

IMPACT OF BANNING CHINESE IMPORTS ON INDIA-CHINA BILATERAL TRADE

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Abstract: As stress simmer at the boundary between India and China, what is more relating to, is the economic fall out of the embitter relationship between the two nations. It is because the interdependencies of the two neighbors are too cavernous to be ignored. The indignation over the assassination of Indian armed forces has led to calls for banning the trade with China. On the other hand, India would situate to lose more than China if trade were to be restricted. A blanket ban on Chinese imported goods will spoil all the business at that time when they are before now struggling to stay alive, apart from striking India's ability to manufacture finished products. We know that India's heavy dependency on Chinese imports such as smartphones, smart TVs, electronic equipments and a lot of intermediary goods that helps Indian industries to manufacture finished goods. India will lose more than China because it is much easier to China to substitute India than for India to China. It will be the most badly time as Indian economy is by now at its weakest position still- facing a sharp GDP reduction. If government wants to ban on Chinese imports, then it should be given the financial help to our whole industrial sector which depend on Chinese imports.

1. INTRODUCTION

The two Asian countries which are also actively concerned with the supplying and distribution of commodities are India and China. To recognize the People's Republic of China first in south Asia and second in the non-socialist world, India is one of the earliest countries. For more than 2000 years, the two countries have been involved in bilateral trade. China was even mentioned in the Indian epic Mahabharata. The Silk Road was the medium of economic ties between India and China date back to 2nd century B.C. silk spice were the main trade of both nations. The fact that black pepper produced in India was also known as the black gold in the ancient era marks the significance of India in Spice trade. 70th anniversary of establishment of diplomatic relations of India and China was observed on April 1, 2020. Both the countries shoulder the mission of national rejuvenation as the only two countries with a population of more than one billion. Both the nations inject strong momentum into the profound changes unseen in a century and play a major role in the process of collective rise of developing countries.

India and China relations have moved ahead despite wind and rain and gone through an extraordinary development path in the past 70 years. Two countries made a historical decision to jointly advocate the five principles of peaceful coexistence and to establish diplomatic relations in the 1950s. Our two countries are resounded with "Hindi Chini Bhai Bhai" two nations agreed to solve the boundary question through peaceful and friendly consultation and established cooperative partnership for peace and achieved all round development of bilateral relations from the 1980s.¹ The world saw the biggest India and China clash since 1962, on 10th June 2020 in the Ladakh. Chinese army brutally assaulted Indian soldiers leading to 20 deaths, 76 injured and 10 captured in a pre planned attack.²

¹ www.thehindu.com, 70 years of Diplomatic Relations between China and India (1950-2020), 31 March, 2020

² www.scroll.in, 23 June, 2020

As retaliation, Indians and members of the ruling party have called for a reprise of the tactics of “Swadeshi” against China, which dates back to Indian freedom movement against British Raj. Given the sheer volume of Indo-China trade and the dependence of Indian Industry and consumer on both Chinese goods and capital, boycotting China is easier said than done. The current economic scenario of India further enhances the situation. The ground level economic realities given India’s inability to build industrial capacity and the value proposition of Chinese goods and investments clashed directly with the political buzz of boycott China. The paradox of how snap polls show that 93% Indians favor a boycott China in relation of Ladakh in theory but at the same time during a sale on an online platform the Chinese smartphone manufacturer Oneplus saw its latest model sold out in India within minutes. China has little involvement in media space in India compared to West. But the scenario is changing as Chinese economic power surges. During Covid 19 lockdown, Tiktok the Chinese app. was the most downloaded social media app. out of 100, 44 downloaded apps. were Chinese.³

China is also a major destination of Indian exports. By exporting its goods to China, India was \$15 billion every year. India exported goods worth \$15.5 billion to China which was 5.3% of India’s overall exports during April-February financial year 2020. The main products that India exports to China are mineral fuel, mineral oil and aquatic products. A complete ban on Chinese products could end up raising costs for many products in India considering the size of trade and cost.⁴

2. INDIA-CHINA TRADE RELATIONS BEFORE THE LADAKH AGRESSION

The average Indian can see China heft in its success in consumer goods. The smartphone market in India is completely dominated by China as four out of five top smartphone sellers Xiaomi, Oppo, Vivo and Realme are Chinese. In the TV market where Xiaomi is the Indian market leader with a massive 27% of market share creates the similar situation as smartphone market.⁵

Chinese exports to India consist of smartphones, electrical appliances, power plant inputs, fertilizers, auto components, finished steel products, capital goods like power plants, telecom equipment, metro rail coaches, iron and steel products, pharmaceutical ingredients, chemicals and plastics and engineering goods among other things according to Ministry of Commerce.

India’s imports from China jumped 45 times since 2000 to reach over \$70 billion in 2018-19, according to Invest India.

