CHINA-INDIA TRADE TIES - INTERNATIONAL RELATION

India's trade deficit with China has surged to nearly $100 billion due to deep-seated reliance on Chinese industrial goods. This economic dependence persists despite political tensions and poses a significant national security challenge for India.

Current Context - A Complex Geopolitical and Economic Triangle

The trade relationship between India and China is currently navigating a period of intense pressure, shaped by both bilateral tensions and global geopolitical shifts.

US Trade Actions - The recent decision by the United States to double tariffs on certain Indian exports (up to 50%) forces India to re-evaluate its trade strategies and dependencies. This action echoes past tariff wars under the Trump administration which affected both India and China, creating a complex dynamic where all three nations are adjusting their economic alliances.

India-China Trade Scrutiny - Bilateral trade is under a microscope due to a relentless surge in Chinese imports into India. This has amplified concerns about India's growing economic dependence on its strategic rival, even as New Delhi officially pursues policies to reduce this reliance.

Upcoming Diplomatic Engagement - The scheduled meeting between Indian Prime Minister Narendra Modi and Chinese President Xi Jinping at the upcoming Shanghai Cooperation Organisation (SCO) summit provides a critical platform for high-level dialogue. This meeting will occur against a backdrop of economic friction and unresolved border disputes.

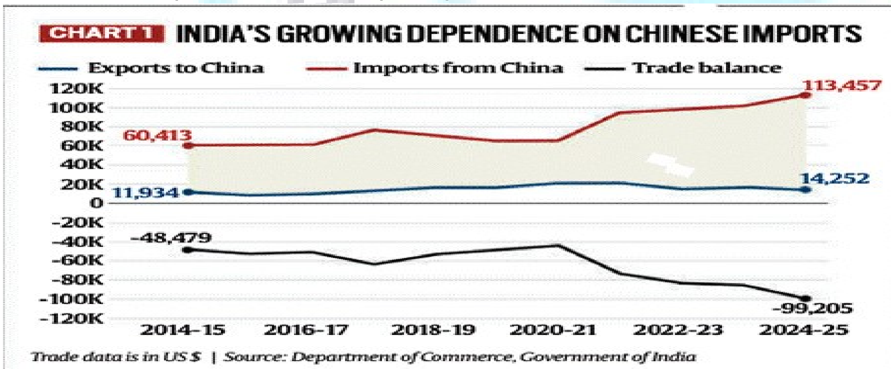
India’s Position - A Mix of Resistance and Dependence

Over the past several years, India has taken explicit steps to counter China's economic and strategic influence, though the results have been mixed.

Withdrawal from RCEP (2019) - India made a significant strategic decision to pull out of the Regional Comprehensive Economic Partnership (RCEP), the world's largest free trade bloc. The primary concern was that joining the bloc would lead to a flood of cheap Chinese goods, overwhelming domestic Indian industries and exacerbating the already large trade deficit.

Post-Galwan Economic Retaliation (2020) - Following the deadly border clashes in the Galwan Valley, India implemented a series of punitive economic measures. These included banning hundreds of popular Chinese mobile applications and restricting Foreign Direct Investment (FDI) from China to prevent hostile takeovers of Indian companies.

The Paradox of Surging Imports - Despite these clear policy signals and restrictions, India's imports from China have not only continued but have surged to record levels, revealing a deep-seated structural dependence that policy measures have so far failed to curb.

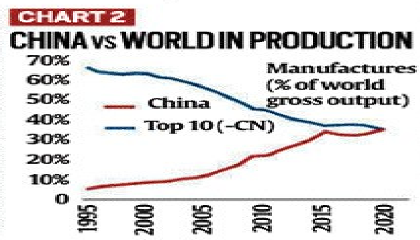


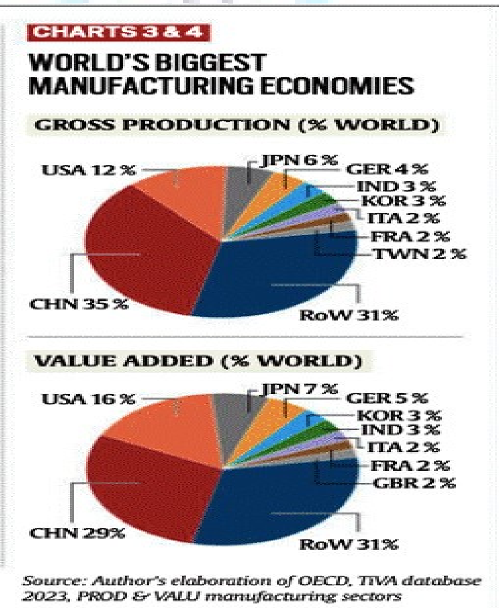
TABLE

SECTORAL CHANGE IN GVA SINCE 2019-2020

Sectors	CAGR (in %)
Agriculture	4.7
Industry	4.8
Manufacturing	4
Services	5.4

Source: MoSPI, CMIE, Indian Express research





The Data Story - A Decade of Deepening Imbalance

The trade data over the last decade paints a stark picture of India's growing economic vulnerability.

