

# Quickonomics

November 28, 2024

## Tale of two trade partners

### Faring differently with the US and China

India's merchandise trade with two of its largest trade partners, the US and China, has panned out very differently.

Total merchandise trade<sup>1</sup> with the US touched \$120 billion in fiscal 2024. Trade with China came close to \$118 billion — its highest level ever.

With both these partners, India's total trade doubled over the last decade and rose 1.4 times over the last five years (chart 1).

This is where the similarity ends. Beyond this, there is a striking polarity in trade relations.

- **What is well-known:** India enjoyed a trade surplus of \$35.3 billion with the US in fiscal 2024. With China, India had a large trade deficit of \$85.1 billion — its largest with any partner (chart 1).

Trade surplus with the US has grown 9.8% on average over the last decade, while trade deficit with China has expanded 11.1%.

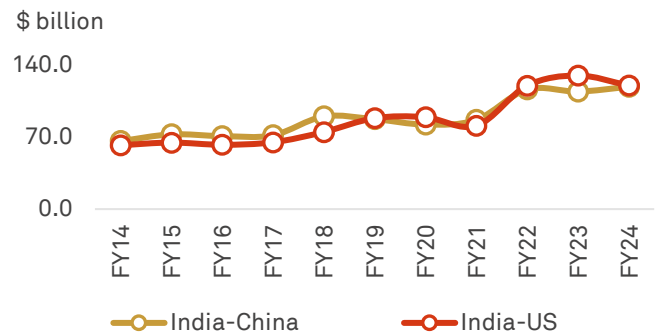
- **The lesser-known fact:** Both India's imports from and exports to the US have doubled in the decade gone by. In contrast, while imports from China have also doubled, exports to the country have stagnated (chart 2).

In its trade with the US, there has been rapid growth in India's imports of mineral

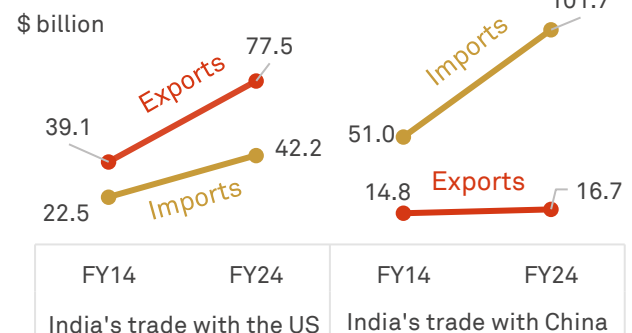
fuels and gems and jewellery and exports of machinery, pharmaceuticals, mobile phones, semiconductors, other electrical equipment and electronic items (chart 3).

With China, exports of cotton have dropped dramatically while exports of mineral oils and machinery have slowed. Imports of machinery, among others, have surged (chart 3).

**Chart 1: India's trade with the US and China has doubled over the past decade**



**Chart 2: Contrasting trade dynamics with China and the US**



Source: Ministry of Commerce and Industry, CEIC, CRISIL

<sup>1</sup>Exports plus imports

## We look deeper into India's trade with the US and China for two key reasons:

1. The US and China are at the cusp of yet another trade war. As the US imposes higher tariffs and trade barriers on imports from China, surpluses with the latter could increase the possibility of them being diverted to other countries, including India, which already imports heavily from China.
2. A look at India's trade with the US spotlights the most traded commodities. Import tariffs and barriers on these goods could hurt India the most. We also see which commodities saw weaker trade in the aftermath of the trade war and other shocks in recent years.

## What happened in the aftermath of the last trade war?

The US decision to impose tariffs and trade barriers in 2018, mainly on imports from China but also on imports from other countries, was followed by other disparate widespread structural changes worldwide.

These were influenced by the occurrence of the pandemic, slowing global growth, a growing anti-globalisation sentiment in several countries, an increasing inward sentiment to produce locally, rising geopolitical conflicts, supply disruptions, wide price swings and shifting supply chains that tried to adjust to global developments.

India's policy environment too started to lean towards self-reliance to build resilience. This was triggered by global shocks and encouraged by reforms, policies and incentives. A push for industrial policy (such as the production-linked incentive scheme) to encourage manufacturing and attract foreign direct investment and steps to build and strengthen bilateral trade with partners have brought about some changes.

As a result, India's trade with its two key partners underwent some shifts with certain items gaining and others losing prominence. We compare the shifts in the two periods — fiscals 2019 to 2024 or the 'post-shock period' and fiscals 2014 to 2018 or the 'pre-shock period' (table 1).

- In its trade with the US, India's imports of mineral fuels and gems and jewellery grew faster in the recent period, while machinery imports slowed.

Exports of electrical equipment and electronics and machinery, among other goods, to the US grew faster, while textiles (mainly readymade garments) and agriculture and allied (mainly seafood) exports have slowed.

- In its trade with China, India's imports of machinery, plastic articles and organic chemicals saw a faster pick-up in the recent period, while imports of electrical machinery and electronics softened.

On the exports front, cotton shipments fell while exports of organic chemicals and mineral oils softened. Exports of ores, seafood and oils (within the agriculture and allied sector), machinery and construction material gathered pace.

Table 1: Shifting sands post shocks

India's exports to the US	% share in total		
Key exports	FY14	FY18	FY24
Electrical equipment and electronics	3.3	2.8	14.3
Gold, gems and jewellery	20.0	21.0	12.8
Textiles	17.1	16.2	12.4
Pharmaceutical products	8.8	9.7	10.4
Machinery	4.1	5.9	8.0
Mineral oils and fuels	10.1	5.4	7.5
Agriculture and allied	6.0	7.9	5.7

India's imports from the US	% share in total		
Key exports	FY14	FY18	FY24
Mineral oils and fuels	6.8	14.9	30.7
Gold, gems and jewellery	9.5	10.4	12.2
Machinery	12.1	16.7	8.9
Electrical equipment and electronics	6.1	6.6	5.6

India's exports to China	% share in total		
Key exports	FY14	FY18	FY24
Ores, slag and ash	10.6	9.4	22.2
Agriculture and allied	4.5	5.2	14
Cotton	25.9	7.5	5.5
Organic chemicals	6.2	15.8	7.3
Mineral oils and fuels	6.9	11.3	7.0
Machinery	3.3	5.4	5.8
Construction material	4.6	5.0	5.5

India's imports from China	% share in total		
Key exports	FY14	FY18	FY24
Electrical equipment and electronics	27.9	37.5	30.8
Machinery	18.5	17.7	22.1
Organic chemicals	10.6	9.3	11.3
Plastic articles	2.6	3.1	5.6

Note: Colour gradient from yellow to green indicates an improvement in growth rate, while the converse indicates a slowdown  
Source: Ministry of Commerce and Industry, CEIC, CRISIL

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