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Impact of COVID-19 on India-China trade relations

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Abstract
India and China are the two fastest growing economics of the world but the covid-19 pandemic has adversely impacted the economics of both the countries, and thus leaving us with a curiosity to probe in the India-China relationships. This paper focuses on India-China bilateral trade by providing a background of trade trends in the past year between the countries and briefly discusses their trade principles. The paper also highlights India's dependency on China for medical supplies and suggests that it would be economically best for India if it ventured into a controlled/restricted trade partnership with China. A few suggestions are also put forward on what India could do to enhance its trade dominance.

Keywords: COVID-19, bilateral trade, GDP

Introduction

India and China are perceived to be among the fastest growing economies of the Asia Region. China has been bestowed with the status of being India's major trading partner since decades. The countries have been earnestly trying to make economic progress. In the year 2018, the annual growth rate of India was predicted to be as low as 4-5 per cent and China's 6.1 per cent. Unfortunately, the COVID-19 pandemic has adversely impacted the economies of both the countries, and thus leaving us with a curiosity to probe into the India- China trade relationships.

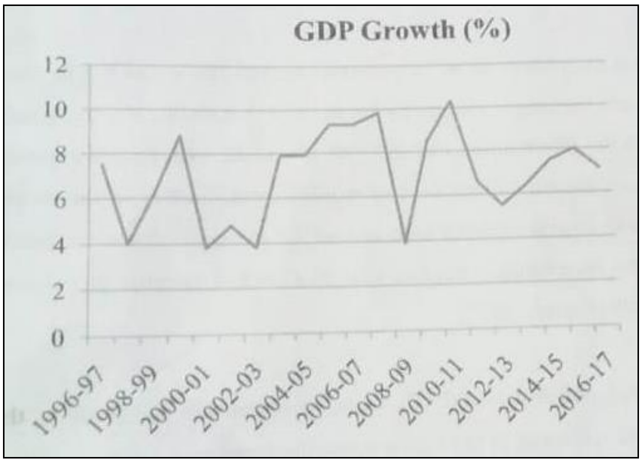
Overview of Indo-China bilateral trade

China has emerged as a rapid and socially developed country since the market reforms of 1978.It has moved from a Soviet-style centrally-planned to a market-based economy which is playing a major role in the global economy.

China has been able to maintain a sharp increase in its export since mid-2000s and has become world's largest exporter in 2010 and the largest trading nation in 2013 (Factbook, 2017). Speedy progress of China is evident from the information, that in 1990, it was the 14th largest exporter with export at US $ 62 billion i.e., around 1.8 per cent of world export. Further in the recent years it has become world's seventh largest exporter with around 3.9 per cent of world exports. Correspondingly, if we look at the merchandise imports side of China, it became the second largest importer in the world in 2009.

Measured on the basis of purchasing power parity (PPP), China overtook US and stood as the second-largest economy in the world, although in per capita terms the country is still poor. China has achieved GDP growth averaging nearly 10 annually, and has been able to lift 1.3 billion people out of poverty successfully. Even though China's GDP growth has gradually slowed since 2012, it is still impressive by current global standards.

India is developing into an open-market economy, yet traces of its earlier autarkic policies remain Almost half of the population of India is engaged in agriculture sector which contributes around 17.4% to GDP in 2014. However, service sector contributes the major part of GDP which is around 57.9%, while the industrial sector contributes 24.2% to GDP. India's GDP averaged nearly 7% annually from 1997 to 2016 after undertaking Economic liberalization measures in early 1990s which included industrial deregulation, privatization of state-owned enterprises, and reduction in controls on foreign trade and investment. However, the growth rate slowed in 2011 as a result of high inflation, high interest rates and skepticism of investors about the government's economics reforms. Eventually, this macroeconomic imbalance resulted into a sharp depreciation of the rupee.

