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Trading Between India and China and its Effect on COVID – 19

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Abstract - The COVID-19 epidemic has had an effect on trade, assisting soft power movements. The research concentrates on trade relations between India and China by presenting a historical foundation of trade developments between the two nations and briefly discussing their trade philosophies. It also tries to keep track of commercial transactions with India and China during the epidemic. It examines whether India could compete financially with China by refusing to trade with it, or whether the CHINDIA approach would be more advantageous. The study also emphasises India's reliance on China for medical supplies, arguing that a governed trade cooperation with China would be financially viable to India.

Keywords - CHINDIA approach, COVID – 19

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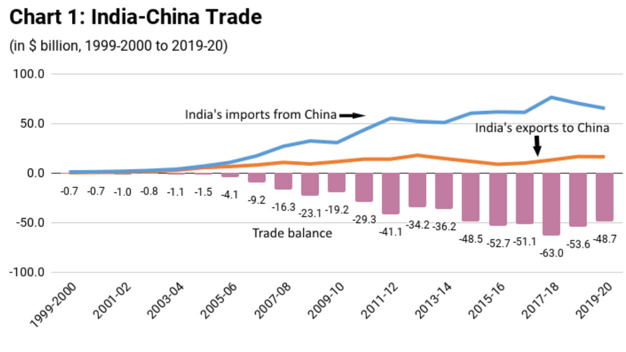
1. INTRODUCTION

India's exports to China have increased about 34 per cent to USD 22.9 billion in 2021 from USD 17.1 billion in 2019, according to data from the commerce ministry. Imports, on the other hand, rose 28 per cent to USD 87.5 billion in 2021 as against USD 68.4 billion in 2019. According to the data, the trade deficit has increased to USD 64.5 billion last year as compared with USD 51.2 billion in 2019.Trade experts have stated that India's exports to China have increased at a faster pace than that of its imports from China in 2021 when compared with the normal year of 2019. India and China are perceived to be among the fastestgrowing economies of the Asian Region. China hasbeen bestowed with the status of being India's majortrading partner since decades. The countries havebeen earnestly trying to make economic progress. Inthe year 2018, the annual growth rate of the IndianGDP was said to be 6.8 per cent while that of Chinawas 6.6 per cent. However, for the financial year of2019, the GDP growth rate of India was predicted tobe as low as 4–5 per cent and China's 6.1 per cent.Unfortunately, the COVID-19 pandemic has adverselyimpacted the economies of both the countries, andthus leaving us with a curiosity to probe into theIndia-China trade relationships.

2. BACKGROUND

The core of international affairs joviality is influenced to some extent by the trade links that exist between the two countries. Prior to the fall of the Soviet Union, in 1984, India and China signed a trade deal that gave China the status of the Most-Favoured Nation and enabled the development of full-fledged domestic trade between the two countries. A Double-Taxation Agreement was struck in 1994–95, followed by the Bangkok Agreement in 2003, and an agreement to conduct trade along the Silk Route. Despite the fact that these accords and domestic trade policies have been exposed to several dynamic revisions, the trade gap between the countries remains large. For the following financial years, on February 7, 2020, the Press Information Bureau issued a notification addressing the India-China trade deficit in the name of the Ministry of Commerce and Industry. Imports from China fell from US$ 76.83 billion in 2017–18 to US$ 70.32 billion in 2018–19, while exports increased from US$ 13.33 billion in 2017–18 to US$ 16.75 billion in 2018–19, according to the report.

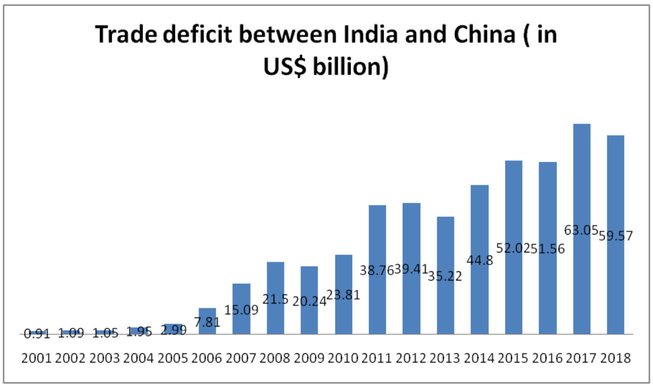


Source: Directorate General of Commercial Intelligence and Statistics, Department of Commerce

The following table is derived from Chart 1 and the data above, and it demonstrates that India and China continue to have a trade deficit. Prior to 2003–04, India's imports from China totaled less than $3 billion and the trade deficit was less than $1 billion.

