

India-Hong Kong Relations in Quagmire?

By K A Dhananjay,

We recently witnessed in the news the Hong Kong extradition law protests going down as protesters staunchly stood against their mainland, China. Hong Kong witnessed one of the biggest rallies in its political history similar to the kind around the time it was “handed over” by Britain to China back in 1997. The whole fiasco was deduced to the fact that Hong Kong’s political freedom is under fire and the Chinese Mainland’s influence over its Special Administrative Regions has proven as a predator to civil and political freedoms/liberties of the citizens of these regions. This impugned extradition law proposed by the Hong Kong Government intended to transfer fugitives and criminals upon request by the Chinese Mainland, Taiwan or Macau, subject to the approval of the Hong Kong Government. Feared by the malafide intentions of China, and its unaccountable legal system, thousands marched for their rights.

Now this is the state of affairs in Hong Kong, but what does it convey to India? Being a responsible nation, India needs to carefully observe how the events turn in Hong Kong, especially when it has a bitter feud with China. India should not interfere with China’s internal affairs and such meddling would cost heavily. Hong Kong is a decent market for Indian exports, and it was observed that the trade quotient between the countries has increased substantially from the previous year. In 2018, it was observed that there was a gross increase in imports from Hong Kong by 5 per cent, corollary to a 11 per cent reduction of imports from China. It was also reported that the Chinese were resorting to manipulate Indian markets by channelling their shipments via Hong Kong through entrepot trade. Complementing that, India’s exports to Hong Kong also declined by over 15 per cent. The overall plunge in bilateral trade was equalled around 14 per cent. In addition, Hong Kong was having a trade surplus with India, furthering the qualms of Indian trade. Therefore, with such a diminishing margin of trade and also considering the current boiling point of political uncertainty, India needs to build its trade balance stronger to counter the temporary backlashes it faced from its removal of Generalized System of

Preferences (GSP) recognition by the US, as well as the exploits from a bitterly thought US-China Trade War.

Bearing in mind the much anxious trade war between the superpowers, China should be seen as a prospective market for Indian goods. But with the current trade deficit, it is imperative that it needs to improve its exports via Hong Kong, and any conflict in the region will seriously put India's interest at stake. Exports will be profitable with the ongoing trade war and India needs to seize that opportunity and try to fix its trade balance with China. Even though China tries to camouflage India by appropriating its trade figures through sending goods via Hong Kong, it is necessary that India's exports need that steady rise to decrease its balance of payments woes. In 2018, India's exports to China grew by nearly 28 per cent amounting up to \$15 billion worth of goods (Chinese Mainland). A surge of \$11 billion worth of goods exported to Hong Kong was also noticed, which also included goods directed to China too. Seeing the trend, India could capitalise on this and send more goods via Hong Kong, following its counterpart in promoting entrepot trade to the Chinese Mainland so that its exports see a surge and consequently its trade deficit sees a downward drift. Even economic scholars like Aravind Panagariya have mooted for an escalation in Indian exports during the peak of the US-China Trade War, suggesting beneficial prospects in promoting more jobs along with more investment in export promotion. It is indeed a golden opportunity for India to counter two sides of its trade woes; the GSP fiasco as well as its high trade deficits with China.

India should also be seriously concerned about the other recent developments in Hong Kong. The protests may not affect significantly, but the decision which the government takes will be more substantial in analysing India's prospects. If the government goes for an indefinite shutdown due to a prolonged standoff, trade will be significantly affected and again India will be worried of its backlashing trade deficits. Rule of law will take a dangerous leap and policy decisions of the previous government would all be in vain, adding further fuel to the fire. Adding to this, protestors were also threatening to sell Hong Kong Dollars and convert their assets to USD, so that it would make a "financial fight" at the helm of the struggle. This would also mean that foreign investors would lose confidence and leave their chance to the picket. As of 2017, Hong Kong was the 3rd largest recipient of foreign investment in the world, and with the imminent crisis, there is going to be a significant shrinkage in the inflow of foreign funds impacting investors worldwide. India, which is a prospective investor in the food and tourism

sector, will be affected if the government policies change owing to pressure from the protestors. It was also found that due to the protests the city also lost a significant amount of revenue via tourism as well as through its trade and retail establishments. In 2016, 12 Indian companies were headquartered in Hong Kong, over 20 Indian companies had their regional and local offices operational in the city, specialising in trading, IT, banking and logistics. The current situation has broadened the anxiety over Indian businesses' bleak future in case the conflict turns as an economic misadventure. In addition, it was reflected that in 2018 there was a surge in Indian tourists (around 3,86,681 arrivals from India) visiting Hong Kong, and with the given rate it is projected for further growth of about 10–15 per cent in the upcoming year, raising apprehensions for the Indian Government to also protect tourists visiting Hong Kong.

As the events turn, India being a vital trade partner of China should unfurl its potential and try doing the best at this point of time, i.e., maintain good relations with China and not meddle unless situations slide against Indian outlooks. Trade cannot be hampered at any cost, and the Government needs to encourage its exporters to continue their ongoing trade with Hong Kong and build confidence among them. Indian investments can wait, as the signs show that if at any point the situation severs, investors will be the first to face the wrath. In the meantime, India can try to resolve its incumbent trade issues with the US, to temporarily manage the issue with the Chinese. In short, India can patiently observe, and if things turn ugly it can try its policy masterpiece – reacting at the last minute.

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