subsidies.
- **Safeguard duty:** Tariff imposed to restrict imports of a product temporarily (take "safeguard" actions) if its domestic industry is injured or threatened with injury caused by a surge in imports.

HOW HAS THE RISING IMPORTS FROM CHINA IMPACTED INDIAN DOMESTIC INDUSTRIES?

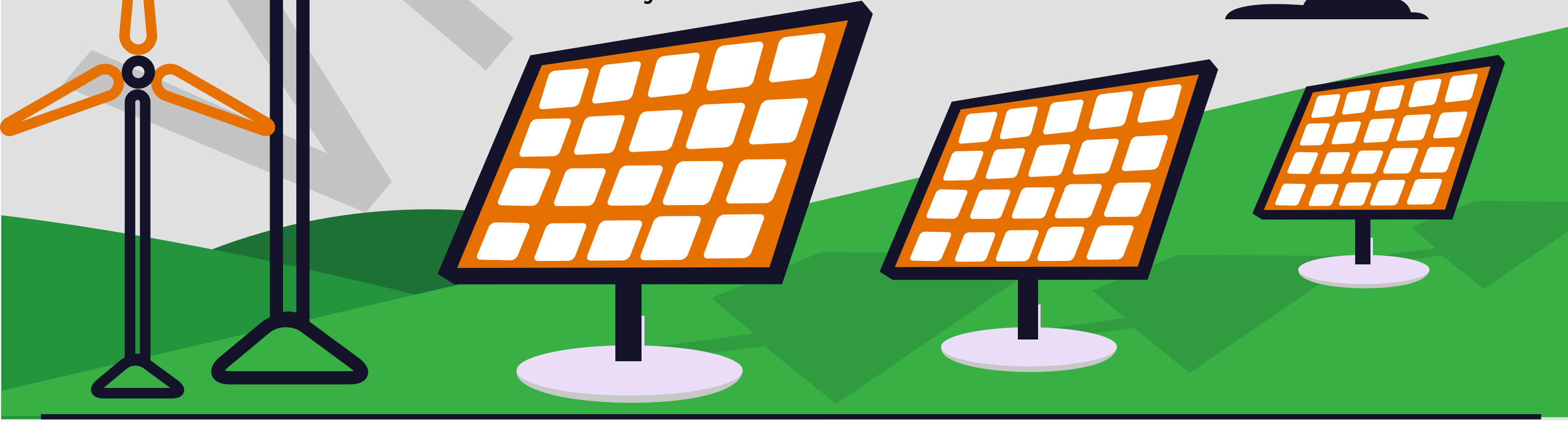
The **Standing Committee on Commerce** examined this issue in 2018 in its report titled 'Impact of **Chinese Goods on Indian Industry'.** Salient observations made by the Committee are as follows-

- **Impact on employment:** Committee found that a **number of industries** that have been adversely affected by the import of Chinese goods **are labour intensive,** thus may trigger unemployment.
  - For example, country's textile industry is facing challenges mainly on account of Chinese imports of man-made fabrics (polyester, viscose and blends). Cheap imports have resulted in **35% closure of power looms in Surat and Bhiwandi.**
    - ✓ The Committee also noted that the then GST on synthetic fibres of 18% has increased the import of similar fabrics from China. Further, India has FTAs with Least Developed Countries such as Bangladesh. Chinese fabric is manufactured into garments in Bangladesh, and imported at cheap rates into India.

- **Impact on micro, small and medium enterprises (MSMEs):** The Committee noted that poor quality Chinese products **dominate the unorganized retail** sector subsequently crowding-out the domestic industry.This sector comprises domestic MSMEs, producing more expensive but better-quality products.
  - The stainless-steel industry is a case in point, where a number of MSMEs have had to close down, particularly manufacturers of stainless steel grades of the 200 series due to Chinese import.
- **Increasing fragility of supply chains:** Large dependence on China for raw materials & intermediate goods has the potential to make supply chains more vulnerable.
  - For example, **China is the main supplier of raw materials** for Active Pharmaceutical Ingredients (APIs) and Key Starting Materials (KSMs) for the Pharmaceutical industry.In some cases, such as for life-saving drugs, the dependence on Chinese imports is 90%.
  - Chinese brands in **goods like TV and mobiles have strong presence in Indian markets.** Supply chain dependence on China for Indian brands is also high. As a result, it would be difficult to replace Chinese suppliers in critical components like compressors, LED chips, motors, mobile displays, etc.
- **Threatening viability of price sensitive industries:** Industries which are dependent on low cost imports for their viability would come on the verge of bankruptcy.
  - For example, recent bids in the solar power sector are viable only based on Chinese imports, as modules manufactured in India are far more expensive.