India China Bilateral Trade (Figures in \$ Billions)

Year	India’s Export to China	% Change	India’s Import from China	% Change	Trade Imbalance	Total Trade	% Change
2014	16.41	-3.72	54.24	11.95	37.83	70.65	7.88
2015	13.39	-18.39	58.26	7.42	44.87	71.65	1.42
2016	11.75	-12.29	59.43	2.01	47.68	71.18	-0.67
2017	16.34	39.11	68.1	14.59	51.76	84.44	18.63
2018	18.83	15.21	76.87	12.89	58.04	95.7	13.34
2019 Jan.-Nov.	16.32	-4.6	68	-3.5	51.68	84.32	-3.72

Source: General Administration of Custom, China

China emerged as our largest good trading partner by 2008 by rapid expansion of Indo-China bilateral trade since the beginning of this century and continues to hold the position even today. Bilateral trade between two countries recorded exponential growth since the beginning of previous decade. In 2011, bilateral trade reached US\$ 73.9 Billion, before dipping to US\$ 66 billion in 2012 and rebounding to US\$ 71.65 in 2015. For last three years, the bilateral trade has recorded vigorous two-digit growth. For the year 2018, bilateral trade expanded by 13.34% year-on-year to come to US\$ 95.7 billion, with India’s exports rebounding to US\$ 18.83 billion registering constructive growth of 15.21% year-on-year

³ www.scroll.in, 23 June, 2020

⁴ www.financialexpress.com, June 24, 2020

⁵ www.scrollin, 23 June, 2020

after three year's continue reduction and growth of 39.11% in 2017. In 2018 India's imports from China grew by 12.89% to US\$ 76.87 billion while the trade deficit broadens to \$ 58.04 billion. Trade figures for the past some years are given the table above.

High Value Goods of China Imports into India

Goods	% of Imports of India
Electric Machinery	34
Nuclear Reactors & Machinery	18
Organic Chemicals	10
Goods & Jewellery	6
Iron & Steel	4

Source: CRISIL

Exports of Raw Material to China

Goods	% of Exports of India
Gems & Jewellery	36
Minerals & Ore	15
Organic Chemicals	11
Sea Food	5
Electric Machinery	4

Source: CRISIL

The above two tables show that India exports only low value products but China Exports to India a very high valued products such as Electric goods, machinery, organic chemicals, jewellery, iron and steel and many more. But India exports products such as minerals, organic chemicals, sea food and many more those have low value in the world trade.

❖ Chinese Investment in India

Foreign Direct Investments from China come to metallurgical industries, renewable equipment, automotive and chemicals. Data compiled by Bloomberg Quint from China Global Investment Tracker showed Chinese FDI into India at \$4.14 billion in 2019. China's Commerce Ministry however pegs the figure at \$8 billion for year 2018-19. Oppo, Vivo, Fosum International, Haier, SAIC and Midea are some of the largest Chinese Brands and manufacturers in India. Adani Global Ltd., Dr. Reddy's Laboratories Ltd, Jindal Steel and Power Ltd, Godrej and Boyce Manufacturing Co. and Aurobinda Pharma Ltd. are some of the Indian firms present in China.

China FDI into India

Year	In \$ billion
2005	0
2006	1.5
2007	5.08
2008	3.07
2009	1.36
2010	1.85
2011	0.3
2012	0.31
2013	2.7
2014	0.54
2015	1.97
2016	1.21
2017	2.8
2018	3.84
2019	4.14

Source: China Global Investment Tracker (Boomberg Quint)

The above table depicts that from the year 2005 to 2019 the portion of FDI has increased. Chinese tech investors have put an estimated \$4 billion into Indian startups, according to the report. As of March 2020, 18 of India's unicorns are Chinese-funded.

Chinese Investors Invest in India

Brand Name	Chinese Investors	Estimates Investment (\$ Millions)
BigBasket	Alibaba Group, TR Capital	>250
Byju's	Tencent Holdings	>50
Delhivery	Fosun	>25
Dream 11	Steadview Capital, Tencent Holdings	>150
Flipcart	Steadview Capital, Tencent Holdings	>300
Hike	Tencent Holdings, Foxconn	>150
Ola	Tencent Holdings, Steadview Capital, Sailing Capital and China, Eternal Yield International Ltd., China-Eurasian Economic Cooperation Fund	>500
Oyo	Didi Chuxing, China Lodging Group	>100
Paytm Mall	Alibaba Group	>150
Paytm	Alibaba Group (Alipay Singapore Holding Pvt. Ltd.), SAIF partners	>400
Rivigo	SAIF partners	>25
Snapdeal	Alibaba Group, FIH Mobile Ltd. (Subsidiary of Foxconn Technology Group)	>700
Swiggy	Meituan dianping, Hillhouse Capital, Tencent Holdings, SAIF Partners	>500
Udaan	Tencent Holdings	>100
Zomato	Alibaba Group (Alipay Singapore Holding Pvt. Ltd. & Ant Financial Services Group), Shunwei Capital	>200

