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U.S. tech is the big winner of the China-India border dispute

By Angelo Katsoras

Tensions between China and India spiked on June 15 when a border clash left 20 Indian soldiers dead and an unknown number of Chinese casualties. Though no shots were fired owing to a long-standing agreement that the shared border be patrolled by unarmed forces, the two sides did attack one another viciously with clubs, stones, and iron rods.

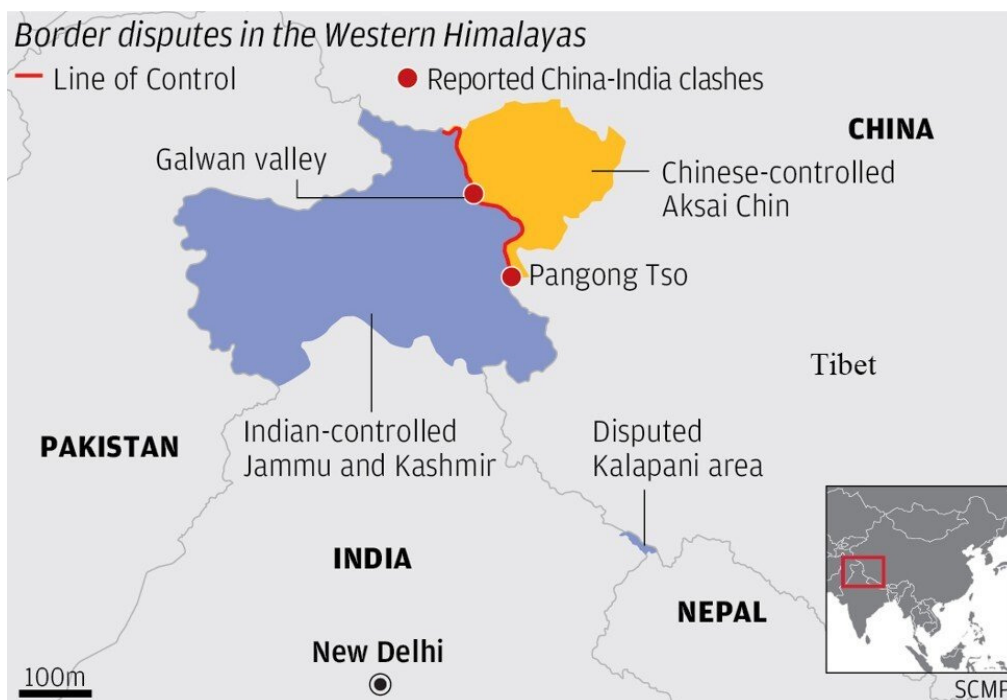
While neither China nor India is inclined to engage in a broader armed conflict, especially at a time when both countries are struggling with their weakest economic growth in decades due to COVID-19, we feel the clash marks a turning point in their relations. This is particularly the case for India, which has reacted by taking measures to reduce its economic dependence on China and intensifying efforts to build alliances with the United States and other countries.

Moves to restrict the access of Chinese companies to the huge Indian market, particularly in the IT and telecom sectors, will greatly benefit American tech companies in the battle for global dominance with their Chinese counterparts.

India-China border tensions simmering for decades

India and China fought a brief war in 1962, which resulted in more than 1,000 Indian deaths and just under 800 Chinese casualties. Another clash in 1967 left more than 150 Indians and 340 Chinese killed. While there have been several flare-ups since, the clash in mid-June was the deadliest in over 40 years.¹

While both sides have agreed to at least partially disengage from certain positions, the situation remains tense, with Indian officials claiming that about 50 square kilometres previously controlled by India is now held by Chinese forces.²



Source: "China-India border: why the devil is still in the detail for troop withdrawal agreement," South China Morning Post, July 7, 2020

Even before the clash, India was feeling the pressure of China's growing economic and geopolitical influence. China has, among other things, forged a strong alliance with India's archrival Pakistan, recently took over an island in the Maldives only a few hundred miles off India's coast,³ and took possession of a major port near India after the Sri Lankan government struggled to make payments to Beijing on loans contracted to build it.

¹ "India-China Border Dispute: A Conflict Explained," New York Times, June 17, 2020

² "Modi says 'age of expansionism' over amid China border tensions," Bloomberg, July 3, 2020

³ "China and India Brawl at 14,000 Feet Along the Border," New York Times, May 30, 2020

The political class and public in India turn against China

Similar to the United States, a rare consensus political view has emerged in India that a more assertive approach is needed toward China. A recent tweet by Rahul Gandhi—former President of the Indian National Congress, the main opposition party, and latest heir to the Nehru–Gandhi family dynasty—is indicative of the prevailing mood within India’s political class: “How dare China kill our soldiers? How dare they take our land?”