Over the next five years, India's imports from China increased to $32.3 billion in 2008–09 and with exports expanding relatively slowly to about $10 billion, the imbalance in India-China trade widened to $23.1 billion that year. Over the next decade, China's exports to India more than doubled to reach $76.4 billion in 2017–18. India's exports to China also grew but neither consistently nor rapidly. They were $13 billion in 2017–18. The trade deficit with China that year was a massive $63 billion, nearly 40% of India's overall trade deficit in goods.

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



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

The graphical representation above is compelling proof of trade inconsistencies between India and China. The trade disparity between the two countries has favoured India significantly. Will the present pandemic benefit India, or will China be able to reap far greater benefits?

2.1 Major Products of Trade

Both countries have historically engaged in trade. Electronic goods, organic chemicals (including components used in medicinal supplies), and plastic have all been key trading products that India has been able to buy from China. India, on the other hand, has primarily exported organic compounds, mineral fuels, ores, and marine life.

Table 1: Major Products Exported from India to China

S.No.	Commodity	2018 – 19 (in lakhs)	2019-2020 (April – 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	Minerals 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 Invertebrates	509,428,35	869,386,50
5	Plastic and articles thereof	775,966,52	539,386,46

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.

S.No.	Commodity	2018 – 19 (in lakhs)	2019-2020 (April – Jan (F) (In lakhs)
1	Electrical Machinery and EquipmentAnd Parts Thereof, Sound Recorder andReproducers, Television Image and SoundRecorders and Reproducers and Parts	14,440,544,23	12,019,028,38
2	Nuclear Reactors, Boilers, Machinery andMechanical 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.

In a nutshell, India's exports to China, with the exception of ore and fish, have decreased from April 2019 to January 2020, while India's imports from China have decreased for all of the top import commodities from April 2019 to January 2020, despite the fact that the trade deficit between the two countries remains highly unfavourable to India.

2.2 China's Trade Principle

Before 1978, China was a centrally planned economy with minimal trade with the rest of the world and low export and import rates, its exports being only some manufactured goods and raw materials sold to be able to import goods not produced domestically. The adopted protectionist and import substitution policies were aimed at improving China's export structure and fostering the growth of the domestic industry and of the economy as a whole. International trade normally facilitates capital accumulation, optimal resource allocation, technological progress and productivity improvements. However, in the case of China both the static and dynamic gains from free trade were limited, owing to the lack of competition.

From 1978, China has pursued trade liberalisation in addition to making other significant changes to its economic structure with the aim of establishing a socialist market economy. However, this has been a gradual process. Sustained economic growth and the resulting increase in average income initially led to a sharp rise in imports. At the beginning of the 1980s, tariffs were imposed on many products to stop the inflow of foreign products into the Chinese market. To encourage the market mechanism and a more effective resource allocation the Chinese government cancelled its import substitution list in the 1980s, and gradually reduced import and export restrictions in the form of both tariffs and non-tariff barriers. Following the adoption of liberalisation policies, foreign investors were able to set up joint ventures and import new technology into China: FDI had an important role in the transfer of technology and of management skills.

In 2001, China joined WTO. To meet the membership requirements, it had to modify and improve its administrative regulations and laws, in particular those concerning foreign trade and economic cooperation (Cross, 2004), such as the Trademark Law, and the Law on Joint Ventures with Chinese and Foreign Investment. Other legislation not in compliance with WTO requirements was revised or abolished. China's WTO membership has strengthened and improved the multilateral trading system, and promoted world economic and trade development. Furthermore, it has contributed to reducing the technological gap between China and the developed countries. After becoming a WTO member, China continued to reduce trade restrictions: in 2004 it lowered its average tariff rate to 10.7%; by 2012, it was below 9%; non-tariff barriers such as licenses, import quotas, trading practices etc. have also been gradually removed. The dismantling of trade barriers led to a restructuring of the industries that previously had strong government protection (such as the automobile, chemical and electronics ones — Greeven (2004)).

2.3 India's Trade Principle

India's 2020 trade vision focuses on increasing the country's market share and developing new venues for doing so. It focuses on helping Indian exporters get the most out of the GST, particularly in the MSME and labor-intensive industries. India also wants to concentrate on its agriculture export sector, boosting domestic markets on a worldwide scale.

