

# THEMATIC REPORT

Author:  
Mazlina Abdul Rahman

## India-China Skirmishes: Where is Malaysia?

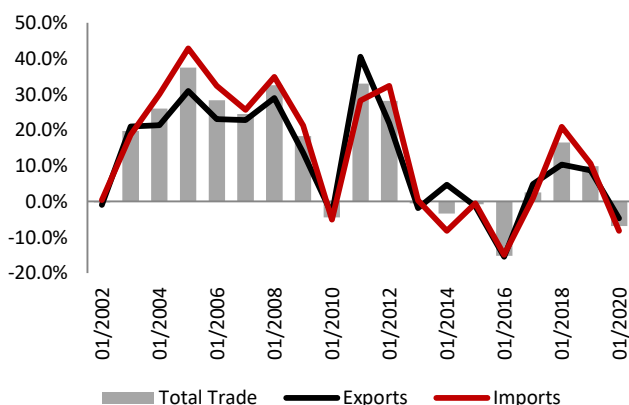
### KEY INVESTMENT HIGHLIGHTS

- The US is India's largest trading partner. In FY2018-19, the bilateral trade between the US and India stood at USD88 billion, surpassed China to become India's top trading partner.
- China is India's top import source. China has been India's biggest import source for the past 16 years.
- Impact of India-China trade tensions is minimal. Based on our estimate, world GDP growth will only reduce by 0.01% if demand by India on Chinese goods & services drop by 10%.
- India import only 2.1% from Malaysia. Malaysia is nowhere on the top 10 import source for India.
- India climbing up the ladder in global demand. Based on global value chain of 2015, India's global demand share rose from 1.8% in 2005 to 2.9% in 2015.
- A good opportunity for Malaysia to tap on.

**Brewing India-China conflicts.** India and China are reported to have been engaging in antagonistic actions pertaining to their country border since May-20 and it got worse with the occurrence of casualties in June-20. Both countries initially said this issue will be resolved peacefully after a high-level meeting and that it would not affect the duo's trade ties. However, India has later came up with a plan to impose strict rules and tariffs on Chinese imports. There were no specific products emphasized but generally include chemicals, steel, electronics, heavy machinery, furniture, paper, industrial machinery, rubber articles, glass, metal articles, pharma, fertilizer and plastic toys.

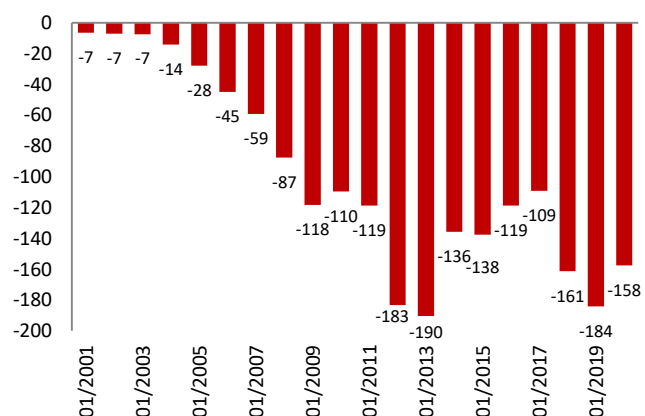
**An overview of India's external trade performance.** India's total external trade contracted by -6.9%yoy for the 2019-20 fiscal year, the hardest drop since FY2015-16 (-15.2%yoy). Both exports and imports were down by -4.8%yoy and -8.2%yoy respectively. As a result of harder drop in imports, trade deficit narrowed to USD157.5 billion (FY2018-19: USD 184.2 billion). The last time India had a trade surplus was in Jan-02 at USD10 million. More recent data in May-20 showed India's total external trade plunged -45.2%yoy with both exports and imports declined by -36.5%yoy and -51%yoy respectively, continuing its double digit fall in growth for the third consecutive month due to the ongoing Covid-19 pandemic.

