Impact of US-China trade war on India

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What is the issue?

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There is a real opportunity for India to take advantage of the US-China trade war which has reached unprecedented levels recently.

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How do the US-China relations evolve?

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- Both the countries consider each other as 'co-operating rivals' and they wanted a 'win-win economic engagement' over the last few decades.
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- This position changed post the 2008 global financial crisis, which narrowed the gap between their economies.
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- By 2012, the gap between US and the Chinese economy was reduced to two-times, which was four times in 2007.
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- Hence, there was growing anxiety in the US about China's growth.
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- However, it is not just economic growth that has sowed seeds of discontent in the US.
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- China has been increasing its spending on military heavily in recent times.
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- China's military, vexed at the US control over trade routes, has also been trying to test its strength in the South China Sea.
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- China’s Belt and Road initiative has unnerved the US which sees it as an attempt by China to play a larger role in the world.
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- The Chinese, on their part, believe that the US is actively working to prevent their country from taking the rightful place in the world order.
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- It is clear that China does not like the idea of a uni-polar world but the US wants to keep it that way.
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- Also, the two nations do not see eye to eye when it comes to political values nor do they have common security interests.
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What are the advantages that china holds?

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- Over the years, taking advantage of low costs, US companies have increased their dependence on China for their supply chain needs and manufacturing.
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- Over 50% of the products such as of HP, IBM, Dell, Cisco, Microsoft and Intel or their suppliers use come from China.
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- China is the second largest exporter of auto parts to the US auto giants (after Mexico).
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- The list of sectors heavily dependent on China is long and US companies are realising the need to de-risk their operations in both supply chain as well as manufacturing.
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- The US is already pushing ICT players to reduce their dependence on China.
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- Investors are also beginning to question US companies on their fall-back plan if US-China relationship goes into a spiral.
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What are the opportunities for India here?

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- This situation presents a clear opportunity for Indian companies, since the US and India see each other as natural allies.

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- US companies have already started making enquiries about sourcing from Indian players, especially in the auto-component space.
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- But taking a share of China's supply chain or manufacturing is easier said than done.
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- Over decades China has invested a lot in upgrading its infrastructure.
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- Also, the scale of manufacturing is such that it will be difficult for India to match China in terms of cost.
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- However, the recent imposition of tariff by the US has created a level-playing field, at least in select sectors like auto components, leather and textiles.
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- These sectors have certain common traits that help them to be as competitive as those in China.
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- They can also take advantage of a strong domestic market in India.
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- They have already built a solid supply-chain network, since India cannot grab a share of the ICT exports from China unless it develops proper supply chain, especially in semi-conductors.
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- They also export a fair share of their production and, consequently, their quality is tested and is as good as anywhere in the world.
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- Thus the government must direct its 'Make in India' initiative on these sectors with suitable incentives.
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- Along with low manufacturing cost, logistics cost to move the manufactured goods from the factory to the destination is also critical.
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- For this, India has been building roads, improving port infrastructure/connectivity to the hinterland through Sagarmala and Bharatmala programmes.
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- It is also trying to enhance coastal shipping and boost transportation through inland waterways.
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- Despite that, to rival China on logistics costs, it has to redouble its efforts.
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- In developed markets, companies outsource 70% of their logistics operations that can be outsourced to lower costs, wherein in India it is just 35%.

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- Also, despite improvements in 'ease of doing business', India has a long way to go in reforming labour laws and the land-acquisition process which are essential for lowering costs further.
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- Indian entrepreneurs, for their part, must take advantage of the situation and invest aggressively.
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- De-risking from China will remain a long-term strategy for the US and European companies.
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- Higher exports will also help in neutralising domestic cycles that plague some sectors such as auto components.
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- Many Indian entrepreneurs have been investing abroad to de-risk their investments in India so far.
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- If the above measures make them start investing in India, then India could become a manufacturing hub for the world, as East Asia and China in 1980s and 1990s respectively.
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Source: Business Line

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