Centre pushes Chinese firms to dial up India phone exports

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The Ministry of Electronics and Information Technology (MeitY) has asked Chinese device makers to push exports from India and also bolster their supply chain in the country to increase value additions. A few such companies, such as Oppo, are already preparing a road map for the same, according to sources.

A senior government official in MeitY said: "Yes! We have had meetings with Chinese device makers both collectively and individually and have asked them to participate in exports from India. We have an ambitious target of producing mobile phones worth $126 billion in India by FY26, half of which will be for exports. We also asked them to strengthen their supply chain in the country. And they have said 'yes'."

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UNFETTERED DOMINATION

75% share of Chinese device makers in Indian sales

98% share of these firms in the sub-₹10K market

12–18% of value additions by these firms in India

$5 billion worth of exports Oppo eyes from India in 5 yrs; to invest $60 million

the case with India's goods or merchandise trade.

The long-term trade is even more clear in the annualised or the trailing 12-month data. In the 12 months ended July this year, the net export of IT services amounted to $101.1 billion, up 9.9 per cent from $92 billion during the 12 months ended July 2021. During the same period, the merchandise trade deficit more than doubled to $258.7 billion in July this year, from $127 billion in July this year. As a result, the net IT export funded 39.1 per cent of India's trade deficit during the 12 months ended July 2022, down from 72.3 per cent a year ago. Relatively slow growth in IT services exports has made India ever more dependent on capital inflows and worker remittances to fund its trade and the overall current account deficit (CAD). This translates into volatility in the external sector and puts pressure on the rupee.

"India's deficit is growing faster than IT services exports and we are more reliant on capital inflows to fund the current account deficit than in recent years. This makes the economy vulnerable to the changes in global capital flows, as has been the case in the current calendar year," says Dhananjay Sinha, head of strategy and research at Systematix Group.

Chinese firms..

On the Chinese complaining that India's FDI rules have stymied the entry of Chinese component suppliers to set up shop in the country, the official said: "There are component manufacturers in many other countries too. And there are many domestic suppliers. They (Chinese mobile device brands) can always work with them and grow."

MeitY's push is significant because Chinese device makers, despite dominating the Indian market, have stayed away from exporting from the country and building an ecosystem of suppliers to help increase value addition. While some Chinese firms have their own facilities, others have opted for contract manufacturing. According to estimates, Chinese device manufacturers together account for over $26 billion in revenues (as of FY22) or nearly 75 per cent of the total Indian market. The phones that they manufacture in India have a value addition of just 12-18 per cent only.

Also, their exports from the country are negligible over the past 10 years. But in FY22, over $5 billion worth of phones were exported from India. Though Chinese phone makers dominate the Indian market, US-based Apple was one of the key exporters.

But the scenario may change in the coming years. Oppo, for instance, has said it will invest $60 million in India over five years to strengthen its manufacturing ecosystem by involving SMEs and MSMEs. And it expects this shall help it increase its India export capacity to $5 billion in the next five years. It has also promised to partner with more local suppliers. Chinese mobile companies, such as Xiaomi, Oppo, and Vivo, have recently come under scrutiny from various government agencies over alleged violations of Indian laws.

Markets...

In the past two trading sessions, the benchmark indices have declined more than 2.5 per cent amid dwindling of foreign portfolio investor (FPI) flows with the yield on the 10-year US Treasury note once again heading towards the 3 per cent level. On Monday, FPIs sold shares worth ₹454 crore; their domestic counterparts, too, were net-sellers to the tune of ₹84 crore. The rupee, too, weakened intraday but recovered later to 79.86 versus the dollar. Still, it slipped 8 paise over the previous close. India's 10-year bond yield, on the other hand, rose slightly to 7.27 per cent.

"Before the statements by Fed officials, the prevalent view was that inflation has been handled well and there won't be many hikes required. But that has now backfired because of the recent statements. Moreover, there is no solution in sight to the geopolitical crises over Taiwan and Ukraine. The July flows to mutual funds were not good; people are taking money out of equities after a while. A lot of individual investors are booking profits. Even domestic institutions need to keep some dry powder as they may need some cash if there are more redemptions," said U R Bhat, co-founder, Alphaniti Fintech.

The acceleration of Fed balance sheet reduction — also known as quantitative tightening — is another headwind facing the market.

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