

Boycott China: Are We Ready?

India should inflict cost on China on military and diplomatic front, which it has started doing. However economic distancing at this juncture will be more harmful for India than China.

Photo Credit : Reuters



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The recent skirmish between India and China at Galwan Valley has created a great outrage and there is lot of pressure on the Government to tackle the issue at military, diplomatic and economic front. There are lots of voices vented in the media and protests on the streets to stop buying Chinese products and curb imports. Confederation of All India Traders (CAIT) has called for boycott of 3,000 Chinese products, even Commerce Minister recently mentioned that it is sensible to buy local product even if it is costlier than imports. Most recently Government has decided to ban 59 Chinese Apps. The sentiments in general are, to inflict some costs on China. A deeper analysis is needed to discover whether on economic front, curbing imports, will hurt China or is it the other way round.

China is second largest trading partner of India with total trade of \$81.86 bn in 2019-20 accounting for 10.4 percent trade (If Hong Kong is also included, through which much of China's trade is routed, then it is the largest trading partner of India with total trade of \$100.76 bn). On the other hand, India comes at twelfth place in Chinese trade accounting for only 2.1 percent of total trade. Also, China's share in India's export is 5.3 percent compared only to 3.1 percent share of India in China's export. There are certain sectors like pharmaceutical, telecom, cell phones, automotive components and solar equipment where there is excessive dependence on China. Also in sectors like toys, chemicals, watches, furniture and sports goods there is high import from China.

Government is now taking various measures to restrict imports from China. It has decided to put 20 percent custom duty on solar equipment and now licence will be required to import these items. In last few days Custom Department has also stalled

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the clearance of goods imported from China and it says that goods will only be cleared after 100 percent physical examination. This has created lots of problems for the manufacturers, as the severely hit supply chain is getting further impacted. There are several trade bodies specially exporters' lobbies that have raised concern with Ministry of Commerce that because of this move there are retaliatory actions and Indian consignments are also being held up at various ports in China and Hong Kong. According to news in media, in near future, government is planning to impose tariff and non-tariff barriers on several other product categories as well.

PM Modi's clarion call for 'self-reliant India' is a strategy that requires step-by-step approach. Excessive dependence on one country for imports as well as exports, is always dangerous and due to current pandemic it has become even more important to diversify. The industry needs to adopt the strategy of 'China plus one', but this cannot be done overnight, they need to carry out market research to find out suppliers in other countries, check their credibility, quality of supplies and then establish business relationship. According to industry players this can only be initiated once the current situation returns to normalcy.

Manufacturers, for domestic or export market, do import from China because it offers competitive advantage in terms of cost and speed. Many industry leaders say that even with high logistics cost and import tariff, it is comparatively cheap to import the components from China rather than sourcing it from domestic market. Pure economic sense says that it is wiser to procure raw material, components and finished goods from sources that offers cost advantage. If we do not do it, we will promote inefficiencies in domestic market, as industry will be forced to buy inputs for production at higher price. However, in order to develop efficiencies, India should also develop capabilities in manufacturing in different sectors that offer high value addition, side by side.

Indian exporters, because of this recent reaction of the government, will be affected in two ways, firstly they will lose cost competitiveness, as they will have to source high price inputs from other countries, finding suitable supplier may be time consuming job and secondly China and Hong Kong will put similar barriers on goods coming from India. It is worth noting that India's export dependence on China is approximately double of that of China on India. Thinking that we can impose serious cost on China by imposing these barriers is not correct, in fact we will be imposing twice this cost on ourselves. Also, in recent times, China has started routing its goods through countries like Singapore, Vietnam and Thailand with whom we have free trade agreement (FTA) and the goods attract lower duties. Checking and controlling this will also be a challenge for Indian authorities.

According to new findings from Acuité, a ratings agency, domestic manufacturing sector can substitute around 25 percent of imports from China. Ministry of Commerce along with industry partners has also identified twelve sectors where India can become self-reliant. A focused approach along with appropriate government schemes to support, is required to develop sector specific strategies. In order to encourage players for domestic manufacturing in identified sector, government need to speed up its work for providing proper infrastructural facilities, reduce cost of logistics and cost of credit to make it comparable with competing nations. Also, I am of the opinion that there should be freedom to the manufacturers to decide as to what will be the country for sourcing the inputs or finished products. We can take example of US – China trade war, even at the height of tension between the two countries, the trade continued between the two. In FY 2019 the US import from China fell only by 16 percent. The trade-war impacted US more severely than China. US exports fell by \$23.1 bn whereas China's export basket diversified and its net export fell only by \$2.8 bn.

As of now our industry, severely affected by the outbreak, needs assured supply chain so that it can ramp up its production process. Any disruption will further impact different sectors severely. India should inflict cost on China on military and diplomatic front, which it has started doing. However economic distancing at this juncture will be more harmful for India than China.

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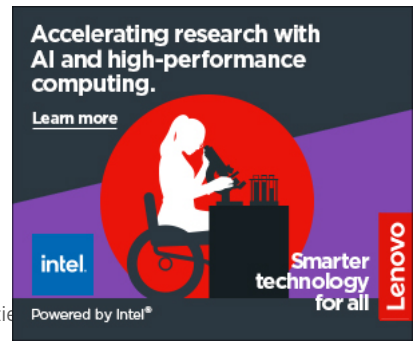
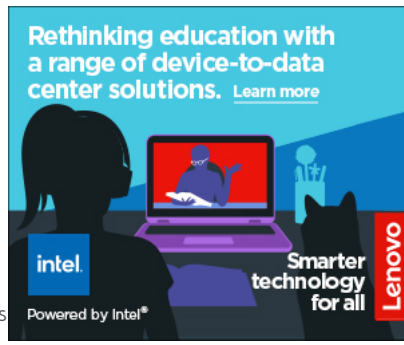
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