One poll taken just after the border clash found that 68.3% of Indians saw China as a bigger enemy than Pakistan, while 68.2% supported no longer buying Chinese products.⁴ Hoping to profit from this sentiment, the Confederation of All India Traders wasted little time in submitting a list of more than 500 Chinese products it wants boycotted.⁵

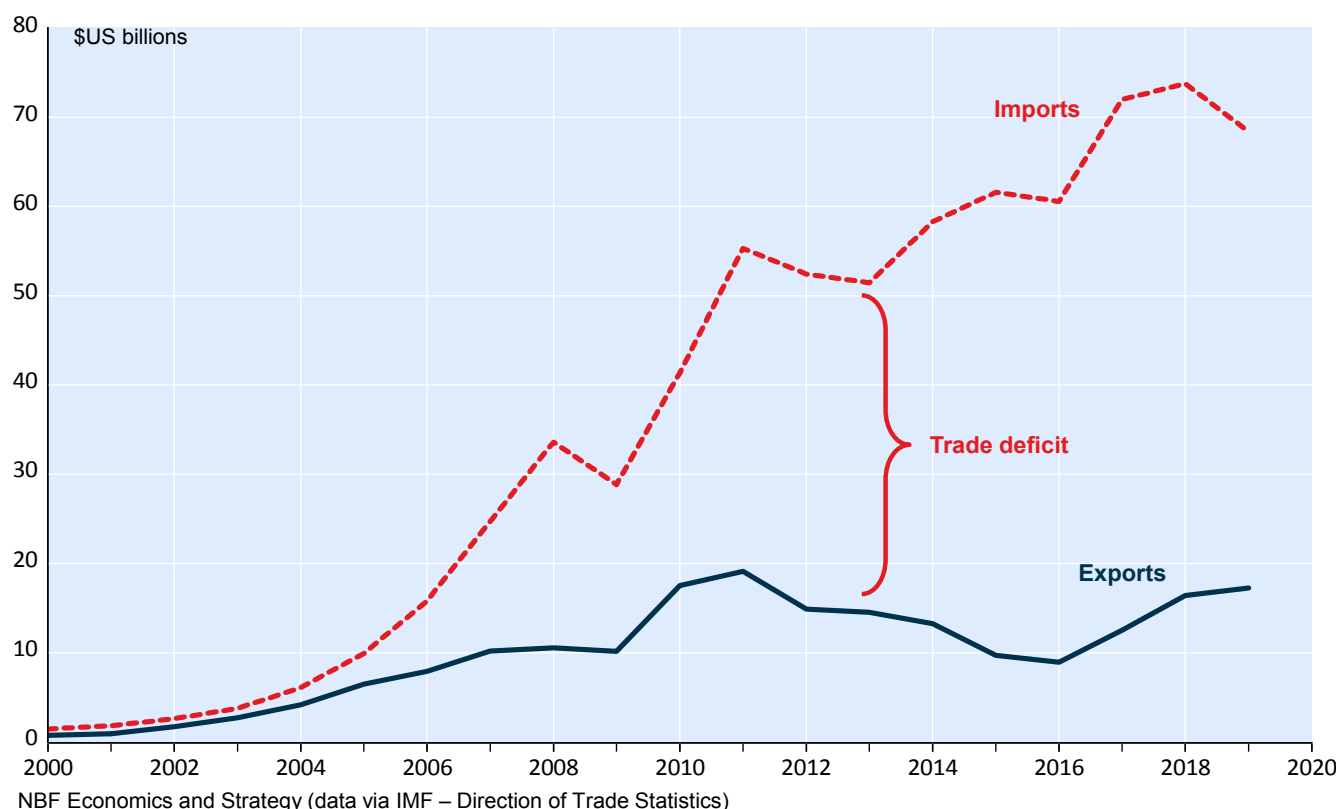
As for China, perhaps in the hope of dialling back tensions with India, the details of the June 15 clash have not been widely reported in the state press.

China has a massive goods trade surplus with India

India imported more than \$65 billion worth of goods from China from April 2019 to March 2020, while exporting only \$16.6 billion. This has made for a trade deficit of over \$48 billion.⁶

India: Trade with China

Annual data, last data as at 6/30/2019



India’s imports from China include about half of all its electronics imports (i.e., computer hardware/components and telecom instruments), over two thirds of the ingredients needed for its drug industry, and most of its solar panels.⁷ Over the long term, India will attempt to reduce this dependence on China by relying on a combination of more domestic production and imports from other countries.