Chart 1: India External Trade Performances (YoY %)



Source: CEIC, MIDFR

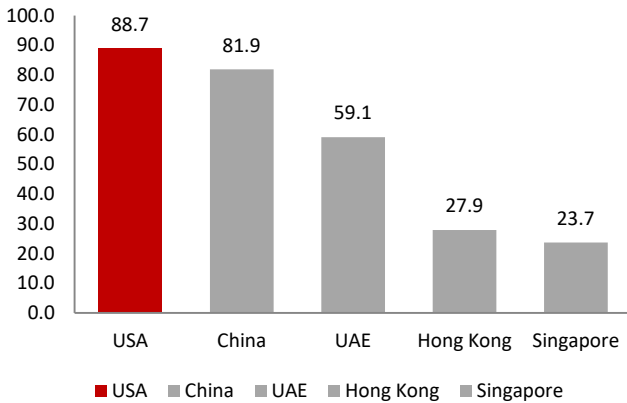
Chart 2: India Trade Balance (USD Billion)



Source: CEIC, MIDFR

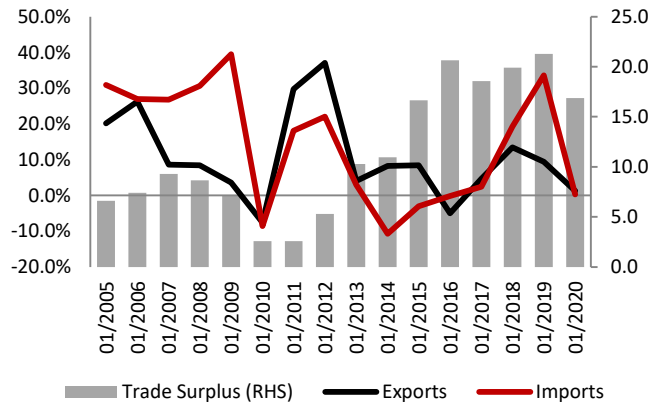
**The US is India's largest trading partner.** In FY2018-19, the bilateral trade between the US and India stood at USD88 billion, surpassed China to become India's top trading partner. The trend continued in FY2019-20 at USD88.7 billion. Exports to the US in particular recorded at USD53.1 billion, expanded by 1.3%yoy and accounted for the biggest share of the total exports at 16.9%. It followed by the UAE (9.2%) and then China (5.3%). The US is also one of the few countries in which India has a trade surplus with. India recorded trade surplus amounted to USD17.4 billion with the US in FY2019-20. In contrast, trade deficit of USD48.7 billion was recorded with China.

