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Electronics to solar equipment to steel, India grapples with China Shock 2.0

The China shock not only disrupted Western markets but also adversely impacted Indian manufacturing and trade.

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China produces 85 per cent of the global supply of solar cells, 88 per cent of solar-grade polysilicon, and 97 per cent of the silicon ingots and wafers that form the core of solar cells. (Representational Photo/AP)

A STEEP HIKE in tariffs including a 100 per cent duty on electric vehicles by the US on imports from China kicked in Friday, as the world's top economy along with India and a dozen other countries grapple with a rapid influx of goods — dubbed China Shock 2.0 — into global markets.

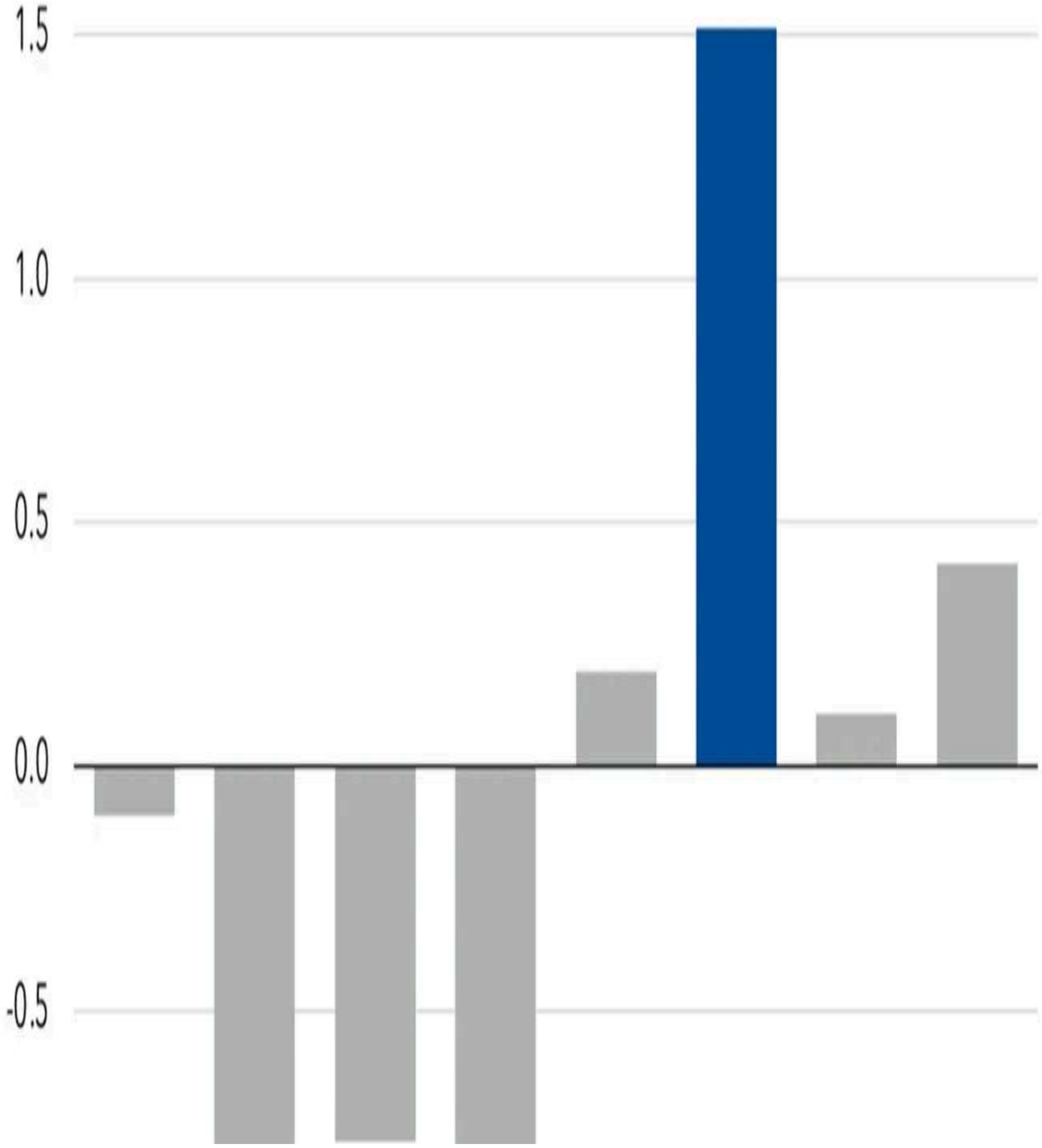
The US tariff hikes also include a 50 per cent duty on solar cells and 25 per cent on steel, aluminum, EV batteries and some minerals.

