

India's Industrial Raw Material and Food Exports: Emergence of China as Important and Distinct Market

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Summary

China became India's second largest export market in financial year 2021. Absorbing large amounts of industrial raw material and food exports, it is distinct from India's other major export markets in the West and Middle East.

A year's export performance, and that too in a most unusual year characterised by disruptions from the COVID-19 pandemic, is insufficient to draw conclusions on long-term trends. Nevertheless, China's striking importance as an export market for India in a year marked by unprecedented deterioration in bilateral ties is noteworthy.

India's overall exports declined by [7.1 per cent](#) in Financial Year (FY) 2021. Among its top 20 export markets, exports declined for all, except four. These are China, Bangladesh, Indonesia and Brazil. Annual export data provided by the Indian Ministry of Commerce and Industry shows that Indian exports to these four countries have [increased](#) by 27.5 per cent, 10.8 per cent, 21.7 per cent and 7 per cent respectively in FY2021.

The United States (US) continues to remain India's [largest export market](#) accounting for almost 18 per cent of its exports. China is in second place with a share of 7.3 per cent. Bangladesh and Brazil are the fifth and 20th largest export markets accounting for 3.1 per cent and 1.5 per cent of Indian exports respectively.

Despite a marginal decline of 2.8 per cent in FY2021, the share of the US in India's total exports has increased from 16.9 per cent in FY2020. This is because of the much larger relative declines in India's exports to other major markets. Exports to the United Arab Emirates, one of India's major export markets, declined by more than 40 per cent in FY2021. [Declines](#) have also been much larger for the European markets, such as the Netherlands, Belgium and the United Kingdom.

At the same time, had India's exports to China not expanded as much as they did, the overall decline in exports for FY2021 would have been much larger. The large increase has led to China's share in India's exports rising by two percentage points to 7.3 per cent in FY2021, from 5.3 per cent in FY2020.

Among India's major exports, petroleum products, pearls and precious stones, gold and gold jewellery and readymade garments [declined significantly](#) in FY2021. The declines were the sharpest for petroleum and gold jewellery at 37.6 per cent and 50.8 per cent respectively. Readymade garment exports declined by more than 20 per cent while pearls and precious stone exports dipped by almost 13 per cent. These declines arose from a markedly low

demand in pandemic-affected major export markets for India, in North America, Europe and the Middle East.

China has never been a prominent destination for some of India's major finished product exports such as petroleum products, gold jewellery and readymade garments. Rather, it has been a huge buyer of iron and steel, and iron ore from India. Both exports displayed [remarkable growth](#) in FY2021. While iron and steel exports grew by 36.7 per cent, iron ore exports grew at a remarkable rate of 94.8 per cent.

Iron and steel, and iron ore exports have perked up due to the high demand from China. In FY2021, [China accounted](#) for 20.7 per cent of India's iron and steel exports and 86.7 per cent of iron ore. It also had the largest share in India's exports of organic chemicals and spices for FY2021, at 19.6 per cent and 24.3 per cent respectively. While overall organic chemical exports declined by 8.5 per cent during the year, spice exports increased by 10 per cent.

China's emergence as India's second largest export market in FY2021 was due to its heavy buying of industrial raw materials and food products from India. The buying was a result of industrial recovery and acceleration in infrastructure development in China following an economic turnaround after the initial setback caused by the COVID-19 pandemic. High Chinese demand for Indian spices also points to strong consumption demand in the country. Whether China will remain as prominent an export market for India as it was in FY2021 will depend on the recovery of demand for Indian exports in the Western markets. If the Chinese economy maintains a strong momentum in FY2022, it might continue to be so. By doing so, it will be a distinct export market for India with a commodity profile very different from India's exports to the West and Middle East.

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