



India's Trade Deficit with China at Five-year Low in 2020

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Why in News

The **trade deficit**, between India and China, declined to a **five year-low of 45.8 billion USD** in 2020, the **lowest since 2015**.

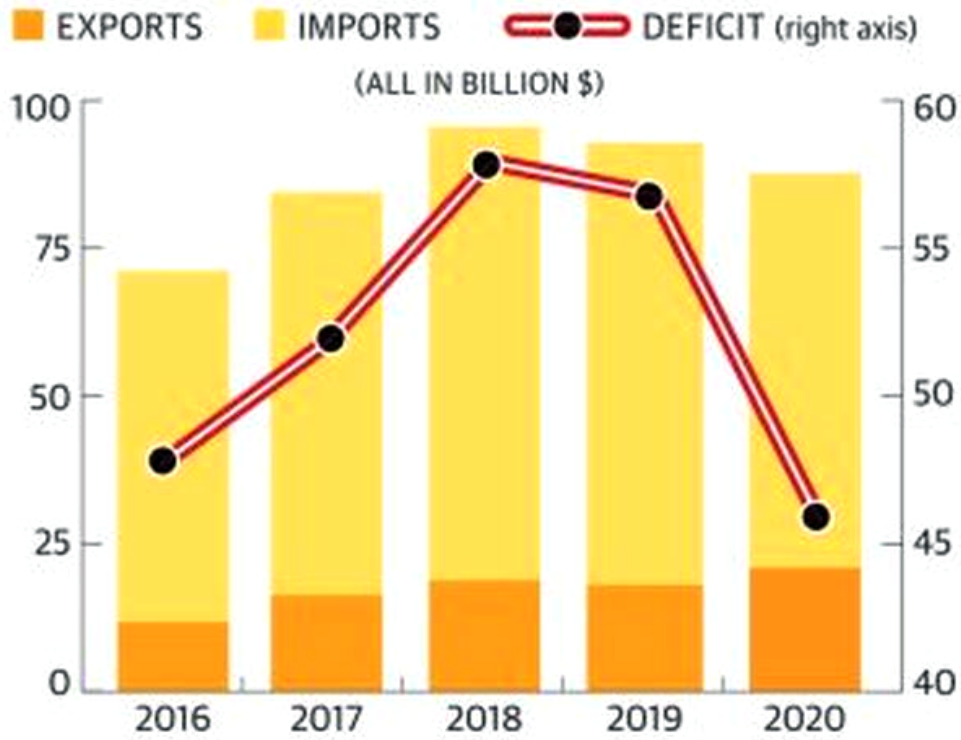
Trade Deficit: A trade deficit is an amount by which the **cost of a country's imports exceeds its exports**.

Key Points

- **Bilateral Trade in 2020:** Two-way trade in 2020 reached **87.6 billion USD**, down by **5.6%** from 2019, according to new figures from **China's General Administration of Customs (GAC)**.
 - **India's imports from China** accounted for **66.7 billion USD**, declining by 10.8% year-on-year and the lowest figure since 2016.
 - **India's exports to China**, however, **rose to the highest figure on record**, crossing the 20 billion USD mark and growing 16% in 2020.
- **Analysis:**
 - India's **overall imports declined**, due to slump in domestic demand in 2020.
 - There is, yet, no evidence to suggest India has **replaced its import dependence on China** by either sourcing those goods elsewhere or **manufacturing them at home**.
- **India's Biggest Import from China (2019 data):**
Electrical machinery and equipment, organic chemicals fertilisers etc.
- **India's Top Exports to China (2019 data):**
 - Iron ore, organic chemicals, cotton and unfinished diamonds.
 - Further, the year 2020 saw a surge in demand for **iron ore in China** with a slew of **new infrastructure projects** aimed at **reviving growth** after the **Covid-19 slump**.

- **Trade Deficit with China:**
 - The **balance of trade between India and China** is hugely **tilted in the favour of the latter**. India's trade deficit with China was 45.8 billion USD in 2020 and 56.77 billion USD in 2019.
 - The huge trade deficit with China could be **attributed to two factors: narrow basket of commodities**, mostly primary, that **India exports to China** and **market access impediments for most of Indian agricultural products** and the sectors where India is competitive in, such as pharmaceuticals, IT/IteS, etc.
 - Over time, India's raw material-based commodities have been overshadowed by Chinese exports of machinery, power-related equipment, telecom, organic chemicals and fertilisers.
- **Measures Taken to Reduce Import Dependence on China:**
 - The **ban on more than 100 Chinese apps**, amidst **border tensions** between the two countries in eastern Ladakh.
 - It has increased scrutiny of **Chinese investments in many sectors**, and is weighing a decision to keep Chinese companies out of **5G trials**.
 - The government recently put **import restrictions on tyres**, while also making its **prior approval mandatory for foreign investments from countries that share land border** with India to curb "opportunistic takeovers" of domestic firms - a move which will **restrict FDI from China**.
 - The Ministry of Commerce and Industry has **also identified 12 sectors** - food processing, organic farming, iron, aluminium and copper, agro chemicals, electronics, industrial machinery, furniture, leather and shoes, auto parts, textiles, and coveralls, masks, sanitisers and ventilators - to make India a global supplier and cut import bill.
 - To **cut import dependency on China for APIs** (Active Pharmaceutical Ingredients), the government in March **approved a package** comprising four schemes with a total outlay of Rs. 13,760 crore to boost domestic production of bulk drugs and medical devices in the country along with their exports.

Trade deficit with China narrows



Source:TH