Press Release

India can reduce China trade deficit by over $8 billion in FY21-22

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Acuité believes that India can potentially reduce its trade deficit with China by $8.4 billion over FY21-22, which is equivalent to 17.3% of the deficit with China and 0.3% of India's GDP. This can be achieved by the rationalization of just a quarter of India's imports from that country in select sectors where India has well established manufacturing capabilities.

Suman Chowdhury, Chief Analytical Officer, Acuité Ratings and Research says, "With an import of $65.1 billion and export of $16.6 billion, India recorded a trade deficit of $48.5 billion with China in FY20. While the imports from China have moderately declined by 15% since FY18 due to imposition of anti-dumping duties on some products, the dependence of the domestic economy on Chinese imports remain high with direct contribution to over 30% of India's aggregate trade deficit. Over the past 3 decades, India's exports to China grew at a CAGR of 30% but its imports expanded at 47%, leading to lower capacity utilization of domestic players in a few sectors. We can consider certain measures to reduce the dependence gradually which will also have a positive impact on the Indian economy".

Acuité Ratings has conducted an analysis on the current import portfolio from China to understand the scope for import substitution in the near term. In our opinion, there are nearly 40 sub-sectors that have the potential to lower their import dependency on China. The sectors where there is a significant scope of import substitution in the initial phase include chemicals, automotive components, bicycles parts, agro based items, handicrafts, drug formulations, cosmetics, consumer electronics and leather-based goods. Collectively, these sectors contribute to $33.6 billion worth of imports.

Without any significant additional investments, the domestic manufacturing sector can substitute 25% of the total imports from these specified sectors under consideration in the first phase, thereby enabling India to reduce $8.4 billion worth of trade deficit in a single year. Clearly, this would have a positive cascading effect on the economy as equivalent quantum of revenues would not only be added to the turnover of domestic enterprises including MSMEs but is also likely to translate to benefits through forward and backward linkages, better economies of scale along with cost competitiveness and importantly, enhancing the scope of employment generation.

The chemical industry is a case in point; India is the world's sixth largest chemical manufacturer and its annual chemical and polymer imports are in the vicinity of over $12 billion. India can potentially save nearly $3 billion import bill of such items even if we exclude some specialized chemicals, manufacturing capability of which are yet to develop in India. Similarly, the estimated $80 billion Indian pharmaceutical industry imports bulk drugs (API) and other intermediate raw materials worth over $2.6 billion annually. Furthermore, the bicycle and bicycle parts industry, which has witnessed $100 million worth of items from China needs to be revived and its cost competitiveness enhanced. Handicrafts is another category where India has imported $431 million worth of items in FY20 and did not have any significant reciprocal exports, given the global reputation of Indian handicraft items.

Sankar Chakraborti, Chief Executive Officer, Acuité Ratings & Research says, "We believe that Indian industry has the wherewithal to successfully safeguard its interests and reduce India's dependency on China albeit in phases. With a strategic intent and highly calibrated approach from both the government and industry, Indian economy can see a new narrative that can not only reduce its trade deficit but also kickstart the long-awaited cycle of fresh private sector investments. Perhaps this can be a meaningful beginning to the implementation of the 'Atmanirbhar Bharat' campaign envisaged by the Government of India".

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in BKC, Mumbai.

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