

'Phase One' of the US-Chinese Trade Deal Is Bad News for India

By [Andrew Korybko](#)

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The planned signing of “phase one” of a more comprehensive US-Chinese trade deal is extremely bad news for India because its chief Asian competitor is committing to gradually open up its economy and therefore become even more attractive of an investment destination by comparison, which further reduces the odds that India will recover from its relative economic slump over the past year and ever have anything even remotely resembling a credible chance to eventually compete with China on this front.

Indian Anxiety

The US and China plan to sign “phase one” of a more comprehensive trade deal on Wednesday, which has caused the rest of the world to breathe a collective sigh of relief in recent weeks that the so-called “[trade war](#)” finally appears to be over. India, however, isn't relieved, but panicked, since the agreement portends extremely bad news for its economy. The South Asian state failed to capitalize on the “trade war” since it didn't succeed in luring Western companies to re-offshore to its territory to assist with Prime Minister Modi's hallmark “Make In India” program of domestic industrial development. Its economic growth even declined during this time, contrary to practically all forecasts. Macroeconomically speaking, the economy continues to grow at an [impressive rate](#) of around 5%, but that's still [less than the 7%](#) that the IMF previously predicted. It turns out that the fundamentals of the Indian economy aren't as sound as they've been deceptively portrayed over the years by the authorities, and government policy hasn't been anywhere near as aggressive in courting foreign investment as the BJP's base expected it to be.

Mismanaged “Multi-Alignment”

India had the prime opportunity at the height of its “economic illusion” over the past few years and in the midst of the most intense period of the “trade war” to agree to a free trade agreement with either the US or China, but it completely mismanaged its policy of so-called “multi-alignment” by clumsily attempting to play both off against the other in pursuit of better terms from one of them but ultimately ended up being left in the lurch after they eventually put aside their differences and sidelined it. There was a time when it seemed that India would commit to the Chinese-led “Regional Comprehensive Economic Partnership” (RCEP), but it was revealed last November during the Bangkok Summit that was supposed to herald the signing of this world's largest-ever free trade area that New Delhi was waiting until the last minute to sneakily make some demands to China in exchange for its agreement. The People's Republic proudly stood its ground and refused to be blackmailed by India, which is why the latter ended up [dramatically walking away](#) from the agreement and then almost immediately turned towards the US once again.

Opportunities Lost

That could have been the moment when India finally agreed to commit to a free trade deal with America, but instead its leadership thought that they could continue haggling for better terms, forgetting that America was still negotiating “phase one” of its trade deal with China at the time and also didn’t need India more than the reverse. India then reversed course and tried to revive its stalled rapprochement with China in order to probe the opportunities for rejoining RCEP or signing a bilateral free trade agreement, but that bridge had already been burned last year and Beijing wasn’t eager to rebuild it so long as New Delhi kept pressing with its demands. India is now in much worse of a negotiating position vis-a-vis the US and China than ever before because both economic superpowers realize how desperate it is to agree to a deal with one of them, yet nevertheless still not desperate enough to curtail its demanded “compromises” because it fears (whether rightly or wrongly) that failing to do so would ultimately harm its economy in the long run. Modi’s therefore in a bind, one entirely of his own making, and it’s probably going to get a lot worse before it gets any better.

Indian Isolation?

The long-term vision guiding the eventual conclusion of a comprehensive US-Chinese trade deal is for the latter’s economy to continue opening up to the world, which is in full alignment with the final goal being pursued through its [Belt & Road Initiative](#) (BRI). That outcome would make China even more attractive of an investment destination than India currently is, especially since the second-mentioned state’s economy is slumping faster than expected and investors are also fretting about its political stability given the [ongoing month-long unrest](#) there which shows no sign of abating anytime soon. Simply speaking, it’s much easier for the companies that have already invested in China to continue doing business there than re-offshoring to India, particularly since there’s a widespread belief that the worst of the “trade war” is now over and the People’s Republic will continue opening up its economy. They don’t have the incentive to do so, nor is India providing them with one. The country failed to attract them at what in hindsight was its best possible moment to do so over the past few years, and it proverbially seems like that ship has finally sailed into the night.

Modi’s Dilemma

India will either have to rescind the demands that it made to both economic superpowers and begrudgingly sign an agreement with one of them to the zero-sum benefit of its eventual partner or risk losing out on even more foreign investment by continuing to isolate itself from global trends. Its economy will probably continue to show impressively high growth rates in comparison to others even if those aforesaid rates continue to decline in general. It’s difficult to imagine this process being reversed after India missed its opportunity to do so last year as a result of its economic miscalculations and the utter mismanagement of its “multi-alignment” policy. Both the US and China know that India needs them more than the reverse, now more than ever, so neither of them is likely to concede any substantial “concessions” just to sign a deal for the sake of it. All of this poses a serious dilemma for the BJP since it must do something big to restore confidence in its economy, but signing a seemingly lopsided trade deal with either of them could provoke even more civil unrest considering just how furious even its own supporters were when it was still thinking about agreeing to RCEP last year.

Concluding Thoughts

The lesson to be learned is that “multi-alignment” (or “[balancing](#)” as it’s described whenever Russia practices it) can’t be sustained indefinitely and that those who follow this policy must eventually commit to one side over the other, whether economically, politically, militarily, or strategically. It’s impossible to forever retain equal relations with all contrary to whatever any country’s officials rhetorically say to the public, especially when one of the “multi-aligned”/“balanced” parties is pressing for an agreement at the expense of its rival, like the US has been trying to do vis-a-vis China with India. Failing to seize the initiative at the right moment results in exposing one’s “multi-alignment”/“balancing” policy as nothing more than a slogan for excusing ad hoc opportunism and covering up for a lack of long-term vision. India’s reputation has seriously suffered because of this and neither of the two economic superpowers will trust it the same way that they used to (at least for a while) after the goodwill that they established through their extensive negotiations was ultimately all for naught. Whichever way one looks at it, the inevitable outcome is a loss for India.

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Andrew Korybko is an American Moscow-based political analyst specializing in the relationship between the US strategy in Afro-Eurasia, China’s One Belt One Road global vision of New Silk Road connectivity, and Hybrid Warfare. He is a frequent contributor to Global Research.

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About the author:

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