

India Weighs Easing Trade Barriers Amid US Tariff Pressure & Chinese FDI Rules

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What's in Today's Article?

- India-China trade relations Latest News
- Bilateral Trade between India and China
- India Considers Easing Trade Restrictions on China Amid US Pressure
- China Plus One Strategy and India's Position
- India-China Trade Relations FAQs

India-China trade relations Latest News

- With border tensions easing, India is open to improving economic ties with China. Policymakers see this as a good opportunity.
- The US, led by President Trump, is pressuring India to reduce tariffs. Washington wants India to accept its trade terms.

Bilateral Trade between India and China

INDIA-CHINA BILATERAL TRADE (Figures in USD billion)							
Year	India's export to China	Change in %	India's import from China	Change in %	Trade deficit	Total trade	Change in %
2020	18.95	10.69%	58.71	-14.1%	39.76	77.66	-9.14%
2021	23.05	21.64%	87.65	49.29%	64.6	110.7	42.54%
2022	15.15	-34.27%	102.63	17.09%	87.48	117.78	6.4%
2023	16.23	7.13%	99.59	-2.96%	83.36	115.82	-1.66%
2024*	8.46	-9.23%	50.35	-9.02%	41.89	58.81	-9.05%

*Jan-Jul Source: Department of Commerce, Ministry of Commerce and Industry; Embassy of India in Beijing

- India-China trade in FY24 reached \$118.40 billion, with **China regaining its position as India's Top Trading Partner**.
 - In FY24, China had a 15% share in India's total imports.
 - India imported goods worth \$675.42 billion from the world, including goods worth \$101.74 billion from China.

Widening Trade Deficit with China

- India faces an \$83 billion trade deficit due to limited export access in sectors like agriculture and pharmaceuticals.
- India's widening trade deficit with China is primarily due to two factors:
 - **Limited Export Basket** – India mainly exports primary commodities to China, lacking diversification.
 - **Market Access Barriers** – Sectors where India has export competitiveness, such as agriculture, pharmaceuticals, and IT/ITeS, face restrictions in the Chinese market.

Low Chinese Investment

- China occupied only the 22nd position in FDI equity inflows into India, with a cumulative FDI of \$2.5 billion from April 2000-September 2024.
- Growth in bilateral investment has not kept pace with the expansion in trading volumes between the two countries, and there is appetite in Beijing to step up investment flows.

India Considers Easing Trade Restrictions on China Amid US Pressure

- With India-China border tensions subsiding, policymakers are open to improving economic ties.
- The move is seen as timely, especially as the US pressures India to reduce tariffs and accept trade terms set by Washington.

Relaxing 2020 Trade and Investment Restrictions

- Discussions are ongoing to ease restrictions imposed after the 2020 Galwan clash.

- Proposed relaxations include lifting some tariff and non-tariff barriers, easing visa restrictions for Chinese personnel, and reopening access to some banned Chinese apps.
- India is also considering allowing more Chinese investment to address the growing trade deficit.

Industry-Driven Push for Easing Barriers

- Indian industries, particularly SMEs, have pushed for removing trade restrictions.
- Measures under consideration include easing BIS certification for Chinese imports and allowing visa extensions for Chinese workers in infrastructure projects.

Balancing US and China Relations

- Engaging China economically could serve as a counterbalance to US pressure on tariffs.
- A Finance Ministry presentation has supported easing trade restrictions, signaling India's intent to maintain flexibility in its global trade strategy.

Gradual Opening for Chinese Investments

- A cautious approach to Chinese investments is being considered, particularly in joint ventures where Chinese firms hold minority stakes.
- The Economic Survey 2023-24 suggested encouraging Chinese investments while discouraging finished goods imports to protect local industries.

China Plus One Strategy and India's Position

- A December 2024 NITI Aayog report, the 'Trade Watch', had noted that India had "limited success so far" in capturing the 'China Plus One' strategy adopted by multinational companies looking to de-risk their supply chains.
 - The China Plus One strategy (also known as C+1 or Plus One) is a business tactic where companies diversify their operations by establishing manufacturing and sourcing outside of China.
 - This is to reduce dependence and mitigate risks associated with a single market.
 - Factors driving this strategy include:
 - rising labor costs in China,
 - geopolitical tensions (like the US-China trade war), and
 - supply chain disruptions (such as those caused by the COVID-19 pandemic).
- However, recent developments, such as SAIC Motors divesting from MG Motors and Shein re-entering India through Reliance Retail, indicate a shift towards a balanced trade relationship.
- India faces a choice between increased Chinese investment and continued dependence on Chinese imports.
- While trade barriers may ease, the approach will be gradual and aligned with India's broader economic interests.

India-China Trade Relations FAQs

Q1. Why is India considering easing trade restrictions on China?

Ans. India aims to balance US tariff pressure and growing trade deficit with China while improving economic ties.

Q2. What is the impact of US tariffs on India's trade policies?

Ans. US demands for tariff reductions are pushing India to reconsider its trade restrictions on China.

Q3. What sectors face major trade barriers between India and China?

Ans. Agriculture, pharmaceuticals, and IT/ITeS sectors struggle due to market access restrictions in China.

Q4. How is India responding to Chinese FDI interest?

Ans. India is cautiously considering Chinese investments in joint ventures while discouraging finished goods imports.

Q5. What is the China Plus One strategy, and how does it affect India?

Ans. The strategy diversifies supply chains outside China, but India has seen limited success in attracting investment.

Source: IE | ET

Source: <https://vajiramandravi.com/current-affairs/india-weighs-easing-trade-barriers-amid-us-tariff-pressure-chinese-fdi-rules/>

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