**Chart 3: India Key Trading Partners (USD Billion)**



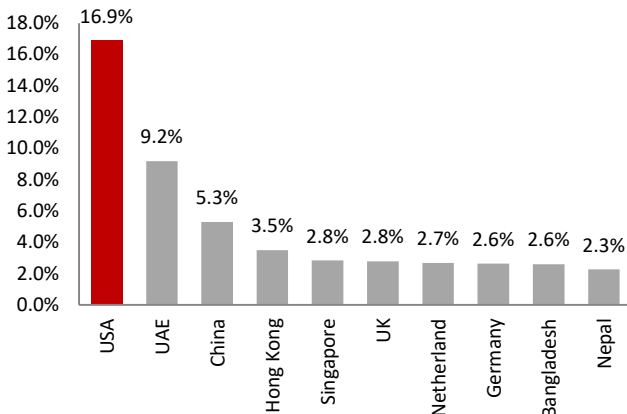
Source: CEIC, MIDFR

**Chart 4: India Exports & Imports (YoY%) and Trade Balance with US (USD Billion)**



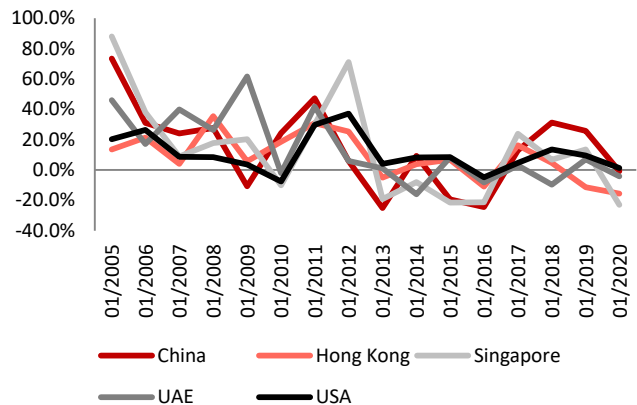
Source: CEIC, MIDFR

**Chart 5: India Top 10 Export Destinations (Share %)**



Source: CEIC, MIDFR

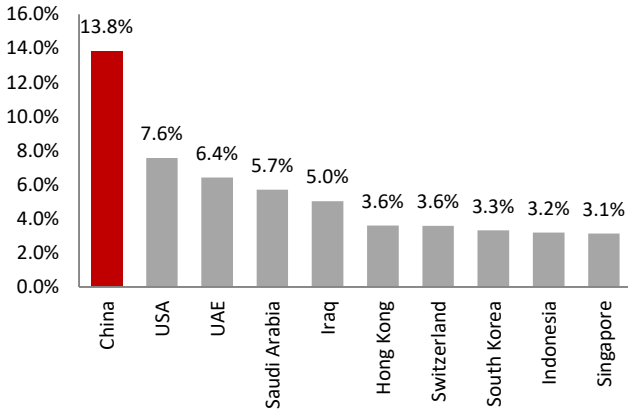
**Chart 6: India Exports to Key Countries (YoY%)**



Source: CEIC, MIDFR

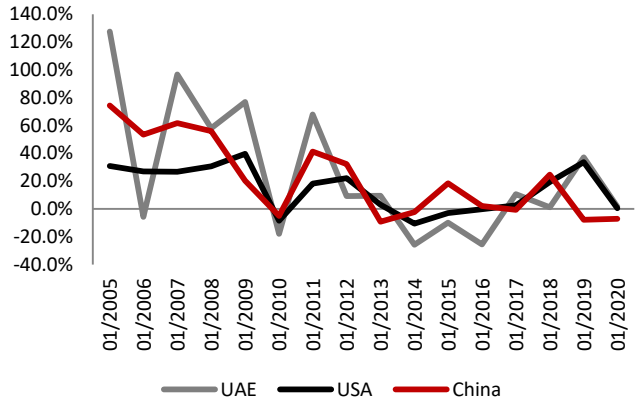
**China is India's top import source.** China has been India's biggest import source for the past 16 years. After GFC 2008-09, the share of inbound shipments from China to total India's imports started to record at double digit. In FY2019-20, China hold almost 14% of India's total imports. However, imports from China declined by -7.2%yoy in FY2019-20, second consecutive year of contraction. By HS classification, products that were imported the most from China in FY2019-20 are Electrical Machinery & Equip & Parts (29.3% of total imports from China) followed by Nuclear Reactors, Boilers, Machinery & Mech App (20.4%), Organic Chemicals (12.2%), Plastics & Articles (4.2%) and Fertilizers (2.8%). Some of these fall under the list of potential goods targeted by India for strict rules or tariffs.

