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THE PANDEMIC'S EFFECT ON INDO-CHINA TRADE

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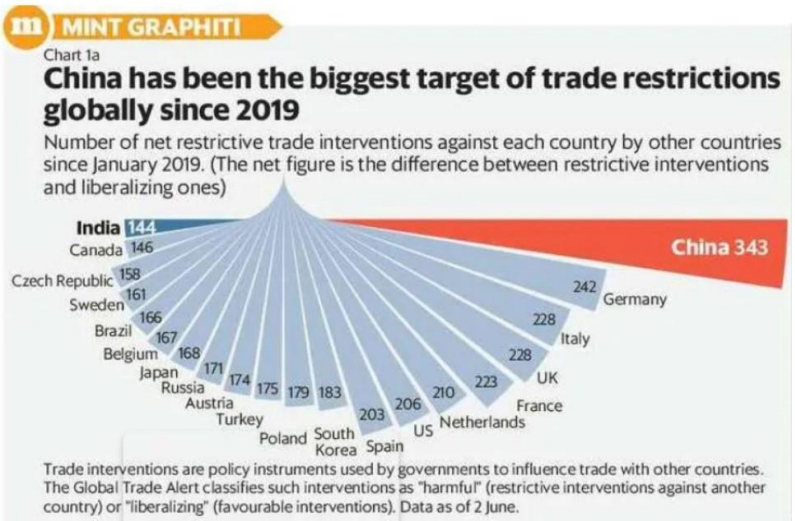
ABSTRACT

China's expansionist tendencies in recent years, along with risky geopolitical moves are making all global players wary of China. The pandemic, which originated in China in November of 2019, has caused widespread distress, and all economies are dealing with its repercussions. Adding fuel to the fire, many Chinese firms operating outside China have been accused of data breaching, causing national security threats. Along these lines, many tariffs and barriers have been imposed on China by other countries. In fact, [3] from 2019, up until 2020, China has been the biggest target for trade restrictions.

Keywords: *India-China Bilateral Trade, Trade Deficit, Import, Exports.*

Introduction

India and China have long been regarded as strong economies. China's GDP [1] stood at 17,700 billion dollars in 2021, with a growth rate of 8.11%, and a GDP per capita of 12,500 USD. India, on the other hand, had a GDP [2] of 3,100 billion dollars, a growth rate of 8.95%, and a GDP per capita of 2,200 USD in 2021.



Relations between India and China have also been strained. Beginning May 2020, Indian and Chinese troops have had skirmishes on the Sino-Indian border, the recent and major one being the clash in Galwan Valley, where aggressive melee fighting took place on 15-16 June 2020.

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The clash started a trend, where Indians started boycotting Chinese products.

India also imposed [4] Anti-dumping Duty (ADD) on 5 Chinese products for 5 years, in December 2021, citing the protection of domestic manufacturers as the reason. India has also tackled the national security threat of data breaching, by banning over 200 Chinese apps from the Indian app/play stores, the famous ones being TikTok and Player's Unknown Battlegrounds (PUBG).

Despite all this, China still remains one of, if not, the biggest trading partner of India. China, for decades, has been the major import and export destination for India. In all this context, it is important to assess how gravely did the pandemic affect Indo-China trade.

Objectives

- To analyze the changing patterns in Indo-China trade.
- Understand how the pandemic and other macroeconomic factors affected this trade.
- Assess how much India is dependent on China.
- Accordingly suggest measures, to reduce India's trade deficit with China, and increase India's stand in global supply chains.

Research Methodology

The authors have considered annual India-China trade data, from the Ministry of Commerce and Industry's website. Absolute values of trade data have been considered for the years 2017-2018 to 2021-2022. The annual growth rates have been considered accordingly, from the years 2018-2019 to 2021-22. For our research purposes, the years 2017-2018, 2018-2019, and 2019-2020 are understood as pre-pandemic years, and the years 2020-2021 and 2021-2022 are understood as years where the pandemic was ongoing / post-pandemic years.

Data related to the top ten commodities imported and exported between India and China for the aforementioned years have been considered. Commodities have been considered at the 2-digit level of the HS Code.

The top ten commodities which India imports from China have remained constant for the period of consideration, hence only ten commodities are listed in import data tables.

However, the top ten commodities in terms of India's exports have slightly changed over the period of consideration, hence the export data table lists 13 commodities instead.

All the numbers are in terms of value in US dollars.

Articles in the media and papers written on the topic have also been considered to contextualize the scenario.

Analyzing Trends

- **Overall Trade Data**

Let us first look at the overall trade data between India and China.

