

# HOW TO COUNTER CHINA

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

The [June 15 clash between India and China in the Galwan Valley](#) offers a glimpse of what may lie ahead for India. Despite New Delhi's nuanced diplomacy, China's authoritarian turn at home and assertive behaviour abroad underscore a growing problem. India's China challenge couldn't come at a worse time. While working to contain the COVID-19 pandemic, India finds itself struggling to navigate an economic emergency. Success — and keeping Beijing at bay — will hinge upon completing the transformation begun in 1991.

China's economic opening-up has left India behind, contributing to a military imbalance. In 1987, both countries' nominal GDP were almost equal. China's economy was nearly five times larger than India's in 2019. Not coincidentally, from rough parity in 1989, China's military spending last year more than tripled India's. India's pronounced economic slump, predating the epidemic, won't help right this equation. The government's near-term attention may be consumed by tending to the swelling ranks of the poor. Limited fiscal and monetary tools, and dried-up private financing, constrain India's options. Heightened vigilance along the LAC demands summoning scarce resources. Defence budgets were already tightening. If India cannot close the economic gap and build military muscle, Beijing may feel emboldened to probe the subcontinent's land and maritime periphery.

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The root causes of India's economic woes can be traced to a slowdown in reforms. In 1991, India enacted changes allowing markets to set commodity prices but did not similarly liberalise land, labour and capital. Nearly 30 years after historic reforms, Prime Minister Narendra Modi has the opportunity to launch big, structural change, to eventually resume growth above 8% and keep China at arm's length.

This spring, the government has delivered mixed messages about a revitalised reform agenda. Officials have discussed land and labour changes, while reaffirming an interest in integrating India into global value chains. Several States have temporarily lifted labour restrictions, eliciting concerns about going too far, while others intend to make land acquisition easier. But Delhi's drumbeat of self-reliance could inhibit growth and constrain investment in a more vigorous foreign and defence policy. To be clear, greater self-sufficiency can be salutary. Home-grown manufacturing of critical medicinal ingredients or digital safeguards on citizens' personal data would reduce vulnerabilities. Conversely, imposing protective barriers to build-up local defence industry would hamper acquisitions helping balance Beijing.

In the coming years, India's most important contest with China will likely unfold in C-suites and boardrooms. Right now, China faces intense scrutiny resulting from the pandemic, geopolitical competition, trade wars, and economic coercion. Businesses are revisiting whether or not to diversify suddenly exposed international value chains. India's rivals are staking their claim on regulatory predictability, stable tax policies, and fewer trade obstacles. While India remains outside the Regional Comprehensive Economic Partnership, competitors are wooing companies seeking lower trade barriers. Asian countries are pushing ahead: Vietnam just inked a trade deal with the European Union that threatens to slice into India's exports.

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India urgently needs increased exports and investments to provide more well-paying jobs,

technology, and know-how. Businesses purchase cost-efficient inputs overseas for use in higher value, manufactured exports. Before committing to long-term, multi-billion investments, companies often want to test India's market through international sales. Liberalisation remains the tried-and-true path to competitiveness. If India can unite its people and rapidly strengthen capabilities, it will likely discover that China is kept more honest. The choices that India makes to recapture consistent, high growth will determine its future. Bold reforms offer the best option to manage Beijing and achieve greater independence on the world stage.

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