Pulse of China

Warming Ties? What might that mean for trade?

As the US tariffs create a climate for warming ties between India and China, will that show up in trade data?

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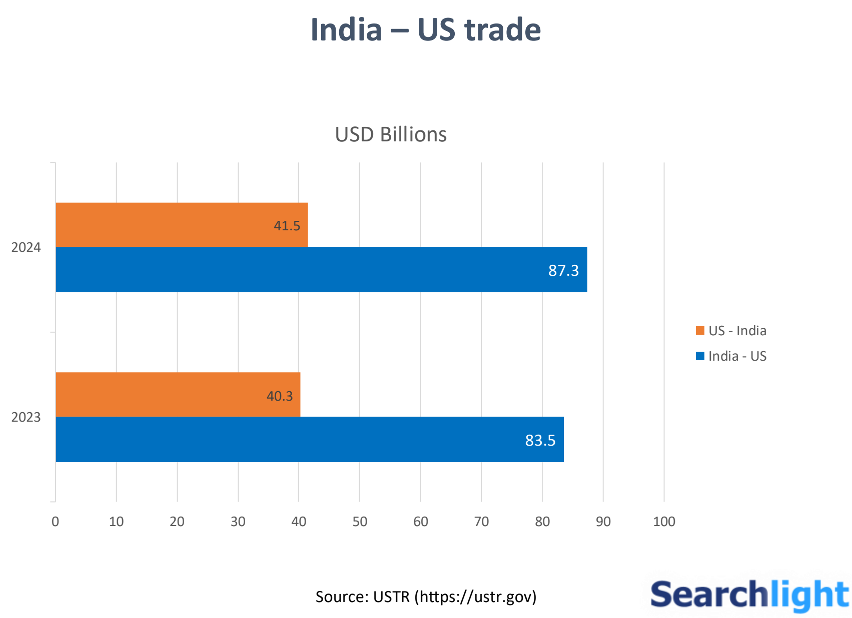
Warming ties between India and China?

India and China have not had any close ties for a very long time – with border disputes and UN Security council disagreements spilling over into trade and also barriers for Chinese companies in India and banning of apps like WeChat.

With the US levying 50% tariffs on India effective late August, there is a significant impact on Indian exports, as well as on the general belief that India and the US had any critical strategic partnership in Asia. India has maintained a healthy trade surplus (on goods) with the US, in excess of USD 40 billion, for the past few years.



The sudden imposition of high tariffs on Indian exports to the US has created an opportunity for the warming of ties between the two countries, starting with discussions on the resumption of direct flights between them – something which stopped in early 2020 when COVID began and has not been reinstated since.

However, India runs a trade deficit with China – the exact number being somewhat in dispute since the reported value of exports from China to India varies depending on who's doing the counting. For the period of Jan-Oct 2023 there is a difference of about 10 billion USD in the value of China's exports to India, with China claiming USD 97.34 billion while India estimates this at USD 82.65 billion. Either way, given that in 2024 India reported exports to China of USD 16.67 billion against imports from China of USD 101.7 billion, there is a significant and growing trade deficit. Also, if over 80 billion USD of exports to the US from India are likely to be affected by tariffs, India will need to find ways to grow exports to China.

India's exports to the US consist mainly of electronics, gems & jewelry and pharmaceuticals. India's exports to China, on the other hand, consist mainly of industrial raw material – refined petroleum, crustaceans and cotton yarn.

Of course, China is a significant exporter to the US with over 400 billion USD of exports in 2024, the largest after Mexico, and while not hit with 50% tariffs, may still end up with a significant tariff rate depending on what happens with trade talks. That may affect categories like electrical and electronic equipment, machinery, furniture and bedding, toys and games, apparel, and various manufactured goods, including items like plastics, optical instruments, and auto parts. The tariffs on toys and the impact on consumers in the US was already a topic of media focus in the US a few weeks ago, but since then the effective date for tariffs to take effect and the effective tariff rate have all been in limbo as the prospects of talks fluctuate.

What's interesting is that the categories that India exports to China vary significantly from what India exports to the US. China does export electrical and electronic equipment to India but apart from that, the other categories are quite different from its list of exports to the US.

What that means is that, apart from the significant difference in the scale of trade with the US as compared to each other, the two countries will not find it easy replacing exports to the US by increasing trade to each other. We will very likely see a drop in exports to the US from both markets in the next few years, unless there is yet another round of change in the tariff regime from the US. However, long-term, two of the biggest consumer markets in the world may have a lot to offer each other in trade.

Apart from just replacing export markets, there are other areas where a thawing of the relationship could lead to long-term collaboration in new areas - infrastructure projects in India, exports of Indian culture and entertainment to China and possibly, as China continues to make strides in AI and technology, opportunities for India's vast pool of software engineers whose entry to the US may now become much more difficult.

Of course, it could be that the improvement in relations might not be sufficient or sustainable enough for any significant change in their trade and other areas of potential collaboration - that is something only time will tell.

Evergrande delists from the stock exchange

For the last 18-24 months, the property development sector in China has been heading towards a hard landing. One of the largest property developers – Evergrande – that was listed on the HK exchange, has finally been delisted this week and after an initial drop, the markets have responded positively.

While that does leave hundreds of thousands of Chinese consumers in the lurch, with unfinished properties and funds stuck in early-stage payments to a developer who is clearly in no position to complete the projects or refund the money, one good thing in all of this is that the banks did not step forward to bail out Evergrande. That move, while it may have boosted consumer confidence in the short term, would have created new pressures on the financial market thereafter.

The property market in China has seen a very long boom – with property ownership at well over 90% there really wasn't a lot of economic logic behind the boom aside from speculation.

While the crash of Evergrande is going to have effects on the economy and on consumer confidence and liquidity in the short and medium-term, it does end a very unrealistic property boom that has gone on too long. When working with a real-estate developer in a tier 4 town in China, we were shocked to find local residents that already owned 2 different properties in the same town contemplating the prospect of a 3rd. Clearly that is an oversupply in the housing market, yet speculative buying kept property prices going up, fuelling more such behaviour.

About Searchlight Consulting

Set up in early 2020, Searchlight is a boutique management consulting firm headquartered in Shanghai. We focus on helping brands understand and prioritize their opportunities and overcome their barriers to growth. We do this by working closely with our client teams over an extended period, facilitating their process of decision-making, building capability by guiding and training their teams, and also helping with organization redesign if necessary.

Our team of 14 associates covers a wide range of specialist areas – business management, brand management, marketing, communication, media, HR, CRM, sales management, technology. Each of us has at least 20 years of work experience, a large part of that in China

We coach and assist client teams to make quality decisions for the business. We also assist in the design of organizational processes and financial models, especially building internal and external capabilities for strategy implementation.

We've worked with both international and local brands, startups, and public listed companies - J&J, Hollister Medical and Pandora as well as SUNNER Foods (a listed food processing company that has become one of the fastest growing B2C brands now) and startups like Little Ondine, LeBunna and Youxin coffee. For more about us visit www.searchlightchina.com