3. TRADE RELATIONS DURING COVID-19

The need for local manufacturing and the import of medical products has increased since the shadow of COVID-19 has descended upon the world. On November 17, 2019, China reported the first case of COVID-19 infection, followed by India on January 30, 2020. As the pandemic spread, many countries were obliged to implement partial or complete lockdowns, which had severe impact on the global economy. China, which was at the epicentre of the pandemic, saw thousands of deaths but garnered headlines around the world for not closing its commercial exchanges for too long and is said to have recovered quickly.The COVID-19 has had an influence on the Indian economy, which could give gasoline to the continually rising trade deficits in recent years.

Phase I

The closure of sectors in the second half of 2019, primarily in China, has had an impact on bilateral trade. Business Standard stated on January 15, 2020, that trade between India and China had decreased by US$ 3 billion in 2019, and voiced alarm about the fact that the trade gap remained at US$ 56.77 billion. Despite developing a number of viable measures to defend the trade industry, India-China commerce fell by 12.4% in the first two months of COVID-19.

According to the Economic Times and the Global Times, India's imports from China fell by US$ 9.5 billion in January and February, while exports to China fell by US$ 2.5 billion (based on Chinese Customs data). Despite the fact that imports and exports have decreased, the trade deficit remains large.

The Electric Lamp and Component Manufacturers Association (ELCOMA) of India raised concern in February 2020 about the shortages of electrical appliances, which are used to make LED bulbs. It was also expected that, because these materials are frequently imported from China, their prices would rise, resulting in an inflationary impact of 8 to 10%.To strike a balance in such circumstances, the Ministry of Commerce proposed imposing taxes on the majority of India's exports to China, such as pearls, precious stones, and woven fabrics, in March. Despite these efforts, India's exports declined by 35% in March 2020, and annual shipments also fell—US$ 314.31 billion in fiscal year 2020 versus US$ 330.08 billion in fiscal year 2019. Though difficult in the beginning, the Indian economy appears to be recovering (though with certain limitations).

Phase II

India was obliged to import enormous amounts of steel from China during the first phase of the lockdown since domestic production units were shut down. However, India benefited from China's slow return of steel production; in 2020, India's steel exports will be 18% higher than its imports. Jindal Steel and Power, based in India, has been exporting 80 percent of its output to China alone. Exports to Southeast Asia, which were formerly reliant on China, have also expanded dramatically. Due to the lockdowns, India was able to sell diesel to Beijing when domestic consumption fell by nearly half. There have also been some trading anomalies among these pros.

The COVID-19 epidemic has highlighted the necessity for India's medical industry to develop. In terms of value, the Indian pharmaceutical sector is the 14th largest, but it ranks third in terms of volume. The epidemic has put the country in a position where it can no longer ignore the fact that it has become overly reliant on China for raw materials for its domestic pharmaceutical manufacture. India imported a total of US$ 3560.35 million in Drug Intermediates in fiscal year 2018–19, with products worth US$ 2405.42 million (67.56 percent) coming from China alone.

This amount is comparable to India's exports of Drug Intermediates worth US$ 3911 million in the 2018–19 fiscal year. Despite the fact that Chinese medical goods failed quality checks, India acquired 15 lakh antibody testing kits from the Chinese businesses Wondfo Biotech and Zhuhai Livzon in mid-April 2020. India had also agreed to receive 15 million PPE kits from Chinese companies, including gowns, masks, and goggles.

However, at this early stage, it is unclear if the total value of all imports will increase or decrease.On the other hand, India has started producing PPE kits in-house at a rate of more than 4 lakhs a day, in an attempt to reduce future PPE imports from China.

Unfortunately, India's Manufacturing Index dropped unexpectedly from 51.8 in March to 27.4 in April 2020, while its services PMI (Purchasing Managers' Index) dropped from 49.3 in March to 5.4 in April 2020. The Chinese government had skillfully managed to adapt to such constraints and attempted to demonstrate remarkable recovery, which had aided it in considering taking over vulnerable Indian companies, exercising control over its neighbours, and attempting to dominate international trade tactics in general.However, we must recognise that the virus is a global threat that has had a devastating influence on both countries. Though China performed well in March 2020, with a manufacturing PMI of 52.0, following a low of 35.7 in February, the index has since dropped to 50.8 in April.

