

**OPPORTUNITIES IN INDIA FOR CHINESE COMPANIES BASED ON  
HISTORICAL TRADE DATA**

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**Abstract**

*This article focuses on the historical trade data between India and China sorting the data down to 8 digit HS code, Identifying sectors where trade inflow has been the maximum for the past 5 years, going on to identify the sectors where there are possibilities for Chinese Investment in India, these sectors are then further explored based on the current economic scenario and expectation on future growth paths. The data used in the study is the annualized trade data published by government of India and the sectors identified for investment are Power Generation and Transmission, Solar Equipment Manufacturing and Textile and Textile Machinery.*

**Keywords:** *India China Trade, Investment opportunities in India, Power Generation, Solar, Textile.*



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**INTRODUCTION**

India and China always been compared to each others, both the countries with rich cultural ties have seen their own share of disputes in recent times, be it political (Border Disputes) or economic (Various Anti Dumping Duties). In the past 2 decades China has grown to become a global manufacturing giant, with most of the worlds manufacturing hub shifting to China, while India has shown a more subdued trajectory for growth.Both these countries are examples of new economies that are transforming not only the dynamics of world economy but also balance of power. Poised to be the drivers of a potential new center of economic gravity, covering the whole of Asia, which has previously been dominated by the major economies of the US, Western Europe and Japan.

India a country with over 1.21 billion people accounting for 17.5 %<sup>1</sup> of the world population is an investment opportunity that is waiting to be explored, a country that even in this tough economic time is growing at a near impressive rate of nearly 7%<sup>2</sup>

Indian economy has been primarily a domestic driven economy, which can be gauged from the high share of domestic demand (private and government consumption expenditure) in the country's GDP, Positively, this has insulated the Indian economy from global slowdown to some extent<sup>3</sup>. Nearly two decades of economic liberalization, coupled with robust domestic



demand, a growing middle class, a young population and a high return on investment, make India a credible investment destination<sup>4</sup>. India's growth should be stable over 2015-19, but the prospects could change depending on the implementation of the reforms of the new government. These plans include promoting domestic and foreign investment, creating jobs, improving food security, raising the standards of education and skills development, building new key infrastructure, enhancing water governance and increasing India's overall competitiveness, particularly in the manufacturing sector<sup>5</sup>. In order to support infrastructure development in the 12th Five Year Plan period, the GoI has envisaged an investment of \$ 1 trillion<sup>6</sup>. But there are a set of things that largely concern India like the normalization of US monetary policy, the slowdown in the Chinese economy, The implementation of structural policies related to "Abenomics" in Japan and uncertainties concerning the growth prospects of

the Euro areas but the growth fundamentals of the country remain strong. Going forward, the country is expected to move on a higher growth trajectory supported by its strong domestic demand, dynamic service sector, improving infrastructure, and a youthful population <sup>7</sup>.

China has managed to change its face completely in the past 2 decades, growth rate averaging out at near 10%, the country has gone from a nation that accounts for a mere 1.59% of the global GDP to a now global super power at 9.24 trillion USD and a share of 12.22 % of Global GDP. Even though the Chinese economy has managed to grow at a staging pace and its GDP has increased over 23 folds since 1977 household consumption has gone down from 50% of GDP in 1980's to around 35% by mid 2000's this shows that as investment soared the economy has become more and more export oriented. The country's growth is also slowing as it seeks to adjust to its changing demographic landscape, switch its hub of growth from investment to consumption, and cope with environmental, agricultural and educational issues <sup>8</sup>. China's production activity is also showing further signs of a slowdown, with its key indicator, the Purchasing Managers Index (PMI) (which is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment) is at its lowest point since March 2009.

### **OBJECTIVE OF THE STUDY**

In the past decade China has experienced rapid economic growth, but with the recent slowdown in their domestic economy and India's growing eagerness to establish itself in the manufacturing sectors with center backed initiatives like Make in India, it is essential to examine how much India and rest of the world has grown dependent on the manufacturing giant and can there be windfall gain for India through a Chinese slowdown.

In this paper we will try and explore how dependent has India grown to be on Chinese manufactured products and what are the sectors which show highest amount of dependence and the top commodities that have made their way into the Indian Economy through China.

The heart of the analysis lies at the Import and Export data of both these countries that is released by the respective governments. The data which is collected based on the Harmonized System codes (HS Code) is first decoded and explained in relatively lucid language and is then used to form the further analysis.

