INDIA'S TRADE CROSSROADS: BRACING FOR CHINA'S OVERSUPPLY

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India's trade deficit with China has increased to almost USD 100 billion in FY 2024-25. This trade imbalance is primarily on account of imports of electronic goods, consumer durables, and critical components, where China enjoys an economic advantage. With the US restricting the entry of Chinese exports with tariff measures, India now faces the risk of becoming a dumping ground for China's surplus industrial production.

Chinese manufacturers having huge idle capacities and excess inventory are likely to aggressively pursue alternative markets, such as India with its large consumer base, given the restricted access to the US market.

Price Advantage of Chinese Exporters

China's manufacturing advantage is largely on account of economies of scale and substantial government support. With declining global demand, Chinese producers may opt to maintain production levels, so as to retain workers, operating on a marginal cost basis, enabling them to set prices, which provide for the recovery only of the cost of producing one additional unit, rather than recovering the full cost of production. The situation is further compounded by the devaluation of the Yuan, making Chinese goods even cheaper. In the absence of markets, manufacturers are also likely to offer discounts to liquidate inventories and to further lower prices.

Implications for Indian Industry

The impact on Indian manufacturing is expected to be long-lasting. Micro, Small and Medium Enterprises (MSMEs), which form the backbone of India's industrial ecosystem, are especially at risk. Without the financial strength to sustain prolonged losses, many of these businesses would be forced to cut down operations or shut shop altogether.

Larger manufacturers, too, are likely to be impacted. With global protectionism limiting export avenues, they face the added challenge of competing with artificially low-priced imports in the Indian market.

Several key sectors stand particularly exposed—steel and base metals, chemicals and plastics, textiles and garments, electronics and white goods, as well as components for electric vehicles and batteries. Indian manufacturers will find it difficult to compete, when Chinese products are offered at prices well below fair market value—often so low that they do not even cover the cost of raw materials.

Legal Framework: Anti-Dumping, Countervailing and Safeguard Duties

India must respond quickly using trade remedial measures, enacted by India pursuant to its commitments under the WTO Agreements. These duties are imposed based on investigations conducted by the Directorate General of Trade Remedies (DGTR).

<u>Anti-Dumping Duty (ADD) – Section 9A, Customs Tariff Act, 1975</u>

- Imposed when goods are exported at a price lower than their normal value.
- ADD is effective for countries like China, where international benchmarks are used for the determination of costs, since the domestic prices do not reflect actual costs.
- Injury is caused to the local manufacturer on account of the low-priced dumped imports.

<u>Countervailing Duty (CVD) – Section 9, Customs Tariff Act, 1975</u>

- Used to offset subsidies provided by foreign governments (China) to their exporters, including domestic and export subsidies.
- Subsidies must be specific and countervailable.
- Injury is caused to the local manufacturer by the low-priced imports.

<u>Safeguard Duty – Section 8B, Customs Tariff Act, 1975</u>

- Sudden and sharp surge in imports, which causes or threatens serious injury to the domestic industry.
- Safeguard measures are non-discriminatory and apply to all imports of the product, irrespective of country of origin.

A surveillance system is needed to monitor patterns in imports and coordinate rapid responses through DGTR investigations.

Non-Tariff Barriers

The government can also regulate imports through quantitative restrictions such as Tariff Rate Quotas (TRQs) under Article XIII of the General Agreement on Tariffs and Trade (GATT), 1994 read with Article 5 (1) of the WTO Agreement on Safeguards. A TRQ permits the import of a fixed quantity of specific goods, as mentioned in a particular customs notification. Once this quota is exhausted, a higher rate of duty is applied on further imports of the same item. While TRQs are used across various sectors, they are most applied to agricultural products. Items like cereals, meat, fruits and vegetables, dairy products, and sugar are typically covered under such quotas, with sugar enjoying protective measures in most producing countries.

Quality Control Orders (QCOs), import licensing norms, and compliance with various regulatory frameworks—such as those governing environmental standards, labelling, and packaging—serve as effective tools to regulate imports. In addition, mandatory product registration and procedural requirements under customs law act as important checks on import volumes. The associated cost of compliance with these measures often places them within the category of non-tariff barriers.

Other countries have already begun responding to the growing threat of cheap Chinese imports with firm policy action. Vietnam, has recently banned the Chinese e-commerce platform Temu, citing data security and market disruption concerns. Malaysia has introduced a 10% tax on low-value online imports (e-commerce) to protect its domestic retail sector. These tariffs reflect a broader global shift towards safeguarding local industries from the impact of aggressive pricing and unchecked imports.

Circumvention of US Tariffs via India to be avoided

India must safeguard against becoming a trans-shipment hub for Chinese goods, destined for the United States. Often in such cases, minimal value addition is done in India, to conceal the Chinese origin. The United States has already taken strict action against such practices for exports from countries like Vietnam and Malaysia, and any indication of India’s involvement in such practices could adversely affect its trade ties with Washington.

The Rules of Origin will also need to be enforced strictly by Customs authorities at the time of export. Additionally, the Indian Chamber of Commerce, Trade Promotion Council of India, and various Export Promotion Councils, responsible for issuance of the Certificate of Origin, will have to exercise due diligence before certifying goods as being of Indian origin. Appropriate procedures may be instituted to ensure robust verification prior to issuing certificates of origin.

Conclusion

With the increasing trade imbalance with China, India must be on guard to prevent India becoming a dumping ground for surplus Chinese production. This requires a coordinated and strategic response by India, such as use of trade remedial measures such as anti-dumping and countervailing duties, non-tariff barriers, and sustained efforts to strengthen domestic manufacturing through targeted incentives and policies. The ease of doing business needs to be further improved, with increased investment in infrastructure and human development. At the same time, India must engage proactively with key global partners, including the United States and the European Union, to safeguard its trade interests. Close collaboration between the government, industry, and trade institutions is called for. With timely and decisive action, India can not only protect its economy from unfair trade practices but also position itself as a resilient and globally competitive manufacturing hub.