China's trade tactics have hurt Indian industry

Given the persistent dumping of Chinese goods, many Indian 'manufacturers' find assembling them more lucrative

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China's aggressive trade practices, including state subsidies, currency manipulation, and dumping, have contributed to India's persistently high trade deficit with China since the mid-2000s. These practices have also adversely affected other countries, creating debt traps for some and fuelling global resentment.

The 19.5 per cent CAGR of Chinese imports in dollar terms over FY 2002-24 dwarfs India's 2.6 per cent exports CAGR to China. The actual trade deficit is larger due to unreported mis-invoiced and covert imports. This influx of Chinese goods has stifled manufacturing growth and capex, drained savings and hindered job creation and on-job skill development.

These issues are detailed in the 145th Parliamentary Standing Committee report (2018), the Directorate of Revenue Intelligence report (2015), the Global Financial Integrity report (2019), George Herbert's research (2020), and Jha and Truong's analysis (2014).

Chinese imports has significantly hit our manufacturing growth.

CAGR of IIP manufacturing for FY 2012-24 was 3.1 per cent as compared to 12-14 per cent envisaged under Make-in-India. The share of manufacturing in GDP hovers in the range of 14-16 per cent whereas it was envisaged at 25 per cent by FY2025.

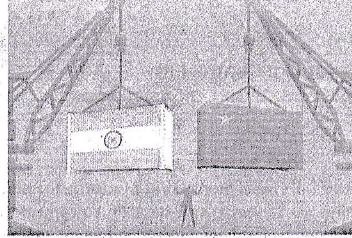
The World Bank finds the share of manufacturing in India's GDP remains much below the world average as well as peers. The share of manufacturing in India's GVA declined from 18.4 per cent in FY2011 to 15.1 per cent in FY2020.

Per the RBI's annual study of selectnon-Govt. non-financial public limited companies' financials, decadal average gross fixed assets to total assets ratio show steady decline – from 69.7 per cent during 1990s to 53.6 per cent during FY2011-23. Lower capex leads to lower total factor productivity (TFP) growth.

CHINESE COVERT IMPORTS

The information opacity relating to the real price, quantity, and quality of mis-invoiced and covertly imported goods make it difficult to evaluate risk-return and profitability assessment of new manufacturing projects. This encourages trading and assembling business at the cost of manufacturing investment.

Unequal competition forced many manufacturing units to switch over to trading or assembling of Chinese products. Make-in-India overlaps with made-in China. How do we expect higher capex when the risk return matrix overwhelmingly favours Chinese imports?



TRADE TANGLE. Chinese threat /ISTOCKPHOTO

The paradox of sluggish consumption growth, despite declining household savings and rising retail credit, may be due to under-invoiced and covert imports not being captured in official consumption data. Household financial savings have fallen to 5.7 per cent in FY2023, while debt has risen, reducing household's net financial savings. Although personal and credit card loans have increased, the diversion of savings towards unrecorded imports dampens visible consumption growth, further complicating the savings-consumption dynamic.

The transaction demand for cash is augmented by the demand for currency to finance under-invoiced/illegal imports from China, which has risen steadily since mid-2000s. This contributes to high cash-intensity, despite momentous growth in digital payments

Many industries rely heavily on Chinese assemblies, components, and finished goods, which lowers domestic value addition and capex. Some manufacturers have shifted from production to trading Chinese imports, while others have built business models around these imports. Chinese products have become deeply integrated into consumption and production, reflected in persistently higher IGST from imports compared to CGST.

Cheaper Chinese imports have severely disrupted many handicrafts and MSME clusters, such as fireworks, decorative lights, glass industry, toys, silk weaving, and festive products. Although regulatory measures exist to curb this issue, small enterprises are too unorganized to build a case against dumping.

Frequent and surprise scrutiny of unscrupulous imports at ports and airports can be an effective and feasible strategy to combat this menace.

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