NUS National University of Singapore | ISAS Institute of South Asian Studies

ISAS Brief
No. 793 – 22 June 2020

Should India Ban Imports from China?

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Summary

The outrage over the killing of Indian soldiers on the border by Chinese troops has led to a call to ban the use of Chinese goods in India. This emotion is premised on the assumption that such action would hurt Chinese producers. However, a host of factors would have to be taken into consideration to ensure that Indian industries or consumers are, in fact, not penalised by such a ban.

The ugly skirmish between Indian and Chinese troops on the night of 15 June 2020 at the Line of Actual Control (LAC) in the Galwan valley region of Ladakh, leading to loss of 20 Indian lives, has raised a huge public outcry in the country. Besides, loud cries to avenge the loss of lives, there have been demands to boycott Chinese goods that have inundated the Indian consumer and manufacturing space. The call to boycott Chinese imports, purely based on nationalist fervour, appears to be without any rationale as to the economic fallout of such a move. While there has been no statement from the government on this score, the state owned Bharat Sanchar Nigam, a telecommunication provider, has nixed an import order of a Chinese vendor while the Indian Railways has declared that it will terminate the contract for signalling equipment signed with the China Railway Signal and Communication Corporation.

If the Indian government were to contemplate any policy initiative in this direction, it would necessarily have to take cognisance of many issues. The first obstacle would be to make out a cast iron case before the World Trade Organization (WTO) for reneging on the most-favoured nation status to China. While it may be argued that this was done in the case of Pakistan after the Pulwama attack, the fact remains that Pakistan did not challenge India's decision to renege and the trade between India and Pakistan is not so substantial as to warrant contesting it in the WTO. In the case of China, India will have to prove that the trade restrictive measures would be 'necessary' to address the current emergency situation viz the measure is vital for the protection of essential security interests. If further skirmishes do not occur, such action by the government may not withstand the WTO security if China decides to contest it.

The other consideration before the government would be the extent of dependence of certain major manufacturing industries like automobiles, pharmaceuticals, electronics, telecommunication, textiles, etc., on Chinese components. Some sectors such as automobiles and pharmaceuticals have invested deeply in establishing supply chains which involve China in a significant manner. Any disruption in this supply chain will be counter-productive as it will severely impact its own competitiveness and profitability. Further, sectors such as electronics and telecommunications lack domestic manufacturing capabilities and suffer from high input costs. These factors came to the fore during the short period that China closed down its manufacturing and export operations due to COVID-19. Maruti Suzuki, the largest car producer in India, has indicated that it does not import anything from China but its vendors are dependent upon their components from China. It is estimated that the market size of the automobile components industry in India is of the order of US$57 billion (S$79.7 billion) and the Chinese share in this would be about 25 per cent. In sectors such as smartphones, telecommunications, plastics, metallic goods and active pharmaceutical ingredients, the dependence on Chinese sourcing is large. In the mobile phone segment, the overall market size is ₹2 trillion (S$41.9 billion), out of which the Chinese share is 73 per cent. The various associations of manufacturing companies reveal that their decisions to source products is based on the vendor's support facility, price and quality consistency, delivery schedules and track record. Any disruption in this channel would seriously impact their production or export capacity. In fact, even in the case of the popular domestic phone manufacturer, Lava, the design facility is located in China.

India will also have to contend with the reality that 14 per cent of India's imports are from China while China accounts for only five per cent of India's exports. On the other hand, China's exports to India are only three per cent of China's total exports and its imports from India are less than one per cent of its total imports. Thus, if trade between these countries were to get restricted, the adverse impact on China would be only three per cent of its exports and one per cent of its total imports. This could be managed even in the short run whereas the adverse impact on India would be to the tune of five per cent of its exports and 14 per cent of its imports – a gap which would be highly deleterious to its companies. Added to this is the inconvenience and expense to which the buyers of such goods would be subjected. The critical link of China in the global supply chain was felt even in the United States and European markets when China underwent a disruption in its production facilities due to the pandemic. In the end game, if India were to introduce restrictive measures, there is bound to be retaliatory action from China. Such action would impose, inter alia, huge funding issues for Indian start-ups, having substantial Chinese investment. Chinese investors have funded 92 major start-ups in India. About 18 of 30 Indian unicorns such as Paytm, BigBasket, Ola, Byju's and Oyo are also substantially funded by Chinese investors.

In the ultimate analysis, while a decision to attain self-sufficiency is laudable and indeed desirable in the long run, yet, till such a capability is achieved, any short-sighted action may hit the manufacturing industry, the export sector and the Indian consumer rather hard. It would, thus, be in India's interest to concentrate on developing domestic capability in skills, logistics, lower cost on debt, power and water, and quality and cost competitiveness if it is to achieve economic self-dependence.

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