⁴ “68% believe China bigger problem for India than Pakistan: Poll,” Financial Express, June 23, 2020

⁵ “India–China border dispute: tensions likely to increase scrutiny of Chinese investment, analysts say,” South China Morning Post, June 19, 2020

⁶ “Three reasons India can’t quickly distance itself from China despite the border clash,” CNBC, July 7, 2020

⁷ “India has few good ways to punish China for its Himalayan land-grab,” The Economist, July 4, 2020

Retaliatory trade measures taken by India thus far

- Even before tensions spiked between the two countries, India had already restrained China's ability to purchase Indian companies or property. In April, the government announced that investments from neighbouring countries would henceforth require official approval.⁸ This was widely seen as a way to prevent Chinese firms from taking over strategic companies. Furthermore, immediately after the border clash, the state government of Maharashtra, home to the financial capital of Mumbai, announced that it was delaying more than \$600 million in deals with Chinese companies.
- India is now very likely to join the United States and a growing number of countries either banning Huawei from their 5G networks or limiting the company's participation. Such a move was much less probable prior to the border incident. India has already barred state-owned telecom firms from using equipment from either ZTE or Huawei for their 5G networks and will likely pressure private telecom companies to do the same.
- India announced that it would inspect all imports of electrical equipment, particularly from China, to ascertain whether they pose a security threat. Regarding Chinese imports of electrical equipment, Indian Power Minister R.K. Sing commented: "This is something we can't tolerate, we have a country that transgresses and kills our soldiers and yet we are creating jobs there."⁹
- India banned 59 Chinese apps, including WeChat and TikTok, potentially threatening the global expansion plans of these companies. For instance, though India accounts for less than 1% of the revenues of TikTok's parent company, ByteDance, it is TikTok's largest overseas market in terms of users (200 million).¹⁰ A long-term ban would damage TikTok's prospects of becoming a global rival to Facebook. India's Ministry of Electronics and Information Technology stated that Chinese apps were "stealing and surreptitiously transmitting users' data in an unauthorized manner to servers which have locations outside India."¹¹ Perhaps emboldened by India's moves, the United States announced soon after that Tik Tok would have to either leave the country or sell the app's U.S. operations. Actions taken by India and the United States could have a domino effect in other countries.

Can India attract supply chains from China?

India is trying to attract companies looking to diversify production outside of China. For example, it is reportedly in talks with Apple to potentially relocate one fifth of its production from China.

However, based on India's recent track record, attracting more industrial supply chains will not be easy. Six years ago, India announced its intention to have manufacturing account for 25% of GDP. Instead, according to the World Bank, from 2014 to 2018, manufacturing actually declined from 15.1% to 14.8% of GDP.¹² This lack of success can be explained by the many hurdles manufacturers face in India, including laws that make it difficult to acquire land for industrial purposes and regulations that make it hard for large factories to lay off workers during a downturn. Despite India's low wages, this encourages manufacturers to either stay small, expand via automation, or invest elsewhere. That said, it has been reported that several Indian states recently decided to suspend or weaken certain of these laws. This suggests that major regulatory changes could be in the offing.

Is China overreaching by taking on too many countries at once?

Even before the outbreak of hostilities with India, China was already facing growing geopolitical pushback for a number of reasons, including:

- How it initially handled the COVID-19 pandemic
- A controversial security law for Hong Kong
- The alleged security risks associated with Huawei
- Protectionist trade practices and a tendency to use trade as a weapon to silence criticism
- Expansive territorial claims in the South China Sea, which include an increasing military presence

⁸ "Zomato cut off from Chinese funding by India-China tensions," Financial Times, July 5, 2020

⁹ "India seeks to curb Chinese power equipment imports amid tensions," Reuters, July 3, 2020

¹⁰ "What Beijing Lost With Its Border Clash Blunder," Wall Street Journal, July 9, 2020

¹¹ "India Bans Nearly 60 Chinese Apps, Including TikTok and WeChat," New York Times, June 29, 2020

¹² "Can Indian Manufacturing Capitalize on the Flight From China?" Wall Street Journal, May 14, 2020

Territorial claims in the South China Sea



Source: "In the South China Sea, Washington Tries to Balance Support and Entanglement," Stratfor, July 17, 2020

In addition to its tense relations with the United States, the actions cited above have now contributed to strain its ties with such countries and blocs as Canada, Australia, the EU, the UK, Japan, Vietnam, Malaysia, and now India.

Going forward, this will make it more difficult for Chinese companies in strategic sectors to increase revenues and/or make strategic acquisitions in certain regions.

Conclusion

At a time when tensions are already rising with many countries, worsening ties with India has further complicated China’s position on the global geopolitical chessboard. This is especially true regarding its battle with the United States for global IT dominance.

