

EconomyWatch for the week ending on 2nd May 2025

***Chinese firms turn to Indian exporters to help fill US orders**

Some China-based firms hit hard by US tariffs are reaching out to Indian exporters to fill orders on their behalf and help them retain their American customers as they navigate a trade war causing seismic shocks in global commerce. At the Canton Fair that runs through May 5 in Guangzhou — the world's biggest trade fair — several Indian firms were approached by Chinese companies to supply goods to their US customers, said Ajay Sahai, director general of Federation of Indian Export Organizations. In return for the sales, the Indian firms would pay a commission to the Chinese businesses. Most Chinese exports to the US have been hit with levies of 145 per cent. In contrast, goods shipped from India to the US are currently charged a 10 per cent tax, which will be raised to 26 per cent in July if US President Donald Trump follows through with his reciprocal tariffs after a 90-day pause ends. Many Chinese exporters targeted by Trump's tariffs in his first term turned to Southeast Asian countries, setting up factories in Vietnam or shipping goods to places like Thailand, where they were then exported to the US. This time around, with Trump hitting countries like Vietnam with 46 per cent reciprocal tariffs, Indian exporters may see more orders diverted their way. Unlike Southeast Asia, though, India's government maintains restrictions on Chinese investment, making it difficult for firms to set up operations in the country or ship goods through India to the US. Indian firms at the Canton Fair were instead approached to supply goods to US companies under the brands of the Chinese firms, or co-branded with the Indian firms. Most of the queries came in sectors like hand tools, electronics and home appliances, Sahai said, adding there are hopes some of the US customers may directly start negotiating with Indian suppliers. The commission paid to the Chinese firms would be negotiated between the buyers and supplier. Jalandhar-based OayKay Tools, which manufactures hand tools such as drop forge hammers and cold stamp machine, is in talks with both China-based American firms and Chinese companies to supply the US market. Trump said his administration was talking with China on trade, after Beijing denied the existence of negotiations on a deal and demanded the US revoke all unilateral tariffs. It's uncertain how much the US might allow the Indian companies to fill the gap left by Chinese firms as Washington tries to keep pressure on Beijing to make concessions. The American presence was thin on the ground as the Canton Fair got started earlier this month, but the new tariffs were at the center of almost every conversation. Trump's 90-day reprieve was also spurring Chinese firms to double down on their investments in Southeast Asia to circumvent the US controls. Victor Forgings, which has been manufacturing hand tools such as pliers, hacksaws and hammers since 1954, is another Indian firm seeing an opportunity to increase business as the US and China remain at loggerheads.

***Port union extend support to nation-wide strike on May 20**

The Water Transport Workers Federation of India (WTWFI) has decided to participate in the nationwide strike called by the Central Platform of Trade Unions on May 20 against the proposed implementation of four labour codes. The national working committee of WTWFI, which met in Kochi, observed that the four labour codes would take away all the basic rights of the Indian working class. Evaluating the situations prevailing in major ports, it urged the government to withdraw the decision to amend the Major Port Authorities Act 2021 through its (Amendment) Bill 2025. According to WTWFI, the Bill will empower Port Authority boards to make regulations on suspension, reduction in rank, compulsory retirement, removal and dismissal from service. The committee noted with serious concern that several of the amendments in the Bill will be detrimental to the workers' interest as well as against the interest of the port. They alleged that the intention of the Government is to divest its public ownership by handing over the ready-built valuable assets and facilities, such as a cargo handling terminal, to national and transnational corporates under National Assets Monetisation Pipeline projects. It is also important to note that the overcapacity creation in major ports is happening at a large scale, thereby the existence of several major ports is at stake in terms of cargo volume, low draft and financial crunch, they said. The committee also called upon the port and dock workers to resort to various agitation programmes in all major ports to highlight their genuine demands, which have been pending for implementation at the national and port levels.