Table 1

Total Imports, Exports, Trade, & Deficit (Absolute Values)					
Particulars	**Years (Values in US Million Dollars)**				
	2017-18	**2018-19**	**2019-2020**	**2020-2021**	**2021-2022**
Total Exports	13,333.53	16,752.20	16,612.75	21,187.15	21,259.79
Total Imports	76,380.70	70,319.64	65,260.75	65,212.25	94,570.57
Total Trade	89,714.23	87,071.84	81,873.50	86,399.40	115,830.36
Trade Deficit	63,047.16	53,567.43	48,647.99	44,025.10	73,310.78

Source: Ministry of Commerce and Industry, Department of Commerce–Export Import Data Bank.

Table 2

Total Imports, Exports, Trade, & Deficit (Percentages)				
Particulars	**Y-o-Y Growth Rates**			
	2018-19	**2019-2020**	**2020-2021**	**2021-2022**
Total Exports	25.64%	-0.83%	27.54%	0.34%
Total Imports	-7.94%	-7.19%	-0.07%	45.02%
Total Trade	-2.95%	-5.97%	5.53%	34.06%
Trade Deficit	-15.04%	-9.18%	-9.50%	66.52%

Source: Ministry of Commerce and Industry, Department of Commerce–Export Import Data Bank.

Graph 1

- **Total Exports**

Despite heavy lockdowns in both countries in the first year of the pandemic, India's total exports in FY 20-21 increased by 27.54%. However, the level of exports remained the same in the next year.

- **Total Imports**

As observable, before the pandemic, and even in the first year of the pandemic, India's imports from China were on a decline. It can be concluded that India's efforts into self-reliance, and boycotting of Chinese products was working, albeit slowly. However, India's imports jumped by 45% in FY 21-22.

- **Total Trade**

Total trade value of India with China also jumped by 34%, to 115 billion dollars in FY 21-22, as seen from a jump in India's imports.

- **Trade Deficit**

India has a high trade deficit with China, meaning it imports more than it exports. However, this trade deficit had a declining trend, and had come down from 63 billion USD in FY 17-18 to 44 billion dollars in FY 20-21. However, as India's imports from China spiked in FY 21-22, the trade deficit also jumped by 66.5%, to 73.3 billion dollars.

What can be concluded from all this is that India's trade with China has been inconsistent. Total exports were volatile, being high in the years 18-19 and 20-21, but having little to no change in the years 19-20 and 21-22. The same volatility can be observed in the total trade value.

Commodity-Wise Data

Now that we have a general understanding of the overall trade pattern between India and China, let us now consider to top 10 import and export commodities in the Indo-China trade, for the same years.

To make things simpler, the authors have assigned general names to the commodity groups. Please refer to Table A in the Appendix, to get the proper commodity names according to HS Codes.

Table 3

India's Top Commodity Exports to China (Absolute Values)							
S. No.	HS Code	Commodity	Years (Values in US Million Dollars)				
			2017-18	2018-19	2019-2020	2020-2021	2021-2022
1	29	Organic Chemicals	2,106.24	3,249.21	2,702.44	2,416.35	2,380.24
2	27	Minerals	1,507.21	2,855.69	2,128.57	1,046.55	1,874.67
3	52	Cotton	1,003.28	1,786.77	777.96	1,277.24	1,254.72
4	26	Ores, Slag & Ash	1,259.79	1,220.22	2,356.97	4,382.42	2,535.62
5	39	Plastics & Articles	550.94	1,104.52	843.06	949.2	380.92
6	84	Nuclear Components	715.78	830.88	804.31	750.73	1,067.53
7	3	Aquatic Animals	161.8	721.26	1,336.57	860.74	1,092.75
8	25	Salt, Sulphur, etc.	672.71	680.83	614.13	628.72	911.02

9	85	Electrical Equipment	479.55	579.52	862.33	717.37	828.96
10	15	Animal, Vegetable Fats & Oils	440.57	395.7	394.56	875.91	553.17
11	72	Iron & Steel	324.11	318.90	513.91	2512.55	1,412.19
12	74	Copper & Articles	1,548.47	244.06	265.91	779.26	1,210.61
13	76	Aluminium & Articles	26.42	13.01	60.51	403.13	1,273.17

Source: Ministry of Commerce and Industry, Department of Commerce–Export Import Data Bank.