### **LITERATURE REVIEW**

**Discussion paper Authored by Brett Berger & Robert F. Martin on the topic The Growth of Chinese Exports: An Examination of the Detailed Trade Data Published by Board of Governors of the Federal Reserve System**, the paper had tried to examine the

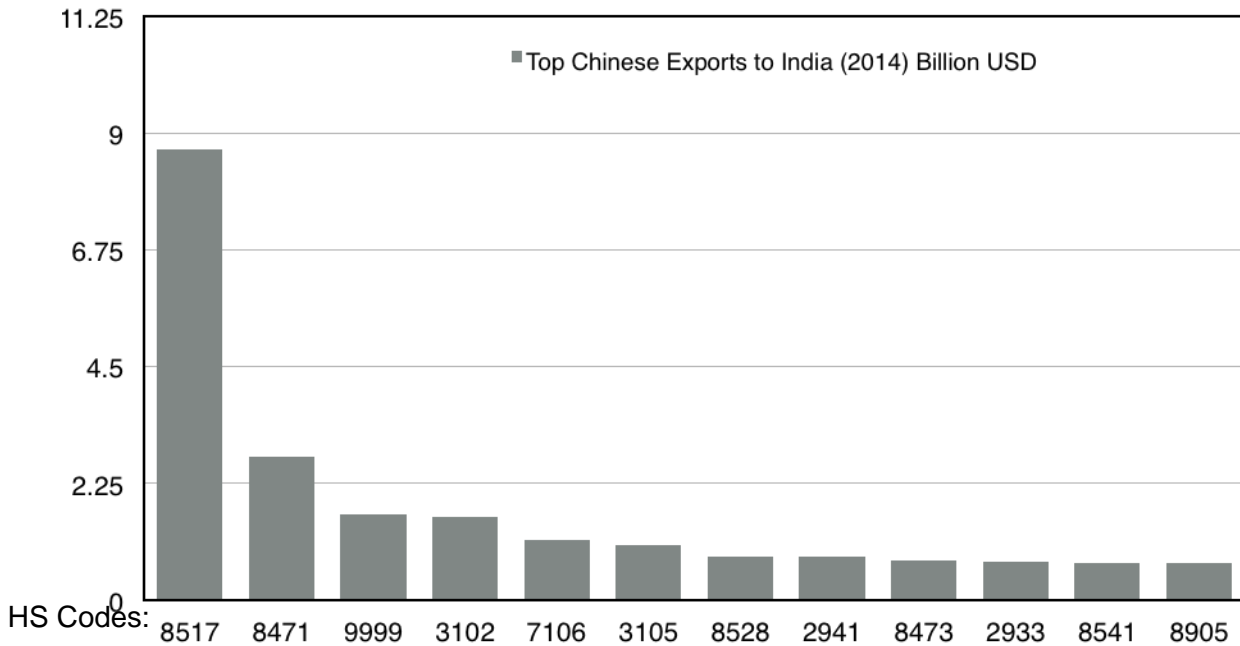
micro structure of Chinese Exports down to 8 digit HS codes and bring out the commodities that have played the pivotal role in China's success as a global trade super power, they also argue that even though China has the advantage when it comes to the structure of the economy may it be with respect to cheap labor or encouraged investment, but its the effective timing of the Industrial policy and its fortuitous timing with respect to a rise in Global demand with respect to those Chinese commodities ,that has proven to be the driving factor for the Chinese export lead growth, they further point out that textiles/apparel/furniture, metals (steel), and machinery have been in the forefront when it comes to the Chinese Exports and technology goods, such as cell phones, LCD screens, and laptops have played a critical role with respect to Chinese boom of Exports. Eventually the article diverges on the effect that import of these commodities have on USA and its implications for the US economy

Similarly this paper also looks at 8 digit HS codes and shows a similar patten exists even now that was identified by the article cited above, but furthers the analysis by looking the present investment scenario in some of the sectors that we found and try to understand the market condition in India for Chinese investors.

### **CHINESE EXPORTS TO THE WORLD**

When observed the trend in leading export of data from China in the past 5 years (2010-2014 according to the calendar year) we can observe a similar set of commodities that have been exported, mainly the commodities with HS codes 8517, 8471, 8542 & 9013. Telephone sets and telecommunication devices (HS Code: 8517) still remain the primary exports when it comes to China, China exported ~195 billion worth of telephone sets and allied equipment in 2014 alone establishing China as a global leader in the commodity, of which ~9 billion found its way into India. Followed by computer and computer equipment (HS Code: 8471)

Of these set of commodities that have found they're way in India. We will explore three commodity sectors based on their relevance for the current Indian economic scenario.



These sectors include

1. Power Generation and Transmission
2. Solar Equipment manufacturing
3. Textile and Textile machinery

### **POWER GENERATION AND TRANSMISSION**

Currently, India ranks as one of the lowest in terms of per annum per capita consumption of power, at approximately 880 kWh as compared to the world average of 2,730 kWh (2010). India is also a grossly energy deficit Nation the country faces multiple power cuts all year round, This provides an immense potential for UPS and power generation equipment like Generators. This Low per-capita electricity consumption and Energy Deficit presents a significant investment opportunity in the power sector. The scenarios that have been developed for India all point to the considerable need for physical infrastructure (power, transport, water and habitation); and yet India suffers from capital shortage, pointing to significant opportunities ahead for project financing in general<sup>9</sup>.