***Diamond exports to dip 10% this fiscal as tariffs take effect**

The 10 per cent additional tariff levied by the US, which accounts for nearly a third of Indian natural diamond exports, will exacerbate the impact on Indian diamantaires. The moves on the back of already-subdued demand and intensifying competition from lab-grown diamonds, which closely resemble natural diamonds and cost much less, said Crisil Ratings report. In the milieu, export revenues of diamantaires will decline 8-10 per cent in fiscal 2026, it added. That said, calibrated inventory management across the value chain will support realisations, thus helping reduce the decline in export revenues, and limit the erosion of operating margins. A Crisil Ratings analysis of 43 diamantaires, accounting for nearly one-fourth of the industry revenues, indicates as much. Last fiscal, the export volumes of natural diamonds remained constrained by lower demand from China and competition from LGD in the US. Although polishers pushed sales in the fourth quarter to avoid tariffs and price erosion was limited, revenues from natural diamond exports fell 17 per cent to \$13.3 billion. Additionally, production cuts by miners will curtail price erosion. In contrast, LGD prices may reduce from a tenth of the price of natural diamonds last fiscal to a twelfth in the current fiscal, resulting in a wider price gap between natural diamonds and LGD, said the report. The rising price gap, in turn, could shave a further 12-14 per cent off

natural diamond export volumes, marking third consecutive year of weak demand after an aggregate degrowth of 32 per cent in the last two fiscals, said Crisil Ratings. This will make it difficult for the natural diamond polishers to pass on any tariff-led price hikes to customers. As a result, miners and retailers may need to step in to absorb some of the price shocks. Consequently, Crisil believes the operating margins of polishers may dip 20-30 basis points to 4.3-4.5 per cent this fiscal. Slowing demand for natural diamonds in key geographies, intensifying competition from LGDs, potential revisions in tariffs and rising geopolitical tensions will bear watching.

***India's smartphone shipments decline 7% y-o-y in Q1 2025 due to high inventory: Counterpoint**

India's smartphone shipments in the first quarter (Q1) of 2025 declined seven per cent year-on-year (y-o-y), according to the latest research from Counterpoint's Monthly India Smartphone Tracker. The market entered 2025 with high inventory levels, which impacted shipments during the first quarter. Besides, there was a 26 per cent y-o-y drop in the number of new launches, it said. Apple continued its strong upward trajectory, recording 29 per cent y-o-y growth and its highest-ever Q1 volumes in India, further cementing its dominance in the premium segment. This performance underscores the growing appeal of high-end devices across the country, with Apple also leading the market in terms of value, the report said. "In Q1 2025, Vivo further strengthened its leadership (22 per cent market share) in India's smartphone market, recording 9 per cent y-o-y growth and marking its third consecutive quarter at the top. This performance was largely driven by strong traction for its sub-₹15,000 offerings, particularly the Y29 5G and T4x models. Samsung climbed to the second spot (17 per cent) this quarter, supported by multiple launches across price segments that helped drive momentum," Research Analyst at Counterpoint, said. OPPO secured the third position (15 per cent) supported by the strong performance of its A3 and K series, which were effectively marketed around durability, an increasingly important consumer consideration. Xiaomi, on the other hand, saw a decline in shipments during the quarter, primarily due to higher inventory levels. Despite launching the Redmi Note 14 series, Redmi 14C 5G and A4 5G, these models witnessed lower-than-expected consumer traction, he added. In Q1 2025, India's smartphone market shifted its focus towards preparing for more sustainable and structured growth. As a result, the ultra-premium segment (prices above ₹45,000) saw 15 per cent y-o-y growth, while the average selling price increased at an 11 per cent CAGR post-Covid, highlighting a shift toward premium devices. This continued premiumisation trend was further supported by growing affordability and expanding financing options, which made high-end devices accessible to a broader consumer base. Going forward, India's smartphone market is expected to grow at a low single-digit rate this year, driven by a favourable economic outlook and increasing global interest in Indian manufacturing.

***Over 1,700 money laundering cases in trial stage, says ED chief**

Over 1,700 money laundering cases probed by the Enforcement Directorate (ED) are currently in the trial stage and the delay in courts can be attributed to the general delay in the justice system in the country, ED Director Rahul Navin said. The top officer of the ED, however, said the conviction rate of the ED cases was 93.6 per cent as out of 47 cases decided by courts till now, there have been only three acquittals. A total of 1,739 cases of PMLA are under trial at present and the delay in prosecution in the money laundering cases can be attributed to general delay in the justice system in the country, he said while addressing the ED Day event held here. The federal probe agency has completed 69 years of its existence as it was established on May 1, 1956. It implements two criminal laws — The Prevention of Money Laundering Act (PMLA) and the Fugitive Economic Offenders Act (FEOA) — apart from the civil provisions of the Foreign Exchange Management Act (FEMA).

