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INDO-CHINA BORDER CONFLICT, REGIONAL GEOPOLITICS AND BILATERAL TRADE

Md Sajjad Hosain**Business School, Sichuan University, Chengdu, Qingyang District 610017, China.***Corresponding Author Email ID: sajjad_hosain@yahoo.com*

ABSTRACT

Being two giant economic players of the world, China and India experienced a disastrous border conflict in the Ladakh area of the Line of Actual Control (LAC) during April 2020, just at the beginning of the Covid-19 outbreak. This theoretical paper is an effort to identify the tentative impact of that border clash on the bilateral trade between two countries from the perspective of regional geopolitics. The author has utilized secondary information such as newspapers articles, journal articles, online sources, and economists' opinions on this issue as well as has made some predictions based on the previous bilateral trade statistics. The author proposes that even though the border issue has become very sensitive and important for both countries regarding the geopolitical necessity, the bilateral trade scenario will not be much affected on a substantial scale on a long-term basis. The author further predicts that a likely trade conflict between the two economically promising countries will be contagious for both. Finally, the author expects this paper to be beneficial for further research attempts focusing on the geopolitical economy of bilateral trade.

Keywords: China, India, Border conflict, regional geopolitics, Bilateral trade, Economy.

INTRODUCTION

According to the recent economic statistics, China is the second largest, and India is the fifth-largest economy based on nominal GDP (Business Insider, 2020). It should be noted that in terms of the size of the economy, India surpassed the UK and France in 2019 whereas China achieved the second position a few years ago (Business Insider, India, 2020). On the other hand, according to Global Fire Power (2020), China is the third and India is the fourth military power in the world after the US (first) and Russia (second) based on the military capacity and spending of the annual budget on the military. Most importantly, the two countries, China and India have more than one-third share of the global population (Worldometers, 2020). In this regard, China is the first country having a population size of 1,439,323,776 (18.2 percent of the global population) whereas India is the next one with a population size of 1,380,004,385 (17.5 percent of the global population) (Worldometers, 2020). The two countries are also the possessor of nuclear weapons.

The two countries share almost 4000 kilometers of common borderline (Karackattu, 2020). Although in many aspects, the two countries are different, they are mutually dependent on each other for mutual trade such as the source of raw materials and cheap agro products. As a matter of fact, they are the largest trading partners to each other. They have the largest consumer and industrial market for each other. Perhaps for such a reason, both countries have been maintaining steady diplomatic relationships till 2017. However, in 2017, two powers involved in a temporary clash in Doklam, near a tri-junction border area, known as Donglang, or Donglang Caochang (meaning Donglang pasture or grazing field), in Chinese. On 16 June 2017, Chinese troops with construction vehicles and road-building equipment began extending an existing road southward in Doklam, a territory which is claimed by both China as well as India's closest ally, Bhutan. Two days later, on 18 June 2017, Indian troops armed with weapons and two bulldozers crossed the Sikkim border into Doklam to stop the Chinese troops from constructing the road. On

28 August, both India and China announced the withdrawal of all of their troops from the face-off site in Doklam. (Los Angeles Times, 25 July 2017).

However, in April 2020 amid the COVID-19 outbreak, a long-running border dispute between India and China in the Himalayas erupted into violence killing at least 23 and wounding several other members of India's military (Pangong Lake: India and China complete pull-back of forces, 21 February 2021). The damage of the Chinese side is still unpublished although it can be expected that the same number of dead or wound happened. The deadly dispute turned into an all-out media and civil-blaming war between the two countries although the top authorities assured that the situation will be treated with utmost patience and cooperation. In the meantime, Indian people and political parties called for boycotting the Chinese products and companies. However, such protests and anger are more nationalism-centric rather than economic and mutual interest perceptions.

This paper has focused to identify the tentative impact of that border clash between the two nations on their expected future bilateral trade scenario. It should be noted that these two countries, at the same time, are the biggest sellers and buyers in the world. Further, the trading options between the two countries are very favorable for each other. For example, there is very little transportation cost due to the advantage of proximity. Thus, according to the author, the authorities of these countries will uphold the economic interests rather than involving in an expensive and disastrous trade war that has already been continuing between the US and China (Hosain & Hossain, 2019; Hossain & Hosain, 2019) since 2020. Further, he predicts that the call for boycotting the Chinese companies and products inside India will not last for a longer period as it would also provoke the Chinese authority and people to make a similar call.

