

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

Issue No. 27, FY20

Date: 29 July 2019

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.

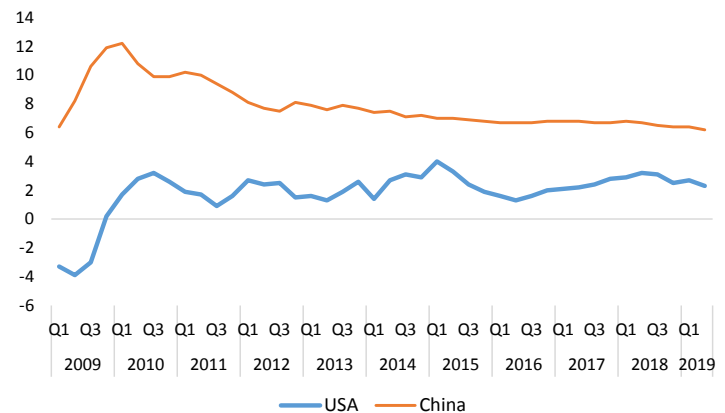
Against this backdrop, we explored the trade dynamics of India with these countries. Post the trade war, our exports to China have grown much faster than to USA. While overall exports to USA grew by 9.46% to \$52.4 billion in FY19, for China the growth was 25.6% to \$16.7 billion. **Looking at the products 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

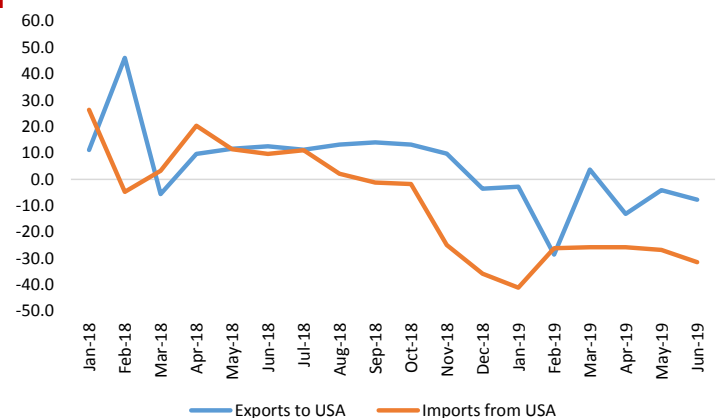
- ◆ The US economic expansion is now the longest on record, entering its 121st month since the end of the 2009 recession and surpassing the previous 120 month record - the March 1991 - March 2001 expansion. However, the growth has not been stellar. Also, with the ongoing trade skirmish between USA and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

### USA and China Real GDP % Change From Quarter One Year Ago



Source: BEA, CEIC, SBI Research

### China's Goods Trade with USA (Y-o-Y growth)



Source: CEIC, SBI Research

## 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.**

India's Export growth in products with RCA (FY19, % yoy)				
HS Code	Commodity	Overall Exports	Exports to China	Exports to USA
2	Meat and edible meat offal.	-10.8	-	-84.4
3	Fish and crustaceans etc.	-8.7	345.8	-5.0
10	Cereals	0.1	557.3	12.1
29	Organic chemicals	23.3	54.3	16.6
30	Pharmaceutical products	11.3	9.1	15.5
61	Apparel and clothing accessories, knitted or crocheted.	-2.2	34.1	11.4
62	Apparel and clothing accessories, not knitted or crocheted.	-4.5	14.4	4.9
63	Other made up textile articles; sets, etc.	4.9	-9.6	3.4
72	Iron and steel	-13.4	-1.6	-33.5
73	Articles of iron or steel	7.3	23.9	5.9
	India's total exports (\$ billion)	<b>330.1</b>	<b>16.7</b>	<b>52.4</b>
	% share in total exports		<b>5.1</b>	<b>15.9</b>

Source: SBI Research, commerce.gov.in

Change in US Textile and Apparel Products in Jan-May'19 (\$ mn)	
Vietnam	636.02
Bangladesh	332.49
India	298.22
Cambodia	141.90
Honduras	113.59
Pakistan	95.20
Indonesia	65.84
Italy	49.84
Mexico	-6.46
China	-144.59

Source: Otexa, SBI Research

Change in China's Cotton Imports in H1 2019 over H1 2018 (\$mn)	
Country	Change
Brazil	512.4
Australia	312.7
India	218.2
Viet Nam	63.5
Malaysia	34.0
Indonesia	7.7
Japan	-5.9
China's Taiwan	-32.2
Pakistan	-253.4
United States	-332.0

Source: SBI Research, GACC

## EXPORT CREDIT IN INDIA

- ◆ For exports to get a boost, easy availability of credit is of paramount importance. However, export credit is languishing in India with yearly degrowth.
- ◆ For improving export credit we suggest that:
  - ◆ Interest Equalization Scheme may be extended to all categories of exporters.
  - ◆ Export Refinance Scheme may be reintroduced by RBI in INR & Foreign Currency.
  - ◆ ECGC empanelled Credit Information Bureau may provide opinion report on real time basis on entities abroad (in the same way as CIC).
  - ◆ Automatic cover for all Pre-& Post shipment credit could be extended 'on-tap basis' by ECGC.
  - ◆ Loans under CGTMSE could be provided for export-oriented units in MSME sector with a cap of Rs 5.00 crore and reduced annual guarantee fee.
  - ◆ End to end digitization of the export process and all export credit could be treated as Priority Sector Lending.

**Disclaimer:** The Ecowrap is not a priced publication of the Bank. The opinion expressed is of Research Team and not necessarily reflect those of the Bank or its subsidiaries. The contents can be reproduced with proper acknowledgement. The write-up on Economic & Financial Developments is based on information & data procured from various sources and no responsibility is accepted for the accuracy of facts and figures. The Bank or the Research Team assumes no liability if any person or entity relies on views, opinion or facts & figures finding in Ecowrap.

## Contact Details:

Dr. Soumya Kanti Ghosh  
 Group Chief Economic Adviser  
 State Bank of India, Corporate Centre  
 M C Road, Nariman Point  
 Mumbai - 400021  
 Email: soumya.ghosh@sbi.co.in  
 gcea.erd@sbi.co.in  
 Phone: 022-22742440  
 @kantisoumya