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IMPACT OF COVID-19 ON INDIA-CHINA TRADE

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Abstract

The COVID-19 pandemic has impacted the global trade and hence also aided soft power shifts. The paper focuses on Indo-China bilateral trade by providing a background of trade trends in the yesteryears between the countries and briefly discusses their trade principles. Further, it attempts to track the trade transactions between India and China during the pandemic. It analyses if India could economically compete with China by not trading with it or if adopting the CHINDIA model would be more beneficial. The paper also highlights India's dependency on China for medical supplies and suggests that it would be economically best for India if it ventured into a controlled/restricted trade partnership with China. A few suggestions are also put forward on what India could do to enhance its trade dominance.

1. Introduction

India and China are perceived to be among the fastest growing economies of the Asian Region. China has been bestowed with the status of being India's major trading partner since decades. The countries have been earnestly trying to make economic progress. In the year 2018, the annual growth rate of the Indian GDP was said to be 6.8 per cent while that of China was 6.6 per cent. However, for the financial year of 2019, the GDP growth rate of India was predicted to be as low as 4–5 per cent and China's 6.1 per cent. Unfortunately, the COVID-19 pandemic has adversely impacted the economies of both the countries, and thus leaving us with a curiosity to probe into the India-China trade relationships.

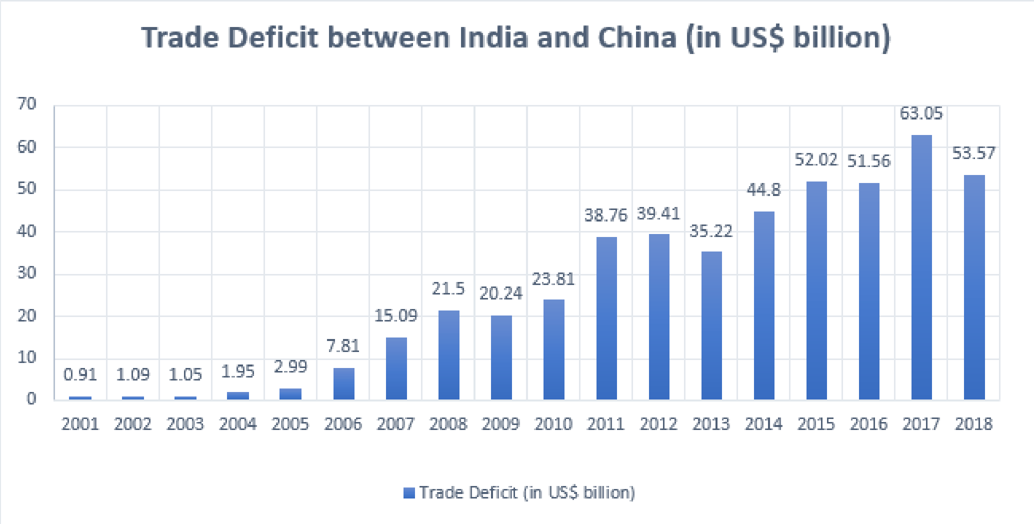
2. Background

The essence of cordiality prevailing in the International Relations is to some extent determined by the trade relations persisting between the two countries. Prior to the disintegration of the Soviet Union, in the year 1984, an agreement of trade came into effect between India and China, which accorded China the status of the Most-Favoured Nation; facilitated the growth of full-fledged bilateral trade between the countries. This was followed by a Double-Taxation Agreement signed in the year 1994–95, the Bangkok Agreement in 2003 and also agreed to conduct trade via the Silk Route. These agreements and indigenous trade policies have been constantly subjected to various dynamic amendments, and yet the trade

Graph 1: India-China Trade during 2001–2016

Source: PHD Research Bureau. 2018. "India-China Trade Relationship: The Trade Giants of the Past, Present and the Future." PHD Chamber of Commerce and Industry.

Graph 2: Trade Deficit between India and China during 2001–2018



Source: PHD Research Bureau. 2018. "India-China Trade Relationship: The Trade Giants of the Past, Present and the Future." PHD Chamber of Commerce and Industry.

deficit between the countries is significantly high.

