Feedback

The China effect: Sounding the death knell of many domestic industries

Subsidised and dumped Chinese imports have decimated many industries and will continue to do so unless effective action is initiated.

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Until 2011, India was one of the largest exporters of best-in-class solar modules. Domestic manufacturers - including Tata Power Solar Systems Ltd, Moser Baer, Bharat Heavy Electricals Ltd, Indosolar Limited and Lanco Infratech Ltd - were industry pioneers.

Today, the Indian solar industry relies heavily on imports of important components such as solar cells, modules and solar inverters and in 2019-20, the country imported solar wafers, cells, modules and inverters worth $2.55 billion.

What is true for solar cells, modules, and inverter industry is true for many others including, toys, steel, telecom and electronics, textiles, and pharmaceuticals. The common culprit is imports from China.

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Over the last decade, India continues to incur a higher trade deficit, and much of has with the adverse balance of trade with China.

Policymakers have tried to restrict Chinese imports by raising import duties but with little success. For instance,

The onslaught of Chinese exports to India has decimated the Micro Small and Medium Enterprises (MSME) industry which was a major job creator in India. And, the pandemic has only made matters worse with around 10 million losing their jobs mainly from the MSME sector.

India's textile industry too is facing challenges mainly from Chinese imports of man-made fibres like polyester, viscose and blends, which has resulted in 35% closure of power looms in Surat and Bhiwandi.

It has been pointed out that the existing GST structure taxes of synthetic fibre at 18%, yarns at 12% and fibres at 5% (the inverted duty structure) has caused unintended benefits to China.

The spurt of Chinese fireworks in the Indian market too had led to an adverse impact on the Indian fireworks industry, which mostly falls in the MSME category.

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It also entails public health hazards as most Chinese crackers have potassium chlorate, a highly explosive chemical that is banned in India.

Then there are the under-invoiced Chinese bicycles making their way into the country as the result of lax enforcement.

Similarly, the domestic toy industry has been virtually decimated by Chinese imports. In 2021, an estimated 75% of the domestic demand in India is fulfilled by imports, mainly from China.

Similarly, the continued suspension of countervailing duties on imports of stainless steel from China has resulted in a massive surge in imports in the past few years.

For instance, in the first half of 2021-22, India witnessed a 185% increase in import volumes of stainless steel flat products compared to the average monthly imports in the last fiscal.

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This import is particularly adversely impacting the stainless steel manufacturers in the MSME segment who primarily supply household goods (Utensils etc.) segment.

The bulk of the imports is from China and Indonesia, which increased by 300% and 339% respectively in the first half of this fiscal compared to the average monthly imports of the last fiscal.

Today, the two countries -China and Indonesia-have a share of 79% of the total stainless steel flat product imports in the first half of FY 22 compared to the 44% share for the full year of FY 21.

The Chinese domination in the imports of telecom and electronics products has increased manifold over the past few years even after the government initiated the Digital India programme 2015.

In 2019-20, more than 83% of imports of mobile phones were of Chinese origin and in that same year, nearly 90% of colour TV sets were imported into the country from China.

India also continues to also depend substantially on imports of Chinese telecom transmission equipment. In medicines, India has relied exclusively on China for imports of APIs for paracetamol and streptomycin and has very high levels of dependence on other antibiotics like ciprofloxacin and amoxicillin.

China is well known to dump its products in the export markets. Dumping is the difference between domestic price versus export price, which leads to injury to other country's producers.

China has been able to sell at a cheaper price due to multiple reasons like economies of scale in production, being more productive, surplus capacities, government subsidies etc.

Since China's induction into WTO in 2001, many multinationals entered into a joint venture with the Chinese firms, transferring the technology, and making the latter more productive. China is also able to procure material inputs (used for manufacturing final outputs) from Africa and Greater Mekong Sub-region at a cheaper price.

A large number of companies that are dominant players in exports are government-controlled enterprises.

Access to finance for government-aided Chinese firms is not a problem, something that plagues India's MSME sectors.

The Chinese government gives export rebates to the tune of 17% to their exporters. Effectively, this makes Chinese goods being imported substantially cheaper than the Indian counterpart.

Further, regional provinces in China extend incentives and rebates on the tax structure and are competing with each other to attract industries in their region and also promoting exports big time by extending sizable incentives (even on software downloads and logistics compensation for long-distance freight) which makes Chinese products cost-effective.

Moreover, the Chinese central bank complements all of these by making the Chinese renminbi undervalued in the international market.

And, these subsidies and other issues, have created an imbalance in the Indian and international markets, reduced the competitiveness of Indian products in the domestic industry, causing material injury and persistent financial stress for home-grown businesses. India is losing out for fallacy in its own domestic policies.

Due to these practices, Chinese products get subjected to non-WTO compliant anti-dumping and anti-subsidy duties worldwide.

(The author is Professor, School of Management, Mahindra University.)

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