



Why China trade ban will hurt India more?

Context:

- The outrage over the killing of Indian soldiers has led to calls for banning trade with China. The idea resonating in Indian streets is that Indians should boycott Chinese goods and thus teach China a lesson.



However, **India would stand to lose more than China if trade were to be banned.**

India-China trade:

- China is **Asia's largest economy** and the **world's second-biggest** with a **GDP of about \$13.6 trillion.**
- India is No. 3 in Asia at \$2.7 trillion.
- From supplying **industrial components and raw materials** to investments in India's startups and technology firms, China is **India's biggest trading partner** after the U.S.
- China accounted for **over 5% of India's total exports** in financial year 2019-20 and more than **14% of imports.**

Imports & Exports:

- Over 14% of India's **imports** in FY19-20 were from China.
- India's imports from China jumped 45 times since 2000 to reach over \$70 billion in 2018-19, according to Invest India.

Exports:

- China is the **third-largest export market for Indian goods** as of FY19-20.



Why trade ban will hurt India?

1. Trade deficits are not necessarily bad:

- Trade deficits/surpluses are just **accounting exercises** and having a trade deficit against a country doesn't make the domestic economy weaker or worse off.
- Of the top 25 countries with whom India trades, it has a **trade surplus with the US, the UK and the Netherlands**. But that doesn't mean the Indian economy is stronger or better off than any of these three.
- Similarly, India has a **trade deficit with some countries** (including China) — regardless of their size and geographic location.
- A trade deficit with China only means that **Indians buy more Chinese products than what Chinese from India**. But per se that is not a bad thing.
- Essentially, it shows that **Indian consumers, as well as the Chinese producers, gained through trading**. It is this very process that generates the gains from trade. **Both sides are better off than what they would have been without trade**.

2. Will hurt the Indian poor the most:

- The **poorest consumers are the worst-hit in a trade ban** of this kind because they are the most price-sensitive.
- The richer Indians **may still survive this ban** by buying the costlier option but a number of poor, would either have to **forgo buying one** because it is now too costly or **suffer as a consumer by buying a less efficient Indian one**.
- The Chinese products that are presently in India are already paid for. By **banning their sale or avoiding them, Indians will be hurting fellow Indian retailers**.
- Again, this hit would be **proportionately more on the poorest retailers** because of their relative inability to cope with the unexpected losses.

3. Will punish Indian producers and exporters:

- Trading with China hurts only the less efficient Indian producers while **helping the more efficient Indian producers and businesses**.

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- Several businesses in India import intermediate goods and raw materials, which are **used to create final goods** — both for the domestic Indian market as well as the global market (as Indian exports).
- A blanket ban on Chinese imports will **hurt all these businesses at a time when they are already struggling to survive**, apart from hitting India's ability to produce finished goods.
- The companies across **import-dependent sectors such as automobile, pharmaceuticals, electronics, telecommunications**, etc. are claiming that any move in the direction to completely boycott China could **be counter-productive**.
- It will impact the overall competitiveness of the Indian manufacturing sector and **undermine our competitiveness** to export.

4. Will barely hurt China:

- While China accounts for **5% of India's exports and 14% of India's imports** — in US\$ value terms — India's imports from China (that is, China's exports) are **just 3% of China's total exports**. China's imports from India are **less than 1% of its total imports**.
- If India and China stop trading then **China would lose only 3% of its exports and less than 1% of its imports**, while India will lose 5% of its exports and 14% of its imports.
- It is a **near-impossible task not just because of China's centrality in global trade** and global value chains but also because even teams of bureaucrats will find it **tough to map Chinese involvement in all our trade** on a real-time basis.
- On the whole, it is much easier for **China to replace India than for India to replace China**.

5. India will lose policy credibility:

- It has also been suggested that India **should scrap off existing contracts with China**.
- Trade ban would be **hugely detrimental for a country such as India which has been trying to attract foreign investment**.



- One of the first things an investor is the **policy credibility and certainty**.
- If **policies can be changed overnight**, if **taxes can be slapped with retrospective effect**, or if the government itself reneges on contracts, no investor will invest.

6. Raising tariffs is mutually assured destruction:

- It has also been argued that **India should just slap higher import duties** on Chinese goods.
- Others have suggested that **India can allow primary and intermediate goods from China** at zero duty, but apply **prohibitive tariffs on final goods**.
- Even leaving aside the rules of the **World Trade Organization** that India would be violating, this is a poor strategy since others — not just China — can and most likely will reciprocate in the same way.

Way Forward:

- Turning a border dispute into a trade war is **unlikely to solve the border dispute**.
- Banning all trade with China will be **most poorly timed** since the Indian economy is already at its weakest point ever — **facing a sharp GDP contraction**.
- For long term solutions, India should focus on **self-reliance, import-substitution** and **protecting infant domestic industries work**.
- India must try to **aggressively acquire a higher share of global trade by raising its competitiveness**.
- **Trade negotiations** (bilateral and multilateral) to lower tariffs that India's exports face abroad can boost India's exports in textiles and engineering goods.
- The textile exports can be increased by **increasing productivity in cotton plantations** (by better implementing available technology, for example BT Cotton).
- China's remarkable export performance is driven primarily by **deliberate specialization at large scale in labour-intensive activities, especially**



network products, where production occurs across Global Value Chains operated by multi-national corporations.

- The current environment presents India an opportunity to **chart a China-like, labour-intensive, export trajectory** and thereby create unparalleled job opportunities for the youth.
- By integrating **Assemble in India for the world into Make in India**, India can create 4 crore well-paid jobs by 2025 and 8 crores by 2030.

Conclusion:

- It is the time to **prevent any impulsive action but take rational decisions**. The path to overcoming our dependence on Chinese goods or imports requires Indian policymakers and businesses to put in real hard work and **not resort to short-term solutions such as banning trade or raising tariff barriers**.