***At 8.24 mt, India's diesel consumption hits record high in April**

India's auto fuel consumption during April 2025 hit a high backed by increased farming, industrial, mining and commercial activity with diesel usage inching up to its second highest mark on record. According to the latest numbers from the Petroleum Planning & Analysis Cell (PPAC), India's diesel consumption rose to 8.239 million tonnes (mt) in April, which is the second highest on record. The consumption of the fuel considered the mainstay of India's transport and logistics sector was higher by 2 per cent m-o-m and almost 4 per cent y-o-y. Diesel also accounts for over 40 per cent of the country's usage of refined petroleum products. Before this, diesel consumption rose to an all-time high record of 8.412 mt in May 2024 on account of higher demand due to the Lok Sabha elections. Before this, India has clocked a consumption of 8.217 mt in May 2023. India's consumption of petrol, largely consumed in the personal vehicle segment, rose by around 5 per cent Y-o-Y to 3.435 mt in April 2025. However, petroleum usage fell by more than 2 per cent on a monthly basis. Barring March, petrol usage during April this year is at an 11-month high. Petrol usage of 3.512 mt during March is the highest on record followed by May 2024 (3.463 mt). Analysts attribute the higher diesel consumption to the higher industrial and commercial activity. Besides, mining activity is also on a high, particularly for coal due to its requirement at thermal power plants (TPPs) for the peak electricity demand season (April-June). Further, farm activity is also going on with harvesting of Rabi crops in several parts of the country. April is also the month when schools open up after the annual exams thereby leading to more demand for diesel and petrol. Petrol consumption is growing in line with India's rising affluence, which is translating into people buying more four wheelers and two wheelers. Most of the consumption is driven by the personal mobility segment. Besides, the trend of people purchasing more gasoline-driven SUVs is also bolstering demand. The consumption

of aviation turbine fuel (ATF) rose by more than 3 per cent to 766,000 tonnes last month. However, it fell by over 4 per cent on a monthly basis as usage during March 2025 is an all-time high. A tad short of the 9 million tonnes (mt) mark, India's jet fuel consumption scaled multiple peaks during FY25, with airlines guzzling over 800,000 tonnes in the last month of the fiscal year alone — also an all-time high. The PPAC expects India's jet fuel to grow at almost 11 per cent annually in FY26 — the highest among all refined petroleum products— reflecting on the rising spending power in the world's fastest growing emerging economy.

***India's manufacturing PMI rises to 10-month high of 58.2 in April as exports surge**

With a rise in new export orders post US' tariff decision, India's manufacturing sector showcased a better performance in April as the Purchasing Managers' Index (PMI) increased to 58.2. It is a tad higher than 58.1 of March. "The headline figure was spurred by faster increases in stocks of purchases, employment and production," a statement by S&P Global said. The index is prepared on the basis of responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. Index rising above 50 indicates expansion, while dropping below 50 means contraction. Manufacturing is considered as India's largest job multiplier. It has a share of 17 per cent in the GDP (Gross Domestic Product). A better performance in manufacturing signals good growth expectations for industry and the economy. It may be noted that as US has imposed higher tariffs on imports from China while pausing reciprocal tariffs for India, fresh orders are being placed to expedite the export consignment. The statement said that robust demand for Indian goods boosted firms' pricing power, with selling charges hiked to the greatest degree since October 2013. Talking about the job scenario, the statement said that manufacturers continued to enhance their staffing levels in April to meet growing output requirements. Exactly 9 per cent of survey participants took on extra workers, with a combination of permanent and temporary contracts reportedly being offered. The rate of job creation was marked by historical standards, it said. Respondents also expressed optimism for the future. "Strong optimism regarding output prospects over the coming year was evident in the April data, driven by expectations of demand strength. Marketing efforts, efficiency gains and new client enquiries also underpinned positive forecasts," the statement concluded.

***H5N1 virus in US sparks global health crisis**

The word 'pandemic' is enough to send shivers down spines worldwide. The **Global Virus Network** has urged world governments to take action and be prepared against the H5N1 outbreak which has reportedly spread in 50 American states, sparking concerns among health officials and experts.

