

India's Trade Dilemma

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India's Trade Dilemma: Strengthening Ties with China Amid Global Pressures

Context

- India's trade with China has been shaped by **border tensions, trade imbalances, and investment restrictions**.
 - The **2020 Galwan clash** led to strict trade and investment curbs on China.
 - Meanwhile, the **US is pressuring India** to lower tariffs and align with its trade policies.
 - As **border tensions ease**, India is reconsidering trade ties with China while balancing its global strategy.
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India-China Trade in FY24

- **Total trade: \$118.40 billion**, making China India's **top trading partner**.
 - **China's share in India's total imports: 15%**.
 - **India's total imports: \$675.42 billion**, of which **\$101.74 billion** came from China.
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Widening Trade Deficit

- India's **trade deficit with China is \$83 billion** due to:

- **Limited Export Basket:** India mainly exports **raw materials**, lacking **high-value goods**.
 - **Market Access Barriers:** China restricts Indian exports in **agriculture, pharmaceuticals, and IT**.
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Chinese Investment in India

- China ranks **22nd in FDI equity inflows** into India.
 - **Cumulative FDI (April 2000 - September 2024): \$2.5 billion.**
 - Despite **high trade volume**, **Chinese investment remains low** due to **Indian restrictions**.
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Easing Trade Restrictions on China

Proposed Relaxations

- India is considering easing **post-2020 trade curbs** by:
 - Reducing **tariff and non-tariff barriers**.
 - Easing **visa restrictions** for Chinese business personnel.
 - Reopening access to **some banned Chinese apps**.
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Industry Push for Trade Liberalization

- **Indian SMEs and manufacturing sectors** advocate relaxed restrictions to ease supply chains.
- Proposed measures:
 - **Simplifying BIS certification** for Chinese imports.

- **Extending visas** for Chinese workers in infrastructure projects.
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Balancing US and China Relations

- The **US is pressuring India** to reduce tariffs.
 - Economic engagement with China could serve as a **counterbalance**.
 - A **Finance Ministry report** supports easing trade restrictions to maintain **trade flexibility**.
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India and the 'China Plus One' Strategy

Understanding 'China Plus One'

- **China Plus One (C+1) strategy** helps companies reduce dependence on China by diversifying supply chains.
 - Key drivers:
 - **Rising labor costs in China.**
 - **US-China trade tensions.**
 - **COVID-19 supply chain disruptions.**
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India's Progress in Capturing C+1

- **NITI Aayog (Dec 2024) report:** India has had **limited success** in leveraging this trend.
- However, recent shifts indicate progress:
 - **SAIC Motors divesting from MG Motors.**
 - **Shein re-entering India via Reliance Retail.**

India's Trade Dilemma: Investment vs. Imports

- India must choose between:
 - **Increasing Chinese investments** for economic growth.
 - **Maintaining restrictions** to curb import dependence.
- Any **trade relaxation will be gradual**, aligned with **India's long-term economic goals**.



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