For the financial years that followed, on February 7, 2020, the Press Information Bureau released a notification in the name of the Ministry of Commerce and Industry, regarding the India-China trade deficit. It asserted that the imports from China declined from US$ 76.83 billion in 2017–18 to US$ 70.32 billion in 2018–19; exports grew from US$ 13.33 billion in 2017–18 to US$ 16.75 billion in 2018–19.

Inferring from Graph 1 and the data above, the following tabulation is made which shows the trade deficit persisting between India and China.

The above graphical representation is indeed a conclusive evidence on the fact that there have been trade inconsistencies between India and China. The trade deficit between the countries has been majorly unfavourable towards India. Will India be benefitted from the ongoing pandemic or will China be able to make much more benefits out of the pandemic?

2.1 Major Products of Trade

Trade has been active between the two countries in the past too. Electronic goods have been the major trading products which India has managed to import from China, followed by organic chemicals (include components used in pharmaceutical supplies) and plastic. However, India has been majorly exporting organic chemicals, mineral fuels, ores and the marine creatures.

In a nutshell, India's exports to China except ore and fish, have fallen from April 2019 to January 2020,

Table 1: Major Products Exported from India to China.

Sl. No	Commodity	2018–19 (in lakhs)	2019–2020(Apr–Jan(F)) (in lakhs)
1	Organic Chemicals	2,276,037,09	1,649,996,41
2	Ores, Slag and Ash	857,203,13	1,399,434,57
3	Mineral Fuels, Mineral Oils and Products of their Distillation, Bituminous Substances, Mineral Waxes	2,003,125,36	1,357,624,23
4	Fish and Crustaceans, Molluscs and Other Aquatic Invertebrates	509,428,35	869,386,50
5	Plastic and Articles thereof	775,966,52	536,386,46

Source: Ministry of Commerce and Industry, Department of Commerce–Export Import Data Bank. https://commerce-app.gov.in/eidb/Default.asp.

Table 2: Major Products Imported from China to India.

Sl. No	Commodity	2018–2019 (in lakhs)	2019–2020(Apr–Jan(F)) (in lakhs)
1	Electrical Machinery and Equipment And Parts Thereof, Sound Recorder and Reproducers, Television Image and Sound Recorders and Reproducers and Parts	14,440,544,23	12,019,028,38
2	Nuclear Reactors, Boilers, Machinery and Mechanical Appliances Parts Thereof	9,361,631,20	8,308,948,39
3	Organic Chemicals	6,008,221,49	4,944,120,74
4	Plastic and Articles Thereof	1,903,855,02	1,686,482,44
5	Fertilizers	1,441,212,42	1,215,826,14

Source: Ministry of Commerce and Industry, Department of Commerce–Export Import Data Bank. https://commerce-app.gov.in/eidb/Default.asp.

whereas India's import from China has reduced with respect to all the top commodities of import from April 2019 to January 2020, and yet the trade deficit between the countries remains highly unfavourable towards India.

2.2 China's Trade Principle

China, as early as in the mid-1970s (which has continued till today) adopted the strategy of "Import Substitution" which has facilitated it to be among the largest exporters of the world. China's primary path to exercise economic dominance over the third world countries has been majorly through "active absorption of foreign direct investments and encouragement of foreign trade development". This trade philosophy is what has helped China in global economic integration and also plan for platform controlling in International Industrial Relocation.

2.3 India's Trade Principle

India's trade vision for the year 2020 is centred on improving the country's market shares and exploring new platforms for the same. It focusses majorly on providing the Indian exporters to derive the best out of the GST—mainly in the MSME and the labour-intensive setups. India also desires to focus on its agricultural export business and thereby promoting the domestic markets at a global level.

