The Economic Impact on Indo-China relations after the Doklam standoff

A 74-day standoff between India and China on the Doklam region finally ended on 28th August, 2017 with both sides coming to a mutually agreeable solution, to retreat. While this is not the first time such skirmishes have occurred between the two nations, what differed was the stark contrast in responses from both sides. While India focused on a diplomatic resolution, the response from Beijing was more hawkish. This now leads us to the question, what may have triggered the standoff and the political and economic impacts of the dispute – the economic aspects will be the focus of this article.

While we may never get to know what may have prompted this skirmish, what we do know is the tendency of China to go ahead with construction activities in disputed territories as a show of strength meant to intimidate the smaller Asian economies. The Chinese probably had not anticipated a strong Indian response that too on a foreign territory. A diplomatic solution that depicted both sides in positive light would be the only mutually acceptable solution which actually happened in this case.

Talking about the economic impact of this standoff, it is important to note that the trade volume between India and China is around $ 71 billion which makes China one of India's largest trading partners. It is also imperative to note that Chinese economy is in more trouble in contrast to the Indian economy. While India has had its fair share of short-term growth slowdown due to demonetization, the introduction of new tax system GST and increase in NPA of public sector banks, China has an increasing debt problem. China's reliance on investment driven growth has increased its total debt to around 295% of its GDP in the first quarter. Its huge size and unsustainable growth model may lead to a financial shock which will impact not only the Chinese economy but the entire world.

As pointed out by Harvard University's Centre for International Development (CID), India is projected to be leading the race amongst the fastest growing economies of the world till 2025 with an average growth rate of 7.7% surpassing China. It is clear that the momentum has shifted in favour of a fast-growing Indian economy with younger demographics as compared to slowing Chinese economy with an ageing population.

There are multiple reasons why China would not want to have the long term economic impact of this military standoff. First, China has a positive trade balance with exports to India worth $58.33 billion in 2016 while India's exports were only $11.76 billion. China clearly stands to lose more as the bigger trading partner. Secondly, India has been strengthening its diplomatic and trade relations with multiple countries and China will definitely not want to anger these allies especially in the Asian region which will have a negative impact on its economy. Third, India is already against the China-Pakistan Economic Corridor as it passes through disputed regions of Kashmir and China has invested around $50 billion in this project and cannot afford it to be jeopardised without a diplomatic resolution. Of course, the Indian economy would also be impacted by lesser Chinese investments but the magnitude would be much lesser.

To conclude, both countries would prefer that there are no significant economic consequences of the standoff as both sides stand to lose.

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