Source: Gateway House Report (Boomberg Quint)

3. IMPACT ON BILATERAL TRADE IF DISRUPTION HAPPENED DUE TO INDIA-CHINA LADAKH CLASH

❖ **Negative Impact of ban of Chinese Products on Indian Trade**

➤ Stopping the trade will affect India's ability to produce finished goods as it imports a lot of intermediate goods from China. The import dependent sectors such as... Claiming the boycott to be counterproductive which will undermine our competitiveness to export and Indian manufacturing sector.⁶

➤ On India China's dominance extent across the industries. The domestic rural consumer purchase is also affected by China. As much as 45% of diammonium phosphate fertilizer and 13% of urea is imported from China. A substantial hike in prices for Indian farmers will be a direct result of any effort to boycott China.⁷

⁶ www.indianexpress.com, June 24, 2020

⁷ www.scroll.in, June 23, 2020

- A supply chains for Indian manufacturing would be badly hit if trade with trade with China will be disrupted is shown by a business research firm CRISIL. As much as 67% of electronics item, a large amount of the item's value would still find its way back to China.
- In some cases, restricting imports from China would significantly impact the Industry's capacity to produce goods at all. On bulk drugs e.g., CRISIL classifies the sector as one with "high dependency on imports from China" with as much as 69% imported from the country. Of specific concern are antibiotics, where dependency is as high as 90%. "If China decides to pull the plug on supply of antibiotics, it will lead to huge public health crisis in India" explained Sandeep Narula, Associate Prof. and Assistant Dean, School of Pharmaceutical Management, IIHMR University, Jaipur.⁸
- The one who will be hurt the most in a trade ban like this is the poor Indian consumer because they are most price sensitive. For instance, if Chinese ACs were replaced by either costlier Japanese ACs or less efficient Indian ones, richer Indians may still survive this ban-by buying the costlier option- but a number of poor, who could have otherwise afforded an AC, would either have to forgo (say a Japanese or European firm) or suffer (as a consumer by buying a less efficient Indian ones).
- Indians will be hurting fellow Indian retailers by banning the sale of Chinese product which are in India and already paid for. The poorest retailers who have relatively less ability to cope with the unexpected losses will again be severely affected.
- Several businesses in India import intermediate goods and raw material which in turn are used to create final goods both for domestic and global market also forms a major part of the Indian consumers of Chinese products alongside those who consume finished good.
- China may reciprocate such as ban on Indian goods. Most of the Indian imports from India like cotton textiles etc are easily available from the other countries, so it might not be a risk to China.
- International forums like WTO which mandate equal treatment to all trading partners will pose some legal issues to India. China might impact effective transactions in the regional initiatives BRICS, AIIB, NDB and RCEP being the centerpiece in all of them.
- The India's negotiation for Indian IT and Pharma Companies to access the Chinese market might get derailed due to such move.
- As trade and commerce is the connecting link between countries in this recent era, the ban will directly relate to relations on other dimensions like cultural, political, people to people contact.
- Credibility of India as an investment hub will come down and hence will impact FDI.
- India is aspiring for UNSC membership, violating WTO norms will deteriorate India's image globally.
- The move would not only increase the cost of Indian imports but would also affect upstream and downstream industries and cost jobs.

❖ Negative impact of ban on Products from China on Indian trade

- This would make customers to use domestic products, increase domestic revenue and boost to domestic Industry especially MSMEs.
- Increase in the competition among Indian products, could lead to quality commodities in the long run and could create self sufficiency in the future in time with Make in India.
- It will create huge employment opportunities in many sectors.
- It will reduce dependency on China and make Indian goods even more competitive in the domestic market.
- It will shrink our import bill and save the foreign reserves.⁹

⁸ www.scroll.in, Sino Satyagraha: Can India 'boycott China' as a response to the Ladakh attack?, June 23, 2020

⁹ www.insightsonindia.com

4. CONCLUSION

India and China both are emerging economies. They are growing at the faster rate. In the race of development, India is far behind China because of its dependency of imports from China. Due to India-China Ladakh aggression India wants to blanket ban the Chinese products to India. But it's impossible to ban any country from the trade due to many reasons. The consumers must stop using Chinese products as he is the king of the market. In a systematic way in coming years any country can boycott made in China software in a week, hardware in a year finished and non-essential products in a year. To boycott Chinese products India can also implement an import substitution method, but this is not possible in the short run. Just like China the government of India must lower the rates at which the loans are issued to Indian companies. Government should prepare Indian companies to compete with China. The government must provide infrastructure services etc. in a systematic and planned way India can boycott made in China products.

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