3. Trade Relations during COVID-19

Ever since the shadow of COVID-19 has fallen upon the world, the necessity for indigenous production and the import of medical supplies has gone up. The first case of COVID-19 infection was identified in China on November 17, 2019 and in India on January 30, 2020. When the pandemic developed further, many countries were forced to move into a lockdown, either partial or total, which has impacted the international economy. China, which was the epicentre of the pandemic, witnessed thousands of deaths and yet had initially made news in the world, for not keeping its economic exchanges shut for too long and also is believed to have made quick recoveries. The COVID-19 has impacted the Indian economy as well and hence could add fuel to the trade deficits which has been persistently high in the recent years.

Phase I

The shutdown of industries in the later part of 2019, mainly in China, has affected the bilateral trade. On January 15, 2020, *Business Standard* reported that the trade between India and China had declined by US$ 3 billion during the year 2019, and expressed concerns over the fact that the trade deficit still continued to be as high as US$ 56.77 billion. Despite working out several feasible options to protect the trade industry, the India-China trade faced a decline of 12.4 per cent in the initial two months of COVID-19. *The Economic Times* and *Global Times* reported that from January to February, India's imports from China were as less as US$ 9.5 billion and India's exports to China had dropped by US$ 2.5 billion (inferred from the Chinese Customs Data). Though the imports and the exports have dropped, the trade deficit is still significant.

In February 2020, the Electric Lamp and Component Manufacturers Association (ELCOMA) India expressed concerns over the shortages of electrical appliances which are the essential raw materials in manufacturing LED Bulbs. It was also predicted that since these materials are often imported from China, the prices of these could go up and therefore there could be an inflationary impact to the tune of 8 to 10 per cent. To strike a balance in such circumstances, in the month of March, the Ministry of Commerce had considered to impose duties on most of the products India exports to China like pearls, precious stones and woven fabrics. Despite the efforts, India's exports fell by 35 per cent in March 2020, and annual shipments too witnessed a fall—US$ 314.31 billion in the financial year 2020 as compared to US$ 330.08 billion in the year 2019. Though the initial phases had been challenging, the Indian economy seems to be rediscovering (though with certain limitations).

Phase II

In the initial duration of the lockdown, since the domestic production units were shut, India was forced to import large amounts of steel from China. But China's non-paced resumption of steel production favoured India—the steel exports by India is 18 per cent more than the imports in 2020. India's Jindal Steel and Power has been exporting 80 per cent of its production to China alone. The exports to Southeast Asia, which otherwise would have depended on China, have also significantly increased. India has also managed to export diesel to Beijing after the indigenous consumption dropped by almost half, due to the lockdowns.

Amidst these pros, there have been certain trade inconsistencies as well. The COVID-19 pandemic has made India realise the need to evolve its medical industry. The Indian Pharmaceutical industry is the 14th largest in terms of value, though it ranks 3rd when graded according to the volume. The pandemic has put the country in a situation where it cannot be ignorant towards the fact that the country has been overdependent on China for getting raw materials for its indigenous pharmaceutical productions. In the financial year 2018–19 alone, India imported a total of US$ 3560.35 million worth Drug Intermediates, out of which products worth US$ 2405.42 million (67.56 per cent) were from China alone.

This value is not much lesser than the US$ 3911 million exports of Drug Intermediates India made in the financial year of 2018–19. Despite the fact that the Chinese medical supplies were failing in quality tests, in the mid-April 2020, India ordered a total of 15 lakh antibody testing kits from the Chinese companies Wondfo Biotech and Zhuhai Livzon. India had also contracted with China-based companies to receive 15 million PPE sets that include gowns, masks, goggles, etc.

It is, however, not certain if the total value of all the imports would increase or decrease at this nascent stage. Nevertheless, on the other hand, India has also engaged itself in the indigenous manufacture of PPE kits, more than 4 lakhs per day, thus trying to reduce the prospective imports of PPEs from China.

Unfortunately, India witnessed an inopportune drop in the Manufacturing Index from 51.8 in the month of March to 27.4 in April 2020, and its services PMI (Purchasing Managers' Index) of 49.3 in March fell to 5.4 in April 2020. The Chinese government had skilfully managed to take such limitations into its stride and had tried to manifest remarkable recovery, which had aided it to consider taking over Indian companies which are vulnerable, to exercise control over its neighbouring countries and also to attempt dominating international trade tactics in toto. However, we need to understand that the virus is a world enemy and has impacted both the countries negatively. Though China performed well in the month of March 2020 with a manufacturing PMI of 52.0, after having an index of 35.7 in February, the index has dipped down to 50.8 in April.

