

# Quickonomics

May 23, 2022

## Impact of lockdowns in China on trade with India

- The pandemic has pushed up India's trade deficit with China
- China remains the largest supplier of a number of goods for India
- India's dependence on Chinese imports has increased in the past decade, especially computer hardware, electronic components and organic chemicals
- Early signs of slowdown in imports from China are visible in pockets. Persisting lockdowns in China and its consequent impact on India's key imports could create headwinds for domestic industrial activity

Global supply chains were starting to recover from the pandemic's impact when the Russia-Ukraine war, and then lockdowns in China, extended logistic and shipping delays yet again.

As part of its zero-Covid-19 policy, China has instituted stringent restrictions in major cities. Manufacturing activity in China has thus slowed: the official PMI (Manufacturing) for China fell to 47.4 in April (from 49.5 in March; an index below 50 indicates contraction). Within manufacturing, supplier delivery times are deteriorating, and new export orders have declined, too. The effects are being seen in economic activity indicators: China's exports slowed to 3.9% on-year in April, from 14.7% growth seen in March. Retail sales contracted to -11.1% on-year in April (from -3.5% in March).

The more-stringent-than-expected lockdowns in China have prompted downward revisions to its growth forecast: S&P Global now expects China's GDP to grow 4.2% in 2022 (compared with its March forecast of 4.9%). That said, these lockdowns are expected to affect domestic consumption more than industrial production (S&P Global, May 2022). However, supply-chain disruptions have been substantial, and these may impact India more directly, given India's large import dependence on China in several segments.

In fact, China is India's biggest import partner. At \$94.2 billion, China accounted for 15.5% of India's total merchandise imports of \$609 billion in fiscal 2022.

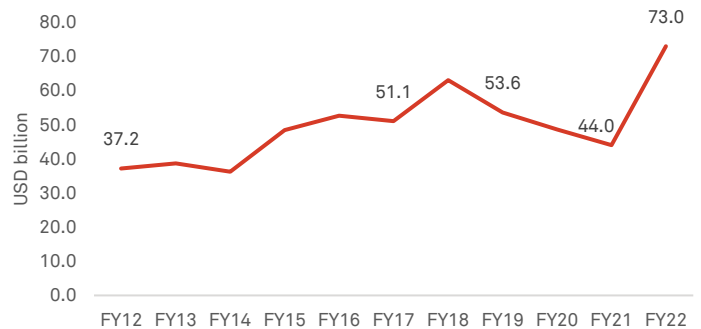
## India's trade deficit with China has widened

While India's significant import dependence and large trade deficit with China have been contentious issues, a gradual improvement was witnessed just before the pandemic years. But the wheel seems to have reversed again.

In fiscal 2022, India's goods exports to China were \$21.2 billion (stagnant compared with fiscal 2021), while imports from China surged to \$94.2 billion from \$65.3 billion the year before.

As a result, the trade deficit with China has increased drastically.

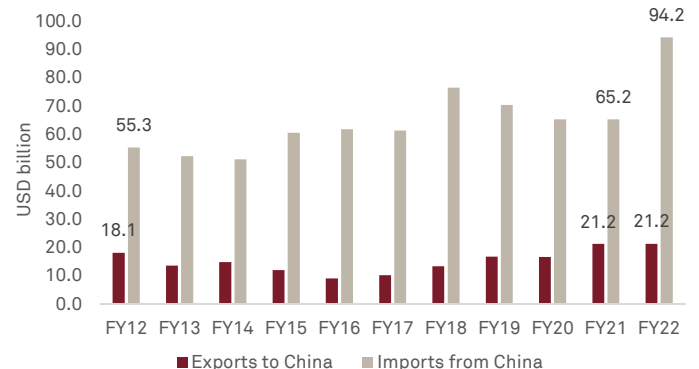
### India's merchandise trade deficit with China



Source: Ministry of Commerce and Industry, India; CRISIL

In fact, in fiscal 2021, when India's economy contracted 6.6% and overall imports shrank 17%, imports from China held steady at \$65.2 billion, reflecting: i) stickiness of Chinese imports and ii) surge in demand for electronic goods (key imports from China) during the pandemic.

### Bilateral trade with China



Source: Ministry of Commerce and Industry, India; CRISIL

## Imports from China quite entrenched

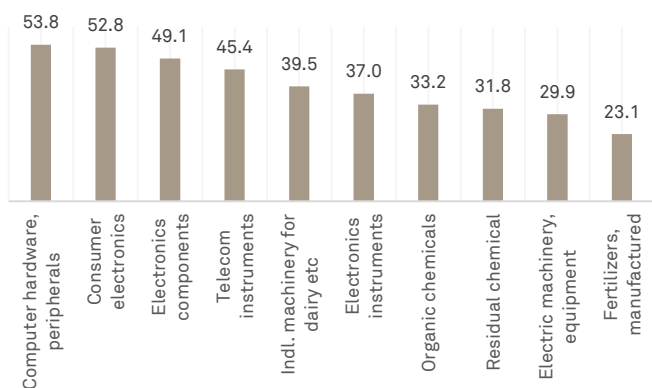
Imports from China cut across wide-ranging product lines. India imports both intermediate goods (such as electronic components, computer hardware peripherals, and organic chemicals) as well as finished goods (consumer electronics, fertilisers, etc).