**Chart 7: India Top 10 Import Destinations (Share %)**



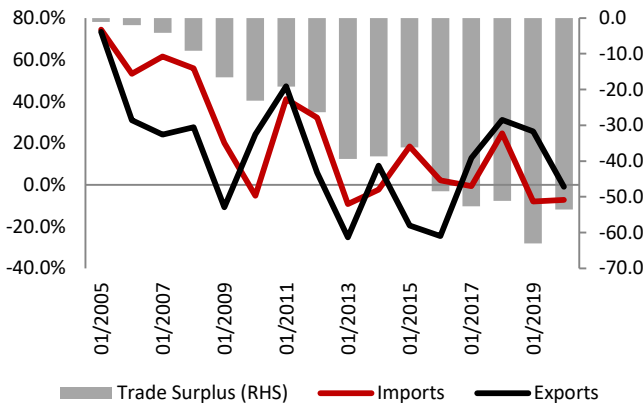
Source: CEIC, MIDFR

**Chart 8: India Imports from Key Countries (YoY%)**



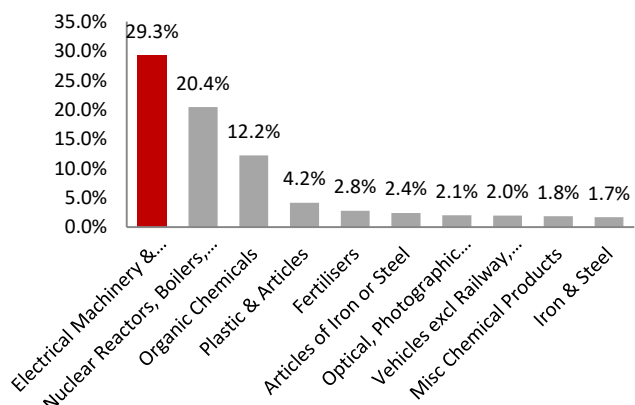
Source: CEIC, MIDFR

**Chart 9: India Exports & Imports (YoY%) and Trade Balance with China (USD Billion)**



Source: CEIC, MIDFR

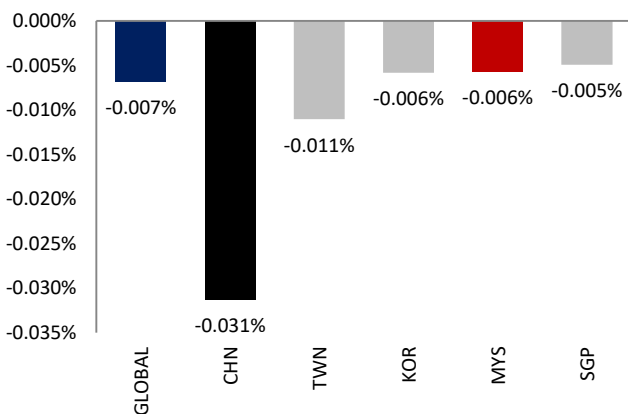
**Chart 10: India Top 10 Import Products from China (Share %)**



Source: CEIC, MIDFR

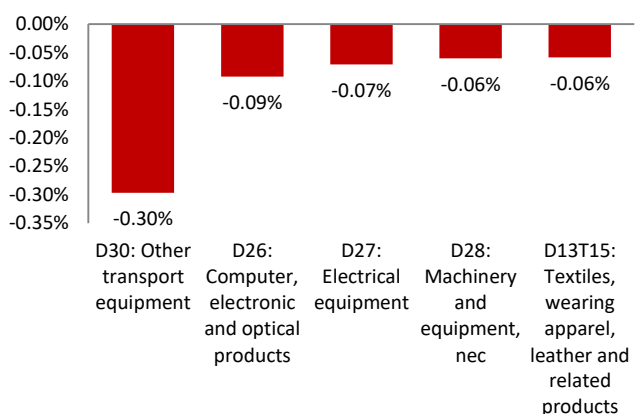
**Impact is minimal.** Based on our estimate, world GDP growth will only reduce by 0.01% if demand by India on Chinese goods & services drop by 10%, while China's economy will shrink by 0.03%. Sector-wise, our results indicate that China's sectors namely Other Transport Equipment, Computer (-0.3%), Electronic and Optical Products (-0.1%) and Electrical Equipment (-0.1%) to be impacted the most. Due to geographical factor and integration effects, slowdown in demand by India on Chinese products will also affect Taiwan, South Korea, Malaysia and Singapore by -0.01%. Overall, the impact is still very minimal.

**Chart 11: Impacts of India Demand on China's Products Fell by 10% (Output %)**



Source: OECD, MIDFR

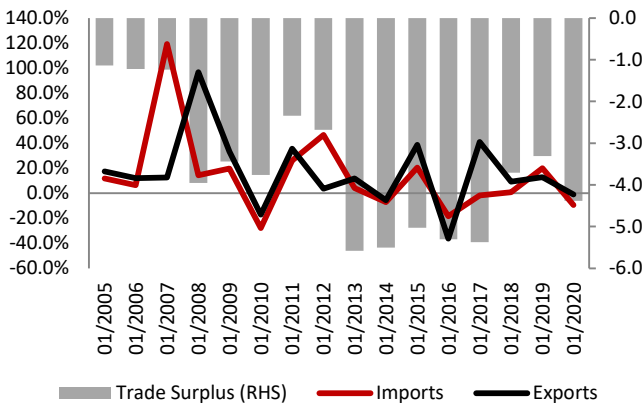
**Chart 12: Sectoral Impacts in China (%)**



