

**Embassy of India  
Beijing, China  
India- China Bilateral Relations**

**India - China Relations**

The rapid expansion of India-China bilateral trade since the beginning of this century propelled China to emerge as our largest goods trading partner by 2008, a position which China continues to hold today. Since beginning of the current decade, bilateral trade between the two countries recorded exponential growth. In 2017 and 2018, the bilateral trade has registered robust two digit growth. In the year 2019, India was the 12th largest trade partner of China. However, in the year 2020, India became the 16th largest trade partner of China. The total bilateral trade witnessed a reduction of 5.64% year on year to reach US \$ 87.65 billion, due to Covid-19 implications. India's exports to China increased by 16.15% y-o-y to US \$20.87 billion, while India's imports from China decreased by 10.87% to US \$ 66.78 billion. During the first half of 2021, the overall trade with China rebounded and saw an increase of 62.55% (US\$ 57.50 billion) as compared to the same period in 2020 (US\$ 35.38 billion).

<b>INDIA CHINA BILATERAL TRADE</b> ( Figures in \$ Bn)							
Year	India's Export to China	%Change	India's Import from China	%Change	Trade Imbalance	Total Trade	%Change
2015	13.4	-18.39	58.26	7.42	44.86	71.66	1.42
2016	11.75	-12.29	59.43	2.01	47.68	71.18	-0.67
2017	16.34	39.11	68.1	14.59	51.76	84.44	18.63
2018	18.83	15.21	76.87	12.89	58.04	95.7	13.34
2019	17.97	-4.55	74.92	-2.54	56.95	92.89	-2.93
2020	20.87	16.15	66.78	-10.87	45.91	87.65	-5.64
2021 (Jan-Jun)	14.70	69.22% (same period in 2020)	42.80	60.38% (same period in 2020)	28.10	57.50	62.55% (same period in 2020)

(Source: General Administration of Customs, China)

**Trade Deficit:** While flourishing trade has brought with it advantages such as availability of low priced items in India, it has also led to the biggest single trade deficit we are running with any country. Our trade deficit concerns are two pronged. One is the actual size of the deficit. Two is the fact that the imbalance has continuously been widening year after year to reach US \$58.04 billion in 2018. In 2019, India's trade deficit with China stood at US \$ 56.95 billion, a minor y-o-y decline of 1.88%, with trade deficit declining for the first time since 2005. In 2020, the trade deficit came at US \$ 45.91 billion, narrowing down by 19.39% year on year owing to

Covid-19 and the overall reduction in bilateral trade. During the first half of 2021, the trade deficit rose by 56.12% to US \$ 28.10 billion, in parallel with the increase of bilateral trade during the same period.

The growth of trade deficit with China could be attributed to two factors: narrow basket of commodities, mostly primary, that we export to China and market access impediments for most of our agricultural products and the sectors where we are competitive in, such as pharmaceuticals, IT/ITeS, etc. Our pre-dominant exports have consisted of cotton, copper and diamonds/ natural gems. Over time, these raw material-based commodities have been overshadowed by Chinese exports of machinery, power-related equipment, telecom, organic chemicals, and fertilizers. We need to engage Chinese continuously for addressing market access issues and hold them to assurances made on this account.

### **Bilateral Investment**

Growth in bilateral investment has not kept pace with the expansion in trading volumes between the two countries. While both countries have emerged as top investment destinations for the rest of the world, mutual investment flows are yet to catch up. According to the Ministry of Commerce of China, Chinese investments to India in the year of 2020 were to the tune of US\$ 200 million and Cumulative Chinese investment to India till the end of 2020 amounted to US\$5343.2 million. Indian investments to China in the the year of 2020 were US\$12.01 million and Cumulative Indian investment to China till the end of 2020 reached US\$ 937.64 million. However, these figures do not capture investment routed through third countries like Singapore, Hong Kong, etc. especially in sectors such as start-ups etc. which has seen significant growth in Chinese investment.