GEOPOLITICAL INTERESTS, NATIONAL EGOISM, AND A CALL FOR BOYCOTT

In general, according to most political scholars (Tsfamichael, 2011; Cohen, 2009; Huntington, 1993), there are mainly two basic causes for political conflict. The first one is the political, religious, or ideological differences (Chabal & Daloz, 1999; Huntington, 1993) whereas the second reason is more specific: to create geopolitical influence by trying to capture disputed territorial areas and natural resource bases (Tsfamichael, 2011; Cohen, 2009). In this paper, the

author basically wants to highlight the second reason as the source of tension between Indo-China borders that led to a call for a boycott of Chinese products inside India. The issue of inter-state boundary disputes has been the primal focus on a political perspective in understanding the political tensions.

Prescott (1987); Donnan & Wilson (2001); Cohen (2009); Flint (2006); and Gavrilis (2008) are some of the leading political scholars in explaining the causes of territorial disputes. Flint (2006) and Prescott (1987) had a unified agreement regarding border as the region adjacent to the boundary while borderland (sometimes called "no man's land") is defined as both sides of the boundary and frontier. In media, both the words are used as "generalized" terms (Prescott, 1987). Yet, the existing literature is still a matter of explanation as authors such as Anderson (1996) refers to the frontier as a synonym to borders and as both institutional and a process showing the limit of a country's autonomy (Tsfamichael, 2011), and at the same time, as an instrument of its policy and "markers of identity" (Donnan & Wilson, 2001).

Such geopolitical conflicts often lead to raising national egoism that consistently creates hatred toward opposing nations as well as a call for boycotting the product and/or services produced in that country (Barwick et al., 2018). Such a call can come from the ruling political parties, the opposition parties, social and public groups, and from general people. The callers induce the common people to use local products rather than foreign products although the specific aim of such boycotts is to avoid the products or services of the country that is in conflict.

IS A CALL FOR BOYCOTT EFFECTIVE? PREVIOUS STUDIES

Literature indicates that the call for a boycott has mixed effects on the sales revenue. As an example, during the US call for French wine in early 2003, Ashenfelter et al. (2007) found almost no effect while Bentzen & Smith (2007) and Chavis & Leslie (2009) identified a short-term effect of that boycott. During the tensions between China and Japan in 1990 and in 2006, Davis & Meunier (2011) discovered no effect on imports of Japanese products whereas Heilmann (2015) identified a quick one-year decrease in Chinese imports of Japanese cars after the 2012 boycott. Pandya & Venkatesen (2016) reported an insignificant impact of a US boycott on

French-originated supermarket consumer brands during the war on Iraq in 2002/2003. Hong et al. (2011) also found a short-term dip in the market share of French automobiles in China amid calls to boycott French products after the 2008 Olympic torch relay was disrupted in Paris and contemporary French president Nicolas Sarkozy met with the Dalai Lama (Barwick et al., 2018). Fouka & Voth (2013) reported that Greek consumers noticeably reduced purchases of cars manufactured in Germany during the sovereign debt crisis of 2010-14, particularly in those areas that were severely harmed in the Second World War. However, other actions of boycott impacts are more indirect, such as firms' stock market performance (Heilmann 2015; Fisman *et al.*, 2014; Govella & Newland, 2010). However, Barwick *et al.* (2018) confirmed that consumer call for boycotts can also have a noteworthy and constant effect, based on a more spatially disaggregated dataset of boycott actions and the individual registration records of new passenger vehicles in China during the escalation of tensions between China and Japan in 2012. Based on their experiment, they reported that the consumer boycott that arose during escalated geopolitical tensions between China and Japan in 2012 over disputed islands had a significant and persistent impact on consumer buying patterns. Japanese-branded automobiles lost significant market share as the immediate consequence of the boycott and that loss of market share continued for the next several years, through the end of 2015. Obviously, the negative effect was significant in those cities that witnessed anti-Japanese protests. In a nutshell, the losses of Japanese auto manufacturers and exporters were substantial. The sales dropped by 1.1 million units from August 2012 to the end of 2013, with an estimated value of nearly 200 billion Yuan (Chinese currency) during that period (Barwick *et al.*, 2018).

