India China Trade War: Why India must take China’s warning of a trade war seriously

NEW DELHI: India has not taken Chinese bullying over Doklam seriously. For the last several weeks, China has been warning of helping insurgents in India, invading border areas in Uttaranchal and Kashmir, and a war breaking out soon. It is clear China cannot afford a war over Doklam. That’s why India has not responded to China’s belligerence in equal measure.

However, there is one war which can break out and India cannot afford it—a trade war with China. Recently, India imposed anti-dumping duties on 93 Chinese products. China is not going to tolerate this measure and is likely to respond. State-owned Chinese media has urged Chinese firms to reconsider the risks of investing in India and warned New Delhi to be prepared for the “possible consequences for its ill-considered action”.

An article in state-owned Global Times said that China could easily retaliate with restrictions on Indian products, but added that it “doesn't make much economic sense” for the country. But it warned that a trade war between China and India seemed to be looming after the imposition of anti-dumping duties on Chinese products.

Why India cannot afford to fight a trade war with China at this juncture? Consider the following:

India's trade deficit with China rose to $46.56 billion last year. China's exports to India totaled $58.33 billion, registering a meager increase of 0.2% compared to $58.25 billion in 2015. India's exports to China dropped 12% from 2015 to $11.76 billion.

India exports less to China (mainly raw materials) and imports more (mainly electronics and other manufactured goods which are in high demand). India's pharma sector has critical dependence on Chinese imports used in drugs manufacturing.

China's exports to India account for only 2 per cent of its total exports. So even if Indians boycott all the goods imported form China, it will not make as big an impact on China as to bring it to its knees before India.

Of course, China needs new markets for its manufactured goods, and India is one of those new markets where its electronic goods, especially smartphones, have found a large market. But China can find markets in other Asian countries and even in Africa. It is also trying to create a market for its goods in Europe. It is in no way dependent on India.

China is India’s largest trading partner, but the trade is heavily skewed in favour of China. A trade war when Indian manufacturing ability is limited is not going to favour India. India’s imports from China are crucial at this stage.

India today imports telecom gear worth over Rs 70,000 crore annually, much of it from Chinese firms like Huawei and ZTE. Chinese companies dominate the telecom sector in India. In handsets, they control 51% of India’s $8 billion plus smartphone market with brands like Xiaomi, Oppo, Vivo and OnePlus.

Power is another sector where India has come to be dependent on Chinese imports. In the 12th Plan alone, almost 30% of the generating capacity was imported from China. In the rapidly growing solar energy sector, between April 2016 and January 2017, solar equipment from China had a share of 87% in a market pegged at $1.9 billion. According to consultancy firm Grant Thornton, in 2017, when inbound deals dipped, the Chinese shifted gears and accounted for 31% of the inbound deal value as against 27% from the US.

The popular impression is that China is dumping consumer goods into India. But the fact is that India depends on China for capital goods too. Reduction in import of cheaper capital goods will push up production costs.

India can fight trade wars with China only when it has removed the big skew in its trade with China, which can take a decade of manufacturing growth.

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