### **Institutional Bilateral Economic and Commercial Dialogue Mechanisms**

India-China Economic and Commercial Relations are shaped through various dialogue mechanism such as

- **Joint Group on Economic Relations, Science and Technology (JEG)**, led by the Commerce Ministers of both sides. Joint Economic Group (JEG) was established in 1988 to discuss trade cooperation issues. So far 11 JEGs were held with the last one in Delhi in March 2018. During the 9th JEG, the two sides also set up **three working groups on Economic and Trade Planning Cooperation (ETPC), Trade Statistical Analysis (TSA) and Service Trade Promotion (or Trade in Services – TIS)**.
- **Strategic Economic Dialogue (SED)** was established during the visit of Chinese Premier Wen Jiabao to India in December 2010, to discuss macro-economic cooperation. So far 5 SED meetings have taken place with the last one held in Beijing in April 2018. There are 5 Working Groups under SED: Infrastructure, Environment, Energy, High Technology and Policy Coordination. The SED is co-chaired by Vice-Chairman NITI Aayog and Chairman, Chinese National Development and Reforms Commission (NDRC). During 5th SED both sides agreed to create one more working group on Pharmaceutical.
- **The NITI Aayog – Development Research Centre of China (DRC) Dialogue** was established pursuant to the MoU signed during the visit of Prime Minister Narendra Modi to China in May 2015, to discuss global economic cooperation issues. Vice-Chairman NITI Aayog leads the India delegation while President (Minister-level) of DRC of China leads the Chinese delegation. The fifth NITI-DRC dialogue was held in Wuhan on 28-29 November 2019.

- **India-China Financial Dialogue** is held in accordance with the MoU signed during Chinese Premier Wen Jiabao's visit to India in April 2005. The ninth India-China Financial Dialogue was held in New Delhi on 25<sup>th</sup> September 2019 which was co-chaired by Secretary DEA.
- **Other Institutional Mechanisms** Some of the other institutionalized dialogue mechanisms between the two countries include the JWG on Collaboration in Skill Development and Vocational Education, Joint Working Group on Information and Communication Technology & High-Technology, Joint Working Group on Industrial Park Cooperation, Joint Study Group and Joint Task Force on Regional Trading Agreement (RTA), India-China Joint Working Group on Agriculture, India-China Joint Working Group on Cooperation in Energy and the Joint Study Group on BCIM Economic Corridor.

List of Institutional Dialogues and Important Meetings held in 2019		
S.No.	Meetings/Dialogues	Date/Period
1	2nd Meeting of Joint Working Group on Skill Development	22 February 2019, New Delhi
2	1st Meeting of Working Group on Pharmaceuticals	7 May 2019, Beijing
3	6th SED	7-9 September 2019, New Delhi
4	9th Financial Dialogue	25 September 2019, New Delhi
5	4th Meeting of JWG on Trade in Services	18 November 2019, New Delhi
6	5th NITI Aayog-DRC Dialogue	28-29 November 2019, Wuhan
7	JWG on IT	11-12 December 2019, Beijing

**During the 2<sup>nd</sup> Informal Summit held between PM Modi and President XI in Chennai on October 11-12, 2019, it was decided to establish the High Level Mechanism on Economic and Trade Dialogue headed by Finance Minister from the Indian side and Vice Premier from the Chinese side to strengthen bilateral trade and investment cooperation and better promote the balanced development of bilateral economic and trade cooperation. However, there has been no progress on this front due to COVID-19 outbreak and the border tensions which followed. For similar reasons, no dialogues under the existing institutional mechanisms have taken place in 2020 and 2021.**

### **Banking Sector Cooperation**

Many Indian banks had established their presence in mainland China through branches or representative offices in major cities in China. However most of them have closed their operations in recent years and presently only SBI and ICICI have branches in Shanghai. SBI is

the only Indian bank to have authorization to conduct local currency (RMB) business at its branch in Shanghai.

In early 2011, **Industrial and Commercial Bank of China (ICBC)** secured a license to start banking operations in India. ICBC inaugurated their Mumbai branch on September 15, 2011. This marked the opening of the first branch of a mainland Chinese bank in India.