An efficient power supply system is a key requirement for India's economic growth and the quality of life of its citizens. Assured availability of quality power at a reasonable cost is not only a catalyst in the socio-economic development of the country, but also enhances the global competitiveness of the industrial sector leading to enhanced employment generation and per capita income<sup>10</sup>. The next 10 years will be crucial for the Indian electrical equipment industry as it gears up to meet the rapidly rising domestic demand and also establish its presence as an important player in the global electrical equipment arena<sup>11</sup>. Vision 2022 for

the Indian electrical equipment industry is to make India the country of choice for the production of electrical equipment and reach an output of US\$ 100billion by balancing exports and imports, The capacity addition target in the 12th Plan (2012–2017) is expected to be 88.5 gigawatts (GW) and 93 GW in the 13th Plan (2017–2022)<sup>12</sup>

India's Electrical equipment manufacturing industry is worth 25 billion USD contributes 1.4% to nations GDP and 10% to manufacturing GDP, Expected investment in the 12th Five Year Plan period in the generation and T&D segment would be 6.39 lakh crore in generation, 1.80 lakh crore in transmission and 3.06 lakh crore in distribution. Based on investment estimates and capacity addition targets, domestic demand for generation equipment (BTG) could be in the range of US\$ 25-30 billion by 2022; for the T&D equipment industry, it may be US\$ 70–75 billion<sup>13</sup>. With a total import estimate from China standing at 1.725 billion USD for the year 2014-15 India's dependence on China when it comes to these equipment is staggering. Imports have already captured about 43% of the market for electrical equipment in India of which 39% is controlled by China.

One way India can solve this energy deficit by causing minimal damage to the environment is the usage of renewable energy sources, these sources are not yet widely explored by India providing a great potential for future investment.

This leads us to our next sector, which is Solar Equipment Manufacturing.

### **RENEWABLES AND SOLAR ENERGY**

As a result of increasing environmental pressures, both local and global, the country's power mix is increasingly becoming green. The National Action Plan for Climate Change calls for about 5 per cent of the national generation to be based on renewable sources. Since power from renewable energy is infirm (though not unpredictable), these require a well-interconnected grid with adequate spinning reserves and transfer capabilities. Further, as per policy objectives, discoms (Distribution Companies) have to procure a certain percentage of their power requirement through renewable. The government is also proposing to set up trading in renewable energy certificates, which will help create a vibrant market for renewable energy and go a long way in converting the potential for renewable energy into a reality<sup>14</sup>.

Solar power is a strategic need for India as solar power can potentially save around USD 20 bn. in fossil fuel imports annually by 2030. A sustainable domestic manufacturing industry

can save USD 42 bn. in equipment imports by 2030 and create 50,000 direct jobs and at least 125,000 indirect jobs in the next 5 years, besides providing equipment supply security, India's Manufacturing Policy recognizes solar manufacturing as an industry with 'strategic importance'. The government recently enhanced the target of electricity production under the Solar Mission from the original 20,000 MW by 2022 to 100,000 MW<sup>15</sup> however; the policy is yet to have the intended effect 40% of the Indian solar cell manufacturers have shut down with industry utilization at only 21%

Indian manufacturing costs are higher due to three major reasons:

1. Lack of scale -Indian factory sizes are only one-fifth the size of a typical Asian factory
2. Insufficient government support -Other countries have provided massive loans, tax holidays, subsidized utility services, easy access to land and technology support
3. Underdeveloped supply chain – Indian manufacturers have no access to domestic upstream raw material supplies of polysilicon and wafers

Solar Installed capacity in India as on 30th June 2015 equals 4060.65 MW while the total renewable energy installed capacity stands at 36470.64 MW we can observe a high amount of investment in Wind Power with an installed capacity of 23762.81. When we take a look at the installed capacity of renewable energy in India we find that majority of investment is by the private sector with an installed capacity of 34551.33 all over India as opposed to the state investment at 1919.31 and close to none by the center, We also observe a high concentration on renewables in the Western and the southern region in India.

In the northern region we observe high amount of Renewable energy dominance in the state of Rajasthan installed capacity of 4710.50 MW, In the western region it is Maharashtra (6205.65 MW) and Gujarat (4802.40 MW) In the southern region it is highest in Tamil Nadu (8423.15 MW) and Karnataka (4552.48MW)<sup>16</sup>.

But India has also made a great deal of progress when it comes to Solar with an installed capacity of 20MW in 2011 it has increased the capacity to 1686 MW by the end of 2013. But a large chunk of the equipment for solar is still being Imported, India imports ~700 million USD worth of equipment from China alone annually.