Source: OECD, MIDFR

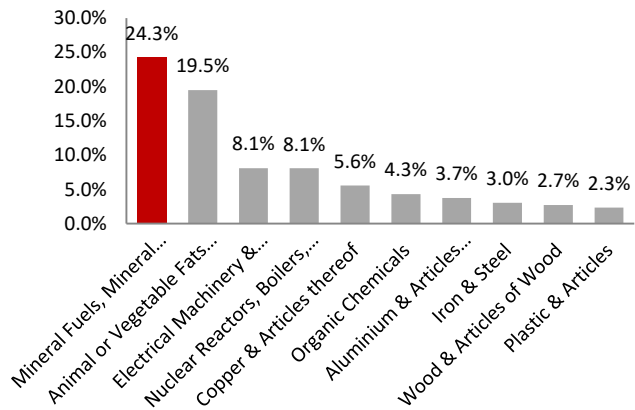
**India import only 2.1% from Malaysia.** Malaysia is nowhere on the top 10 import source for India and just accounted for 2.1% from the total imports in FY2019-20. For comparison, Indonesia and Singapore managed to be on the top 10 with share of 3.2% and 3.1% respectively. Imports from Malaysia fell -9.6%yoy in FY2019-20 from solid 20.1%yoy registered in FY2018-19. Products that were imported the most from Malaysia are Mineral Fuels, Mineral Oils, & Pdt (24.3% from total imports from Malaysia) followed by Animal or Vegetable Fats & Oils & Cleavage Pdt (19.5%), Electrical Machinery & Equip & Parts (8.1%), Nuclear Reactors, Boilers, Machinery & Mech App (8.1%), Copper & Articles thereof (5.6%) and Organic Chemicals (4.3%).

**Chart 13: India Exports & Imports (YoY%) and Trade Balance with Malaysia (USD Billion)**



Source: CEIC, MIDFR

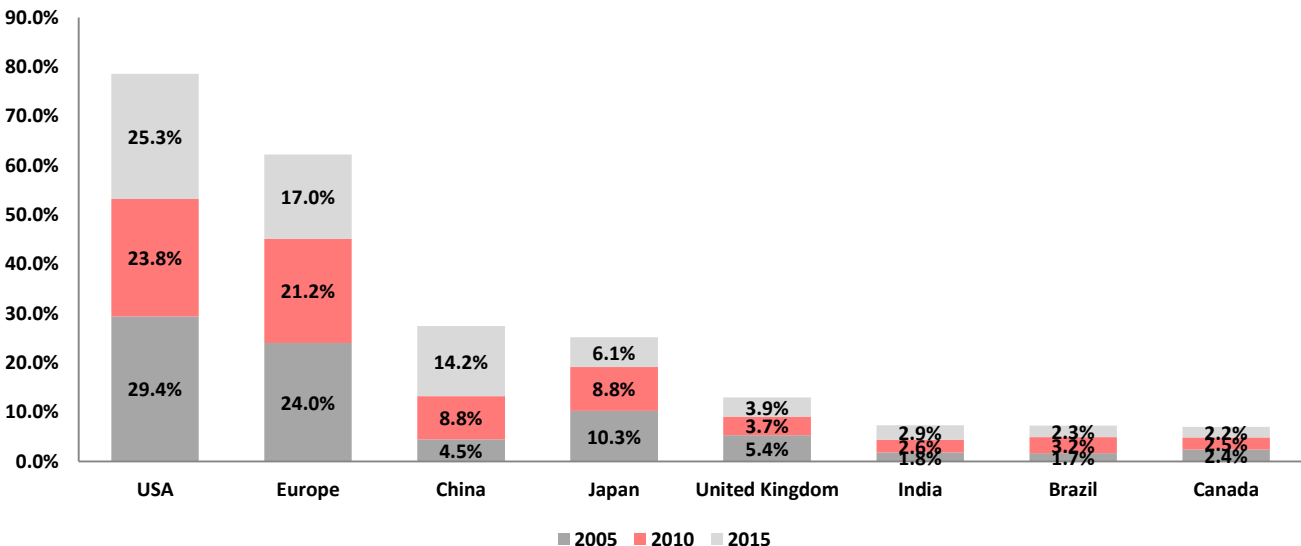
**Chart 14: India Top 10 Import Products from Malaysia (Share %)**



