Trade Trends

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Special sops to Indian SMEs needed to cut India-China trade gap

After a long discourse and a tortuous six-year process of negotiations, China has finally agreed to import Basmati Rice from India. This is an important and welcome move on the part of the Chinese. During his visit to India for the BRICS (Brazil, Russia, India, China and South Africa) summit earlier this year, Chinese president Mr Hu Jintao pushed the pending process of negotiations towards a positive conclusion.

This move is expected to check, to some extent at least, India's increasing trade deficit with China. As a result of this move, India should be able to increase its exports of Basmati rice to China to $50-100 million, up from only $0.13 million during 2009-10. The expected increase will, however, bring down the trade deficit by a mere 0.1-0.4 per cent. Moreover, Pakistan, which now has the dominant share of the Chinese market for Basmati, is expected to give tough competition to Indian Basmati exports.

In the context of India's export potential to China, the initiative can be viewed as a process of removal of non-tariff trade barriers by the Chinese. Such improved business environment conducive for exports of Indian products to China is expected to continue. Consequently, any trade facilitation measure in future will create avenues for trade advantages for both the countries. This is because if China wants to continue increasing its exports to India, it needs to enable India to increase exports to China to maintain a reasonable trade balance between the two countries.

Since India has a high trade deficit with China, it needs to continue addressing the threat of Chinese tariff and non-tariff trade barriers. Several Chinese products have flooded the Indian market after India removed barriers on imports of these products from China. Mobile phones, bicycles, telecom equipment and electrical as well as electronic goods now have a ubiquitous presence in Indian markets. These products are giving competition to Indian producers as well. Further, 44 out of India's 69 active antidumping cases before the WTO are against Chinese industries. Thus, considering the importance of the Indian market for Chinese products and recognizing the issue of non-tariff barriers, China has now allowed imports of Basmati Rice from India. China needs to continue taking such steps for other Indian products as well.

Non-Tariff barriers are one of the greater concerns while doing trade with China. The barriers in China, mainly in terms of lack of transparency in customs and quality control mechanisms, impede exports from India to China. Prevailing strong non-tariff barriers in China would require cooperation and establishment of mechanisms that would facilitate trade between these two nations. Importantly, India has already signed a FTA with ASEAN and China is an integral part of that group. Therefore, simplification of export procedures between India and China needs to be worked out for at least some identified products. Major areas where non-tariff barriers need immediate attention are exports of pharmaceuticals, fruits and vegetables and meat products.

The issue of pricing in custom's valuation has been an important aspect of discourse since the time of China's accession to WTO. As per the Agreement on Implementation of Article VII of GATT 1994 (Customs Valuation Agreement), China has still not able to implement the proposed method of pricing and customs procedures transparently. Some discretionary power still rests with the Customs department thereby strengthening the prevailing non-tariff barriers. For example, application of laws is not uniform in China. Due to the differences in application of laws, exporters face various problems while sending their consignments.

Moreover, the nature of industrial standards in China is also creating obstacles for exporters from Europe and India as well as other countries. Many of the Chinese standards such as the Chinese Compulsory Certification (CCC) standard require certification by the Chinese authorities for any product to enter the Chinese market. Generally, exporters have to bear the cost of furnishing important information and comply with other formalities. This unnecessary increase in the cost of trade with China discourages Indian exporters, especially those from the SME sector. For example, leather hand gloves from India have a good market in China but are still not being exported in a big way mainly because of the prevailing impediments to Indian exporters and manufacturers.

Besides, China still follows a restrictive trade policy having on an average more than 15 per cent simple average MFN tariff rates on agricultural products whereas, the tariff rate on non-agricultural products averaged 8.7 per cent during 2010. The tariff rate has almost remained same since 2007. Table 1 shows the applied tariff rates on major products in China. Under the emerging scenario of economic cooperation between India and China, both the countries may look forward to removing hindrances to trade. India should continue to explore possible modules for uniform procedures for export and import with China. In addition, products from SMEs should be given special concession in the bilateral trade framework between China and India. It is this sector which has the greatest potential to bring down the existing trade deficit with China.

Table 1. Tariffs and imports by product groups (China)

Product groups	Final bound duties				MFN applied duties			Imports	
	Average	Duty-free	Maximum	Binding	Average	Duty-free	Max	Share	Duty-free
		in %		in %		in %		in %	in %
Animal products	14.9	10.4	25	100	14.8	10.1	25	0.2	7.1
Dairy products	12.2	0	20	100	12.0	0	20	0.1	0
Fruit, vegetables, plants	14.9	4.9	30	100	14.8	5.9	30	0.4	2.9
Coffee, tea	14.9	0	32	100	14.7	0	32	0.0	0
Cereals & preparations	23.7	3.3	65	100	24.3	3.4	65	0.3	0.0
Oilseeds, fats & oils	11.1	7.1	30	100	11.0	5.3	30	3.2	0.1
Sugars and confectionery	27.4	0	50	100	27.4	0	50	0.1	0
Beverages & tobacco	23.2	2.1	65	100	22.3	2.2	65	0.2	2.3
Cotton	22.0	0	40	100	15.2	0	40	0.2	0
Other agricultural products	12.1	9.2	38	100	11.4	9.4	38	0.5	2.9
Fish & fish products	11.0	6.2	23	100	10.9	6.3	23	0.6	0.1
Minerals & metals	8.0	5.6	50	100	7.4	8.7	50	20.3	65.9
Petroleum	5.0	20.0	9	100	4.8	20.0	9	11.5	84.2
Chemicals	6.9	0.5	47	100	6.6	1.6	47	12.2	3.1
Wood, paper, etc.	5.0	22.3	20	100	4.4	35.3	20	2.6	79.5
Textiles	9.8	0.2	38	100	9.6	0	38	1.6	0
Clothing	16.1	0	25	100	16.0	0	25	0.2	0
Leather, footwear, etc.	13.7	0.6	25	100	13.2	0.6	25	1.5	0.2
Non-electrical machinery	8.5	7.8	35	100	8.0	9.0	35	11.9	37.7
Electrical machinery	9.0	25.3	35	100	8.3	24.0	35	20.4	82.1
Transport equipment	11.4	0.8	45	100	11.5	0.8	45	4.7	0.0
Manufactures, n.e.s.	12.2	15.1	35	100	11.9	9.6	35	7.3	15.6

Source; WTO, Tariff Data, Accessed on 29th April 2012

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