INDIA'S SOLAR STORY AND CHINA

- India has been one of the major exporters of solar products to countries like Germany, France and Italy between 2007 to 2011, before China started dumping their products at the cost of Indian manufacturers.(Import prices of such commodities in India are lower than their import prices in Japan and Europe, suggesting that **Chinese goods are being dumped in Indian markets.)**
- Following are the consequences of the dumping from China:
  - Domestic players are **not able to participate in the growth of solar sector** despite the increase in demand of solar equipment in the country.
  - As the local manufacturers have been outdone by Chinese on price fronts, there is **no incentive for domestic manufacturers to invest capital** in expanding and vertical integration on manufacturing units.
- In this context, **The Standing Committee on Commerce** has opined that over-dependence on solar imports from China will lead the country to a precarious situation:
  - Major exporters from China **may decide to divert most of their supply for local use** which was evidenced by increased demand pull of 2017 & reneging of Sales Contracts with Indian customers.
  - Also, the **National Solar Mission will be subject to the bilateral relations with China.** Any dispute with China might lead to supply disruptions and adversely affect the domestic Solar Program.
- However, the trend of decreasing exports has reversed in recent times with **India's exports of solar products in 2019-20 getting nearly doubled** over the previous year. While this number is small compared to imports, the trend is significant as with government help this industry can take on China in overseas market.



- **Adverse impact on health and environment:** Poor quality of Chinese products in various sectors tend to have detrimental impact in sensitive industries like toys, fireworks etc. This negatively affects the health of the consumer as well as the environment. For example-
  - The import of **Chinese fire crackers entail public health concerns** as most Chinese crackers have potassium chlorate, a highly explosive chemical which is banned in India.
  - Chinese products commanded around 85-90% of the toy market space as of 2017. The poor quality Chinese toy stend to negatively affect the health & satisfaction of consumer. This **creates consumer distrust** for local toys with the consumers preferring branded and expensive toys at the cost of Indian manufactured toys.

Case Study: Chinese toys have also made inroads to the Indian markets by **misbranding of the toys.** For instance, Chinese toys are being **falsely branded** as **Handicraft of Channapatna Craft Park.** Channapatna toys are handmade products, colored with vegetable dyes whereas Chinese toys are toxic and dangerous for children.

- **Other general impacts:**
  Downsizing or closing down of units in India will naturally **affect tax collections** and **impinge upon the Make in India programme.**
  - The closure of industry will also **stress the banking sector** which already is reeling under the burden of huge NPAs.

HOW INDIA STEPPED UP RESTRICTIONS ON CHINESE IMPORTS AMID ON GOING INDIA-CHINA TENSIONS?

The anti-Chinese sentiments which led to call for boycotting Chinese products started following the border stand-off across the Line of Actual Control (LAC). This public feeling has manifested into various government steps that have been taken in recent times to put a curb on Chinese products being imported into India along with curbs on finances and technology routing from China to India.

Action against chinese investments

- Government amended the Foreign Direct Investment (FDI) policy, making prior government approval mandatory for companies from a country that shares land border with India
- It closed the automatic investment route for Chinese investments
- The action was aimed to prevent opportunistic Chinese takeovers as shares of many Indian firms plunged due to the Covid-19 out break
- The action was taken after China's central bank bought a 1.01% stake in HDFC in the first quarter of 2020

Effect

- All Chinese FDI proposals sensitized by the government
- Prior approval required for transfer of ownership of existing or future ventures
- Domestic companies may be cautious of accepting Chinese investments

Action against chinese Imports

- As import of several Chinese goods surged & most of the items entered the market cheaper than their manufacturing cost, India aggressively imposed anti-dumping duties.
- There are at least two dozen items under reiew that will require duty protection from Chinese dumping
- These include sodium citrate, USB flash drives, calculators, hot-rolled flat products of stainless steel, Vitamin-E, nylon tyre cord, measuring, tapes, compact fluorescent lamp (CFLs), Vitamin-C, flax fabrics, caustic soda, float glass, front axle beam, steering knuckles, hexamine, carbon black, tableware, kitchen-ware plastic processing machinery and solar cells

