



drishti

## Decoupling India's Manufacturing With China

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This article is based on **“Easier said”** which was published in the Indian Express on 19/06/2020. It talks about the issues of banning Chinese imports by India in the wake of border clashes.

In the aftermath of the confrontation between India and China in the **Galwan Valley**, there has been a growing clamour for a boycott of Chinese products in India.

In this pursuit of using trade as a blunt instrument of retaliation against China, the government of India is actively considering nudging private players to reduce their dependence on China-made equipment.

However, given India's dependence on Chinese manufacturing, any trade war or a boycott of Chinese goods may have a more adverse impact on India rather than China.

### Need For Revisiting India's Trade Policy vis-a-vis China

- **Huge Trade Deficit:** India's imports from China in 2019-2020 reached \$65 billion, out of \$81 billion two-way trade.
- **Leveraging India's Raw Material:** Along with importing a lot of finished products from China, India exports several kinds of raw materials and intermediate products.

By saving these raw materials India can expand its manufacturing base more.

- **De-industrialisation:** Dumping of cheap goods by China into India, has rendered much of domestic manufacturing industries uncompetitive and thereby led to virtual deindustrialisation in many sectors.
- **Relocation of Global Supply Chain:** Amid Covid-19 pandemic, many multinational companies seek to move their businesses out of china. India should leverage this opportunity and attract these global supply chains.

### Dependence of India on Chinese Manufacturing

- **Made in China often helps Make in India:** India is dependent on China regarding capital goods.
  - This includes a wide variety of machinery, including electrical machinery, semiconductor driven machinery sector, etc.
  - Thus, the ban on Chinese imports will affect the competitiveness of domestic manufacturing, and thus further erode the country's export competitiveness.
- **Minuscule Impact on China:** India accounts for a minuscule share of China's export market, it will have a limited impact on China.
 

If India and China stop trading then, China would lose only 3% of its exports and less than 1% of its imports, while India will lose 5% of its exports and 14% of its imports.
- **Impact on Indian Consumers:** Any attempt to reduce imports from China, operationalised through tariffs or other non-tariff barriers, will raise prices for Indian consumers.
  - The poorest consumers will be the worst-hit in a trade ban of this kind because they are the most price-sensitive.
  - Also, without any alternative in the short-term, it is costly to replace Chinese products with much costlier imports from Japan and Germany.
  - This will further increase India's total trade deficit.
- **China's Investment In Indian Startups:** There is also the issue of Chinese investment in the Indian start-up space to contend with.
 

Companies like Alibaba and Tencent have invested in Indian unicorns such as Zomato, Paytm, Byju's, Ola cabs and others.
- **Centrality of China In Global Markets:** It's important to note along with being an exporter of assembled final products, China has also over the years become a major consumer for final products.
  - Due to this, the shifting of supply chains out of China is not very lucrative for many Multinational companies.
  - Also, blocking trade with China, India will miss out on one of the biggest markets.

## Steps To Be Taken

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- **Boost Domestic Manufacturing:** India's strategy should be to boost manufacturing competitiveness and increase its share in world trade.
 

In this pursuit, there is a need to create an infrastructure that raises the competitiveness of India's exports.
- **Removing Structural Bottlenecks:** There is a need to push through long-pending legislation that aims to address the structural bottlenecks (**in 4Ls: Land, Labour, Law, Liquidity**) that continue to plague and hinder domestic competitiveness.

- **Leveraging Service Sector:** In spite of banning Chinese imports, India should tackle trade by trade.  
India can lobby for a more liberalised service sector (India's comparative advantage) in China.
- **Responding to China Strategically:** In spite of drawing border disputes into a trade dispute, India should reply to China strategically in such matters of strategic importance.  
Thus, in this context, India must increase its engagement in the South China Sea, which is a key strategic issue for China.

## Conclusion

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Given India's dependence on Chinese manufacturing, there is a need to understand that turning a border dispute into a trade war is unlikely to solve the border dispute and this trade war may hurt India far more than China.



### *Drishti mains Question*

India's trade policy response to border clashes with China, should flow from a careful cost-benefit analysis, not be driven by knee-jerk reactions. Discuss.