Shrinking Exports and Growing Deficit with China

Prof. Bhagwati Prakash Sharma

Introduction

India's exports have been continuously contracting since last 17 months. The goods exports from India have shrunk 6.74 per cent on a year on year basis to \$20.5 billion in April, 2016, posting a seventeenth consecutive month of fall. Fortunately, the trade deficit has also narrowed to a 5 year low of \$4.84 billion in April, 2016 on account of a sharp decline in imports by 23.1% to \$25.4 billion in April. In the month of March 2016 as well, the country's exports had registered a decline of 5.5% over the previous month. The cumulative value of exports for the period April-March 2015-16 too has therefore come down to US\$ 261.13 billion (Rs.17,08,841.43 crore) as against US\$ 310.33 billion (Rs.18,96,348.40 crore) in April-March 2014-15, registering a negative growth of 15.85 per cent in Dollar terms and 9.89 per cent in Rupee terms.

Decline is more pronounced in India's case

Although,the trend of falling exports is in tandem with other major world economies. The growth in exports have fallen for USA by 10.81 per cent, European Union by 7.40 per cent, China by 11.37 per cent and Japan by 12.85 per cent for January 2016 over the corresponding period previous year as per WTO statistics. But, it is a matter of serious concern that vis a vis the US, EU, China and Japan the decline in India's exports is more pronounced. To the contrary, Chinese exports have rather begun to experience a rebound, growing at 18.7 % in March, 2016 vis a vis a decline of 5.5% in case of India. In April 2016 as well, the exports in Yuan have increased by 4 percent, though in dollars they have reduced by 1.8 percent. Thus, Chinese exports appear to be stabilising.

Widespread Decline

Decline is visible across exports, imports and the overall trade deficit, including goods as well as services. In the goods sector, it is spread into a wide variety of products from pharma to automobiles. In automobile products, it is most pronounced and is as high as 15.87%. In case of pharma products, exports are further predicted to decline 10-12% annually, for next 5 years, which have grown by 19% in last decade. The non-petroleum exports in April-March 2015-16 too are valued at US\$ 206.39 billion, against US\$ 213.86 billion of 2014-15 with a decline of 3.49 per cent. Non-petroleum exports during April to March 2014-15 too are valued at US\$ 231.95 billion as compared to US\$ 253.54 billion for the corresponding period in 2013-14 with a reduction of 8.52 per cent. India's imports have had a more pronounced decline during March as well as April, 2016. The imports in April have declined by 23.1% to \$25.4 billion and this decline is across a variety of sectors including gold, petroleum products, machinery and electronic goods as per the data released by the commerce and industry ministry on April 13, 2016. The imports in March were valued at US \$ 27.78 billion, (Rs.1,86,250.88 crore) lower by 21.56 per cent in Dollar terms and 15.82 percent in Rupee terms over the level of imports valued at US\$ 35.42 billion (Rs.2,21,251.65 crore) in March, 2015. Cumulative value of imports for the period April-March 2015-16 was US \$ 379.60 billion (Rs.24,81,367.22 crore) as against US \$ 448 billion (Rs.2737086.58 crore) registering a negative growth of 15.28 per cent in Dollar terms and 9.34 per cent in Rupee terms over the same period last year.

Service exports have also been affected in the current year. As per RBI's press release of 13th May, 2016, the trade balance in services (i.e. net export of services was lower at \$ 4990 million in March, 2016 vis a vis \$5,140 million in February, 2016. As per RBI's Press Release dated 18th April 2016, the trade balance in Services (i.e. net export of Services) for February, 2016 was estimated at US\$ 5140 million. The net export of services for April-March, 2015-16 was estimated at US\$ 69.59 billion, which is lower than net export of services of US\$ 76.58 billion during April-March, 2014-15. (The data for April-March 2015-16 has been derived by adding April-December 2015-16 with month wise QE data of RBI Press Release dated 13th May 2016).

Welcome Decline in Deficit

On account of a much sharper decline in imports against the exports, trade deficit has also declined to a 5 year record low of \$4.84 billion in April, 2016, from 5.1 billion in March, 2016. While the trade gap for March, 2015 was as high as \$ 11.4 billion and in April 2015, it was 10.99 billion. The trade deficit for April-March, 2015-16 has been estimated at US\$ 118.45 billion which is lower than the deficit of US\$ 137.69 billion during April-March, 2014-15.

The Overall Trade Balance, while taking merchandise and services together, has also come down in 2015-16. The overall trade deficit for April-March, 2015-16 is estimated at US\$ 48.869 billion as compared to US\$ 61.10 billion over the same period last year, which has fallen by 20.03 per cent.

