

Impact of Corona virus on disruption of supply chains from China

(Ministry of Electronics and Information Technology)

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Electronics Sector:

I. Impact on the sector in terms of production lines/manufacturing and exports

- Presently, **out of total electronics goods imports in the country, approximately 40% are from China and 17% from Hong Kong.** These imports are largely in the nature of components that go into manufacturing of sub-assemblies and final products. Due to recent outbreak of Coronavirus in China, there is **impact on supply of such components due to disruption in supply chain.**
- It has been ascertained from the industry associations and major manufacturing companies that the **inventory is available for the next few weeks (till 31.03.2020).**
- Currently, most of the **electronics companies are running at 30% (mobile) - 60% (LED) of capacity. Working hours have been reduced without downsizing of employment.**
- Industry is of the firm view that the **shutdown will take another 2-3 months before it is lifted gradually and it will largely depend on how quickly the spread of the virus can be controlled.** This means that it will take at least 6 months for supplies to be normalized and the ultimate impact on production could well extend beyond one year.

MOBILE PHONES:

- As per ICEA, impact on mobile phone industry is expected to be in the range of INR 2500 -3500 crores in March and INR 2000 -2500 crores in April 2020.
- ICEA has further communicated that situation in China has been improving. Except for Hubei and Wenzhou (Chongqing Province), all regions and zones have now been downgraded to low-risk. Almost all factories have reopened, especially in the crucial Shenzhen / Guangzhou area and are reporting labour availability of between 10% to 50%

COMPONENTS:

- Shortage of components and finished product will lead to a **price rise of 7-10% of the final product.**

CONSUMER GOODS:

- Production of Finished **consumer goods** (other than Air Conditioners) like **Refrigerator, washing machine has not been impacted severely** as buildup of inventory happens between Dec-Jan to meet summer demand.
- For Air Conditioners, the industry is wholly reliant upon imports from China for compressors, heat exchangers and controllers.

II. Measures being taken to contain the disruption:

- Facilitating the industry to lift consignments from China to India after taking adequate health and safety precautions.
- Steps are being taken to **explore sources of import of such components from other countries.**
 - Industry associations have been advised to organize buyer-seller meets to explore such avenues. However, in view of spread of Corona virus to other geographies, this has not materialized substantially.
- Clarification has been issued to consider Corona virus outbreak in China or any other country as a case of natural calamity and Force Majeure clause may be invoked wherever considered appropriate.

III. Impact on investment decisions of companies:

- The over dependency on China of the electronics component manufacturers may be reduced by delocalising the manufacturing base for electronics component outside China. As a result India has an opportunity to become the alternate destination for electronic component manufacturing.
- Though domestic component manufacturers are adequately equipped to supply certain components, however they would not be able to meet the entire demand of the industry at such short notice.
- In a medium and long-term perspective, companies are being encouraged to set up electronic components manufacturing in the country by offering them suitable incentives through proposed schemes:
 - Production Linked Incentive Scheme (PLI): Production linked incentive of 4% to 6% on incremental sales of specific categories of electronics goods manufactured in India.
 - Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS): Financial incentive of 25% for the identified list of electronics components, semiconductors, displays, specialized sub-assemblies and capital goods used for manufacturing of these items.
 - Electronics Manufacturing Clusters Scheme (EMC 2.0): Creating infrastructure and building common facilities including ready to use plug and play infrastructure.

Draft Cabinet Notes have been circulated for these 3 schemes.

IV. Any other aspects/measures taken:

- Alternate global sources such as South Korea, Taiwan, Singapore, Malaysia, Japan, US may be approached for supply of electronics components. This is expected to have a **price rise of 7-8% of components** which would result in the increase of the price of the final product. Country wise comparative study of export import data of electronics is annexed.

V. Updates from Embassy of India, Beijing:

- The situation of resumption of business activities has improved in China. Over 90% companies and 80% workers resumed work.

- Though Chinese factories have resumed work, shipment of goods/ components is expected to be affected due to low demand as impact of the virus rise in other geographies.

Annexure

Top 5 Countries - Imports (\$Mn)			
S. No.	Countries	2019-20 (Till Dec)	% to Total Electronics
1	CHINA P RP	17,379	40%
2	HONG KONG	7,491	17%
3	VIETNAM SOC REP	3,334	8%
4	SINGAPORE	3,410	8%
5	KOREA RP	1,939	4%
Total (Top 5 Countries)		33,553	78%
Total (Other Countries)		9,552	22%
Total Electronics		43,106	100%

Top 5 Countries - Exports (\$Mn)			
S. No.	Countries	2019-20 (Till Dec)	% to Total Electronics
1	U ARAB EMTS	1,870	21%
2	U S A	1,382	16%
3	CHINA P RP	671	8%
4	RUSSIA	416	5%
5	SINGAPORE	338	4%
Total (Top 5 Countries)		4,677	53%
Total (Other Countries)		4,096	47%
Total Electronics		8,773	100%