### **TEXTILE AND TEXTILE MACHINERY**

Top 5 textile exporting nations are China India Italy Germany and Turkey, With China with the single largest exporter with 39% with India at a distant second at 5%, China's textile industry, after dominating global markets is losing its competitive edge as a result low-end operations are moving to emerging producers. Leo Yung, Director of Central Textiles (HK),

feels that in the last two years, rapid expansion of textile investment in several developing countries has led to oversupply, sparking fears of earnings and survival of many mills in Asia. Yung told the Australian Cotton Conference that China is losing in terms of costs to countries such as India, Bangladesh, and Vietnam. Many mills have been forced to switch from exports to domestic sales, which now comprise 79 per cent of production. This comes after major migration of textile production from the US, Europe and Japan to developing countries such as China, India, Pakistan, and Bangladesh. More than 70 per cent of world cotton is now consumed in Asian countries. China dominates with 42 per cent share. However, Yuan feels many mills in China which are struggling and may even close down in a couple of years, especially the small ones doing export business. Oversupply had depressed prices along the entire supply chain, hitting yarn prices in China, India and Pakistan. China was reeling from an 18 per cent rise in the value of its currency since 2005. Added to this is the higher costs of labor, fuel, electricity and chemicals, not to mention a cut in domestic tax rebates, official moves to slow the economy, and pollution curbs.<sup>17</sup>

The Indian textile industry accounts for about 24% of the world's spindle capacity and 8% of global rotor capacity. The potential size of the Indian textile industry is expected to reach USD \$223 billion by 2021, Indian domestic consumption of textile and Garment is valued at \$63 billion USD in 2013.

Indian Domestic textile market is dominated by apparel market, Textile machinery market has doubled in the last 8 years and is expected to grow at a similar rate, The domestic textile market can be broken down into, textile equipment, home textile, technical textile and apparel market. In India market is characterized by being highly unorganized with large SME presence, we can also observe a trend of moving from need-based clothing to occasion based clothing. The most promising and upcoming sector is the technical textile segment, showing high possibility for future investment, on the textile machinery side, India proves to an inefficient machinery manufacturer except for spinning machinery, and the market is highly driven now by replacement demand, With government showing support for the same coming up with multiple schemes like Revised Restructured Technology Up gradation Fund Scheme (RRTUFS), Scheme for Integrated Textile Parks (SITP), Scheme for promoting usage of geotechnical textiles in North East Region (NER), Technology Mission on Technical Textiles (TMTT), Technology Upgradation Fund Scheme (TUFS) for Textile Sector.

### **CHINESE OUTWARD DIRECT INVESTMENT**



China who is experiencing an internal economic slowdown is now investing heavily in other countries, Computers and Electronic Equipment, Mining and Real Estate are the sectors that are attracting major Chinese investment, we can see this through Chinese ODI vs FDI (Inwards) figures, investment into the country has only grown at 7% in the past decade, while the ODI has grown at a staggering 31%. We can also observe a change in trend when it comes to the investing parties; privately owned enterprises have increased their share of investment against the government enterprise when it comes to ODI figures

### **CONCLUSION**

This paper examines how the relationship between India and China and also tries to bring out strategic sectors where China can invest, it studies the economic scenario in these sectors and shows that in the midst of Chinese and Global slowdown the economy can grow by exploiting potential in the Indian economy, the paper also highlights the sectors in which India has grown to become dependent on China and highlights probable investment opportunities in the country going forward. Indian power generation and distribution equipment industry is overdue a major overhaul considering the country is entering a new era of digitalization and the ever-increasing need for electricity and power will keep the demand for products high, also there is a shift in the way energy is being generated because of higher focus on environment and climate change, cause the world to move towards a more green and clean energy sources, India particularly is taking leaps in this direction. Lastly because of the Chinese slowdown the textile industry is also showing signs of revival bringing with it demand in the manufacturing equipment segment and countries like India stand a chance to gain from the problems like rising wages that the Chinese economy is facing.

China built its global dominance by heavy public investment and timely taken policy actions to change the face of the country in the last two decades, India has historically shown considerable policy lag, but if things seem to improve, the country is growing higher than average growth rate and global scenario although not stable can work in the countries favor if rightly timed policy action is achieved.

### **FURTHER SCOPE OF STUDY**

The study can be further extended to include more sectors as new and more timely relevant sectors emerge, also the analysis can diverge to include sector and country specific data for a variety of country combinations, trade data can provide powerful insight to explore the economic relations between countries and also help establish an economic and political dependence of one country over the other. The identification methodology to identify

relevant sectors used here is liner and can be expanded to include more relevant variable identification strategy and an econometric model can be formed, this area has been kept open for Applied Econometricians to divulge into.

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