

IT'S INDIA, NOT CHINA, THAT TARIFFS WOULD HURT

Relevant for: International Relations | Topic: India - China

The non-negotiable nature of India's import dependency on China makes the prospect of unilateral trade actions quite doubtful in securing its objectives. Such actions, if implemented exhaustively, are likely to end up injuring Indian producers and consumers significantly.

The latest border stand-off with China has created possibilities of India raising barriers on Chinese imports. The possibility arises at a time when India is devoting considerable energy to articulating 'Atmanirbhar Bharat', the notion of a self-reliant India. The import pushback inherent in the belief is accentuated by border clashes with China, leading to the surmise of India enhancing tariffs on Chinese imports. Unilateral trade-restrictive actions like tariffs are intended to convey to China, India's determination to not allow import dependence to come in the way of its acting tough on China.

The goods trade deficit with China, which has steadily enlarged from \$48.5 billion in 2014-15 to \$53.6 billion in 2018-19, has been a serious worry for India. The deficit, which is more than 60% of the size of India's total goods trade of \$87 billion with China, is the largest among India's major trade partners. India imports more than it exports, making it an overall net goods importer. It imports the most from China, thereby making the greater perception of reducing dependency on imports, fundamentally an effort to reduce imports from China.

India is looking to reduce import dependency on China, ostensibly for safeguarding national security interests. According to many, deep reliance on China for several critical imports, cramps the country's negotiating space and flexibilities in strategic consultations, such as those going on at the border right now. These concerns are similar to those that inspired the US to unilateral tariff actions under Section 232 of the US Trade Expansion Act of 1962, some years ago. The steel and aluminum tariff hikes by the US were based on these being strategic items, required extensively by several major domestic industries including defence. The latter industries needed to reduce their import dependence by switching to domestic sources, which were to be encouraged by the tariffs, and respond positively by raising capacity and output. Similar sentiments are prevailing in India with imports that are perceived as security risks.

India's dependence on Chinese imports is not new. It has built up over decades. The dependence and concomitant anxieties have persisted notwithstanding leadership changes in China and India. Today, as India contemplates unilateral trade actions as an option for responding to a hostile China, it is important to reflect on whether more tariffs on Chinese imports will serve a purpose.

India's imports from the rest of the world can be broadly grouped into those that include energy resources, precious metals, and the rest. Except for coal, India doesn't rely on China significantly for import of energy resources, such as crude oil, or for precious and semi-precious metals, like gold and silver. India's imports from China are much more broad-based. They cut across an array of products, with the significant ones being electrical machinery and equipment, transformers, electronic items, semi-conductor devices, telecom equipment, vehicle parts, fertilizers, steel products and antibiotics.

In many of India's overall major imports, such as electrical machinery, mechanical appliances, organic chemicals, iron & steel products, furniture, glass, and textile fabrics, China accounts for around two-third to a quarter of the imports. The character of imports points to their being both capital goods and consumer goods. While the former could be machineries and components,

they also include semi-finished intermediates that are processed further into final goods. Major consumer item imports from China include new-generation semi-conductor and electronics like smartphones and televisions, featuring prominently across Indian households of various income classes.

In fixing tariffs and other trade barriers, India's challenge would be to select imports for such action. Several imports from China are fundamental for domestic industries. Higher prices of these imports, at a time when domestic businesses, particularly small enterprises, are struggling to overcome the adverse economic impact of covid-19, would result in more financial hardships. This applies for imports of many chemicals (organic and inorganic), textile fabrics, auto parts, solar panels, components for mobile handsets, printed circuit boards, batteries, and active pharmaceutical ingredients (APIs) required by generic drug formulation producers. These imports, used as raw materials and intermediates in major manufacturing supply chains in India, are heavily sourced from China. On the other hand, tariffs on consumer goods, particularly those consumed by the middle class, such as smartphones and household appliances, would restrict the much-awaited revival of consumer demand in India, in absence of sufficient home-made substitutes of same quality.

Covid-19 has ironically highlighted India's import dependency on China in an almost non-negotiable fashion. China is the largest source of India's imports for critical medical supplies, such as humidifiers, patient monitors, pulse oximeters, hand sanitizers, medical masks, aprons, protective clothing and goggles. Given the urgency of securing sufficient stocks of these, fixing higher tariffs on their imports, would be counterproductive to the objective of building greater preparedness for fighting covid-19.

Domestic economic compulsions would restrict India's ability to impose tariffs across a wide range of imports from China. This becomes more obvious considering the difficulty of locating alternative sources. EU, US, Southeast Asia and Asia-Pacific economies like Japan and Korea are the other locations for sourcing these imports. But all of these are reeling from the economic reverses of covid-19. It will be a long time before their production revives to full capacity enabling India to switch to these countries. Even if these countries are able to turn around faster than expected, their products might still suffer from price disadvantage vis-à-vis China.

China's ability to keep prices low continues to make its imports competitive in India vis-à-vis other sources, despite tariffs. For Indian businesses, importing large volumes from non-Chinese sources, is always an expensive prospect.

Finally, India might find it difficult to target Chinese imports, while excluding other countries. China is sure to go against such moves at the WTO, particularly if such actions by India are raised on tenuous security grounds. The only option for India is to go for an across-the-board rise in tariffs for a limited range of items, which are not essential, and tariff actions on which won't make significant differences to India's volume of trade and imports. However, over the last five years, India has been raising tariffs on less essential items to encourage 'Make in India', which means current tariffs are high and difficult to push up further.

The non-negotiable nature of India's import dependency on China makes the prospect of unilateral trade actions quite doubtful in securing its objectives. Such actions, if implemented exhaustively, are likely to end up injuring Indian producers and consumers significantly. Except for token symbolism, tariff actions would serve little purpose.

Amitendu Palit, Senior Research Fellow, Institute of South Asian Studies, National University of Singapore

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