Effect

- So far India has imposed anti-dumping duty on about a dozen products in the current, calendar year
- Imports under 100 categories are under the scanner and may invite action in the due course
- The government is also contemplating action as Chinese products are entering Indian market through third countries such as Singapore and Cambodia to circumvent Indian laws

Action against Public Procurement

- India barred Chinese firms from bidding for public procurement of goods and services on the ground of national security
- The order takes into its ambit public sector for banks and financial institutions, autonomous bodies, central public sector enterprises (CPSEs) and public private partnership (PPP) projects receiving financial support from the government
- State governments will also participate in this move as the central government writes to all chief secretaries

Effect

- Although, the order does not apply to procurement by the private sector, it will effect procurement of goods and services by private companies from China
- Public sector banks and government-controlled financial institutions may not fund private projects with Chinese connections
- Many state-run companies may review already awarded contracts to Chinese companies
- The chances of Huawei's participation in multi-billion dollar 5G project in India are bleak

Action against Mobile Application

- India banned 59 mostly Chinese, mobile applications such as Tik-Tok,We Chat and Helo citing concerns that these are “prejudicial to sovereignty of India, defence of India, security of state and public order”
- The government is considering more such curbs citing concerns relating to data security and safeguarding the privacy of 1.3 billion Indians

Effect

- Huge revenue loss to the Chinese companies that own banned mobile applications
- China reacted sharply and said that Indian government should protect legitimate rights and intrests of international investors in India, including Chinese businesses
- But Beijing could not evoke the World Trade Organization rules as New Delhi was well within its right to take any action to protect its national security interest

CAN INDIA AFFORD TO BOYCOTT CHINA?

Trade links between the two countries are strong and reducing India’s reliance on China won’t be easy. Turning a border or defence dispute into a trade one would be an ill-advised move. Following could be cited as reasons for the same:

- **Trade deficits are not necessarily bad:** Trade deficits/surpluses are just accounting exercises and having a trade deficit against a country doesn’t make the domestic economy weaker or worse off.
  - A persistent trade deficit merits the Indian government to put in place policies and create the infrastructure that raises competitiveness. However, it should not force policy to move away from trade as it will **undermine efficiency** and come **at the cost of the consumer’s benefits.**
- **Will hurt the Indian poor the most:** More often than not, the poorest consumers are the worst-hit in a trade ban of this kind because they are the **most price-sensitive.** There are generally **no cheaper alternatives** available.
- **Will punish Indian producers and exporters:** Trading with China hurts many Indian producers. This is true, but it is also true that **trading hurts only the less efficient Indian producers** while **helping the more efficient Indian producers** and businesses.
  - More than 50% of India’s imports from China are either capital or intermediate goods. Consumer goods have a share of less than 20%. Any knee-jerk reaction can end up **disrupting capital goods and intermediate goods supplies** and therefore domestic value chains.
- **Will barely hurt China:** It will hurt India far more than it will hurt China. While China accounts for about 5% of India’s exports and 16% of India’s imports, **China’s exports to India are just 3% of China’s total exports.** Moreover, China’s imports from India are less than 1% of its total imports.
  - Similarly, India accounts for 0.03% of TikTok’s parent company ByteDance’s global revenue. Thus, banning these apps will make little to no economic impact on China in the short term. **In its response to the ban, Beijing has indicated taking the matter to the World Trade Organisation.**

- **India will lose its policy credibility:** It has also been suggested that India should renege on existing contracts with China. However, any **foreign investor demands the policy credibility and certainty.** If policies can be changed subject to bilateral relations, investor's willingness to invest will decrease. Or else, investors will demand higher returns for the increased risk.
- **Possibility of a global technology war:** If India and China disconnect especially in terms of import of technology, it may lead to more tensions as India may gravitate towards US, Japan, Israel, UK and Australia for its technological needs. This **geopolitical realignment** may cause China to take more aggressive actions. China may feel that India is no longer neutral. Moreover, the tech war may not just be between India and China. It may extend globally.
- **Raising tariffs is mutually assured destruction:** It has also been argued that India should just impose higher import duties on Chinese goods. Others have suggested that India can allow primary and intermediate goods from China at zero duty but apply prohibitive tariffs on final goods.
  - Leaving aside the rules of the World Trade Organization that India would be violating, this is a poor strategy since others - not just China - can and most likely will reciprocate in the same way.
  - What will also go against India here is its **relatively insignificant presence in global trade and value chains.** In other words, it is relatively easy for the world to bypass India and carry on trading if India doesn't play by the rules.