India placed anti-dumping tariffs on 25 evident importable products that were set to expire this year in order to deter Chinese dumping. In the first week of May 2020, the Directorate General of Trade Remedies (DGTR) highlighted the possibility of increasing anti-dumping taxes and safeguards on Chinese items that are currently under evaluation. Officials say they include sodium citrate (a key ingredient in pharmaceuticals), USB flash drives, calculators, hot-rolled stainless steel flat products, Vitamin C and E, nylon tyre cord, measuring tapes, compact fluorescent lamps (CFLs), flax fabrics, caustic soda, float glass, tableware, kitchenware, plastic processing machineIndia also proposed exempting certain pharmaceuticals from selective restrictions, allowing it to pursue a Quad-Plus strategy with third-world countries, particularly those in the Indo-Pacific area. In the probable post-COVID-19 scenario, this would serve to limit Chinese dominance in the commerce business.

Due to economic and commercial pressures, the Indian government has encouraged FDI (Foreign Direct Investment), particularly in nations with which India shares a land border, which would benefit the country. For the years 1995 to 2020, the average FDI was US$ 1412.87 million, which was increased to US$ 2873 million in February 2020, and is predicted to rise to US$ 4000 million.ry, and solar cells.Chinese investments in India increased to US$ 26 billion in 2019 (including existing and projected) from US$ 1.6 billion in 2014. Without the change in FDI laws, China would have been free to not only repress the Indian economy, but also to halt a danger to India's data security and engage in a platform-control battle by increasing its investments in Indian territory.

As a result, it is true that India is attempting to maintain its competitiveness versus China through geopolitical strategies and greater indigenous production. But, is what India is doing sufficient to counter China's economic dominance for the foreseeable future?

4. WHICH OPTION WOULD WIN?

4.1 Will India be capable of competing with China following COVID-19?

COVID-19 has created a cold war kind of situation between the United States and China. India is siding with the US, and adding to the tension. As of now, America and China have competing economic and military power. The US is a democracy seeking to exercise global imperial control even though China and Russia keep it in check with their military and economic strength. By the time the coronavirus crisis shook the world, China was trying to catch up with the US on many fronts, particularly with the massive skilled labour power at its command. With its deft handling of the globalisation process, China out played the US in reaching out to global markets and engulfed even America’s home markets with its goods and commodities. China has practiced ‘labour power socialism’ which the former Soviet Union could not do.

China has become the most powerful market controller in Asia. In certain sectors, it has penetrated deep in to Euro-American markets by creating its own brand of consumerism in those countries. Perhaps Marx may think otherwise but China has made his dream of combining labour, skill and science and created a new world order which has made better human life possible.

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 RelianceJio, 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, Australiaand 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.

4.2 CHINIDIA

Chindia is a portmanteau word that refers to China and India together in general. China and India share long borders, are both regarded as growing countries and are both among the fastest growing major economies in the world. Together, they contain over one-third of the world's population (nearly 2.7 billion). They have been named as countries with the highest potential for growth in the next 50 years in a BRIC report. BRIC is a grouping acronym that refers to the countries of Brazil, Russia, India and China. It is seen at present for both India and China to overcome major and mutual challenges such as regional and societal income disparities, moving up the value chain towards greater innovation, and also environmental degradation for Chindia to prosper and actually take effect in future.

Serious difficulties in attempting to find a mutually acceptable settlement for a 2520 miles (4056 km) frontier has been a major stumbling block between the two countries ever since India's independence in 1947. Technical discussions have been going on for decades. They will continue. The difference is that these discussions are now coupled with the leaders' firm pledge to find a peaceful solution.

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. CONCLUSIONS

5.1 What Should India Preferably Do?

For the reasons stated above, India may not be able to pursue a full-fledged Chindia policy. At this juncture, India cannot entirely follow China's lead and relax its FDI laws, as it must also consider other countries' platform control demands with regard to

Indian-based enterprises. As a result of the COVID-19 epidemic, India has no choice but to change its FDI policy. 1 Given the current circumstances, India must strike a true balance: continue to expand its trade policies and home market, while also entering a controlled cooperation venture with China, subject to constant surveillance.

5.2 The Task Ahead

- India needs to subsidise its domestic businesses. This would raise market demand for locally produced goods over imported goods.
- India must take advantage of the US-China trade frictions by attempting to reduce China's shipments to the US and so begin exporting more to the US. Because many US-based corporations are considering shifting their investments from China to India, the scenario has already benefited India. India might use the same technique with other countries around the world.
- India and China might form a controlled partnership in which India would have sole official partnership status for the trading of particular materials such as software and ores. This, combined with item one, will help to reduce the trade deficit.
- We don't know if India will be able to catch up to China in the coming years or compete with it on a long-term basis, but it must take advantage of the current COVID-19-driven scenarios to strategically compete with China.

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