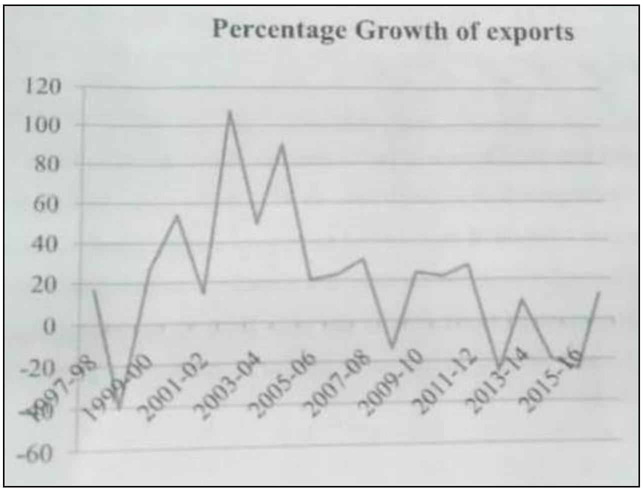


Source: World Bank Database

Fig 1: GDP growth 1996-2017

From figure 1, it is evident that India has been experiencing a fluctuating trend in the annual GDP growth. The growth rate recorded in the year 1996-97 which had a sharp decline in 1998-99 recording only 4% growth rate. Due to global meltdown, the growth rate of India dropped down to 3.9% in the year 2008-09 The highest growth rate recorded was in the year 2010-11 which was 10.3% China has become India's largest trading partner in the last few years with a bilateral trade t $71.5 billion in 2017, but it is heavily learned in favour of China. India's import from China recorded at |$61.3 billion, while its exports to China were recorded at $10.2 billion only.

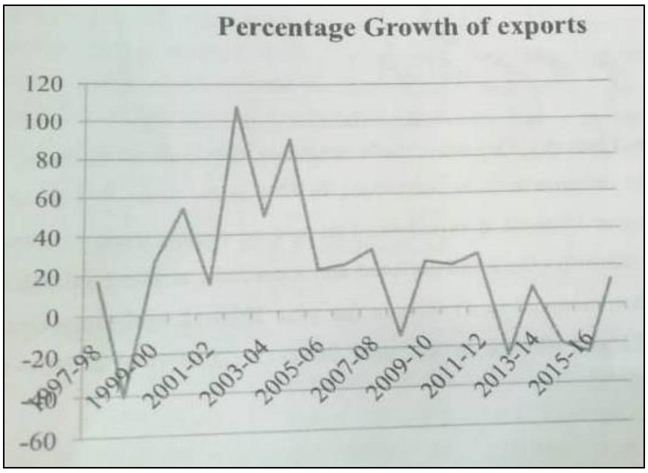
India has already been the top trading partner of China in the recent time. The bilateral trade between these two countries is considered to be one of the most significant bilateral relations in the modern global scenario and the same is expected to continue in the coming years.



Source: Ministry of commerce and industry, Department of commerce, Government of India

Fig 2: Growth of expert 1997-2017

From figure 2, it can be seen that India's Export to China dropped down from 16.78% in the year 1997-98 to -40.5% in the year 1999-00. The figure shows a fluctuating but a positive trend in export till the year 2007-08, but recorded a negative growth in the year 2008-09, 2012-13, 2014-15 and 2015-16 with growth rates of -13.96%, -25.12%, -19.5% and -24.5% respectively.



Source: Ministry of Commerce and Industry, Department of Commerce, Government of India

Fig 3: Growth of Import 1997-2017

Figure 3 shows a sharp decline in the growth of imports from 46.92% in the year 1997-98 to a negative growth of -1.38% in the year 1999-00. It experienced an upward sloping trend in import growth till the year 2008-09, and thereafter the trend declined and recorded a negative growth of -5.15% in the year 2009-10. It then mounted to 41.06% in the year 2010-11 again recorded a negative growth of -5.54%., -2.32 and -0.69% in the year 2012-13, and 2013-14 and 2016-17 respectively.

