

Spotting an opportunity in changing fundamentals

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Growing Rivalry between the United States and China could spell a strategic moment for India

The slowdown in the global economy is compounded by the U.S. China trade war. As more sectors get drawn in, costs are rising and disrupting global supply chains.

The “Phase One” trade deal between the United States and China gives both sides a reprieve, especially since the U.S. stayed its hand in not imposing additional tariffs worth \$160billion in mid December. But the rift runs deep. Beyond trade, the chasm is growing. A technology war has erupted in the areas of artificial intelligence, digital space and 5G. Tensions have risen following the U.S.’s passing of the Hong Kong Human Rights and Democracy Act of 2019 and the proposed Uighur Act.

The Energy Concerns

Slack demand for energy and surplus production mainly by the U.S. had lowered oil prices, which was good news for India, given its huge imports. Lower energy prices may help India address its current account deficit. It can also make India’s export sector more competitive. But oil prices have surged more than 4% following the U.S. air strike killing Iranian General Qassem Soleimani, Commander of the Qods Force. An outbreak of hostilities would send oil prices soaring. Unlike India, China continues to buy Iranian crude oil and is its largest buyer. Reports suggest that China will invest \$280 Billion in developing Iran’s oil, gas and petrochemical sectors. India’s ramped up energy imports from the U.S. are likely to touch \$10billion in 2019/2020.

Trade Concerns

According to a State Bank of India “Ecowrap” report of July 2019, India has scarcely benefited from U.S. China trade. Of the \$35billion dip in China’s exports to the U.S. market in the first half of 2019, about \$21billion (or 62%) was diverted to other countries. The rest, \$14billion, was made good largely by the U.S. producers. Going by a UN Conference on Trade and Development report of November 2019, additional exports from India to the U.S. market in the first half of the year due to trade diversion amounted to only \$755million. U.S. tariffs on China seem to have made some other players such as Taiwan, Mexico, Vietnam and the European Union even more competitive. China is facing a great shortage of pork due to the outbreak of Swine Flu but India’s meat exports, primarily buffalo meat, reach China indirectly through Vietnam and the Philippines, adding to costs and reducing market share. Besides, India’s pork exports are meagre. China’s ambitious thrust on artificial intelligence, robotics, autonomous vehicles and space technologies

has goaded the Donald Trump administration into action. With tensions rising after the blacklisting of Huawei Technologies by the U.S., the spectre of a high-tech war looms large. As U.S. China tensions drive supply chains out of China, India could emerge as an alternative destination with the right policies, as Vietnam has done.

Key Regional Issues

The situation in the South China Sea is weighted in favour of China given its fait accompli in occupying several manmade islands. India has no role in negotiating the “Code of Conduct” with the Association of Southeast Asian Nations, though it is a participant in the “Quad” dialogue on broader issues in the Indo Pacific. India reserves the right to sail and fly unhindered through the South China Sea in accordance with the principles of freedom of navigation and overflight. On connectivity, the U.S.’s position is helpful to India. Recently, the U.S. Principal Deputy Assistant Secretary, Bureau of South and Central Asian Affairs Alice G. Wells criticized the China Pakistan Economic Corridor, which traverses Pakistan Occupied Kashmir, as eventually worsening Islamabad’s economic troubles. India is neither part of the Belt and Road Initiative (BRI) nor the Regional Comprehensive Economic Partnership. It is absent from the Indo Pacific Business Forum created by the U.S., Japan and Australia. A future challenge lies in India having to reconcile its own regional connectivity initiatives with the BRI projects that have mushroomed in the neighborhood. In the ideological battlefield, China’s economic success has emboldened it such that it challenges the liberal democracy model and offers an alternative developmental model based on its own system.

Overall, the military advances by China notwithstanding, U.S. defence spending far outstrips China’s budget. Its nuclear arsenal dwarfs that of China. With the creation of a U.S. Space Force as a separate arm under the U.S. Air Force, the U.S. will seek to increase its superiority in network centric warfare. As China’s anxieties in the Asia Pacific theatre grow, India may yet have to contend with a greater Chinese military presence on its periphery. The Western Theater Command created in 2016 is responsible for the border with India. It is the largest of China’s military regions, and the Tibet Military Command under it has been accorded a higher status than other provincial commands to widen its scope for combat preparedness.

The U.S. China rivalry coincides with an upward trajectory in India U.S. relations. This is important for equilibrium and multi polarity in Asia, even as India and China try and build much needed trust and cooperation.

SOURCE: *The Hindu*