Effect of Indo-China Conflict on Stock Market

Impact of India-China Clash on Indian Stock Market

The simmering tension in the border between India and China is definitely concerning. However, what is even more concerning is, the impending economic fallout that might take place due to the souring relationship between these two countries. Even though the border escalation has whipped up a surging anti-China sentiment across India, there is no denying that the economic interdependence between these two countries is rooted too deep to ignore.

The United States of America and China are two of the largest trading partners of India. While exports to the US outnumber the imports from the country, the same can't be said for China. That means the tighter controls on the Chinese imports can cause a supply chain disruption in many business sectors including pharmaceuticals, auto, consumer durables and telecom.

As the stock options tips suggest, the stock market will be the first one to get affected due to restrictions on Chinese imports. Read the following section of this article to know more about the tension between China and India, and how it can impact the stock market of our country significantly.

India's Top Trading Partner

During the period between April 2019 and February of the current year, 11.8 per cent of India's total import is acquired from China. Contrarily, India's total export to China accounted for a mere 3%. That means compared to selling, we buy more from China.

This trade deficit with China is one of the major reasons for India's total trade deficit as well. Not only that, but it is also one of the biggest trade deficits between the two countries across the world.

What The Market Experts are Saying?

The current India-China tension at the LAC is one of the incidents that deserve the alertness of the investors. The market experts, like **[Shyam Advisory]**, opine that the rift between these two neighbors can escalate and lead to market volatility.

However, the investors of the Indian market need to be more cautious, as the restrictions on the imports from China can significantly affect some of the industries. The market experts said that the day to day development might be tumultuous, but the investors should not get afraid of that. The traders should, however, remain alert about the changing conditions if they do not want to lose money.

The stock market is volatile by nature, and the trend of the market can change at the blink of an eye. That’s why the traders should remain extra vigilant during these shifty times. The tension between India and China has hit hard on the market sentiments. That is why the market is showing such volatile features. If the traders do not stay alert of the sentiment of the market, they can get affected the most.

The Effect of the Tension

Due to the ongoing pandemic, the bi-lateral trade has reduced drastically over the past few years. The rising cold vibes between the nations was yet another factor that contributed to this. After the spat in Galwan Valley, the Confederation of All India Traders (CAIT) released a list of 500 products that India used to import from China. This decision also impacted the stock market in a strange way. After the initial downward spiral, such positive steps from the CAIT and Indian government have helped the stock market of the country to shrug off the impact of the scuffle.

Investment

Compared to the trade, the foreign direct investments between the countries have not grown that much. However, over the last few years, China has successfully penetrated the online ecosystem with their smartphones and applications.

The venture investment sector has also seen significant Chinese investment in recent years. The financial experts have noted that Chinese tech investors have put about $4billion as an investment into the Indian start-ups.

Tiktok, the video application, had over 200 billion subscribers across India. In a rapid speed, it has overtaken the number of Youtube users in India. Alibaba, ByteDance, and Tencent are easily competing with Google, Facebook and Amazon in India.

The smartphone companies like Xiaomi and Oppo lead the Indian smartphone market with an astounding 72% share, leaving products of Apple and Samsung far behind.

Implications on the Markets

Negative Implications

The supply chain of certain Indian sectors heavily relies on Chinese imports. With the economy of the country already struggling due to the pandemic, the tension between these two countries can cause operational as well as supply chain risks. While CAIT has promised to find Indian alternatives for Chinese products, market experts like the **Shyam Advisory** think that it would be expensive as well as tedious.

The Stocks That Had Been Affected Due to This Tension

As we have already discussed, some of the business sectors of India are heavily dependent on China when it comes to sourcing. Sectors like pharmaceuticals, chemicals, renewable power, telecoms, auto and consumer durables seem to be most dependent on China.

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