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Economic Measures by India Against China

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Why in News

India is considering a **range of economic measures aimed at Chinese firms amid the border tensions between two countries.**

- The **ban on 59 Chinese apps** is one of the economic measures taken by India, with other measures likely to follow if tensions along the **Line of Actual Control (LAC)** continue without disengagement.
- India wants to indicate that **China cannot continue trade and investment relations** as normal if China does not agree to return to the status quo of April before its incursions along the LAC began.

Key Points

- **Economic Measures Planned by India:**
 - The government is considering **trade and procurement curbs** targeting China.
 - It is also **increasing scrutiny of Chinese investments** in many sectors, and weighing a decision to **keep out Chinese companies** including **5G trials**.
 - Recently, the Union Minister for Road Transport and Highways has announced that **Chinese companies would not be allowed** to take part in **road projects**.

- **Implications:**
 - **Overall India-China Trade:**
 - In the India-China economic relationship trade is lopsided in **China's favour as China's exports to India account for less than 3% of its overall exports.** Thus China **could inflict immediate economic pain** if it chose to.
 - In 2019-20, India's imports from China accounted for **\$65 billion** out of two-way trade of \$82 billion.
 - **Dependence on Chinese Goods:**
 - India remains deeply dependent on Chinese goods, **whether they are procured from China or through other countries.**
 - India also relies on China for **crucial imports for many of its industries** including auto components and **Active Pharmaceutical Ingredients (APIs)**.
 - Between 70- 90% of APIs needed for the pharma industry of India come from China.
 - **Investments:**

On the investment front, Chinese investment in Indian tech start-ups has **crossed \$4 billion** spanning major investments in companies including Paytm, Swiggy, Ola and Flipkart.
 - **Possible Harm to Chinese Economy:**
 - The economic measures taken by India could **potentially cost Chinese companies billions of dollars** in contracts and future earnings.
 - For TikTok, one of the 59 apps banned, **India is the biggest overseas market with more than 100 million users.** Thus, the app is anticipating a **loss of more than \$6 billion**, most likely more than the combined losses for all the other Chinese companies behind the other 58 apps banned in India.
 - A move to restrict Chinese companies from India's 5G rollout would also have the similar effect of **costing hundreds of millions of dollars** in potential revenue.
 - Moreover, losing Indian market would come at a time when the Chinese economy is facing its own challenges in the **wake of the pandemic** and facing increasing barriers in many Western countries.

- **China's Stand:**
 - China has asked India to **review its recent economic measures** taken against it.
 - It has also stated that these economic measures are selectively and discriminatorily aimed at certain Chinese apps, going **against the general trend of international trade and E-commerce.**
 - It has also stated that such measures are **not conducive to consumer interests and the market competition** in India.
 - Chinese State media have also **widely criticised** calls in India to boycott Chinese goods.

China's History in Trade and Procurement Curbs

- **Background:**
 - **Economic sanctions** have been one of the **key tools** of Chinese coercion.
 - China usually uses economic sanctions with the countries with whom China faces territorial claims where sanctions include **restrictions on trade, encouragement for boycotts, and cutting off tourism.**
 - China used these measures to inflict **immediate economic pain.**
 - China's coercive actions are always **selective and focused** on targets where the **economic cost of coercing is low but the impact is high.**
- **Affected Countries:**
 - **South Korea:**
 - China had boycotted **South Korean goods in 2016 and 2017**, when South Korea had deployed the U.S. **Terminal High-Altitude Area Defense (THAAD)** missile system. In October 2017, South Korea had issued a list of assurances meant to clarify to China that it would not expand the scope of THAAD.
 - China had also placed curbs on tourism to South Korea, costing the country millions of dollars in tourism revenue.
 - **Japan:**
 - In 2010, China had restricted the exports of rare earth elements to Japan – a key ingredient for many electronics industries – following a **collision near disputed East China Sea islands.**
 - Two years later, mass protests organised by China led to boycotts of Japanese brands and, in some instances, violence targeting Japanese branded-cars and stores.
 - **Philippines:**
 - A dispute over the Scarborough Shoal in the **South China Sea** in 2012 led to China curbing imports on bananas and restricting tourism, costing the country millions of dollars in revenue.

Way Forward

- Losing a contract to India may cause some pain to companies, but will have a **minimal impact on the scale they are operating.**
- Thus, India needs to be very **selective in its measures.** For example, India can curb Chinese firms' involvement in the telecom sector in India, especially 5G trials. But at the same time a large part of the infrastructure India already has in place in the 4G network is all Chinese, so India will still need China for maintenance and servicing.
- The problem for India is it cannot inflict serious pain on the five-times-larger Chinese economy as a whole, even if it could hurt individual companies.

Source:TH