According to reports, the H5N1 virus bird flu virus, once limited to poultry, now infects cows, cats and humans across all 50 US states. As many as 70 cases have been reported since 2024 and the first death was confirmed in Louisiana. Health officials warn that the virus's jump to mammals increases the risk of mutations.

H5N1 avian influenza virus spreads in US

Calling for action in a LANCET report, the global organisation has said, "The recent emergence of highly pathogenic H5N1 avian influenza virus infections in dairy cows and humans in the U.S. has raised alarms regarding the potential for a pandemic. Over 995 dairy cow herds and at least 70 humans have been affected." "Concurrently, the virus continues to circulate in wild birds, backyard flocks, and hunted migratory species, further amplifying the risk to humans and domestic animals."

According to the World Health Organization (WHO), H5N1 is one of several influenza viruses that causes a highly infectious respiratory disease in birds called avian influenza (or "bird flu"). Infections in mammals, including humans, have also been documented.

H5N1 influenza virus infection can cause a range of diseases in humans, from mild to severe and in some cases, it can even be fatal. Symptoms reported have primarily been respiratory, but conjunctivitis and other non-respiratory symptoms have also been reported. There have also been a few detections of A(H5N1) virus in persons who were exposed to infected animals or their environments but who did not show any symptoms.

***Microfinance in major crisis with near-2x NPA surge; Joint-liability lending model on shaky ground**

India's **microfinance crisis** has deepened with **delinquency rates** almost doubling. The gross non-performing asset (NPA) ratio for the sector jumped to 16% at the end of FY25 from 8.8% in the year before, with the joint liability-based lending model appearing to be crumbling.

In absolute terms, NPAs spiralled to Rs 61,000 crore at the end of March from Rs 38,000 crore a year earlier, people aware of the matter said, citing credit bureau data.

Over this period, the sector's cumulative gross loan portfolio contracted about 7% as lenders shrank books in response to rising loan losses.

Lenders Shrink Books

Among the cross-section of profit-seeking microfinance lenders, the sticky loan ratio was the highest for the small finance bank segment with 22% of its cumulative Rs 59,817 crore microfinance loans turning bad at the end of the last fiscal year. For universal banks, the ratio was 17.5% of their Rs 1.24 lakh crore of microfinance exposure.

The bad loan ratio for the non-banking finance company-microfinance institutions (**NBFC-MFI**) group was 12.3% and that of other NBFCs was 12.8%.

With Tamil Nadu planning to regulate microfinance operations in the state, the delinquency rate may rise as seen in the case of Karnataka when it enacted a similar law in late February, people tracking the sector said.

The sectoral stress has wiped out investors' wealth significantly with lenders like **Fusion Finance** and **Spandana Sphoorty Financial** witnessing about a 66-68% decline in share prices over the past 12 months. **CreditAccess Grameen**, the country's largest NBFC-MFI, saw its market value drop 23%. Among high street lenders, **IDFC Bank** saw its price fall 18% largely on account of the stress in its unsecured portfolio.

Microfinance institutions give collateral-free loans to low-income households with annual incomes of less than Rs 3 lakh. Women are the primary beneficiaries of such loans. The lenders used to form **joint liability groups (JLG)** of women that used to act as an intangible collateral for such otherwise unsecured lending. The JLG model, which was once at the heart of microfinance's enviable 98-99% recovery rate, is not working anymore.

Over the past nine months or so, lenders across the board slowed loan disbursement when they realised that the model was deteriorating. The sectoral gross loan portfolio contracted to Rs 3.81 lakh crore at the end of March from the highest-ever level of Rs 4.33 lakh crore seen nine months prior to that. The gross loan portfolio stood at Rs 4.09 lakh crore on March 31, 2024.

IDFC First Bank's microfinance portfolio declined by 28.3% year-on-year while its share of the overall loan book dropped to 4% at the end of March from 6.6% a year back. **Jana Small Finance Bank** reduced its unsecured book by 11% over the past one year to Rs 8,900 crore. To be sure, the sector self-regulatory organisations--Microfinance Institutions Network (MFIN) and Sa-Dhan--have issued a set of guardrails to address the issue of over-indebtedness and to ensure responsible lending.

