VENTURES

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Home / Agriculture / INTERVIEW – India could benefit from U.S.-China trade tensions if it builds capacities

INTERVIEW – India could benefit from U.S.-China trade tensions if it builds capacities

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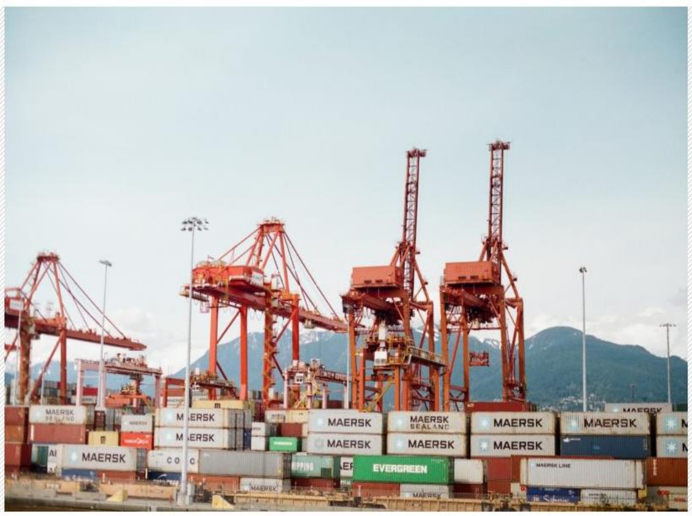

By Biman Mukherjee

Though US and China recently agreed to resume their trade talks at the recent G-20 summit, analysts say tensions between two of the world's largest economies are likely to persist in coming months.

India may be in a unique position in Asia to actually benefit from the trade situation. ***Indoasiancommodities.com*** interviewed **Prof Manoj Pant, Director at the Indian Institute of Foreign Trade**, to ask him what India needs to do give a fillip to its own trade and industry.

Q: Are the current US-China trade tensions likely to result in more trade and investments shifting towards India ?

A: India should definitely be ready for more trade and investments. Let us also understand that the US-China trade issue is not an issue between two countries alone, but affects the rest of Asia as well. That is because East Asian and Southeast Asian countries export to China, then China adds value to them and exports to the US.

Given the current trade situation, countries like Japan and South Korea will be thinking about putting more facilities in India. China's biggest asset has been the size of its labour force. The only country which comes close to China is the Indian subcontinent. The fact is there is a lot of uncertainty in trade currently. There will be many who will be looking to diversify their production from China to other places.

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Q: How ready is India for exporting items which China has been shipping to the US?

A: In the next 10 years, India cannot hope to replace China completely in exports to the US. If you look at the total value of China's exports to the US last year, it was $563 billion, which is 10 times the size of India's exports.

So, the more practical question what percentage of China's trade can India hope to replace and which are the low hanging fruits. China's exports to the US have been declining.

From around $50 billion per month in January 2018, China's exports have fallen to $35 billion/month as of April this year. The bulk of China's exports to the US have been telecom equipment, data process machines, furniture, toys, sports goods and electrical machinery.

On the other hand, most of India's exports to the US have been things like jewellery, medicine, oil products and apparel. There is very little overlap between what China and India have been exporting to the US. Therefore, the most important thing is for India to build capacity for things like electrical and non-electrical machinery. The fact is that the world trade is stagnant.

If India has to bump up exports, it has to be at the cost of somebody. I am convinced that it can only happen if there is more foreign direct investment into India from countries like Japan and South Korea.

We have to look at ways of encouraging more foreign direct investments from such countries with the aim of helping India diversify its exports.

Q: How can India achieve greater diversity in exports ?

A: In the next five years, if India is able to capture even 20% of China's exports to the US, that would be worth $100 billion. That would be double of what India is exporting currently to the US. It is an extremely optimistic scenario, but if you look at it logically, India is the only logical choice as an alternate exporter.

But India needs to create conditions for enabling foreign companies to set up manufacturing bases here. I don't see Indian companies having the logistical and technical capability to bring about the export diversification.

The Indian government can do things like revive the Special Economic Zones. Then we have large unutilised areas in the India's eastern parts. Then we have to look at things like rejuvenating ports like the Paradeep Port, as 95% of all that is exported goes through ships.