INDIAN EXPORTS INCREASING MORE TO CHINA (LOW BASE) THAN TO USA (HIGH BASE) AMIDST US-CHINA TRADE WAR

Global growth remains sluggish and the outlook for this year is still subdued. Though the USA has entered its 121st month of expansion, the longest on record since the end of 2009 recession, the growth is not stellar. China too is witnessing its slowest growth in recent history. The trade data between the two countries shows that in absolute terms Chinese exports to USA have gone down from $42.6 billion in Jun’18 to $39.3 billion in Jun’19. Meanwhile Chinese imports from USA have declined from $13.6 billion in Jun’18 to $9.4 billion in Jun’19. The monthly growth of imports however, has declined more as compared to exports. Although, China will be impacted more as the base of its USA exports is much larger than its USA imports, it appears that US is not going to remain unscathed.

Against this backdrop, we explored the trade dynamics of India with these countries. Post the trade war, our exports to China have grown much faster than to USA. While overall exports to USA grew by 9.46% to $52.4 billion in FY19, for China the growth was 25.6% to $16.7 billion. Looking at the products on which China and USA have imposed tariffs on each other, India has made modest gains in capturing such market. For example, textile imports of US has shifted from China towards other countries in South Asia. According to OTEXA, though India has gained in the first five months of 2019, but Vietnam and Bangladesh have witnessed much larger increase in exports to USA. Alternatively, cotton imports from USA to China have declined for H1 2019 vis-à-vis H1 2018 and imports from other countries including Brazil, Australia and India have increased. Thus India has benefitted from US-China trade war by exporting more to China like plastic, cotton, inorganic chemicals and fish. Interestingly, India has a revealed comparative advantage in some of these commodities. To further give a boost to exports, easy availability of credit is of paramount importance. Certain measures including extension of Interest Equalization Scheme to all categories of exporters and end to end digitization of the export process among others should aid our export credit growth.

GLOBAL GROWTH: NOT ON HEALTHY GROUND

♦ The US economic expansion is now the longest on record, entering its 121st month since the end of the 2009 recession and surpassing the previous 120 month record - the March 1991 - March 2001 expansion. However, the growth has not been stellar. Also, with the ongoing trade skirmish between USA and China casting shadows on global trade prospects, US growth is on shaky grounds.

♦ Meanwhile China is facing its own issues. China has grown at the slowest pace in recent history, beset by shadow bank deleveraging, trade war and a shaky transition to a consumer economy. The recent episode of take-over of credit-laden Inner Mongolia-based Baoshang Bank by the regulator shook the market confidence with sudden spike in repo rate indicating heightened market volatility.

♦ When we look at how trade is progressing between these countries we see that according to the data released by General Administration of Customs, in absolute terms Chinese exports to USA have gone down from $42.6 billion in Jun’18 to $39.3 billion in Jun’19. Meanwhile Chinese imports from USA have declined from $13.6 billion in Jun’18 to $9.4 billion in Jun’19. The monthly growth of imports however, has declined more as compared to exports. Although, China will be impacted more as the base of its US exports is much larger than its US imports, it appears that US is not going to remain unscathed.
HOW INDIA HAS FARED IN THIS SITUATION

- Against the backdrop of global growth uncertainty and US-China trade issue, we explored the trade dynamics of India with these countries. From the products on which tariffs have been imposed by China and USA, India has Revealed Comparative Advantage (RCA) on a number of goods including textiles, footwear, cereals, meat, fish, iron and steel, organic chemicals, pharmaceutical products.

- Out of these products, India commands a good share in fish and textiles in US imports. However, for FY19 the fish exports to USA have declined. For textiles, though overall exports growth has turned negative, it stayed positive for USA. Exports of cereals and pharmaceuticals to USA have grown more than the overall growth rate of India’s exports of these commodities.

- Textile Imports of US has shifted from China towards other countries in South Asia. According to OTEXA, though India has gained in the first five months of 2019, but Vietnam and Bangladesh have witnessed much larger increase in exports to US.

- Our exports to China have grown in a much better manner than that to USA. While overall exports to USA grew by 9.46% to $52.4 billion in FY19, for China the growth was 25.62% to $16.7 billion. Organic chemicals export witnessed growth of 54.27%, while seafood exports grew by a whopping 345.78%. Though the base of other commodities in which we have RCA is small, they are showing promising growth.

- With our exports showing such steep jump to China we looked at other commodities as well. Cotton and plastic are our other major exports to China which grew 78% and 100% respectively in FY19. Interestingly, India’s exports of cotton form only 2.4% of our total exports and 23% of our cotton exports go to China.

- The recent data from Chinese customs shows that cotton imports from USA have declined for H1 2019 vis-à-vis H1 2018. Meanwhile, imports from other countries including Brazil, Australia and India have increased.

- Thus India has benefitted from US-China trade war only modestly. However, there is still a lot of scope for India to increase its exports, as evident from the scale of exports by Vietnam which exported double the amount of cotton than India did in Jan-Jun’19.

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