Table 4

India's Top Commodity Exports to China (Percentages)						
S. No.	HS Code	Commodity	Y-o-Y Growth Rates			
			2018-19	2019-2020	2020-2021	2021-2022
1	29	Organic Chemicals	54.27%	-16.83%	-10.59%	-1.49%
2	27	Minerals	89.47%	-25.46%	-50.83%	79.13%
3	52	Cotton	78.09%	-56.46%	64.18%	-1.76%
4	26	Ores, Slag & Ash	-3.14%	93.16%	85.93%	-42.14%
5	39	Plastics & Articles	100.48%	-23.67%	12.59%	-59.87%
6	84	Nuclear Components	16.08%	-3.20%	-6.66%	42.20%
7	3	Aquatic Animals	345.77%	85.31%	-35.60%	26.95%
8	25	Salt, Sulphur, etc.	1.21%	-9.80%	2.38%	44.90%
9	85	Electrical Equipment	20.85%	48.80%	-16.81%	15.56%
10	15	Animal, Vegetable Fats & Oils	-10.18%	-0.29%	122.00%	-36.85%
11	72	Iron & Steel	-1.61%	61.15%	388.91%	-43.79%
12	74	Copper & Articles	-84.24%	8.95%	193.05%	55.35%
13	76	Aluminium & Articles	-50.76%	365.10%	566.22%	215.82%

Source: Ministry of Commerce and Industry, Department of Commerce–Export Import Data Bank.

Commodity-Wise Exports Analysis

As is easily observable, India's majority exports to China are in raw materials. While looking at the various growth rates, it becomes apparent why India's exports have been volatile. Throughout the period of consideration, these commodities, which make up the major chunk of India's exports, have been very inconsistent, and they don't seem to sync with the pandemic.

For example, Cotton had high growth rates in 18-19 and 20-21, but had declined in the years 19-20 and 21-22. Similar inconsistencies are observed in all the other commodities.

Another important trend to notice, are the huge random spikes in particular commodities. These huge spikes are highlighted in yellow, in the percentage values table.

In terms of absolute values, it is a miracle, how the exports of Aluminium & Articles went from 26 million dollars in 17-18 to a whopping 1.2 billion dollars in 21-22. Similar trends can be notices in Irom & Steel, Copper & Articles, Iron & Steel, and in Ores, Slags, & Ash.

Thus, India's export growth of 27.5% in 20-21 can be attributed to these export spikes in the aforementioned commodities. There were no such spikes in 21-22, and hence India's exports did not change much, even after one year.

Table 5

India's Top Commodity Imports from China (Absolute Values)							
S. No.	HS Code	Commodity	Years (Values in US Million Dollars)				
			2017-18	2018-19	2019-2020	2020-2021	2021-2022
1	85	Electrical Equipment	28,672.44	20,627.56	19,104.15	20,328.53	30,266.96
2	84	Nuclear Components	13,539.97	13,383.76	13,322.13	13,987.55	19,845.45
3	29	Organic Chemicals	7,091.53	8,596.25	7,970.43	8,974.24	12,497.95
4	39	Plastics & Articles	2,365.49	2,722.60	2,714.82	2,530.53	4,477.93
5	31	Fertilisers	1,072.13	2,053.22	1,820.88	1,551.23	2,953.45
6	73	Articles of Iron/Steel	1,473.96	1,735.33	1,588.76	1,317.92	1,665.30
7	90	Medical Equipment	1,663.23	1,587.69	1,340.39	1,732.52	2,519.20
8	87	Automative Components	1,454.23	1,521.10	1,273.88	1,375.68	1,689.42
9	72	Iron & Steel	1,621.03	1,422.37	1,121.33	895.38	1,315.49
10	38	Misc. Chemical Products	1,348.97	1,290.59	1,205.06	1,386.24	1,675.77

Source: Ministry of Commerce and Industry, Department of Commerce–Export Import Data Bank.

Table 6

India's Top Commodity Imports from China (Percentages)						
S. No.	HS Code	Commodity	Y-o-Y Growth Rates			
			2018-19	2019-2020	2020-2021	2021-2022
1	85	Electrical Equipment	-28.06%	-7.39%	6.41%	48.89%
2	84	Nuclear Components	-1.15%	-0.46%	4.99%	41.88%
3	29	Organic Chemicals	21.22%	-7.28%	12.59%	39.26%
4	39	Plastics & Articles	15.10%	-0.29%	-6.79%	76.96%
5	31	Fertilisers	91.51%	-11.32%	-14.81%	90.39%
6	73	Articles of Iron/Steel	17.73%	-8.45%	-17.05%	26.36%
7	90	Medical Equipment	-4.54%	-15.58%	29.25%	45.41%
8	87	Automative Components	4.60%	-16.25%	7.99%	22.81%
9	72	Iron & Steel	-12.26%	-21.16%	-20.15%	46.92%
10	38	Misc. Chemical Products	-4.33%	-6.63%	15.03%	20.89%

Source: Ministry of Commerce and Industry, Department of Commerce–Export Import Data Bank.

Commodity-Wise Imports Analysis

By looking at the growth rates, we can infer that the general trend in the imports pre-pandemic was of a declining one. Barring a few commodities, we can strongly say that, the imports of these commodities were decreasing, or increasing at a lower rate. However, this changed as soon as the pandemic hit. Even in the first year of the pandemic, India somehow managed to not import a lot from China. But then, nearly all commodities had spikes in the year 21-22, which led to the total imports of that year being very high, and with no growth in exports, India's trade deficit also jumped in the year 2021-2022.

