

PLI footprint in India-China trade

Three data points indicate India's imports from China are slowing: Lower electronics imports in FY23 than in FY22, lower growth in overall imports from China as against global imports, and a declining share of China in India's imports in the past five years.

Is this an early sign of India's inching away from many dependencies on China? Let's see the details.

India's import of electronics products (HS85) from China has decreased from \$30.3 billion in FY22 to \$27.6 billion in FY23. The slide is notable in electronics items, where the PLI (production-linked incentive) scheme is operational. For example, between FY22 and FY23, imports of solar cells, parts, etc. saw a decline of 70.9 per cent, laptops and PCs 23.1 per cent, and mobile phones 4.1 per cent.

India's goods imports from China during FY23 touched \$98.5 billion, at a growth rate of 4.2 per cent, while India's global imports grew at 16.1 per cent during this fiscal year. Thus, imports from China grew at a lower rate than global imports. China's share in India's merchandise imports has also decreased in the past five years from 16.4 per cent in FY18 to 13.8 per cent in FY23.

So it seems that while China remains India's number one supplier of import items and we are critically dependent on the country for several products, there are signs that those dependencies are now reducing in key areas. Let us look at major items India imports from China.

Academics, trade experts, and governments worry about India's large imports from China. Let's look at China's share in import baskets of other countries. The figures for Japan, Korea, and the US are 25.8 per cent, 21.4 per cent, and 21.4 per cent, respectively. This is unsurprising because China has become a significant supplier of electronics, machinery, textiles, and chemicals to the world, and it has become

the number one supplier to most countries. For India, the real issue is not high imports but low exports. Japan, Korea, and the US ship 17.6 per cent, 25.1 per cent, and 8.7 per cent of their exports to China. But India ships just 3.4 per cent of its goods to China. India must focus on expanding exports.

India's fate in electronics and computer hardware production was sealed with the country's signing of the Information Technology Agreement (ITA) in 1997, which made imposing import duties on such products illegal. PLI is trying to undo that damage in a way to some extent. Positive results are visible in the decrease in importing electronic products from China.

Riding on high import duties (20 per cent on mobile phones, 20-40 per cent on solar panels) and incentives, Indian manufacturing is taking off slowly in a few sectors. That is how the US is also seeking to promote manufacturing, riding on billions of dollars of subsidies. To move, India must eschew the lure of the superficial and invest in deep manufacturing. For electric-vehicle batteries, we must produce lithium-ion cells; for laptops, we must make printed circuit boards; for mobile phones, we must make components and not merely the outer shell of the final product.

Imports

Of India's imports from China, 63 per cent of those are limited to just three product groups: Electronics (\$27.6 billion, 28 per cent), machinery (\$21.1 billion, 21.5 per cent), and organic chemicals, including active pharmaceutical ingredients (\$13.2 billion, 13.5 per cent).

The categories where India's imports from China declined in a major way in FY23 over FY22 are: Medical equipment, etc. (\$2.2 billion, decline of 13.6 per cent); solar cells, parts, diodes, etc. (\$1.9 billion, decline of 70.9 per cent); laptops, PCs, etc. (\$4.1 bil-

lion, decline of 23.1 per cent); mobile phones (\$857 million, decline of 4.1 per cent); integrated circuits (\$4.7 billion, decline 4.5 per cent); and urea and other fertilisers (\$2.3 billion, decline of 26 per cent).

India's imports from China have grown in many categories. For example, machinery (HS84) has grown from \$19.8 billion to \$21.1 billion; organic chemicals from \$12.5 billion to \$13.3 billion; steel and products from \$3.0 billion to \$3.8 billion; and PVC resin and plastics from \$4.5 billion to \$5.6 billion. Lithium-ion battery imports surged to \$2.2 billion, or more than 95.9 per cent, in FY23 over FY22. Compared to FY22, imports of scooters and bike parts (probably for EVs) surged to \$502.8 million, or more than 23.6 per cent, in FY23. The adoption of electric vehicles may increase such imports steeply.

Exports

China is India's fourth-largest export destination, with the US, the UAE, and the Netherlands as the top three. India's exports to China during FY23 were \$15.3 billion.

Major Indian products exported to China are petroleum oil, naphtha, etc. (\$1.9 billion), shrimp, prawn, etc. (\$924 million), castor oil (\$525 million), pepper (\$423 million), sulphur (\$318 million), iron ore (\$1.4 billion), rice (\$496 million), ferro alloys (\$412.2 million), refined copper (\$378.7 million), granite (\$378.5 million), etc.

Not long ago, India had a trade surplus with China. India exported goods worth \$10 billion to China in 2005. Chinese trade records reveal India had a trade surplus with China during 2003-05. After 2005, China raced ahead, and India's trade deficit steadily widened. In FY23, the Indian trade surplus has turned into a more than \$83.2-billion deficit. The deficit was primarily the result of China's technical advancement and India's product profile. China's strategy to stifle Indian imports also played an important part in this.



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