

58. ECONOMIC IMPACT OF INDIA-CHINA TRADE WAR: FUTURE DIRECTIONS

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ABSTRACT

The growing trade war among India and China is creating imbalance in the among developing countries. Both countries are affecting in their business prospects. India is basically importing raw material for export of good and services. Growing tension leads to unnecessary growth impetus which affects industry growth, loss of employment opportunities and other trade related problems. India has considerable potential for reducing its trade deficit with China, as we can see from Made-in-China products sold on the Indian market. Most of them are low- and mid-range products. India can make these things itself. The value tune to the cores of rupees is loss for the both counties; it will create far reaching impact in Indian business environment. These papers highlight the possible causes and consequences of trade war between to Asian giants and suggest how to promote regional growth prospects for speedy development of economics.

KEYWORDS

Trade war, economic growth, Mutual benefit.

INTRODUCTION

"China and India will, separately and together, unleash an explosion of demand". - Mukesh Ambani

You go back to the 17th century, the commercial and industrial centers of the world were China and India. Leaders in China and India realize that science and technology lead to success and wealth. But many countries in the West graduate students into the unemployment line by teaching skills that were necessary to live in 1950. China is India's biggest trading partner in the world and India also has the largest trade deficit with China (which means that India imports more than it exports to China). This deficit has doubled in less than a decade. The return of the once-dormant economies of China and India to dynamism and growth is one of the most remarkable stories in recent history. The two countries are home to nearly 40 percent of the world's population, but until recently neither had played an influential role in the contemporary global economy.

US-China trade war is a 'lose-lose' situation for them and the world, warn UN economists. China accounts for about 14% of India's imports and is a major supplier for sectors including mobile phones, telecom, power, plastic toys and critical pharma ingredients. India's trade deficit with China narrowed to \$48.66 billion in 2019-20 due to lower imports, according to

government data, from \$53.56 billion in 2018-19 and \$63 billion in 2017-18. According to the India-based Economic Times, India may increase the export of 20 products to China, including electrical equipment, aircraft parts, engines and other automotive parts, benzene, frozen boneless beef, and ferroalloys. At present, China's annual import demand for these 20 products may reach \$82 billion, while India can only meet 3.3 percent of the total demand, or \$2.7 billion. India can significantly reduce its trade deficit with China by exporting more of these items.

TRADE WAR: MEANING

A trade war happens when one country retaliates against another by raising import tariffs or placing other restrictions on the other country's imports.

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- Trade wars are a side effect of protectionist policies and are controversial.
- Advocates say trade wars

protect national interests and provide advantages to domestic businesses.

- Critics of trade wars claim they ultimately hurt local companies, consumers, and the economy.

WHY TRADE IS IMPORTANT?

Chinese products form a critical part of the supply chain for firms in many sectors in India. With the economy struggling to recover from the pandemic, any potential escalation between the two nations could escalate operational as well as supply-chain risks. India can look to find alternatives for Chinese products but such a step would be tedious and expensive.

MOSTLY AFFECTED SECTOR-NEGATIVE EFFECT

1. Chemicals and agrochemicals
2. Consumer Durables
3. Pharmaceuticals
4. Power and
5. Telecom

India and China's business interests are deeply intertwined and any adverse scenario will have far-reaching impact on both the countries. According to a report by Motilal Oswal the impact on stocks in the key sectors is:

Figure No.01 key sector involved in the trade and economic growth



(Source: <https://blog.smallcase.com/economic-impact-of-india-china-trade-war/>)

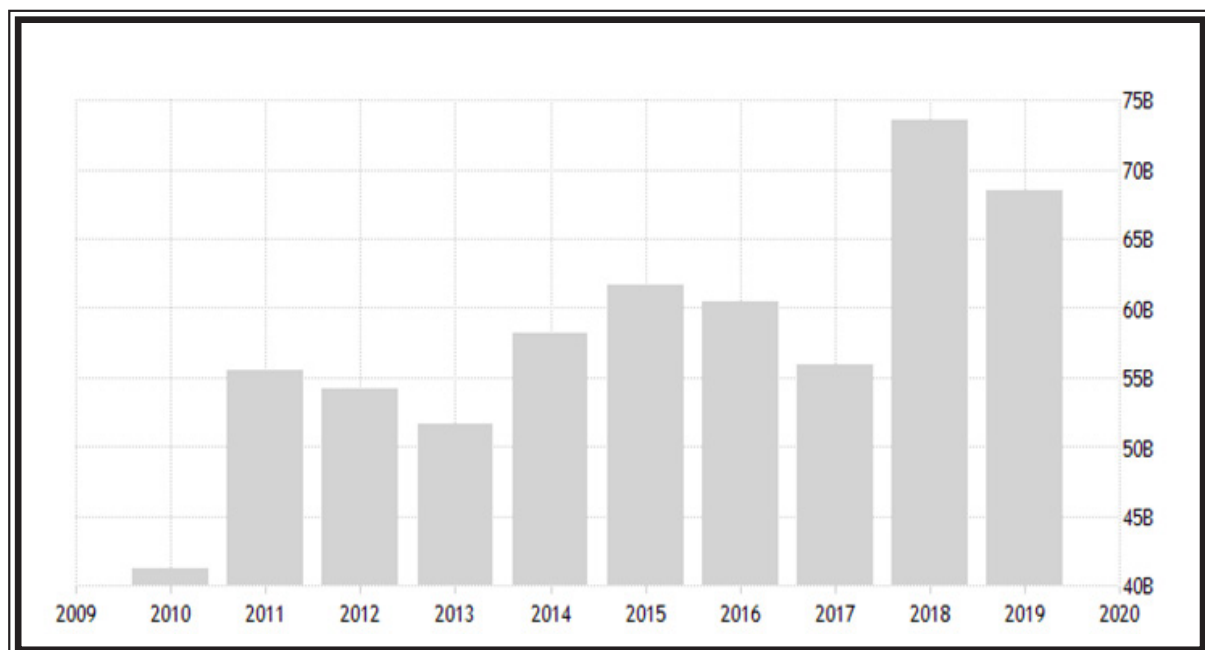
Trade War With China Not Good Idea Given India’s Manufacturing Ability: Trade Promotion Body. Instead of ‘Boycott China’, the call should be to develop our own domestic industry and compete naturally, says Mohit Singla, Chairman of Trade Promotion Council of India.

