

# SPOTTING AN OPPORTUNITY IN CHANGING FUNDAMENTALS

Relevant for: International Relations | Topic: World Trade, WTO and issues involved

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 \$160-billion 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 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.

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 petrochemicals sectors and even station Chinese security personnel to guard Chinese projects. Dependence on China prevents Iran from criticising China on its policies in Xinjiang. In tensions with the U.S., Iran sees in China a sympathiser.

India’s ramped up energy imports from the U.S. are likely to touch \$10-billion in 2019-2020. Meanwhile, China’s interest in Saudi Aramco’s initial public offering and interest in weakening the dollar in the global energy market has grown. It is forging closer ties with oil producers that are in the U.S.’s cross hairs on human rights and governance issues. This facilitates its naval presence in the western Indian Ocean, including the Strait of Hormuz.

According to a State Bank of India “Ecowrap” report of July 2019, India has scarcely benefited from U.S.-China trade. Of the \$35-billion dip in China’s exports to the U.S. market in the first half of 2019, about \$21-billion (or 62%) was diverted to other countries. The rest, \$14-billion, 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 \$755-million. 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 an 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.

The big three Chinese high-tech companies, Baidu, Alibaba and Tencent, together poured in \$5-billion in Indian startups in 2018. India could use this opportunity to try and force China to pry open its market to India’s IT and other tech exports. The U.S.-China high-tech war threatens

India's strategic autonomy. Yet India has decided to allow all network equipment makers, including Huawei, to participate in 5G spectrum trials. The outcome is far from clear.

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.

Any impact on clean energy targets in China due to U.S. technology restrictions in the nuclear field could be a setback to efforts to reduce emissions and mitigate climate change in the entire region.

Denial regimes often spur domestic research and development and if the development of India's own missile programme during years of U.S. sanctions is anything to go by, China may yet succeed in riding out the storm on the technology front.

China claims that the U.S. is behind the disturbances in Hong Kong. There is no sign of the protests abating. If things turn uglier, India may have to cater to refugees of Indian origin.

The situation in the South China Sea is weighted in favour of China given its *fait accompli* in occupying several man-made 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 criticised 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 as also from the Blue Dot network. A future challenge lies in India having to reconcile its own regional connectivity initiatives with the BRI projects that have mushroomed in the neighbourhood.

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.

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.

*Sujan R. Chinoy, a China-specialist and former Ambassador to Japan, is currently Director General of the Institute for Defence Studies and Analyses (IDSA), New Delhi. The views expressed are personal*

You have reached your limit for free articles this month.

Register to The Hindu for free and get unlimited access for 30 days.

Already have an account ? [Sign in](#)

Sign up for a 30-day free trial. [Sign Up](#)

Find mobile-friendly version of articles from the day's newspaper in one easy-to-read list.

Enjoy reading as many articles as you wish without any limitations.

A select list of articles that match your interests and tastes.

Move smoothly between articles as our pages load instantly.

A one-stop-shop for seeing the latest updates, and managing your preferences.

We brief you on the latest and most important developments, three times a day.

\*Our Digital Subscription plans do not currently include the e-paper ,crossword, iPhone, iPad mobile applications and print. Our plans enhance your reading experience.

*Why you should pay for quality journalism - [Click to know more](#)*

Please enter a valid email address.

Subscribe to The Hindu now and get unlimited access.

Already have an account? [Sign In](#)

Sign up for a 30-day free trial. [Sign Up](#)

To continue enjoying The Hindu, You can turn off your ad blocker or Subscribe to The Hindu.

[Sign up for a 30 day free trial.](#)

**END**

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com