Private Transfers by NRIs are the Silver Lining

However, the deficit i.e. the trade and current account deficits are fully bridged by private remittances and the deficit turns into a surplus in the Balance of Payments, after taking into consideration the private transfers of $ 69 billion. Thus, the NRIs, working abroad have jacked up the forex receipts and converted the current account deficit into a surplus of $20 billion and also enhanced the Forex reserve of the country. Yet, something needs to done to ramp up exports, if the target of doubling the exports, spelled out in the foreign trade policy of 2015-20 has to be attained.

China is Recovering

China has already rebounded in its exports in March, 2016 posting a growth of 18.7 % on a year-on-year basis in the month, while its imports declined 1.7% in the same month, generating a trade surplus of 194.6 billion yuan in March, 2016. the export growth in March had been highest for China in last more than a year. India has to take a call from China, especially when India is having the largest trade deficit in its trade with China for last many years. Chinese exports have stabilised in April as there has been a 4.1 per cent growth in Yuan terms, though in dollar terms, there is a decline of 1.8%. This dichotomy is due to slight devaluation of its currency. Contrary to Chinese recovery in March and April, India's exports have declined in both March and April, 2016.

Deficit with 27 Countries

India has had a trade deficit with as many as 27 countries including China, Australia, Iraq and Iran during last 3 years. Some other countries with which India has high trade deficits are Indonesia, Korea, Germany, Canada, Taiwan, Russia and Ukraine as per a reply given by the Commerce and Industry Minister, Nirmala Sitaraman in Parliament. There are very few countries which have such adverse trade balance with such a vast number of countries.

Table-1

MERCHANDISE TRADE OF INDIA IN APRIL 2015-16 AND 2016-17

EXPORTS & IMPORTS :		
(PROVISIONAL)		
	APRIL (in US $ Million)	APRIL (in Rs. Crores)
EXPORTS (including re-exports)		
2015-16	22054.72	138400.44
2016-17	20568.85	136720.11
%Growth 2016-17/ 2015-16	**-6.74**	**-1.21**
IMPORTS		
2015-16	33047.02	207380.63
2016-17	25413.72	168923.71
%Growth 2016-17/ 2015-16	**-23.1**	**-18.54**
TRADE BALANCE		
2015-16	-10992.3	-68980.19
2016-17	-4844.87	-32203.6

Source: Press Information Bureau, Government of India, Ministry of Commerce & Industry on 13th May, 2016.

Table-2

SERVICES TRADE OF INDIA IN MARCH 2015-16

EXPORTS & IMPORTS (SERVICES) :		
(PROVISIONAL)	March 2015-16 (in US $ Million)	March 2015-16 (in Rs. Crore)
EXPORTS (Receipts)	12895	86424.74
IMPORTS (Payments)	7905	52980.81
TRADE BALANCE	4990	33443.93

Source: Press Information Bureau, Government of India, Ministry of Commerce & Industry on 13th May, 2016.

India needs to take a call on growing trade deficit with China

The growing trade deficit with China is a formidable challenge for India. India has the highest trade deficit of $ 51.9 billion with China, inspite of persistent enemy like activities of China, ever since the war of 1962. China is occupying 38,000 sq. km. of India's territory which it captured in Aksai Chin in the 1962 war. Thereafter, China has been regularly committing border incursions frequently. Presently it has been causing approximately 450 border incursions per year. Moreover, its seige in the Daulat Beg Oldy region 3 years back had been most humiliating for India, after the 1962 war. Recent Chinese veto against India's proposal for declaring Maulana Masood Azhar as an internationally dreaded terrorist was also aimed at humiliating India, as China has no stake against declaring Maulana Masood Azhar, a Laskar-e-Taiba terrorist, who has also established Jaish-e-Mohammad another terrorist outfit.

Chinese dumping: Threat to several Industries in India

It is also an open fact that one after the other, industry sectors in India are getting destabilized due to dumping of cheap goods by China. India has been experiencing the problem of de-industrialization into a number of sectors on account of Chinese dumping. Several industry sectors have been badly suffering due to import surge from China. They include: Tyres, electronics, telecom, electrical equipments, glass, chemicals, pharmaceuticals, power sector, furniture and so on. Import of truck and bus radials (TBR) has surged 2.5 times in last two years and 90% of the import surge is from China. The number of tyres import which was 40,000 TBRs per month in 2013-14 has shot upto more than 1,00,000 TBRs per month in 2015-16. Forty percent replacement market in the country has been captured by the Chinese TBRs. The Chinese tyres have no warranty. To counter the cheap Chinese tyres, local tyre makers have also been introducing cheap tyres without warranty to counter the avlanche of cheap tyre dumping by China. It is most dangerous and unfortunate that road-accident fatalities are worst in India and warranty-less tyres would play the havoc. Consequent surge in road accidents would result in huge loss of people and property leading to huge insurance claims, hospitalisation costs and surge in the number of orphans due to overshooting of road accidents arising out of warranty-less cheap tyres. Such trickle-down stories of ill consequences of cheap Chinese imports are legion. Moreover the multinational TBR manufacturers are taking the lead in introducing warranty-less tyres in India.