- India gained about \$755 million additional exports, mainly of chemicals, metals and ore, to the US in the first half of 2019
- The study found that tariffs imposed by the US on China are economically hurting both countries and that consumers in the US are bearing the heaviest brunt

(Source: <https://www.livemint.com/news/india/us-china-trade>)

India imports from China was US\$68.4 Billion during 2019, according to the United Nations COMTRADE database on international trade. India imports from China - data, historical chart and statistics - was last updated on July of 2020.

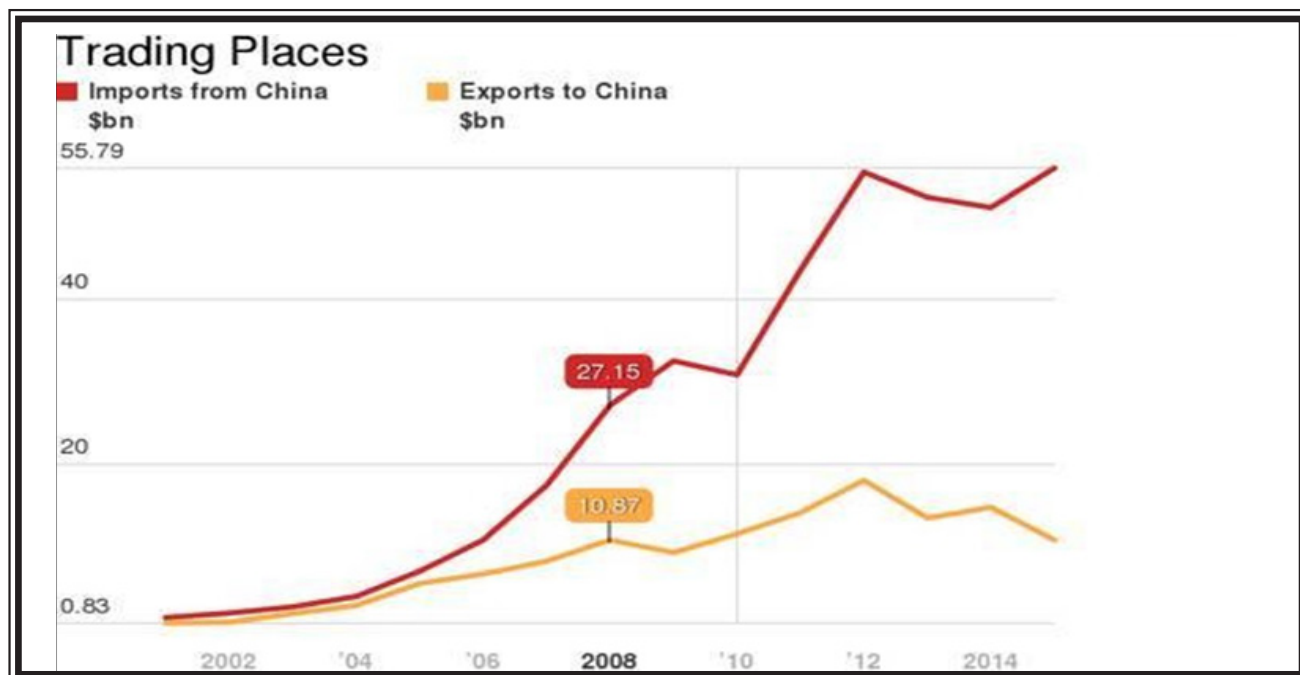
Figure No.02 Trade Statistics



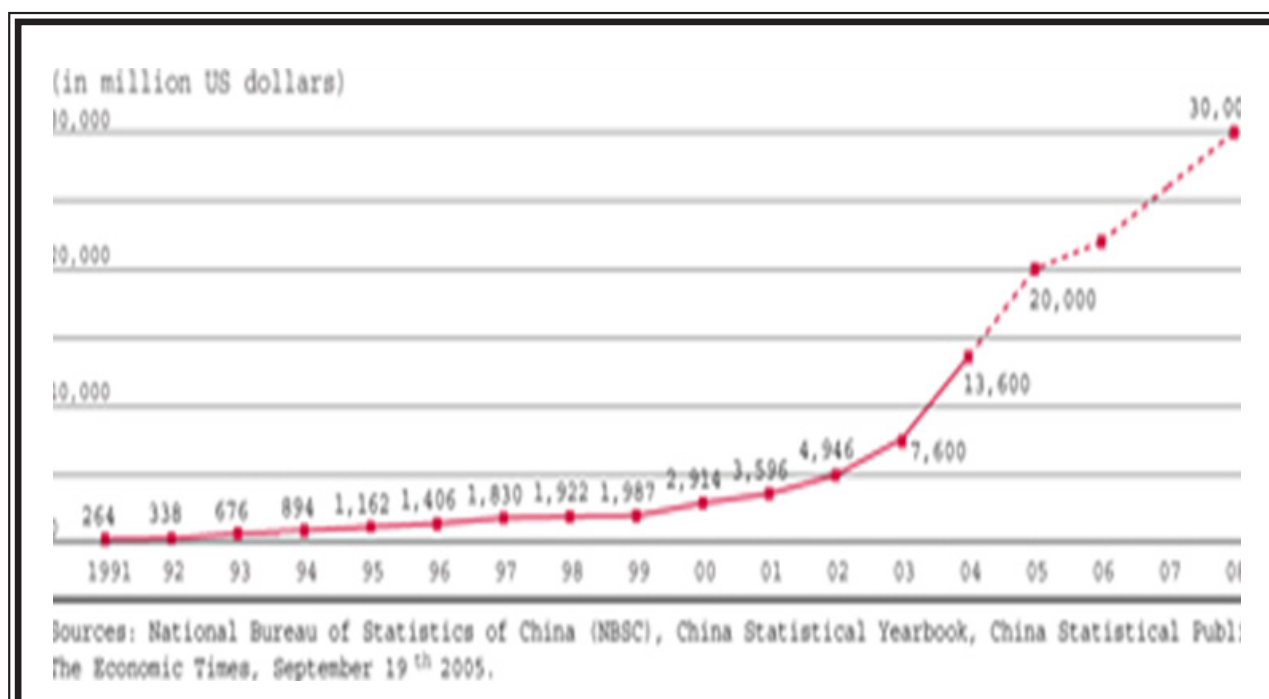
(Source: tradeeconomics.com)

UNDERSTANDING THE RISKFACTOR

To be sure, several large Chinese companies spanning handsets, electronic devices and internet firms are deeply invested in India’s consumer market where a fast growing middle-class and an aspirational young consumer base has helped propel the growth for companies such as Xiaomi Corp, BBK Electronics that owns brands such as Oppo, Vivo, among others; apart from electronics goods company TCL. India’s emergence as the biggest overseas market for Chinese mobile phone companies is one of the most significant developments in China’s relations with India over the past five years.



This boom in trade has also introduced new trends. The two states are no longer only recipients on foreign direct investment but have entered into a new phase of being investors, both mutually as in other regions. In this new context, the increasing deficit in the energy sector and the competition to capture new markets present major challenges to sustaining this boom in their bilateral trade.



