Rising China imports powering India's electronics output

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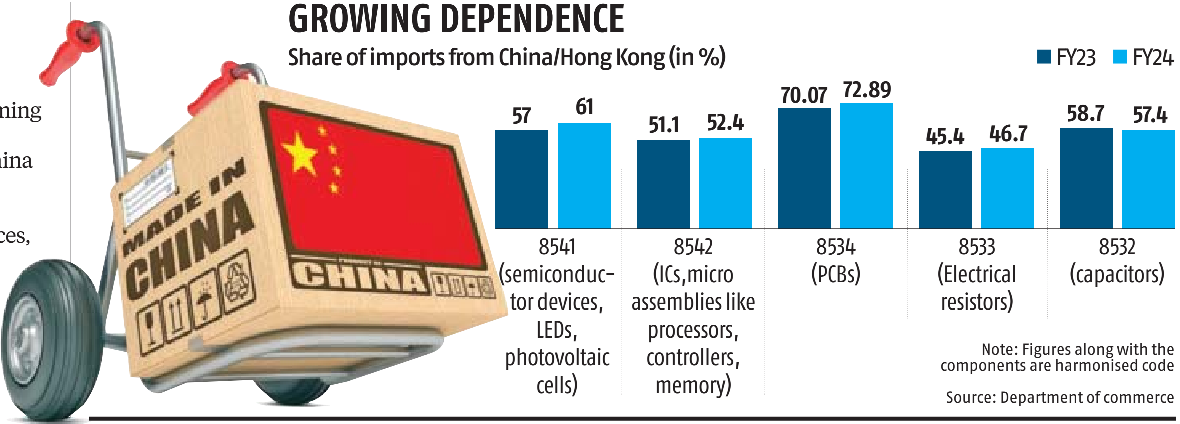
The expansion of India's electronics production is becoming increasingly dependent on imported components from China and Hong Kong, especially key products such as PCBs, micro assembly, semiconductor devices, LEDs, integrated circuits, and capacitors.

Despite India slamming the door shut on Chinese component companies in response to the border clashes with Chinese troops at Galwan in 2022, the decision has so far had no adverse impact: Chinese companies continue to supply components to meet the growing demand in India.

Imports to India reached $20.70 billion in FY24, a growth of over 28 per cent compared to the previous year. The imports were of electrical integrated circuits and micro assembly which includes processors, controllers and memory (represented by the harmonised code of HS 8542) which are key components for making mobile devices and IT hardware.



But imports from China and Hong Kong combined grew even faster at 31.6 per cent in the same period. As a result, China and Hong Kong now account for a 52.4 per cent share of total imports of this category in FY24, that's up from 51 per cent in FY23. Other countries such as Korea and Taiwan combined have seen their imports hit $4.5 billion in FY24 but they are still half of China and Hong Kong combined.

In the HS code 8541 which covers a range of products including diodes, transistors and other semiconductor devices, light emitting diodes, photovoltaic cells and semiconductor-based transducers, imports have shot up by 109 per cent in FY24 to reach $7.9 billion in just one year. The share of China and Hong Kong combined of these components in value has also increased from 57 per cent in FY23 to 61 per cent in FY24.

HS code 8534 is for PCBs, a very important component which goes into the making of mobile devices and laptops. In 2022, India had imposed an anti-dumping duty on them aimed at Chinese companies.

But overall imports of this product have gone up by 17.64 per cent in FY24 to $1.3 billion. China and Hong Kong imports combined have grown by 33 per cent and account for a staggering 72.9 per of India's overall imports in FY24, up from over 70 per cent in FY23.

The government is planning a major course correction. The goal is for India to have its own component supply chain through a proposed Production Linked Incentive (PLI) scheme for components.

The industry is also asking for a combination of an upfront capex subsidy for foreign and Indian companies to build these factories (such as for semiconductors) which, unlike assembly, require large capital expenditure. The industry believes this should be combined with a normal PLI scheme, with incentives for production value targets. But global companies point out that even such a policy will not help. They say a crucial step is for the government to rethink restrictions in FDI on Chinese companies who supply to the whole world and dominate the electronics sweepstakes.

Building local supply by persuading local manufacturers to invest in such factories is, they say, a long and laborious process.

The government has a long-term electronics policy with the aim of producing electronics worth over $300 billion by FY26. The problem is that the figure is still a long way away with just a couple of years to go.