In order to combat the Chinese dumping situations, India had imposed anti-dumping duties on 25 obvious importable products which would be expiring this year. Directorate General of Trade Remedies (DGTR), in the first week of May 2020, expressed the probability of extending anti-dumping duties and safeguards on the Chinese products which are currently under review. They include sodium citrate (an integral chemical in the pharmaceutical industry), USB flash drives, calculators, hot-rolled flat products of stainless steel, Vitamin C and E, nylon tyre cord, measuring tapes, compact fluorescent lamps (CFLs), flax fabrics, caustic soda, float glass, tableware, kitchenware, plastic processing machinery and solar cells, officials said.

Further, India considered excluding certain drugs from selective restrictions and hence aiding it to engage in a Quad-Plus ideology with the third world countries, and more with those that belong to the Indo-Pacific region. This would subsequently help curb the Chinese dominance in the trade industry, in the possible post-COVID-19 era.

Owing to the economic and trade strains, the Indian government has increased FDI (Foreign Direct Investment), pertaining especially to the countries that share a land boundary with India, which would benefit the country. The average FDI has been US$ 1412.87 million for the years 1995 to 2020 and the same was increased to US$ 2873 million in February 2020, and is expected to be increased to US$ 4000 million more. In the year 2019, the Chinese investments in India rose to US$ 26 billion (both current and planned) from US$ 1.6 billion in the year 2014. If not for the change in the FDI policies, then China would have been at ease to not only suppress the Indian economy, but also to pause a threat to India's Data Security and engage in platform-control fight, by making more investments in the Indian Territory.

Thus, it is true that India is trying hard to sustain against China through means of geo-political strategies and increased indigenous productions. But, what India is doing is enough to combat against the Chinese economic dominance for long in the years to come?

4. What Would Prevail?

4.1 Will India be Able to Compete with China in the Post-COVID-19 Era?

The COVID-19 pandemic has managed to reduce the imports and exports between the countries, which is exemplified by the fall in the rates in later 2019 and January 2020 and yet the trade deficit between the countries was notified to be high. According to a forecast put forth by Trading Economics, it is said that China's government Debt to GDP ratio would be around 55 per cent at the end of the year 2020 and another forecast by Statista says that in the case of India, it would be around 68.52 per cent. Now this tells us that though China too has been hit by the pandemic, it still thrives to perform better than India. However, a major question that arises is—Can India start performing better than China in the post-COVID-19 era?

To look for an answer to this question, we will have to consider another two questions—If the other countries would turn towards India post-COVID-19, and If India would be able to procure dominance over China and sustain it for the years to come?

India and the US had managed to surprise the world, when Facebook invested US$5.7 billion in Reliance Jio, though both the countries were in a state of lockdown. It is inferable that there can be better deals expected between India and the US in the future as well, mostly due to the ongoing frictions between the US and China (the Trump administration has imposed tariffs on Chinese goods). The supply chains of the companies originating in the US, Europe, Australia and Canada were disrupted when China turned out to be the epicentre of the pandemic. These companies have been thus motivated to look for platforms which are mostly independent of China. India could thus plan to derive the best of the benefits from the ongoing US-China frictions. Given the fact that China is facing a global backlash, it is a high probability that other countries would also want to shift towards investing in India over China.

Addressing the second question, we need to understand that though the world is manifesting significant anti-China sentiment, the third world countries have not yet managed to completely do away with the import of cheap Chinese products, which has typically helped the lower income groups. Added to this, empirical studies say that China's rural markets perform much better than India's.

