



Weekend Ruminations

The market as weapon: What China has long exploited India has rarely used

Opening up India's market to neighbouring countries can be as strategic as access denial to others. The game should be played both ways, even if it upsets domestic business lobbies.

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Less than two years ago, Saudi Arabia lent \$6.2 billion (roughly half of it comprising oil on credit) to Pakistan as it teetered on the edge of international default. Now it has recalled the loan and ended the oil credit facility. China has stepped in to help Islamabad with emergency cash, but in the meantime a \$6-billion loan agreement with the International Monetary Fund is on ice. Islamabad's ties with the United Arab Emirates (UAE) too have soured. The provocation is Kashmir, on which both the UAE and Saudi Arabia have ignored Pakistan's wishes because Gulf politics is no longer what it was. There can be little doubt about one reason why: India is the world's third-largest consumer of oil. In a surplus market such consumers are to be humoured, not offended — as Malaysia discovered in January, when India stopped buying its palm oil as a response to its comments on Kashmir.

India's market size is a weapon waiting to be used. As is well known, the country happens to be the world's second-largest market for mobile phones, the third-largest currently for solar power equipment, the second-largest importer of arms, and the largest consumer base for such companies as Facebook and (until recently) TikTok. This power of the purchaser has rarely been used in the past by New Delhi. That is in part because its middle-class market wasn't quite so big earlier; it is only the other day that India became the world's fifth-largest economy. And in part because it is relatively recently that the world began to move away from rule-based multilateralism, thereby opening up space for tactical bilateral moves.

China has long exploited access to its market as a lever to bring other countries to heel. It did so recently against Australia and in the past with the Philippines, Bolivia, and others. It has also systematically discouraged imports from India, making it difficult for India's tech services companies to function in that country. Beijing has had its way with even the bigger powers because Japanese, American, and German companies have been hugely dependent on sales in China, while others like Apple, Nike, and various clothing brands have depended heavily on Chinese suppliers.

Now India, pushed on the back foot by Chinese encroachments in Ladakh, is responding in a language Beijing understands. Narendra Modi's new plan for self-reliance in manufacturing in key sectors may or may not work as intended (the risk is of creating a hothouse market all over again, and thereby a high-cost economy). But it is hitting China where it hurts at a time when US pressure and rising costs within China are already gnawing away at its export-oriented manufacturing base.

Meanwhile, the oil-exporting countries have been busy conferring their highest national honours on India's prime minister in order to make sure that he is kept happy. Likewise, if the US under deal-maker Donald Trump has mostly held its hand despite trade irritants with India, it is because New Delhi has supplied Boeing and others with a steady stream of orders for defence equipment.

China could hit back in sensitive areas like pharmaceutical ingredients and strategic materials, on which markets it has a lock as the dominant global supplier. While that is a point of vulnerability, India has to play its hand carefully on other fronts too. Russia, even now India's largest arms supplier, lifted in 2014 its longstanding ban on defence supplies to Pakistan. It recently shipped attack helicopters to that country. Tanks and missiles might follow. While Pakistan cannot match India's defence purchases, and is in any case short of foreign exchange, the fact is that the more India succeeds in manufacturing at home, the less it will need from Russia. With Indo-Russian trade mostly confined to the defence sector, broader ties with Moscow need careful nurturing.

Ditto with the countries in the neighbourhood, all of which (other than Bhutan) have bigger trade and closer defence ties with China. Opening up India's market to neighbouring countries can be as strategic as access denial to others. The game should be played both ways, even if it upsets domestic business lobbies that today are thrilled with the government's market-denial measures and yesterday were upset by the free trade agreement with Sri Lanka.