In the wake of competition in Personal Computers(PCs) and computer hardware from imported brands, the Indian players like WIPRO and ZENITH have been wiped out. Today Lenovo, the Chinese brand of PC has the largest 25% market share in India (Q4-2015).

The latest victim is the solar power equipment manufacturing sector of the country. Today 80% of the solar panels and roof top solar systems are coming from China. This has been causing rapid industrial closures in the country into this sector. Even the US has had to impose anti-dumping duties on Chinese import up to 238% of their cost to keep the US solar power sector surviving against Chinese dumping. So, India too has to take care of a variety of sectors against Chinese dumping, including the goods being produced in the MSME sector. There are several product categories, where Indian manufacturing has been completely wiped out and the complete manufacturing eco-system, including its supply chain has been wiped out to rule-out any revival of such industries in immediate future.

Commerce and Industry Minister Nirmala Sitharaman also said in a written reply to the Lok Sabha, that "Increasing trade deficit with China can primarily be attributed to the fact that Chinese exports to India rely strongly on manufactured items, meeting the demand of fast-expanding sectors like telecom and power. While India's exports to China are characterized by primary products, raw materials and intermediate products," She informed parliament that India's trade deficit with China stood at USD 51.86 billion, with a bilateral trade of USD 71.22 billion in 2015. According to her, during this period India's exports to China came in at USD 9.68 billion while imports were USD 61.54 billion. Moreover, in a separate reply, she also said that Indian MSMEs are facing significant competition from Chinese imports. Especially in respect of 12 major product groups largely manufactured by MSMEs, imports from China grew at a higher rate than respective imports from all other countries combined during 2011-2 to 2014-15. Coming to the issue of dumping , she said that so far, there have been 322 anti-dumping cases, of which 177 cases involve China.

Chinese Smart Phones fast taking over the Indian Market: Like most other sectors, the smart phone market in India has also been experiencing an import surge from China. According to the consulting firm 'Country Point Technology Market Research' the number of Chinese smart phone brands available in India, has jumped from 12 in the first quarter of 2013 to 57 in first quarter of 2015 in a span of two years. The market share of Chinese vendors of smart phones too has grown from 15% in the last quarter of 2014 to 22% in 2015. Indeed, the share of China-based smart phone vendors has increased by 7% in a year. While the share of home-grown smart phone vendors of India has declined by 5% and even the share of global vendors too has shrunk by 1%. All the Chinese brands viz. Huawei, Lenovo, Moto, Xiaomi, , Gionee, One Plus, Vego, Oppo, Meizu, LeeCo, Cool Pad and so on have been making rapid strides in the Indian market.

It is also worrisome that, inspite of having enjoyed a strong position in the first generation of telecom technology, India has dropped itself out of the race in harnessing the 2G, 3G & 4G technologies and has now become foreign dependent in all these categories. Therefore, India needs to develop this sector indigenously, to avert such a foreign dependence. At the time of advent of 2G technology, India had achieved a major breakthrough in developing the coreDECT technology, unique for 2G telecommunication of mobile telephone wherein both voice & data can travel together under this technology. Therefore, it is most imperative at this stage to develop the handsets industry into the country as well as to harness this unique home grown mobile technology and internet technolgy in India.

Economic Patriotism: Need of the Hour

Moreover, if India has to seriously take care of its trade deficit, slow down in manufacturing and growing non-performing assets (NPAs), steps have to be planned to take care of growing imports. Curbs on imports would also help the country to curb industrial sickness and closures. This sickness and closure of Industries on account of cheap dumping by China is largely responsible for the growing non performing assets (NPAs) of the banking sector and poor investments scenario. Therefore every patriotic citizen must potray a strong sense of economic patriotism, to prefer only Made by India brands i.e. brands of domestically owned enterprises. Imports may be subject to various international trade rules and it may not be feasible for the government to put blanket curbs. But, if people do not accept the foreign brands, while buying various products and services, India can overcome this crisis emerging out of the import surge and cheap dumping. The people should stop patronising foreign brands, including the Chinese brands by a show of economic patriotism in their day to day buyings.