The US and China have locked horns over tariffs, leaving the world on the brink of a trade war. China has said it would impose higher tariffs on \$60 billion of US goods from June 1 in retaliation against Washington's tariff hike on Chinese goods. Can China create a development paradigm where everyone is equal despite having

different political systems? And it is here we again come back to people-to-people contacts. It is only through the latter that a new consensus can be built around universal values for the 21st century. And China has to allow its citizens to freely participate in this process. It is my understanding that the current dispensation in Beijing is also working in this direction. Let's hope India and China can jointly usher in an Asian century.

CLOSING THOUGHT

India's consumers and industries must be prepared to tighten their belts, just as our soldiers are along the border. India needs jobs to provide incomes to its citizens, it needs industries to provide these jobs, and it needs to balance the trade with China to make it a trade between equals. Atmanirbhar Bharat is essential, otherwise 'interdependence' will be a colonial interdependence, as our ambassador astutely pointed out. Although opportunities currently exist, ASEAN countries will experience a bumpy ride if the U.S.-China trade war continues. To negate the underlying challenges, India and ASEAN will have to step up their commitment to multilateralism, proactively invest in infrastructure and production capacity and increase regional supply chain integration. In the coming year, India should also find ways to attract more foreign direct investment to build its labor-intensive industries and reinforce its connection to the global manufacturing chain. This should be an important policy direction for Indian Prime Minister Narendra Modi's government.

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