**Bank of China (BoC)** had applied to the Reserve Bank of India for a license for its proposed branch in Mumbai. During the bilateral meeting on the sidelines of SCO Summit in Qingdao in June 2018, the Prime Minister of India assured China's President to examine the proposal on priority. Accordingly the approval was granted by RBI during the first week of July 2018. The bank has started functioning from March 19, 2019.

## **Multilateral Development Banks**

### **Asian Infrastructure Investment Bank: (AIIB)**

In May 2014, India was invited by China to join the Bank after committing to the 'Key Elements of AIIB', to join in the multilateral negotiations on the MoU for establishment of AIIB. India joined the 5th round of multilateral consultations and subsequently signed the MoU on 23rd October 2014. The Articles of Agreement of the Bank were finalized at the 5th Chief Negotiators Meeting in Singapore in May 2015 and India signed the AoA along with 57 other prospective founding member countries on 29th June 2015.

India is the second largest shareholder with approx 8% shareholding. The bank conducts its business through BoD meetings and AGMs. India is the biggest beneficiary with 26 projects of loan value of \$5.85 bn approved so far.

India hosted the third AGM in Mumbai in June 2018. The Prime Minister of India addressed the delegates from about 80 countries.

### **New Development Bank: (NDB)**

NDB established its office in Shanghai and Mr K.V.Kamath took charge as the first President of the NDB. Mr. Kamath was succeeded by Marcos Troyjo of Brazil in May 2020. The initial authorized capital of the Bank was USD100 billion of which USD 50 billion was subscribed initially by founding members (BRICS) who shall have equal shareholding initially.

The bank also opened its Africa Regional Centre in South Africa and America Regional Office in Brazil. India is the biggest borrower in NDB with 18 projects approved with commitment of \$7.174 bn.

### **International Bamboo and Rattan Organization (INBAR)**

INBAR is an Intergovernmental body for Bamboo and Rattan Research and Development. INBAR was founded in 1997. It currently has 44 member countries. India became a member in 1998. India is largest country in terms of landmass under Bamboo and Rattan plantation. However, China is known to control more than 83% of the commercial market of Bamboo and Rattan Resources, employing more than 7.7 million people directly or indirectly. Its secretariat

is located in Beijing. Embassy acts as the focal point for interaction with INBAR secretariat. Nodal ministry for INBAR is Ministry of Environment and Forests. INBAR has its South Asia Centre located in Delhi.

### **Tourism and Films**

China has the world's largest outbound tourism industry. In 2019, more than 169 million outbound tourists traveled to different parts of the world and spent more than US\$ 127 Billion. Top 10 international outbound destinations for Chinese Tourists in 2019 were Asian countries. In the recent years Sri Lanka and Maldives have come up as popular tourist destinations for Chinese outbound travelers. Tourism to India, however is still below potential. In 2019, India received nearly 340,000 Chinese tourists. India's Tourism Minister, Mr. KJ Alphons visited China in August 2018 and held roadshows in Beijing, Wuhan, Guangzhou and Shanghai. The roadshows were highly attended and generated a lot of interest from Chinese Tour operators.

India-China MoU on Audio-visual coproduction was signed during Chinese President Xi Jinping's visit to India in September 2014 and two Indian movies (PK and Dhoom3) were released in 2015. "Xuan Zang" was the first co-production film between India and China, featuring popular Chinese Huang Xiaoming. This film released in 2016 was submitted as a contender to represent mainland China for Best Foreign Language Film at the 89th Academy Awards in 2017. In 2017, "Kungfu Yoga", featuring Jackie Chan and "Buddies in India" was released. In recent years, before COVID-19 pandemic, Indian movies such as Dangal, Secret Superstar, Bahubali, Hindi Medium, Toilet, Andhadhun etc, registered great success at the Chinese box office.

### **Other Economic and Commercial Issues**

**Cooperation in the Petroleum Sector:** India and China are working on the areas of cooperation in the petroleum sector to leverage upon the sheer size of the market of two countries. The Petroleum Secretary visited Beijing in October 2018 followed by visit of Vice Minister of NEA to New Delhi in February 2019 and September 2019. Constitution of a JWG on this sector and draft MOU on cooperation are under consideration

**Double Taxation Avoidance Agreement (DTAA):** India and China signed the DTAA on 18 July 1994 and the Agreement came into force on 21 November 1994. Both the countries agreed to revise the DTAA in its entirety. The revised DTAA has been signed in May 2018.