While it is true that India has started to venture into indigenous productions and also managed to acquire some benefits through its COVID-19 Diplomacy, India also needs to focus on other factors which need to be catered to in order to compete better with China. India needs to stimulate its qualitative internal production more in order to increase its exports and become better self-sufficient. There is a need to check on the infrastructure bottlenecks, transactional costs which could be high, establish simpler procedures, adopt policies to improve the manufacturing index and adopt better diversification with respect to the exports.

Would India be well-off on adopting these methods, or is it better feasible for India to work in partnership with China, rather than inducing competition against the country?

4.2 Chindia?

Chindia is a portmanteau word that indicates the partnership between India and China. Apart from both of them being Asian countries, India and China are a part of international forums such as BRICS, BASIC and G20. Though the countries have their own internal challenges in following their own trade policies, could the partnership alleviate the consequences of such limitations?

India and China are often opined to be complementary to each other. However, the partnership too has certain challenges. Both the countries follow a strong Westphalian ideology and yet have certain differences in their approach towards trade and economic policies. Experts opine that China's dependence on FDI and international trade agreements have facilitated its economic performances, while India has been focussing on encouraging indigenous entrepreneurship and further promoting them at a global level.

Apart from these differences, the COVID-19 pandemic has also put India in a serious dilemma with respect to a long-term partnership with China. Although economy surely is an arena of paramount importance in nation building, another important concern would be the manifestations of the frustration of the trade war in other realms. The global backlashes against China (could create frictions between India and the other countries which are not cordial with China) and the ongoing military face offs with China have added to the dilemma. Apart from handling the issues of trade with China, India now has to also combat the unfavourable exchanges along the Sikkim Frontier and the Ladakh Region. At this point, it is also doubtful if China would want to venture into something which works on the principle of symbiotic benefits rather than unconditional economic dominance.

Thus, with such ongoing tensions, it would not be feasible for India to enter into a complete economic partnership with China, though efforts could be made to be partially associated. Since India is still in a nascent stage of developing its world trade through indigenous productions, completely shunning of Chinese imports (that constitute only 3 per cent of China's exports) would neither do much benefit to India nor be a substantial check on China's global export business. India, therefore, needs to adopt a grey stand where it utilises China only for its benefit.

5. Conclusion

5.1 What India Must Preferably Do?

India could possibly not venture into a full-fledged Chindia strategy due to the above-mentioned reasons. India cannot, at this point, go completely the Chinese way and relax its FDI policies much, since it must also check platform control desires of other countries with respect to the Indian-based companies. Therefore, India was compelled to revise its FDI policy as a consequence of the COVID-19 pandemic.[1] Given the ongoing situations, what India needs to do is find a veritable balance: continue to cater to strengthen its trade visions and domestic

1. "However, an entity of country, which shares land border with India or where the beneficial owner of an investment into India is situated in or is a citizen of any such country, can invest only under the Government route. Further, a citizen of Pakistan or an entity incorporated in Pakistan can invest, only under the Government route, in sectors/activities other than defence, space, atomic energy and sectors/activities prohibited for foreign investment. In the event of the transfer of ownership of any existing or future FDI in an entity in India, directly or indirectly, resulting in the beneficial ownership falling within the restriction/purview of the para, such subsequent change in the beneficial ownership will also require Government Approval."

market and get into a controlled partnership venture with China, subjected to persistent vigilance.

5.2 Way Ahead

- India needs to subsidise its indigenous establishments. This would increase the demand for local products in the market over the imported ones. If these indigenously produced goods are qualitatively satisfying, they could gain prominence in the world market, thus making India's trade vision work.
- India must further take advantage of the US-China frictions and try to cut down China's exports to the US and thus start exporting more to the US. The situation has already benefitted India, since many of the US-based companies have considered to shift their investments to India from China. India could attempt this strategy with the other countries of the world as well.
- India could venture into a controlled partnership with China, where it could acquire the sole official partnership status for the trade of specific materials like software, ores, etc. This coupled with the point one will aid in minimising the trade deficit.

At this point, we do not know if India can overtake China in the coming years or compete with it on a long-term basis, but India must take advantage of the ongoing COVID-19-driven situations and strategically attempt to compete with China.

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