WHAT ARE THE KEY RECOMMENDATIONS FOR INDIA'S TRADE AND INVESTMENT STRATEGY WITH CHINA?

- **Rethinking trade strategy**
  - China does not have market economy status under the WTO rules, which apply to countries, not companies (except in the case of anti-dumping agreements). Moreover, the MFN (most-favoured nation) clause doesn't apply to all services. Therefore, a **selective and gradual phasing out of Chinese imports** is indeed possible.
    - ✓ India can **increase tariffs for MFN** up to the bound rates. Effective tariffs in India are less than 10%, whereas WTO bound rates are 40%.
    - ✓ India can also **invoke the national security clause in the WTO rules** to invoke specific duty only on imports from China. Alternatively, India could also restrict market access, which does not attract much attention and is frequently used by some countries, including China.
  - **FTAs should be reviewed:** If the goods made in China are re-routed via partner countries with whom India has FTAs, the **circumvention clause can be invoked.** Customs can ask for details to establish how the **Rules of Origin Regulations (ROR)** requirements were adhered to.

- Retaliatory action may have negative impact on our exports as well. The loss in exports can be nullified by working out **strategic trade partnerships with countries harbouring anti-China sentiments** -- like the US, parts of Europe, Japan, Taiwan and Australia, among others.
- This is the most opportune time to **draw a roadmap for manufacturing of intermediate goods in India** in the medium to long term. **'Plug and play' facility** should be provided to investors so that they can kick-start production quickly. The fiscal support given to electronics, pharma and medical equipment manufacturing is a step in the right direction.
- Reduce dependence by **choosing between essential and non-essential imports.** Non-essential imports such as toys, plastic goods, sports items and furniture from China amount to ₹4 trillion a year, according to a commerce ministry estimate. The non-essential imports may be immediately checked while essential ones may be given some leeway.

➢ **Engaging new actors**
- As the nature of India's trade and investment relations with China evolves, the method and patterns of engagement will have to change as well. While the Ministry of External Affairs (MEA) in India and the Ministry of Foreign Affairs (MFA) in China are the most important points of contact, a **number of new dialogues have been set up in recent years** to deal with the growing commercial engagement. These include a
  - ✓ **Joint Group on Economic Relations, Science and Technology (JEG)** setup in 1988. The JEG has also set up three working groups on Economic and Trade Planning Cooperation (ETPC), Trade Statistical Analysis (TSA) and Service Trade Promotion (STP).
  - ✓ **A Strategic Economic Dialogue (SED)** established in 2010. The SED has six working groups: on infrastructure, environment, energy, technology, policy coordination, and pharmaceuticals. The SED is led by NITI Aayog and China's National Development and Reform Commission (NDRC).
- Both sides also held a joint financial dialogue, and several other Joint Working Groups (JWGs). Despite this, the outcomes have been modest for reasons like: the JEGs tend to meet infrequently and there is no rigorous system of follow up on agreements.

➢ **Regulatory regime:** Flush of investment from China has served to underline the need for a **transparent, credible, and predictable regulatory framework** that strikes a better balance between creating a friendly, open and predictable **investment environment** on one hand, and safeguarding longer-term **considerations of security and privacy on the other.**

➢ **State-to-province engagement:** Establishing relationships between Indian states and Chinese provinces is so far untapped avenue of engagement. Visits by Indian chief ministers to China, which require MEA facilitation, are infrequent. **Giving states more autonomy to pursue their engagement with Chinese provinces** could help address this gap.

➢ **Outreach to the private sector:**There is a lack of a reliable platform to engage the Chinese private sector. Unlike most countries, India does not have a chamber of commerce in Beijing. The only industry body present in China is a **Confederation of Indian Industry (CII) branch in Shanghai,** which is staffed with only one permanent Indian representative. Its primary concern is dealing with the issues faced by Indian companies in China. It has to be **strengthened and expanded** to facilitate Indian firms in China.