China's Trade Principle

China, as early as in the mid-1970s (which has continued till today) adopted the strategy of "Import Substitution" which has facilitated it to be among the largest exporters of the world. China's primary path to exercise economic dominance over the third world countries has been majorly through "active absorption of foreign direct investments and encouragement of foreign trade development". This trade philosophy is what has helped China in global economic integration and also plan for platform controlling in International Industrial Relocation.

India's Trade Principle

India' trade vision for the year 2020 is centred on improving the county's market shares and exploring new platforms for the same. It focuses majorly on providing the Indian exporters to derive the best out of the GST mainly in the MSME and the labour intensive setups. India also desires to focus on its agricultural export business and thereby promoting the domestic markets at a global level.

Trade Relations during COVID-19

Ever since the shadow of COVID-19 has fallen upon the world, the necessity for indigenous production and the import of medical supplies has gone up. The first case of COVID-19 infection was identified in China on November 17, 2019 and in India on January 30, 2020. When the pandemic developed further, many countries were forced to move into a lockdown, either partial or total, which was impacted the international economy. China, which was the epicenter of the pandemic, witnessed thousands of deaths and yet had initially made news in the world, for not keeping its economic exchanges shut for too long and also is believed to have made quick recoveries. The COVID-19 has impacted the Indian economy as well and hence could add fuel to the trade deficits which has been persistently high in the recent years.

Phase I

The shutdown of industries in the later part of 2019, mainly in China, has affected the bilateral trade. On January 15, 2020, Business Standard reported that the trade between India and China had declined by US|$ 3 billion during the year 2019, and expressed concerns over the fact that the trade deficit still continued to be as high as U|S$ 56.77 billion. Despite working out several feasible options to protect the trade industry, the India-China trade faced a decline of 12.4 per cent in the initial two months of COVID-19. The Economic Times and Global Times reported that from January to February, India's imports from China were as less as US$ 2.5 billion (inferred from the Chinese Customs Data). Though the imports and the exports have dropeed, the trade deficit is still significant.

In Febuary 2020, the Electric Lamp and Component Manufactures Association (ELCOMA) India expressed concerns over the shortages of electrical appliances which are the essential raw materials in manufacturing LED Bulbs. It was also predicted that the prices of these could go up and therefore there could be an inflationary impact to the tune of 8 to 10 percent. To strike a balance in such circumstances, in the month of March, the Ministry of Commerce had considered to impose duties on most of the products India exports to China like pearls, precious stones and woven fabrics. Despite the efforts, India's exports fell by 35 percent in March 2020, and annual shipments too witnessed a fall- US$ 330-08 billion in the year 2019. Though the initial phases had been challenging, the Indian seems to be rediscovering (though with certain limitations).

Phase II

In the initial duration of the lockdown, since the domestic production units were shut, India was forced to import large amounts of steel from China. But China's non-paced resumption of steel production favored India- the steel exports by India is 18 percent more than the imports in 2020. India's Jindal Steel and Power has been exploring 80 per cent of its production to China alone. The exports to Southeast Asia, which otherwise would have depended on China, have also significantly increased. India has also managed to export diesel to Beijing after the indigenous consumption dropped by almost half, due to the lockdowns.

Amidst these pros, there have been certain trade inconsistencies as well. The COVID-19 pandemic has made India realize the need to evolve its medical industry. The Indian Pharmaceutical industry is the 14th largest in terms of value, though it ranks 3rd when graded according to the volume. The pandemic has put the country in a situation where it cannot be ignorant towards the fact that country has been over dependent on China for getting raw materials for its indigenous pharmaceutical productions. In the financial year 2018-19 alone, India imported a total of US$ 3560.35 million worth Drug Intermediates, out of which products worth US$ 2405.42 million (67.56 per cent) were from China alone.

This value is not much lesser than the US$ 3911 million exports of Drug Intermediates India made in the financial year of 2018-19. Despite the fact that the Chinese medical supplies were failing in quality tests, in the mid-April 2020, India ordered a total of 15 lakh antibody testing kits from the Chinese companies Wondfo Biotech and Zhuhai Livzon. India had also contracted with China-based companies to receive 15 million PPE sets that include gowns, masks, goggles, etc.