**Social Security Agreement:** With the steady increase in number of personnel/professionals that are being employed both in India and China, the Social Security Agreement assumes important role. India shared a draft SSA to Chinese side in October 2016. JS (ED) led a technical meeting during 28-29 May 2018. There is a divergence as far as 'Totalisation' clause is concerned. China's MoHRSS led the delegation to India from Nov 13-15, 2019.

**Bilateral Investment Treaty:** India has sent notice to China to terminate the Bilateral Investment Promotion Agreement and proposed initiation of negotiations on Bilateral Investment Treaty. Subsequently India has taken a position that instead of signing a separate BIT with China, we may cover this under the chapter on Investment in RCEP. As on date, the Bilateral Investment Promotion Agreement (BIPA) with China stands terminated. However, as per the Agreement, despite termination, the Agreement shall continue to be effective for a

further period of 15 years from the date of its termination in respect of investments made or acquired before the date of termination of this Agreement.

**Cooperation in Railway Sector:** MOU in cooperation in railway sector was signed in September 2014 during the visit of China's President to India. Subsequently two actions plans were signed in 2014 and 2015 and this cooperation has been discussed intensively through SED mechanism. Accordingly cooperation has commenced in areas such as feasibility studies for speed raising, feasibility studies for high speed rail, station redevelopment and training. 320 Indian railways officers got trained in South West Jiaotong Technical University in Chengdu.

**Air Service Agreement:** Both the countries have approved 42 frequencies for each countries carrier. China has already used all its frequencies. For many years Indian carriers were using only 5 frequencies which increased a bit by Indigo introducing Delhi-Chengdu and Kolkata-Guangzhou flights. However it will take many years to reach utilize 80% of our frequencies as mandated by our policy to allow Chinese more frequencies.

**Indian Companies in China-** With the growth in bilateral trade between India and China in the last few years, many Indian companies have started setting up Chinese operations to service both their Indian and MNC clientele in China. Indian enterprises operating in China either as representative offices, Wholly Owned Foreign Enterprises (WOFE) or Joint Ventures with Chinese companies are into manufacturing (*pharmaceuticals, refractories, laminated tubes, auto-components, wind energy etc.*), IT and IT-enabled services (*including IT education, software solutions, and specific software products*), trading, banking and allied activities. While the Indian trading community is primarily confined to major port cities such as Guangzhou and Shenzhen, they are also present in large numbers in places where the Chinese have set up warehouses and wholesale markets such as Yiwu in Zhejiang. Most of the Indian companies have a presence in Shanghai, which is China's financial center; while a few Indian companies have set up offices in the capital city of Beijing. Some of the prominent Indian companies in China include Dr. Reddy's Laboratories, Aurobindo Pharma, SUN Pharma, NIIT, Infosys, TCS, Wipro, Mahindra & Mahindra, TATA Sons, Binani Cements, Sundram Fasteners, Mahindra Satyam, etc.

**Chinese Companies in India-** According to information available with the Embassy of India, more than 100 Chinese companies have established offices/operations in India. Many large Chinese state-owned companies in the field of machinery and infrastructure construction have won projects in India and have opened project offices in India. These include Sinosteel, Shougang International, Baoshan Iron & Steel Ltd, Sany Heavy Industry Ltd, Chongqing Lifan Industry Ltd, China Dongfang International, Sino Hydro Corporation, etc. Many Chinese electronic, IT and hardware manufacturing companies are also having operations in India. These include Huawei Technologies, ZTE, TCL, Haier etc. A large number of Chinese companies are involved in EPC projects in the Power Sector. These include Shanghai Electric, Harbin Electric, Dongfang Electric, Shenyang Electric etc. In recent years, Chinese mobile companies have achieved remarkable growth in India, with companies like Xiaomi, Huawei, Vivo and Oppo occupying nearly 77% of Indian mobile handset market.

**Source: Embassy of India, China Web site Aug 2021.**