Trade Deficit Expansion -

1. **2014–15 -** Imports from China were approximately $60 billion, while exports were a mere $12 billion, resulting in a trade deficit of around $48 billion.
2. **2024–25 -** Imports from China have nearly doubled to approximately $113 billion, while exports remain stagnant at $14 billion. This has caused the trade deficit to balloon to an unsustainable $99 billion.

Key Drivers of Imports - This dependence is not just on finished consumer goods but on critical industrial inputs. India heavily relies on China for machinery, electronics, active pharmaceutical ingredients (APIs), and solar power equipment, which are essential for its own industrial and green energy ambitions.

The Core Problem - The fundamental issue is India's inability to build alternative, cost-effective supply chains, coupled with the stagnation of its exports to the Chinese market.

The Root Cause - China's Manufacturing Might vs. India's Structural Gaps

The trade imbalance is a symptom of a much larger disparity in manufacturing capabilities between the two nations.

China's Global Dominance - China is the undisputed "factory of the world." It manufactures approximately 31% of the world's total output, the highest share globally. In comparison, the US share is around 16%, while India's is a meager 3%. This dominance is reflected in both gross production (35% global share) and value-added manufacturing (29% global share), creating a structural imbalance in the global economy.

India's Lopsided Growth - An analysis of India's economic growth (CAGR since 2019-20) reveals a key weakness.

1. Services Sector - 5.4%
2. Agriculture Sector - 4.7%
3. Industry Sector - 4.4%
4. Manufacturing Sector - 4.3%

Observation - India's growth is led by the services sector, while its manufacturing sector lags significantly. This limits its capacity to produce goods at a scale and cost that can compete with China, both domestically and in export markets.

China's Strategy and India's Dual Vulnerability

China leverages its manufacturing prowess for both economic and geostrategic gains, putting India in a difficult position.

Global Manufacturing Hub - China effectively supplies low-cost products across nearly every sector, making it an indispensable part of global supply chains.

Pivoting to the Global South - As China faces tariffs and sanctions from the US and EU, it strategically uses markets like India and the Global South as outlets for its vast industrial output, thereby mitigating the impact of Western restrictions.

Geo-strategic Pressure - For India, this trade dependence overlaps with unresolved border tensions. This creates a dual vulnerability, where economic reliance on China exists alongside a direct military threat, giving Beijing significant leverage.

India's Alternatives and The Path Forward

India is actively pursuing strategies to reduce its dependence and build a more resilient economy.

Nearshoring & Friend-shoring - India aims to attract Western companies looking to diversify their supply chains away from China (the "China+1" strategy). However, it faces stiff competition from countries like Mexico, Vietnam, and Indonesia, and needs to overcome its own regulatory and infrastructure gaps to become a more attractive destination.

Production Linked Incentives (PLI) Schemes - This is India's flagship policy to boost domestic manufacturing in strategic sectors like electronics, semiconductors, pharmaceuticals, and textiles by offering financial incentives for production.

Strengthening Domestic Capacity - The ultimate goal is to build a robust domestic market and industrial base, especially in critical industries, to replace imports and enhance self-reliance.

The Final Upshot - A Structural and Strategic Challenge

The situation presents a formidable challenge that requires a multi-pronged and sustained effort.

Deep Structural Challenge - India's dependence on Chinese imports is not superficial; it is deep, structural, and growing, making quick fixes impossible.

National Security Implication - This economic vulnerability and massive trade imbalance are not just economic statistics; they represent a potential **national security issue** that could be exploited.

The Way Forward -

1. **Strengthen the Manufacturing Base -** A relentless focus on implementing reforms and successfully executing schemes like PLI is non-negotiable.
2. **Diversify Imports -** Actively build trade relationships with alternative partners like **Japan, South Korea, the EU, and ASEAN nations**.
3. **Deepen Supply Chain Resilience -** Combine domestic reforms with proactive measures to attract foreign investment in manufacturing to create a robust and diversified industrial ecosystem.

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