INDO-CHINA TRADE RELATIONS

India and China are two of the most powerful countries not only in the Asian continent but also from a global perspective. The two countries have emerged as the new trendsetters in international trade in respect to both demand and supply aspects arising from the huge population (Janardhan, 2015). Historically, the two nations had a cordial cultural and trading relationship due to ancient Buddhism and the pre-historic silk route. However, due to the Tibet issue and the establishment of

the “Machmohan Line”, the relationship started to get bitter slowly (Bisen & Kudnar, 2019). The two countries had engaged in a short war in 1962. However, interestingly, although India is the largest trading partner of China, it had a huge trade deficit with China till the last nine months of the fiscal year 2019 (The Economic Times, March 2020) which is equivalent to USD 41.2 billion.

China and India: Trade statistics

China is India’s second-biggest trade partner just after the US and its companies have a significant market share in the consumer goods segment, especially electronics. Till February 2020, the country exported goods worth USD 62.37 billion to India whereas it imported goods worth USD 15.54 billion from India (The Economic Times, March 2020). Therefore, the trade gap is obviously in favor of China and against India according to the trade statistics. The following figure (Table 1) illustrates the bilateral trade statistics between China and India from 2015 to February 2020. Major export items by both the countries have been illustrated in table 2.

Table 1. China-India bilateral trade (2015-February 2020): China enjoys a Big Trade Surplus with India in \$ billion

Fiscal Year	Exports	Imports	India’s Trade Deficit
FY15	11.93	60.41	48.48
FY16	9.01	61.70	52.69
FY17	10.17	61.28	51.11
FY18	13.33	76.38	63.05
FY19	16.75	70.31	53.56
FY20	15.54	62.37	46.83

*April-February

Source: The Economic Times, March 2020

Table 2. Major products of export by China and India (2019 to February 2020)

Chinese exports to India	Indian exports to China
Electric machinery and equipment	Rice
Mechanical appliances	Meat
Organic chemicals and raw materials for medicine	Fish
Plastics and toys	Edible oil
Fertilizers	Fruits

Source: The Economic Times, March 2020

It can be observed from the above figure and table that both the import and export between two countries has a steady growth over the years with a minor fluctuation. China exports mostly small electric appliances to India whereas India exports mostly agro products to China. However, the 2020 border clash can have a very negative impact on this trade relationship between the two nations.

Boycotting the Chinese products in India: A firm call or just a temporary anger on Chinese products?

A few nationalist parties and politicians in India have been calling for using local products as much as possible. Of course, it is very usual and obvious judgment in the perspective of nationalism or patriotism. Particularly, after being elected as the Prime Minister of India for the second time in 2019, Mr. Narendra Modi and his Government with the support of his political allies strengthened the voice "Vocal for Local". After the border clash between the armies of two countries, such a campaign got much popularity among the Indian citizens, and they were protesting against the Chinese products in India. However, before proceeding further, we should closely look into the facts further as described in the following sections.

First, it should be noted that even for the medium quality products, the Chinese ones are the cheapest in the world (Hosain, 2019). Till the beginning of 2020, India was the largest trading partner of China importing near about 14 percent of its products from China and it is growing every year (Trading Economics, 2020). The country imports many raw materials as well as finished products such as steel, minerals, etc. from China due to heavy internal demand. Therefore, if the Indian consumers talk about boycotting Chinese products, it can only be done in the case of finished products but the imports of raw materials from China cannot be stopped or are very difficult to avoid. The reason is obvious, if the Indians really boycott Chinese products, they must buy such products from any other country anyway. The net result will be higher cost due to the higher price and higher transportation costs.

Second, India also imports many electronic consumer durables such as electrical devices, mobile phones, cars, medicinal drugs such as leprosy medications, and different antibiotics from China. Also, the Chinese smartphones (such as Lenovo, Oppo, and Vivo) account for USD 8 billion of India's smartphone market (Business

Insider, India, 2020). In this case, if India adopts the strategy to boycott Chinese products, the local demand in India will contract drastically which might result in lower GDP through the contraction of the economy. Third, many Chinese firms have installed their production units in India employing hundreds of thousands of local people. If India boycotts Chinese products, these companies may face pressure from Chinese officials to stop their production in India, which may leave hundreds of workers unemployed.