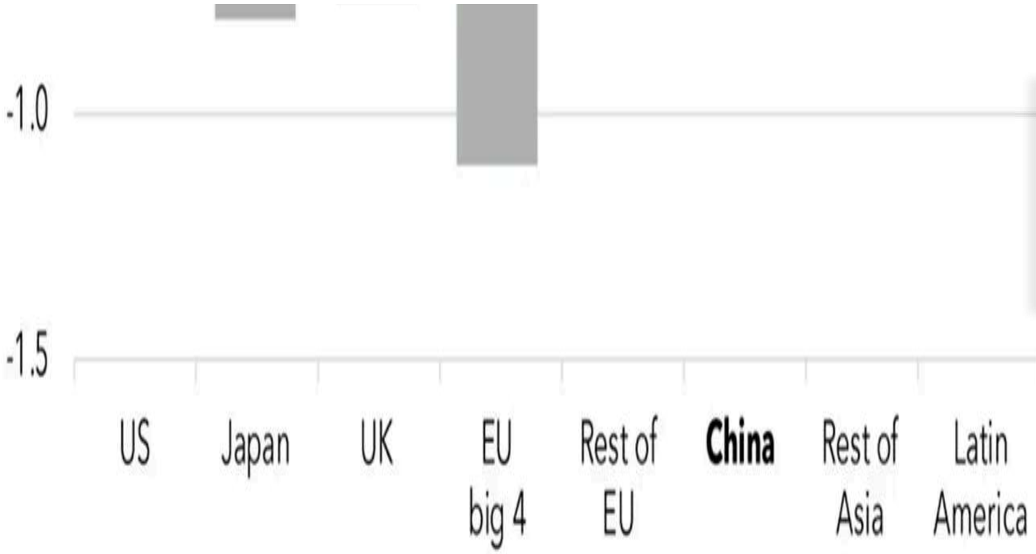
The renewed wave of goods **exports by China** is not just driven by its ambition to move up the export value chain to high-tech sectors such as solar equipment, electric vehicles, and semiconductors; it now comes amid a demand slump at home, and is intensifying trade tensions internationally.

India and several other countries have moved to impose a fresh wave of anti-subsidy measures, fearing a repeat of the manufacturing job losses that occurred in the years since China joined the World Trade Organization (WTO) in the early 2000s. In 2024 alone, India imposed over 30 anti-dumping investigations against China, the most against any country. The products under scrutiny include industrial items such as plastic processing machines, vacuum-insulated flasks, welded stainless steel pipes and tubes, soft ferrite cores, and industrial laser machines, among others. Indian businesses seeking multiple extensions of anti-dumpin duties have argued that China is not a market economy and is causing harm Indian businesses by using predatory methods to eliminate competition.

China's share of global exports has increased since the pandemic

Change in export share, 2023Q2-24Q1 vs. 2017-19, percentage points





Source: IMF Direction of Trade Statistics and IMF staff calculations.
Note: EU big 4 = Germany, France, Italy, and Spain.

The question in the 2000s was whether China would become the "next great capitalist tiger" or remain the "world's last great communist dragon."

Bill Clinton, the then US President, who supported China's accession to the V argued that economic integration would Beijing to pursue political reform a by joining the WTO, it was not only committing to importing more American products but also to embracing "democracy's most cherished values: economic freedom."

The years following China's entry into the WTO came to be known as the "China shock" as inexpensive Chinese goods, backed by abundant labour, flooded global markets, resulting in manufacturing job losses internationally. It not only disrupted Western markets but also adversely impacted Indian manufacturing and trade.

EXPLAINED

Weaning away not easy

FACING slowdown, Beijing's exports of excess capacity to the world has led over a dozen countries to impose duties and non-tariff barriers. But given the extent of imports, it will not be easy for India to wean away from China.