To put things in perspective, 15 commodities make two-thirds of all imports from China compared with just three from the United Arab Emirates (UAE) — India's second largest import partner. Moreover, China is the largest supplier of over 16 key imports to India (leaving out petroleum products and precious metals).

## Dependence on China quite high

Import dependence on China is visible not only in absolute terms, but also vis-à-vis the share in import of that good, with China accounting for more than 20% of imports for key industrial/ consumption goods.

### China's share in India's imports, commodity-wise (%) (FY22)

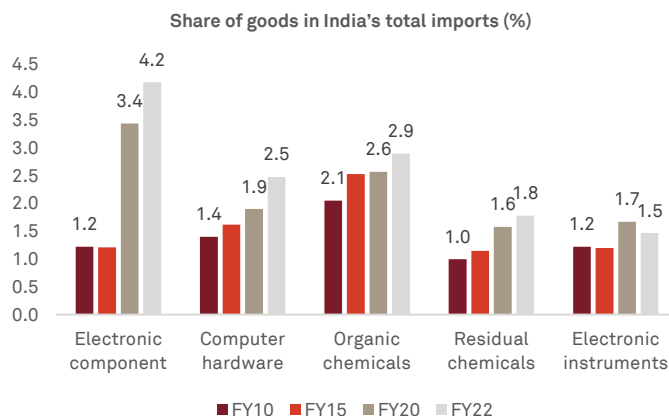


Source: Ministry of Commerce and Industry, India; CRISIL

## Import dependence on the rise

Additionally, in many top imports from China, India's overall import dependence has increased over the years (see chart below). This suggests that in the event of a slowdown of imports from China, it will be difficult to fill the gap either by ramping up domestic production or via imports from other countries. Moreover, this can cause supply disruptions for the Indian manufacturing industry and impact consumers directly in imports of finished goods such as consumer electronics. This also underlines the criticality of success in realising India's target of reducing import dependence via Make in India or the Production-linked incentive scheme.

## Share in India's total merchandise imports (%)

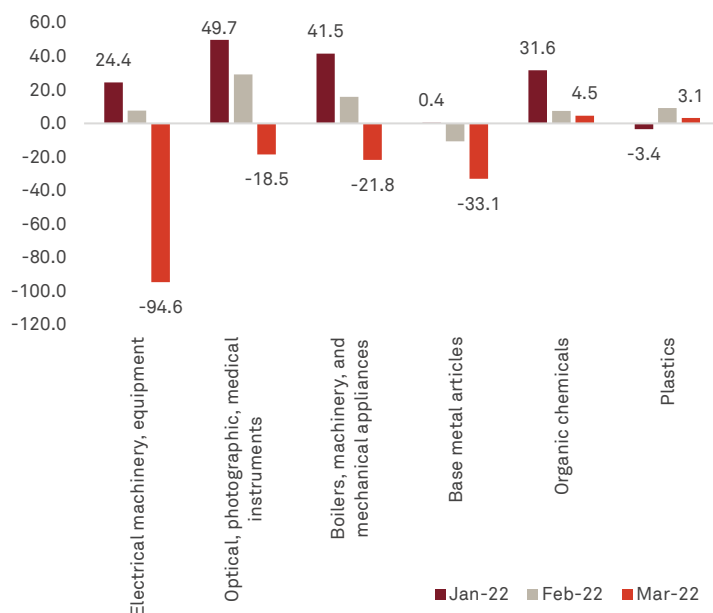


Source: Ministry of Commerce and Industry, India; CRISIL

## Early signs of slowdown in imports from China visible in pockets

The Covid-induced lockdowns in China have caused supply chain disruptions. S&P Global states that while industrial production has been hit less hard than service sector, transport and logistics bottlenecks are weighing on sectors with intricate supply chains (e.g. electronics)<sup>1</sup>. Data available till Marh points towards some slight slowdown in imports from China (see chart below). Imports of electrical machinery, boilers and mechanical appliances, and base metal articles have contracted in March, while imports of plastics and chemicals have progressively slowed.

### India's imports from China (in volume terms) (%), y-o-y



Source: Ministry of Commerce and Industry, India; CRISIL

<sup>1</sup>S&P Global Ratings, "China's COVID policy to further weigh on economy, credit" (May 2022)

## India's exports to China contracted in January-March

The lockdowns in China are expected to hit consumption more than production.

Lower domestic demand due to restrictions on mobility possibly contributed to decline in India's merchandise exports to China in January-March 2022 by 30.3% on-year.

However, India's overall exports rose 23.8% on-year in the same period. A slowdown in external demand from China though may not impact India's exports as much, owing to the small proportion of China in total merchandise exports — at just 5.1% in fiscal 2022.

## Conclusion

Restrictions in China have eased somewhat since late April with daily Covid-19 cases declining. This is expected to be a gradual process. But the government's Covid-19 stance is not expected to change substantially any time soon. Hence, supply-chain disruptions in China will likely persist through the rest of year (S&P Global, May 2022). India's import dependence on China remains large and has gone up since the pandemic. In such a scenario, further slowdown in imports from China could potentially affect manufacturing activity domestically.

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