CONCLUSION

Knee-jerk reactions in the form of boycott of Chinese goods or restrictions on investment are unlikely to change India's economic dependence on China and the associated vulnerability. For eroding China's economic influence in the long-term, India must move forward in the direction of call for Atmanirbhar Bharat. This demands renewed focus on Make in India programme, a focus on Manufacturing Policy and strengthening of MSMEs.

From the security perspective, India may struggle to compete militarily with China until it finds a way to rekindle an economy that was slowing even before the calamity of COVID-19. Genuine security considerations might warrant some modest, carefully targeted restrictions on trade with China. That said, to maintain economic independence and national security, India will also need to work harder to build trading ties with other nations and especially with other Asian powers. Along side, India must try to aggressively acquire a higher share of global trade by raising its export competitiveness.

TOPIC AT A GLANCE

NATURE AND EXTENT OF DEPENDENCY

- Chinese import is about 16.6% of all Indian Import. But, China accounts for about 5.3% of all of India's export.
- The trade deficit with China at around $63 billion.
- Pharmaceutical: About 2/3rd of India's total API requirement is sourced from china.
- Auto: Significantly high imports, especially in key sub-components.
- Solar Industry: The National Solar Mission is dominated by imports from China.
- Chemicals and agro chemicals: Large amount of raw materials are imported from China.
- Infrastructure: There have been large number of Joint Venture (JV) projects with Chinese players.
- There are roughly 800 Chinese companies in the India's market.
- Large scale Chinese investments in India's start-ups.
- Scale of Chinese investments in India is also unclear.
- COVID-19 has opened another dimension of dependence with regard to medical supplies.

REASONS FOR DEPENDENCY

- Low share of manufacturing in GDP vis-à-vis domestic needs.
- Liberalized trade and FDI regime.
- Highly competitive Chinese goods. (in comparison to domestic competitiveness.)
- Ineffectiveness of trade remedial measures & enforcement.
- Absence of quality control and standardization of products in the domestic market.

IMPACT ON DOMESTIC INDUSTRIES

- Chinese imported goods are labour intensive & negative affect domestic employment.
- Chinese products dominate the unorganized retail thus affecting MSME Sector.
- Large dependence on China increases fragility of supply chains.
- Threatens viability of price sensitive industries like solar industry.
- Poor quality Chinese products have a negative impact on Human Health and local environment.
- Negative impact on domestic industries affects growth of Make in India scheme & may aggravate the NPA situation.

STEPS TO RESTRICT CHINESE IMPORTS

- Changed FDI policy made prior government approval mandatory for companies from a country that shares land border with India.
- India aggressively imposed the Anti-dumping duties.
- India barred several Chinese firms from bidding for public procurement of goods and services on the ground of national security.
- India banned 59 mostly Chinese, mobile applications such as Tik-Tok citing security and public order concerns.

CHALLENGES IN BOYCOTTING CHINA

- Artificially reducing the trade deficit will undermine efficiency and come at the cost of the consumer's benefits.
- The poorest consumers are the worst-hit in a trade ban of this kind because theyare the most price-sensitive.
- This will punish many Indian exporters and producers as more than 50% of India's imports from China are either capital or intermediate goods.
- This will barely hurt China as China's exports to India are just 3% of China's total exports.
- India will lose its policy credibility vis-à-vis other foreign investors.
- Unilateral measure like this could lead to a Mutually Assured Destruction situation.
- India-China technology access issues could escalate to a global technology war.

THE WAY FORWARD

- Rethinking Trade Strategy
  - Focussing on selective and gradual phasing out of Chinese imports.
  - Reviewing FTAs with other countries and ensuring that the rules of origin are followed.
  - Trade partnerships with countries harbouring anti-China sentiments.
  - Drawing a roadmap for manufacturing of intermediate goods in India.
  - Choosing between essential and non-essential imports.
- Engaging with new actors within China for a more diverse dialogue engagement.
- Creating a regulatory framework that strikes balance between creating a investment environment and safeguarding of security and privacy.
- Giving states more autonomy to pursue their engagement with Chinese provinces.
- Strengthening the CII branch of Shanghai for engagement of private sector.