

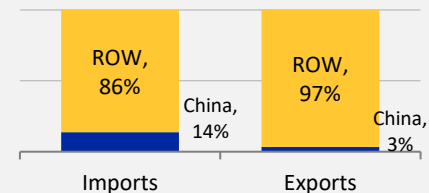
# India-China trade and financial flows

China's large share in Indian imports and cost advantage to result in slow reduction in reliance

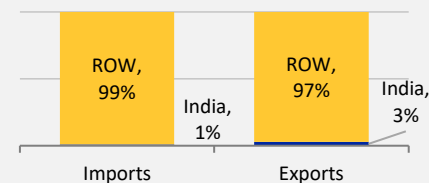
December 2023



Indian Trade (FY2023)



Chinese Trade (CY2021)



ICRA has analysed the trade, financial flows and bilateral agreements between India and China. In aggregate, India does not account for a major part of China's overall trade flows (1% for imports and 3% for exports). However, it has import dependency on China – where China's share is greater than or equal to 10% of the total imports – for more than 100 categories, including some major sectors. This dependency has made India vulnerable to supply chain disruptions and price fluctuations. For India's exports, China is a critical destination for more than 20 export categories. The Government of India (GoI) has been taking initiatives to reduce import dependency by incentivising domestic manufacturing and sourcing from alternate countries. However, this process is likely to be drawn out because of China's current cost advantages. In terms of financial flows, China contributes marginally to the overall FDI equity inflows and FPI pie, including the remittances to India. However, several Indian corporates have a significant presence in China and vice versa.



## Merchandise trade

- China's share in the total Indian merchandise imports and exports (FY2023) stands at 14% and 3%, respectively.
- Imports from China are significant for India for many sectors like textile products, batteries, pharma, chemicals, metals etc. Imports from China form a major share (greater than or equal to 10%) in total imports for India for more than 100 product categories. The GoI has been taking initiatives to reduce import dependency by incentivising domestic manufacturing and sourcing from alternate countries. However, this process is likely to be drawn out because of China's current cost advantages driven by low labour cost, cheap raw material, efficient manufacturing and supportive Government policies.
- Exports to China form a major share ( $\geq 10\%$ ) of total exports from India for more than 20 product categories.
- On the other hand, India's share stands at 1-3% in China's total imports and exports and is significant for China for a limited three to four categories.

*China contributes marginally in the overall pie of FDI equity inflows, the FPI and remittances to India. However, several major Indian entities have a presence in China and vice versa.*



## FDI, FPI and remittances

- China is the 21<sup>st</sup> largest country for Foreign Direct Investment (FDI) inflows into India, contributing ~0.4% to the total pie.
- China's share in the Foreign Portfolio Investment (FPI) is marginal as only 17 entities from China have investments in India as on Sept 2023.
- China accounts for ~0.2% of India's migrant stock and ~0.1% of remittances to India.



## Bilateral agreements and Memorandum of Understanding (MoU)

- There have been various agreements and MoUs between the two countries for improved collaboration on trade, technology and bilateral investments.



## Corporate presence

- With the growth in bilateral trade between India and China in the last few years, many Indian companies have set up Chinese operations to service both their Indian and MNC clientele in China.
- Indian enterprises are operating in China either as representative offices, wholly-owned foreign enterprises or joint ventures with Chinese companies.
- According to the Indian Embassy in China, more than 100 Chinese companies have established offices/operations in India.



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