

IT'S TIME TO PLAY HARDBALL WITH CHINA OVER ITS MISADVENTURES

Relevant for: International Relations | Topic: India - China

Policy and public actions that squeeze its business interests might beget better behaviour of Beijing

Social media has been abuzz with righteous anger over China's bid to destabilize our borders (ie, the Line of Actual Control). This time, it is not a minor incursion in one area. It is along many segments of our northern borders. The Bully of Asia needs to be stood up to and made to pay for it. Not doing anything is not an option.

Many public personalities, from Sonam Wangchuk (the inspiration behind the lead character in 3 Idiots) to actors like Arshad Warsi (of Munnabhai fame) to yoga guru Baba Ramdev have called for a boycott of Chinese apps and products. These calls are directionally right, but need strategic calibration.

China has taken the benefits of trade for granted even while pursuing its aggressive border incursions at regular intervals to keep us off-balance. Sometimes it uses its influence with Pakistan to unsettle us. Since a full-blown war does not make sense for us (or for China), our actions should be aimed at unsettling China on trade. Beijing believes that we cannot afford to do without Chinese products. This is true in the short run, but not in the medium term. Elementary economics tells us that every product ultimately has a substitute or alternative source of supply.

An easy counter-attack would be to orchestrate a boycott of Chinese apps and brands (but not inputs), which can be done with social media propaganda and the support of organizations outside government (the Swadeshi Jagran Manch, other NGOs, etc). The government could help by blocking access to certain apps that fall afoul of Indian norms. China cannot complain, for it is the world's biggest blocker of foreign apps and websites.

It is when we come to products that we need better calibration. Any sudden boycott will damage us more than China in the short run, as thousands of small and medium businesses survive by importing, repacking and reselling Chinese products, from Ganesha idols to agarbattis to active pharmaceutical ingredients to everyday gadgets.

Getting back at China would mean developing a multi-year strategic plan to make it pay even while maintaining a façade of friendliness. For starters, we should ask all our domestic units to reduce their dependence on China for sub-assemblies and inputs to a range of 25-30% of final product value. The rest can be sourced from other countries, or produced locally. Chinese companies already producing wares in India could be told that their import value must be less than 20% over three years, failing which duties will be raised.

To reiterate, our game plan should focus on (1) posing an immediate threat to Chinese companies where the loss to us is minimal; (2) excluding Chinese companies from benefiting from our market with the use of non-tariff barriers; (3) preparing a plan to reduce our China dependence; and (4) getting Chinese companies out of strategic areas in our economy (till Beijing relents).

In category 1 would be a private campaign to uninstall many Chinese apps, from TikTok to

PUBG. Where needed, the government can block specific apps based on privacy and data concerns.

In category 2, India needs to designate sectors that are technologically and strategically important to us. Telecom is an obvious example. China can be excluded by clearly enunciating a policy whereby companies from countries with which India has unresolved military issues cannot be given Indian business for security reasons. This would bar Huawei from our 5G rollout.

In category 3, we should ask most of our import-dependent sectors—from pharma companies to toy makers to mobile phone companies—to start working on an import substitution plan without compromising efficiency. Chinese companies already in India can be asked to do the same. Our policies should give favourable treatment to Indian companies to catch up on the economies of technology and scale, so that Indian consumers do not have to pay an exorbitant price for inefficiencies. In three years, it should be possible to curtail Chinese imports, where we currently run a trade deficit of over \$50 billion annually. Our goal should be to avoid running a trade deficit that is more than 50% of our exports to China.

In category 4, we have already taken the first step by making Chinese acquisitions of Indian companies subject to government clearance. Chinese investments are concentrated in the tech and startup sectors, but the total investment is under \$10 billion. We should ensure that ownership of critical tech firms does not pass on to Chinese companies, and if they want to exit, the government should enable Indian companies—or even billionaires from friendly countries—to buy them out. We should, however, not object to the Chinese taking minority stakes in our firms.

The problem with China is that it is a non-transparent and authoritarian country with a desire to become the world's hegemon. It is no different politically from a North Korea, even though it is more prosperous and also an emerging superpower.

For India, the immediate aim should be simple: We must make China pay for its transgressions. Instead, we gift it more than \$50 billion annually in trade surpluses—money it could use to destabilize India. We are paying China to harm us. How daft is that?

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