Source: CEIC, MIDFR

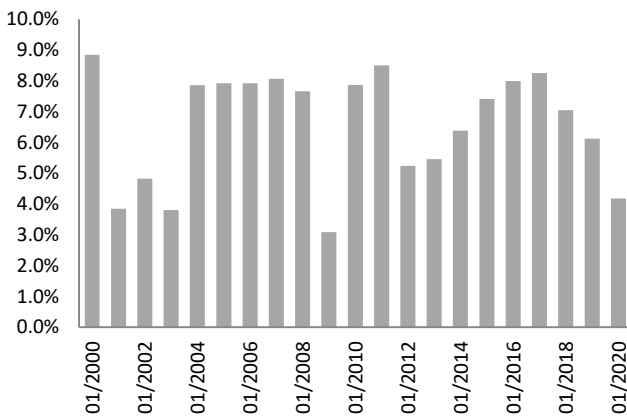
**India climbing up the ladder in global demand.** Based on global value chain of 2015, India’s global demand share rose from 1.8% in 2005 to 2.9% in 2015, marking solid performances as the world’s largest democracy climbed from 9<sup>th</sup> to 6<sup>th</sup> rank. With a huge population, India is one the biggest markets targeted by global businesses as the prospect for demand is bright. As of FY2019-20, India’s population stood at 1.3 billion people, the second most populated after China. India is also one of the fastest growing economies of the world, maintaining growth above 5%yoy post GFC 2008-09. However, for the latest FY2019-20, the GDP growth slowed to 4.2%yoy due to Covid-19 pandemic.

**Chart 15: Top Eight Global Demand Share (%)**



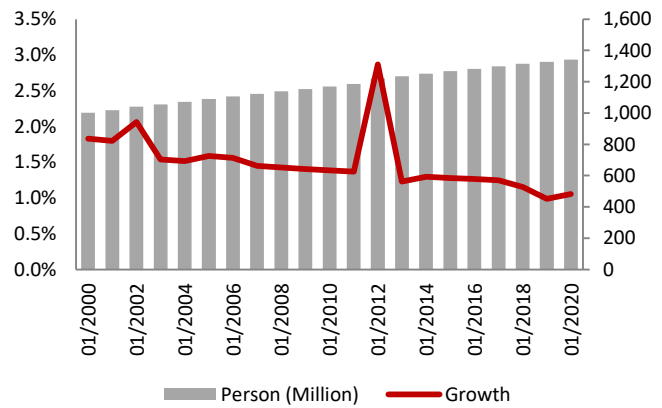
Source: OECD, MIDFR

Chart 16: India GDP (YoY %)



Source: CEIC, MIDFR

Chart 17: India Population



Source: CEIC, MIDFR

**A tipping point for Malaysia.** Earlier, need for import substitution or diversification has emerged not only for India but other key countries due to disruption of raw material supplies from China as a result of Covid-19 pandemic. The latest border clash just added to the calls. This is a good opportunity for Malaysia to tap on. Based on the general list of Chinese products targeted for tariffs by India, some of them are already being supplied by Malaysia. More trade negotiations/deals with India should be initiated to increase existing supply or a new one.

**We reiterate Malaysia's exports forecast of -8.3%yoy for 2020.** Impact of Covid-19 has emerged as the top risk to global trade flows as it affects both supply and demand of goods. This includes Malaysia particularly with almost two months of MCO which disrupts productions and eventually exports. China's latest external trade performances showed some improvement however the remaining key players' performance remains questionable at large. In addition, the rising protectionism measures particularly the re-escalation of US-China tension poses more threat to foreign trades. This will hinder most of the countries' effort to restart their respective economies amid Covid-19 pandemic. Hence, we reiterate that exports growth will contract further in 2020 at -8.3%yoy (2019: -1.7%yoy).



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#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.