India’s Trade with China

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Context- India’s imports from China have reached record high in 2022, and the trade deficit surged beyond $100 billion.

Key Highlights

India’s import from China:

- India’s imports from account for $118.5 billion, up from $97.5 billion
- Indian imports of Chinese goods were up by more than 21% in 2022.

India’s export to China:

- India’s exports to China dropped from $28.1 billion to $17.48 billion.
- The trade deficit also reached $101.02 billion, up by 45%, from $69.4 billion in 2021.

Overall trade:

- India’s bilateral trade with China reached a record $135.98 billion in the last year.
- It was up by 8.4% in 2022.

China and other nations and Groupings:

- **ASEAN**: Trade with ASEAN, China’s largest trading partner, increased 11.2% to $975.34 billion.
- **EU**: The EU holds second rank among China’s trading partners, with trade up 2.4% to $847.32 billion

- **The U.S**.: Trade grew 0.6% to $759.42 billion.

Reason for Increasing imports:

- Recovery in demand in India.
- Increasing imports of intermediate goods
- Imports of new categories of goods such as medical supplies.
- In the past years, India's biggest imports from China included active pharmaceutical ingredients (APIs), chemicals, electrical and mechanical machinery, auto components, and medical supplies.

Trade Deficit

- A trade deficit occurs at the time when a country's imports exceed its exports during a given time period.
- It is referred to as a negative balance of trade (BOT).

Advantages of Trade Deficits:

- It allows a country to consume more than its production. In the short run, trade deficits can help nations to avoid shortages of goods and other economic issues.
- It also creates downward pressure on a country's currency under a floating exchange rate regime.
- Domestic currency depreciation makes the country's exports less expensive and more competitive in foreign markets.
- Trade deficits can also occur as a country is a highly desirable destination for foreign investment.

Disadvantages of Trade Deficits:

- This can facilitate a sort of economic colonization.
- If a country continually runs trade deficits, citizens of other nations acquire funds to buy up capital in that nation.
- That can mean making new investments which increase productivity and create jobs.
- However, it may involve merely buying up existing businesses, natural resources, and certain other assets.
- If such buying continues, foreign investors will eventually own nearly everything in the country.
- Trade deficits are much more dangerous with fixed exchange rates.
- Under a fixed exchange rate regime, devaluation of the currency is merely impossible, trade deficits are more likely to continue, and unemployment may increase significantly.

Current Account Deficit (CAD)

- CAD is the shortfall between the money flowing in on exports, and the money flowing out on imports.
- It generally measures the gap between the money received into and sent out of the country on the trade of goods and services and also the transfer of money from

domestically-owned factors of production abroad.

Different from the Balance of Trade:

- It is slightly different from the Balance of Trade, that measures only the gap in earnings and expenditure on exports and imports of goods and services.
- Whereas, the current account factors in the payments from domestic capital deployed overseas.
- For instance, rental income from an Indian owning a house in the UK would be computed in the Current Account, but not in the Balance of Trade.

Causes for CAD:

- Existing exchange rate, consumer spending level, capital inflow, inflation level, and prevailing interest rate are the main causes.
- For the Current Account Deficit in India, crude oil and gold imports are the primary reasons behind high CAD rate.

Implications:

- CAD may be a positive or negative indicator for an economy depending upon why it is running a deficit.
- It may help a debtor country in the short term, but it may worry in the long term as investors begin raising concerns over adequate return on their investments.

Method to Deal:

- It could be reduced by boosting exports and curbing non-essential imports like gold, mobiles, and electronics.
- Currency hedging and bringing easier rules for manufacturing entities to raise foreign funds may also help.
- The government and RBI could look to review debt investment limits for FPIs, among other measures.

Conclusion

- India’s growing imports from China are both a worry, as it reflects continued dependence for a range of key goods, and as a positive indicator of the Indian economy importing more intermediate goods.