It is, however, not certain if the total value of all the imports would increase or decrease at this nascent stage. Nevertheless, on the other hand, India has also engaged itself in the indigenous manufacture of PPE kits, more than 4 lakhs per day, thus trying to reduce the prospective imports of PPEs from China.

Unfortunately, India witnessed an inopportune drop in the manufacturing index from 51.8 in the month of March to 27.4 in April 2020, and its services PMI (Purchasing Manager's Index) of 49.3 in March fell to 5.4 in April 2020. The Chinese government had skillfully managed to take such limitations into its stride and had tried to manifest remarkable recovery, which had aided it to consider taking over Indian over its neighboring countries and also to attempt dominating international trade tactics in toot world enemy and has impacted both the countries negatively. Though China performed well in the month of March 2020 with a manufacturing PMI of 52.0, after having an index of 35.7 in February, the index had dipped down to 50.8 in April.

In order to combat the Chinese dumping situations, India had imposed anti-dumping duties on 25 obvious importable products which would be expiring this year. Directorate General of Trade Remedies (DGTR), in the first week of May 2020, expressed the probability of extending anti-dumping duties and safeguards on the Chinese products which are currently under review. They include sodium citrate (an integral chemical in the pharmaceutical industry), USB flash drives, calculators, hot- rolled flat products of stainless steel, Vitamin C and E, nylon tyre cord, measuring tapes, compact fluorescent lamps (CFLs), flax fabrics, caustic soda, float glass, tableware, kitchenware, plastic processing machinery and solar cells, officials said.

Further, India considered excluding certain drugs from selective restrictions and hence aiding it to engage in a Quad-Plus ideology with the third world countries, and more those that belong to the Indo-Pacific region. This would subsequently help curb the Chinese dominance in the trade industry, in the possible post-COVID-19 era.

Owing to the economic and trade strains, the Indian government has increased FDI (Foreign Direct Investment), pertaining especially to the countries that share a land boundary with India, which would benefit the country. The average FDI has been US$ 1412.87 million for the years 1995 to 2020 and the same was increased to US$ 4000 million more. In the year 2019, the Chinese investments in India rose to US$ 26 billion (both current and planned) from US$ 1.6 billion in the year 2014. If not for the change in the FDI policies, then China would have been at ease to not only suppress the Indian economy, but also to pause a threat to India's Data Security and engage in platform control fight, by making more investment in the Indian Territory.

Thus, it is true that India is trying hard to sustain against China through means of geo-political strategies and increased productions. But, what India is doing is enough to combat against the Chinese economic dominance for long in the years to come?

Conclusion

What India must Preferably Do?

India could possibly not venture into a full-fledged Chindla strategy due to the above-mentioned reasons, India cannot, at this point, go completely the Chinese way and relax its FDI policies much, since it must also check platform control desires of other countries with respect to the Indian-based companies. Therefore, India was compelled to revise its FDI policy as a consequence of the COVID-19 pandemic. Given the ongoing situations, what India needs to do is find a veritable balance: continue to cater to strengthen its trade visions and domestic market and get into a controlled partnership venture with China, subjected to persistent vigilance.

Way Ahead

- India needs to subsidize its indigenous establishments. This would increase the demand for local products in the market over the imported ones. If these indigenously produced goods are qualitatively satisfying, they could gain prominence in the world market, thus making India's trade vision work.
- India must further take advantage of the US-China frictions and try to cut down China's exports to the US and thus start exporting more to the US. The situation has already benefitted India, since many of the US-based companies have considered to shift their investment to India from China. India could attempt this strategy with the other countries of the world as well.
- India could venture into a controlled partnership with China, where it could acquire the sole official partnership status for the trade of specific materials like software, ores, etc. This coupled with the point one will aid in minimizing the trade deficit.
- At this point, we do not know if India can overtak China in the coming years or compete with it on a long term basis, but India must take advantage of the ongoing COVID-19-driven situations and strategically attempt to compete with China.

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