***US again puts India on 'priority watch list' for alleged IP rights' violations**

The US on Tuesday again placed India on its 'priority watch list' stating that New Delhi remains one of the world's most challenging major economies with respect to protection and enforcement of intellectual property (IP) rights. The **US Trade Representative's (USTR)** 2025 Special 301 report said that over the past year, India has remained inconsistent in its progress on intellectual property protection and enforcement.

It said that although India has worked to strengthen its IP regime, including raising public awareness about the importance of the subject, and engagement with the US on IP issues has increased, there continues to be a lack of progress on many long-standing IP concerns. It added that patent issues continue to be of particular concern in India.

Stakeholders continue to express concerns over vagueness in the interpretation of the Indian Patents Act, it alleged.

Despite India's justifications of limiting IP protections as a way to promote access to technologies, India maintains high customs duties directed to IP-intensive products such as information and communications technology (ICT) products, solar energy equipment, medical devices, pharmaceuticals, and capital goods.

It added that the US intends to continue to engage with India on IP matters, including through the trade policy forum's intellectual property working group.

The report has listed eight countries, including India in its 'priority watch list'. China, Indonesia, Russia, Argentina, and Venezuela are among others on the list.

It has also placed 25 countries, including Pakistan and Turkey, on the list.

***India's IIP grows 3% in March, full-year growth slows to 4% in FY25**

India's industrial activity continued its recovery momentum with the Index of Industrial Production (IIP) growing 3 per cent year-on-year in March 2025, according to data released by the Ministry of Statistics and Programme Implementation. This marked a recovery from the six-month low of 2.9 per cent recorded in February. However, growth remained below the 5.5 per cent expansion reported during the same month last year.

Sector-wise performance

The IIP stood at 164.8 in March 2025, up from 160.0 a year earlier. Sector-wise, manufacturing, which carries the largest weight in the index, rose 3 per cent, slightly up from 2.9 per cent in February.

Electricity generation expanded 6.3 per cent, compared to 3.6 per cent in the previous month. While mining output saw a modest growth of 0.4 per cent from 1.6 per cent in February. Within manufacturing, 13 of the 23 industry groups posted positive growth. The manufacture of electrical equipment recorded the strongest performance at 15.7 per cent growth, followed by motor vehicles, trailers and semi-trailers at 10.3 per cent, and basic metals at 6.9 per cent.

Infrastructure and construction goods grew 8.8 per cent, primary goods rose 3.1 per cent, and consumer durables increased 6.6 per cent. However, consumer non-durables declined 4.7 per cent during the month.

For the financial year 2024-25, the cumulative IIP growth stood at 4 per cent, a slowdown from the 5.9 per cent growth recorded in the previous year.

***Indian goods worth \$10 bn annually reach Pakistan via third countries: GTRI**

Indian goods worth over \$10 billion are reaching Pakistan every year indirectly through ports such as Dubai, Singapore, and Colombo, bypassing trade restrictions, according to estimates of economic think tank GTRI.

Explaining the system, Global Trade Research Initiative (GTRI) said that Indian firms send goods to these ports, where an independent company offloads the consignment and keeps the products in bonded warehouses, where goods can be stored without paying duties while in transit

This method, helps firms to bypass India-Pakistan trade restrictions; sell goods at higher prices, using the third country route; and avoid scrutiny, since the trade appears to come from other countries.

The higher price covers storage, paperwork, and access to a closed market.

The trade between India and Pakistan may come to a complete halt after New Delhi's move to close the Attari Integrated Check Post in the wake of the Pahalgam terror attack, which was followed by Islamabad's decision to suspend all trade ties, exporters have said.

The two-way trade between the countries was already miniscule following steps taken by both the sides after the Pulwama terror attack in 2019.

India's exports to Pakistan in April-January 2024-25 stood at \$447.65 million, while imports were meagre \$0.42 million. Exports and imports in 2023-24 were \$1.18 billion and \$2.88 million, respectively.

In 2022-23 and 2021-22, India exported goods worth \$627.1 million and \$513.82 million, and imported products worth \$20.11 million and \$2.54 million, respectively.

In April-January 2024-25, exports of organic chemicals and pharmaceutical products accounted for about 60 per cent of the country's total outbound shipments to Pakistan. It was \$129.55 million and \$110.06 million, respectively.