Commodities like medical equipment and chemical products had to be imported from China, even while the pandemic was going on, which explains their spikes in 20-21. However, all commodities spiked strongly in 21-22. Import of fertilisers increased nearly threefold, as India imported 1 billion dollars' worth of fertilisers in 17-18, which was nearly 3 billion dollars in 21-22.

Insights

Looking at the commodity-wise import and export trends, it is easy to see that not only is India's trade balance unfavourable for itself, but it exports primary goods and imports intermediate or processed goods. This trade composition of goods has to be worked on, as exporting raw materials yields less value.

India [5] has high imports from China in the following products:

- Machinery (electric and mechanical)
- Intermediate chemicals
- APIs (Active Pharmaceutical Ingredients)
- Automotive Components

Experts say that the import of these intermediate and finished goods are a key input in India's booming pharma and technology industry. Ofcourse, such dependency on China is a source of major concern. The pandemic also led to increased medical imports and ingredients from China.

Apart from that, the pandemic was just another cog, along with many other things, which made up the big picture to influence trade relations between India and China.

Conclusions & Suggestions

India's trade with China is highly inconsistent, India's composition of goods traded are unfavourable, and the trade deficit is also on the high. Looking at how things are, this situation will not change quickly. India still has a lot of catching up to do with China in terms of manufacturing and exporting intermediate and finished goods.

However, as the world becomes more prudent towards China and its activities, India has the opportunity to make itself a bigger player in global supply chain. India still has a weak manufacturing sector, but has surplus labour too. In this regard, it is strongly suggested that India starts boosting its manufacturing and industrial sector, and start exporting more of intermediate and finished goods, rather than raw materials.

Specifically, India can dominate in the low-skill manufacturing sector, where surplus labour and low skillsets are required - both conditions are satisfied by the Indian labour market. Government's interventions are also welcomed, and schemes like PLIs (Production-Linked Incentives) should be promoted and executed effectively. Due to macroeconomic factors, India's currency is depreciating against the dollar. However, the best can be made of the situation, as it is cheaper for us to export, with a depreciated currency.

Apart from this, recently India has started to shift inwards in terms of its trade policies. Following such a strategy is a risky maneuver, as any country who wants to boost its exports, need to import as well. Cheaper imports lead to better utilization of domestic resources, leading to higher production and more imports.

That being said, some sectors in India have space to grow domestically, if provided with the right incentives. The domestic API (Active Pharmaceutical Ingredients) industry is well below its potential, and with the right support, it can better utilize the domestic resources, and start producing and competing with the cheap APIs of China.

Limitations of the Study

Only the years from 2017-18 to 2021-22 are considered, so the period is short-term. Additionally, annual data is considered, not monthly data, so monthly movements are not captured and analyzed by the authors.

Lastly, India still has to fully recover from the pandemic in many sectors, so we cannot comprehensively analyze India's situation until further down the line.

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Appendix

Table A: 2-Digit Level HS Codes and General Names

HS Code	Commodity Name	General Name given by Authors
3	Fish And Crustaceans, Molluscs and Other Aquatic Invertabrates.	Aquatic Animals
15	Animal Or Vegetable Fats and Oils and Their Cleavage Products; Pre. Edible Fats; Animal or Vegetable Waxex.	Animal, Vegetable Fats & Oils
25	Salt; Sulphur; Earths and Stone; Plastering Materials, Lime And Cement.	Salt, Sulphur, etc.
26	Ores, Slag and Ash.	Ores, Slag & Ash
27	Mineral Fuels, Mineral Oils and Products Of Their Distillation; Bituminous Substances; Mineral Waxes.	Minerals
29	Organic Chemicals	Organic Chemicals
31	Fertilisers.	Fertilisers
38	Miscellaneous Chemical Products.	Misc. Chemical Products

39	Plastic And Articles Thereof.	Plastics & Articles
52	Cotton.	Cotton
72	Iron And Steel	Iron & Steel
73	Articles Of Iron or Steel	Articles of Iron/Steel
74	Copper And Articles Thereof.	Copper & Articles
76	Aluminium And Articles Thereof.	Aluminium & Articles
84	Nuclear Reactors, Boilers, Machinery and Mechanical Appliances; Parts Thereof.	Nuclear Components
85	Electrical Machinery And Equipment And Parts Thereof; Sound Recorders And Reproducers, Television Image And Sound Recorders And Reproducers, and Parts.	Electrical Equipment
87	Vehicles Other Than Railway or Tramway Rolling Stock, And Parts and Accessories Thereof.	Automative Components
90	Optical, Photographic Cinematographic Measuring, Checking Precision, Medical or Surgical Inst. And Apparatus Parts and Accessories Thereof;	Medical Equipment

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