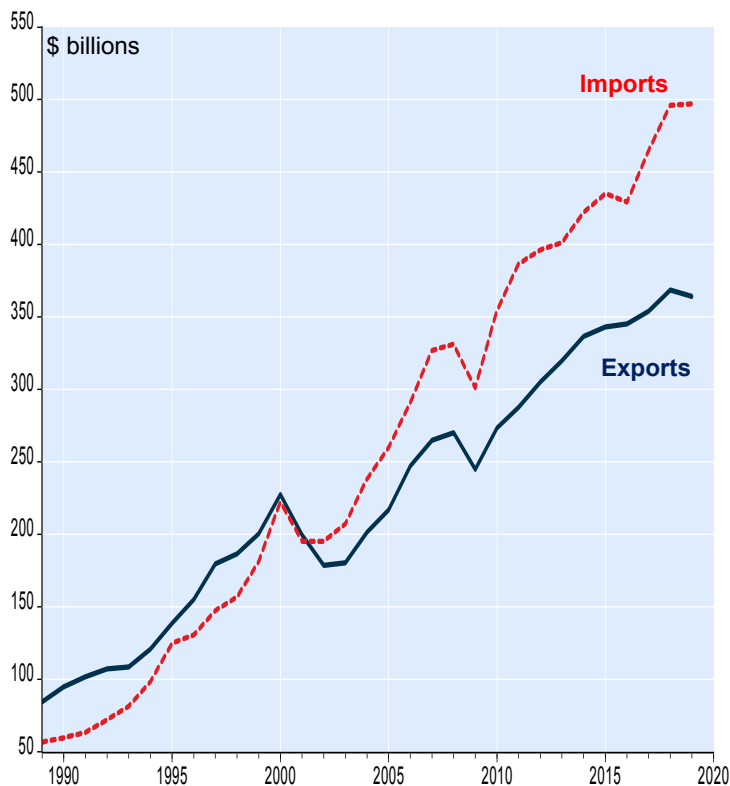
For starters, the recent border clash has made it much more likely that India will align with the United States to exclude certain Chinese IT/telecom companies from its own market. A long-term ban from India would hobble the efforts of Chinese companies to compete with U.S. firms like Facebook, Google and Amazon on a global level. This is because India is among the world’s leading growth market for internet-related services, with a little less than half of its 1.3 billion people not yet online. India’s actions could also influence countries still unsure about how much access to grant Chinese IT companies.

Like China did with Tencent and Alibaba, India is looking to create its own national IT champions. These companies will now be much more inclined to enter into joint ventures with American companies than with Chinese ones. Facebook’s investment in Reliance Jo, an Indian telecom company, is a case in point.

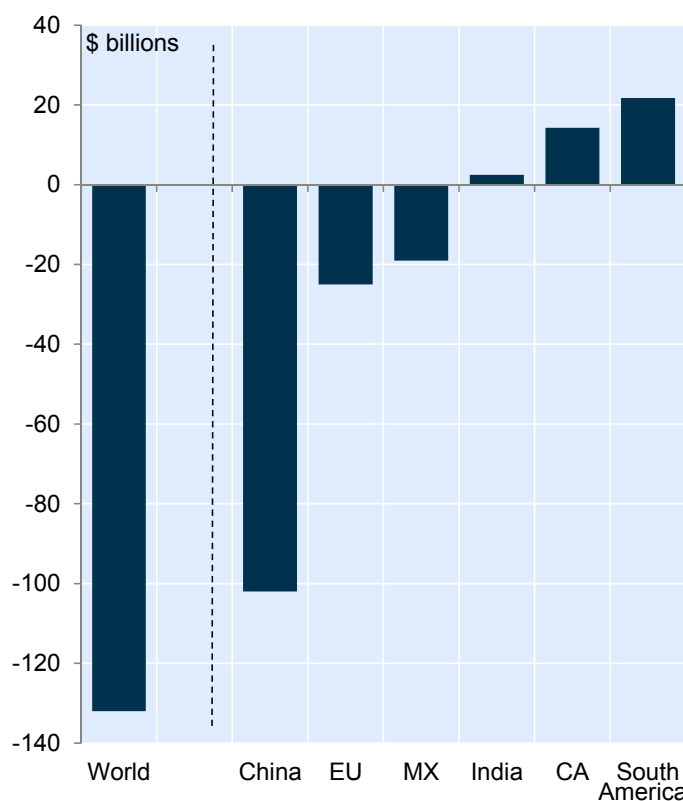
Finally, over the long-term, China-India tensions could provide the United States with the opening to turn its global trade deficit in advanced technology products (ATP) into a trade surplus. This would be driven by continuing efforts to reduce trade ties with China while strengthening them with India and other regions. The last time the United States had a trade surplus in this sector was in 2000 (refer to chart below). ATP includes advanced products from the following sectors: aerospace, biotechnology, electronics, information and communications, life sciences, nuclear technology and defense.

U.S.: An IT deficit that Washington hopes to turn into surplus

Total exports & imports of Advanced Technology Products (ATP)



Trade balance in ATP by region (2019)



NBF Economics and Strategy (data via <https://www.census.gov/foreign-trade/balance/c0007.html>)



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