



# Drexel Hamilton

A Service-Disabled Veteran Owned & Operated Business

## Outside the Wire

### India, China, and the World Economy



Photo Illustration/Getty Images

On January 5<sup>th</sup>, 2021, the White House declassified a document called “U.S. Strategic Framework for the Indo-Pacific”, which was supposed to be secret until December 31, 2042. This document highlighted the conflict between the U.S. and China, and brought forth more information about the ongoing skirmish between India and China. The purpose of the paper was to discuss a strategy, meant to prevent the further rise of China by means of supporting the economy and military defense of India.

There has been a great deal of information presented throughout the past year that shows U.S. involvement in the ongoing India-China conflict. The U.S. and several partners seek to slow down China’s economic rise by supporting India. The theory is that India might take some market share from China. The Strategic Framework sheds light on the conflict between India and China, and how it might affect the future of the world economy.

### Current Tensions Between India and China

The India-China conflict has been ongoing for decades. It started with the Indo-China War, which began and ended during the winter of 1962. The war began over disputed border between the two countries. Since then, there has not been much progress and the original dispute still lingers.

On June 15, 2020 an incident occurred which left 20 Indian and 43 Chinese soldiers dead. This was the first time there were deaths from a conflict between India and China since they were at war. Under a bilateral agreement between the two countries, neither is allowed to use firearms against each other unless it is an act of war. As recently as January 20, 2020, around 75 troops from China and India became too close, engaged in an argument that turned into hand-to-hand fighting with sticks and fists.

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## India and China border tensions

Indian and Chinese troops fought on a contested border "last week" according to Indian military sources on January 25



Map locating the area on a remote Himalayan region that was at the center of border standoff between Chinese and Indian troops this year. Photo: AFP / AFP

The question that remains is “Why has this conflict been getting worse?” The answer is that India has been building up its infrastructure on its side of the border. China retaliates against this by boosting the presence of their armed forces in the area.

Adding more pressure to China, from 2018 through 2019, the U.S. became India’s largest trading partner, surpassing China. At the same time, the ongoing trade war between the U.S. and China caused an expansion in business with India. A measure in U.S. exports from India showed an increase of almost a billion dollars (755 million) in the first half of 2019. China re-took the role as India’s largest trading partner in 2020 during the global economic slowdown.

### Why Does This Matter?

China is currently the largest exporter of general goods in the world. While India ranks further down the list of exporters, they are the second most populous nation. It remains to be seen whether India can replace China as the world’s largest supply chain. We believe that the potential exists as their economic ties deepen with the U.S. and other nations.

Along with the increased military tensions between India and China at the border, India’s government is making an effort to deter its reliance on China for imported products. Some of the largest categories of imports include communications and mobile technology, agricultural products, clothing and textiles, general consumer goods and transportation-based products. For example, the Indian government has moved to ban over 150 popular Chinese-developed apps. Additionally, India has been strategically growing its relationship with fellow members of the Quadrilateral Security Dialogue or Quad, which includes the U.S., Japan, and Australia. The countries of Japan and Australia have also sought to maintain a balance of power and check China’s rise. Thus, any deeper ties that India develops with these countries will be crucial to the international balance of power specifically in the Indo-Pacific region.



A man showed support June 30 in New Delhi for India’s ban of Chinese apps. Photo: ALTAF QADRI/AP

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## Current Observations and Future Risks

The released document outlines a potential strategy to check the rise of China’s economic power. The first part of this strategy was demonstrated during the U.S.-China tariffs during the Trump Administration. The second component of the strategy is deepening ties with Chinese competitors like India. We think investors and market participants should be watching for signs of this cooperation specifically through defense deals and potential trade agreements.

Additionally, we will watch to see if a growing conflict between India and China could spark instability in the global economy.

## Future Developments in the U.S.-India Relationship

It has been nearly three years since the “trade war” began between the U.S. and China. One similarity between the Biden Administration and the Trump Administration is that they both want to curb America’s reliance on China for many goods and services. President Biden is not looking to loosen the reigns with China, and the trade war between us is likely here to stay.

As a result of the Strategic Framework, we know that the U.S. sees its relationship with India as a “strategic imperative”. While America’s relationship with China will probably remain unchanged, India is a democratic country that shares the same goals of counterbalancing Beijing.

On the military front, our relationship with India is building too. Last month, the U.S. and India agreed to a major defense deal that Washington typically signs with close allies. This deal will allow India’s government agencies access to U.S. satellite data crucial for targeting missiles and other military assets. We will continue to watch for these agreements and others and gauge their impact with the world’s second largest economy.



Indian Special Operations soldiers preparing for a Military Free Fall training exercise. Photo: SOFREP

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