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China: India's Top Trading Partner in 2020

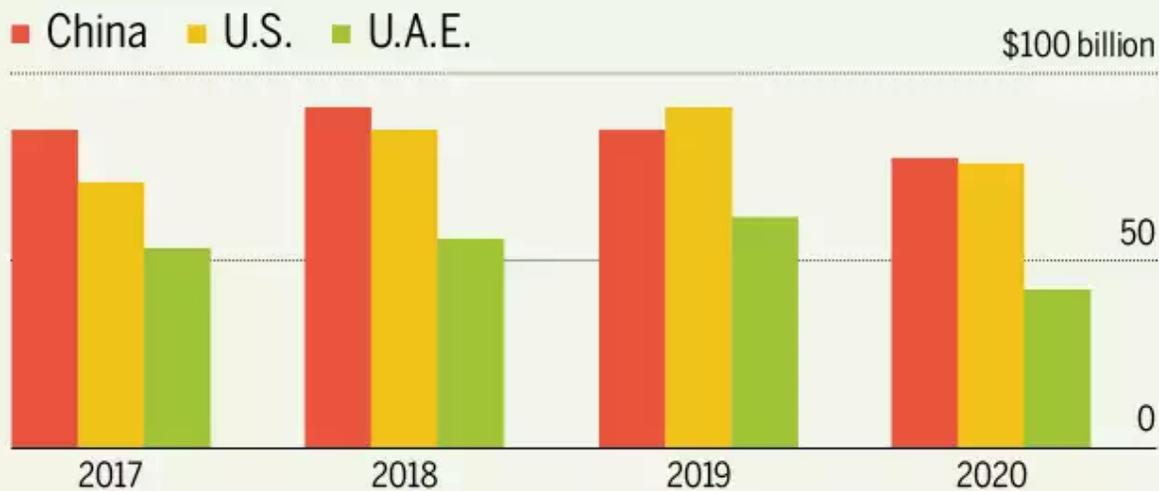
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Why in News

According to **provisional data from India's commerce ministry**, **China regained its position as India's top trade partner in 2020** despite high border tensions between the two countries.

Dragon Returns

China displaces the U.S. to regain India's top trade partner slot in 2020



Source: Bloomberg

Note: Data for 2020 is provisional

Key Points

- **China as a Top Trading Partner:**

- **Data:** The two-way trade between India and China **stood at USD 77.7 billion** for the year 2020.

Trade with China **was USD 85.5 billion total in the previous year** (2018-2019).

- **Replaced USA:** Now, China is the largest commercial partner displacing the US bilateral trade at USD 75.9 billion amid reduced demand for goods in the middle of the **Covid-19 pandemic**.
- **Imports from China:** Total imports from China at USD 58.7 billion were more than India's combined purchases from the USA and the UAE, which are its second- and third-largest trade partners, respectively.
- **Exports to China:** India has only managed to increase its exports to China by about 11% from a year ago to USD 19 billion last year.
- **Trade Deficit:** Thus, a **bilateral trade gap** with China stood at almost **USD 40 billion in 2020**, making it India's largest.

Trade Gap/Deficit is the amount by which the cost of a country's imports exceeds the value of its exports.

- **Analysis:**

- Emergence of China as the top trading partner is due to **increased import of Chinese medical supplies**.
- Online shoppers **seem to prefer Chinese mobile phones and electronic gadgets despite** the environment of anti-China sentiments in the nation.

As per the Prime Day 2020 sale data of Amazon, an e-commerce giant, OnePlus, Oppo, Huawei's Honor and Xiaomi were among the top-selling smartphone brands in India.

- Also, India **continues to rely heavily on Chinese-made heavy machinery, telecom equipment and home appliances**.
- The increase in trade is despite the tense relations between the two countries and India's ambitions to bolster its manufacturing capabilities under **Atmanirbhar Bharat**.

- **Measures Taken to Reduce Import Dependence on China:**

- **Recent Ban:** The ban on more than 100 Chinese apps citing national security reasons.
- **Increased Scrutiny:** It has increased scrutiny of Chinese investments in many sectors, and is weighing a decision to keep Chinese companies out of 5G trials.
- **Curb Opportunistic Takeovers:** 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.
- **Focus on Self-Sufficiency:** 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 2020 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.

Way Forward

- India cannot afford to sever all its economic links with the world's second-largest economy. Chinese finance can help in sustaining India's start-up economy.
- India needs to be very selective in its measures. For example, India can curb Chinese firms' involvement in the telecom sector in India, especially 5G trials. But at the same time a large part of the infrastructure India already has in place in the 4G network is all Chinese, so India will still need China for maintenance and servicing.
- However, through Atmanirbhar Bharat Abhiyan, India can try to replace chinese products with domestic products in the sectors where it is possible. Further, it needs to boost up its economic relations with other countries.

Source: IE