India's imports from **China** grew at a much faster pace than from the rest of the world. Goods imports from China surged from $10.87 billion in 2005-06 to $61.71 billion in 2015-16. This dependence grew so much that despite many economic restrictions on Chinese businesses following the Galwan clash in June 2020, imports from China surpassed a record $100 billion in 2023-24.

In fact, China's exports surged significantly in the post Covid period compar the pre-pandemic period. According to IMF calculations, China's share of glo exports increased by 1.5 percentage points, compared to a minor contractio registered by the US and a decline of over 0.5 percentage points recorded by Japan and the UK. Comparable data showed that the rest of Asia and Latin America also registered minor growth in their share of global exports.

Domestic slowdown intensifying export push

Researchers believe that the unexpected surge in Chinese exports coincides with a slowdown in the Chinese economy due to the ongoing property crisis, weak credit, and low consumer demand. Hence, China is banking on the rest of the world to absorb the excess capacity it has built to drive growth in the world's most populous country. The Asian Development Bank on Wednesday also pointed out that "higher exports than forecast" and continued policy support to manufacturing were key drivers of growth for China in the first half of 2024.

Meanwhile, the International Monetary Fund (IMF), in a blog earlier this month, said China's external surpluses, resulting from industrial policy measures designed to stimulate exports and support economic growth amid weak domestic demand, could lead to "China shock 2.0" that would displace workers and hurt industrial activity elsewhere. This holds true for India, as imports from China have jumped nearly 60 per cent from $70 billion in FY19 to $101 billion in FY24, according to official data.

Blocking India's access to solar equipment

The Economic Survey 2023-24 warned that in response to India's anti-dumping probe against Chinese entities, China has been quietly blocking India's access to solar equipment. This assumes significance as the renewable energy sector is the fastest-growing sector in the world, and pricing pressure from China is hindering India's growth in the sector.

India has plans to achieve 500 GW of renewable energy capacity by 2030 and has invested $4.5 billion to catalyse nascent clean energy manufacturing but 80 per cent of India's solar cells and modules still come from China. This is because, as per International Energy Agency, China dominates the entire solar energy manufacturing supply chain. China produces 85 per cent of the global suppl solar cells, 88 per cent of solar-grade polysilicon, and 97 per cent of the silic ingots and wafers that form the core of solar cells.

Rising steel imports from China into India

The steel industry across the globe has been seeking government intervention to protect it from the inflow of Chinese steel. The Financial Times this week reported that European steelmakers have appealed to trade officials to tackle a surge in Chinese steel exports that have driven European prices below the cost of production. Indian steelmakers have also asked the government to impose anti-dumping duties on Chinese steel, as profits in the industry are being eroded.

While steel exports are slowing, steel imports from China have hit a new high. Exports of iron and steel declined nearly 19 per cent year-on-year in August 2024 and 29.4 per cent year-on-year during April-August 2024-25, according to official data. Reuters reported that India's finished steel imports from China hit a seven-year high during the first five months of the ongoing financial year. Meanwhile, India's overall finished steel imports reached a six-year high of 3.7 million metric tons between April and August.

China's dominance in electronics

India's mobile phone exports have picked up during the last two years. Considerable investments are coming in from global technology majors such as Apple, which has increased manufacturing in India. However, India's import dependency on China has not seen a significant change.

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In FY24, India imported electronic components worth over $12 billion from and $6 billion from Hong Kong, with the two accounting for more than half of total such imports to India – suggesting that the country's growing footprint in electronics manufacturing may not yet be translating into reduced reliance on Beijing. Moreover, electronic components imports stood at $34.4 billion, making them the fifth-largest commodity imported into India, after crude, gold, petroleum products, and coal, according to data sourced from the Ministry of Commerce.

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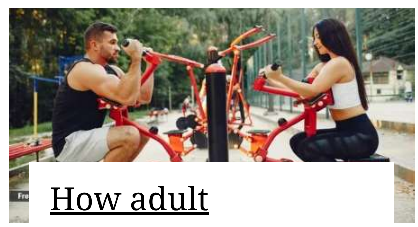

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