Fourth, as mentioned above, India imports nearly seven times more from China than it exports. If India plans to boycott Chinese products, finding a substitute to match the cost and availability is almost impossible. Finally, as an obvious retaliative action, if Indian importers really stop importing products from their Chinese counterparts, the Chinese importers will take the same action. Furthermore, the Chinese officials may impose higher taxes and/or duties on imported Indian products to China which they have already done for the US companies (Hosain & Hossain, 2019; Hossain & Hosain, 2019). All such actions and reactions, thus, will reduce the GDP of India at least in short-term and mid-term periods. Therefore, boycotting the Chinese products will at least not be positive for the shorter period for the Indian economy. Many sectors of Indian manufacturing such as mobile handset, pharmaceuticals, and smaller engineering are largely dependent on Chinese raw materials.

Impact on Chinese trade if India boycotts Chinese products

However, if, in any case, India boycotts most of the Chinese products, China will also be affected to a great extent. As India is the largest importer from China, the country cannot subsidize the losses arising out of such a boycott. No other country has the size of the population like India who is mostly the users of cheap products. Further, China has been involved in political and trade disputes with the USA (Hosain & Hossain, 2019; Hossain & Hosain, 2019), Canada, and Australia. As it can be anticipated, such disputes will reduce the Chinese exports to those countries as well. Therefore, China cannot meet the losses of the Indian boycott merely by looking and developing a new consumer market.

The Indian consumers will be the ultimate losers

As mentioned in the previous section, any step of boycotting Chinese products will be a net contraction of

Indian GDP and economic growth. Further, many people will lose their jobs due to the relocation of many Chinese manufacturing plants from India. Not only many Indian people will lose their jobs in their own country but also the Indian expatriates working in Chinese firms elsewhere in the world will also be affected adversely. Furthermore, the prices of many daily necessities will go up sharply as the Indian firms will have to collect such finished products or raw materials from other countries with comparatively higher prices and pay higher transportation costs. Therefore, although, it sounds good to boycott the Chinese products from a nationalist perspective, the real scenario after calculating all those issues involved are much more complicated for the Indian counterpart.

THE TRADE TENSION WILL LIKELY LAST TEMPORARILY

The author argues that although the public voice against Chinese products is very high in India due to the recent border clash and rising political and national egoism, it will last only for a temporary basis, not for a longer period. He expects that the Indian and the Chinese policymakers will think of long-term mutual benefits rather than short-sighted anger and egoism. It is a matter of hope that both the countries have already agreed to keep peace and withdrawn their troops and armed vehicles from the disputed border areas (India-China clash: More than 20 Indian troops killed in Ladakh fighting, 16 June 2020). However, it is just a prediction, and the future can only tell the truth. But obviously, it can be predicted that it will not be a benefit for both the countries if they engage in an all-out trade war like USA and China.

RESEARCH LIMITATIONS AND FURTHER SCOPE FOR INVESTIGATION

This is a theoretical paper based on published journal articles, newspaper articles, Internet sources, and books. He has not used any primary data or perceptions of the trade-related stakeholders from the two countries. The author believes that there are scopes for further investigation based on factual data and/perception-based surveys. He expects this study to be the founding baseline for the interested upcoming scholars who would like to conduct empirical studies on the areas of political economy.

THEORETICAL AND PRACTICAL IMPLICATIONS

According to the knowledge of the author, this is the first paper that has made a theoretical predictive investigation on the Indo-Chinese border clash in Ladakh. He expects that the paper at least opens a window for the researchers to investigate more on this recent issue. Further, he expects that the policymakers of both sides will make every possible effort to reduce the border tensions considering the consequences of engaging in an all-out trade war that can harm both economies and world order for trade and commerce.

CONCLUSION

This paper has tried to analyze the negative consequences of an all-out trade conflict between India and China that originated from the contemporary border clash. He proposes that the issue of trade and economics should be treated separately from the geopolitical point of view. Thus, the aim and subject matter of the paper have been written purely from the economic context, not on the pure military or political contexts. As the two sovereign neighbors, the highest authorities of both the countries reserve their respective rights on taking any decision for the greater welfare of their country and people. The scholars can only highlight the issues that can be reflected in their papers.

It is a good sign of relief that both the countries agreed to de-accelerate the tension and de-engage their excessive troops at the Ladakh border. Further, the foreign ministers of the two countries have agreed to avoid any unforeseen circumstances at the border in the future. Such a positive step will calm the tension in both the political and bilateral trade arenas. No country has benefitted so far from an all-out trade war as the world is like a global village. Every now and then, we need to depend on our neighbors. In the case of India and China, the statement is more realistic as the superpowers regarding economic and military issues. Therefore, for the greater benefit of both countries, an all-out trade war should be avoided at any cost.

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