



India and China Towards a Competitive-Cooperative Relationship?

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One of the defining moments of the 21st century is the rise of China and the emergence of India, which, according to many analysts will possibly lead to a tectonic shift in the economic and strategic balance of power in the world from America and Europe to Asia. Some analysts estimate that if the two countries continue to grow at the rates they have grown in the past decade (India at 6-8 per cent and China at 10-12 per cent), China's economy would be eight times bigger than India's in 30 years. China's rise is faster, more spectacular, and managed deftly with a well-thought-out road map. It is not just the statistics that testifies to China's rise, but Beijing has matched her achievements in economic development by positioning herself both economically and strategically in the world stage.

I CHINA'S "PEACEFUL RISE" AND INDIA'S PIECEMEAL RESPONSE

While the rise of China has inspired awe and respect in the shorter term, it has also brought uncertainties about its long term implications. From a short term perspective, its self-proclaimed 'peaceful rise' is sugar-coated with a charm offensive meant to assure all, big or small countries in the region and outside, its supposedly benign economic and military power. China has earned the diplomatic leverage within the region by presenting itself as a peacemaker and bringing North Korea to the negotiating table when the United States was dithering over the issue for a long time.

Even earlier, by opposing the Iraq war, China wanted to win the hearts and minds of those countries that were opposed to the war, starting with the leaders and people in East Asia. The ultimate objective has been to counter the lengthening shadow of the United States, the only super power after the end of the Cold War, on East Asia, and to curb the influence of India, the other rising Asian power

and a perceived rival, in South Asia, India's traditional backyard, and also in Southeast Asia, which India has rediscovered with its Look East Policy.

Indian response to China's diplomatic and economic offensive has been rather desultory, characterized by ad-hoc policies and more often reactive, rather than proactive and failed to leverage its available resources and comparative advantage to gain economic and diplomatic benefits. There is a conspicuous absence of a strategic vision of a future regional and world order that can inform its policies and actions in the coming years to establish its rightful place in the world balance of power. A major power's foreign policy cannot be effective in the absence of a guiding framework of underlying principles that is a function of both the nation's geopolitical requirements and its values. Instead of defining its own role in the emerging regional and global economic and security architecture, India is almost depending on other powers to accord a role for itself. One hears from our foreign policy and security establishments more of what the United States, Britain or France speaks about India's rising power and its potentialities.

Even into South Asia, India's backyard, China is positioning itself as an important actor and steadily extending its reach with its growing economic and strategic influence in the region. With the world's largest manufacturing base and the resultant deep pockets, China is emerging as major trading partners of practically all the countries of South Asia. China is involved with massive investment in the infrastructural development, socio-economic needs, and above all energy production of its trade partners. Beijing also offers these nations with low-cost or interest-free loan with no-strings attached to help their struggling development sector. The largest beneficiaries of this economic aid are Pakistan, Bangladesh, Sri Lanka, and Nepal – in that order. As recently as the 1990s, China's and India's

trade with the four South Asian nations — Sri Lanka, Bangladesh, Nepal and Pakistan — was roughly equal. But over the last decade, China has outpaced India in deepening ties. Most impressive is China's growing economic and strategic influence in recent years is in Sri Lanka, always thought of as economically and culturally Indo-centric, where it is involved in a massive project in the development of strategically located port of Hambantota from fishing hamlet into a booming new port.

Chinese are making inroad into another Indian traditional sphere of influence - Maldives. China has been developing port facilities in Pakistan, Bangladesh and Myanmar, and it is planning to build railroad lines in Nepal to connect Nepalese roads with those in Tibet eroding India's traditional influence in that country and with it making India's security vulnerable to China. In Bangladesh, China is helping the up gradation of Chittagong into a modern deep sea port. From its South Asian inroad China's diplomatic gain is no less important, for all the nations in the region affirm the "one-China" policy that views Taiwan as an "inalienable" part of the People's Republic of China (PRC), aligned with Beijing on the equally sensitive issue of Tibet, shun the Dalai Lama to Beijing's comfort while proclaiming that Tibet is an integral part of China, and support China's membership of the South Asia Association for Regional Cooperation (SAARC), much to the irritation of New Delhi.

Numerous factors account for China's success in reaching out to the economies in India's Neighborhood. China does not impose conditions for reform, transparency and competitive bidding that would be part of contracts with countries like India and the United States or organizations like the World Bank. Second, China's low-costs and its fast-growing expertise in infrastructure development in its own country, makes an attractive proposition to these smaller countries. Over the last decade, Chinese companies have become

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the biggest suppliers to ports of cranes used to move shipping containers, displacing South Korean and Japanese companies.

China's 'ask no question' policy represents a real challenge to India, which has not always handled relations with its immediate neighbors who perceive New Delhi to be over-bearing and insensitive to its concerns. One of the major barriers to closer economic cooperation within South Asia is the protectionist sentiments and the unwillingness to lower tariffs on many goods and services to protect their own businesses. South Asian Free Trade Agreement (SAFTA) has not helped much in removing these obstacles. India-Pakistan tension also contributed to a shift in trade toward China. India urgently needs to improve economic ties with its neighbors to broaden its growth and to help foster peace in the region.

II CAN INDIA AND CHINA WORK TOGETHER?

The silver lining in an otherwise troubled relationship and competing rivalry between the two countries in Asia and elsewhere is the growth of economic and trade relations. During 2008, China became India's largest trading partner and the bilateral trade between the two countries touched almost US\$ 60 billion. India has emerged as the 7th largest export market of China and 10th largest trade partner. The two countries work closely together on climate change and multilateral trade development.

India and China have also expanded their functional cooperation in areas as diverse as science and technology, space, coal, renewable energy, water resources, forestry, agriculture, railways, culture, tourism, youth affairs, media and information, traditional medicine, labor, human resource development, auditing, anti-corruption and policing. Optimists feel that bilateral exchanges at the political, economic, military and cultural level have developed to an extent where China and India can expect in the coming decades to co-exist through a so-called competitive-cooperative relationship. The ever-expanding trade between the two countries automatically gives them a huge stake in keeping co-operation alive, despite occasional hiccups. There is enough room in the world for both economies to rise simultaneously.

Bangladesh's relations with China are stable, robust and comprehensive, whereas the relations with India have been extremely uneven and riddled with controversies. For China, Bangladesh is a doorway into India's turbulent northeastern region, including

Arunachal Pradesh, to which China lays territorial claims. China prizes Bangladesh for its immense natural gas reserves which rival those of Indonesia. Bangladesh's geographic proximity with Myanmar makes these reserves accessible to China. Both China and Bangladesh have looked upon their bilateral relations to counter India's growing economic and political might in South Asia region. Bangladesh's total bilateral trade with India – its largest trading partner - in 2008 amounted to US \$ 3.8 billion and with China to US\$ 3.5 billion. While Bangladesh's imports from India have doubled in the last 5 years, its imports from China have trebled. Bangladesh's exports to both India and China grew by seven times in the last 5 years. Bangladesh is India's largest and China's third largest trade partner in South Asia. However Bangladesh faces huge deficits with both the countries, which has been its major cause of concern. The size of the negative trade balance has especially been one of the causes of strain in bilateral relations between India and Bangladesh. However, currently the size of Bangladesh's trade deficit with China is bigger than that with India. Both China and India are not significant investors in Bangladesh.

China is determined to get a greater foothold in Nepal with her strategic objective to reduce India's influence. However, despite the ups and downs, India has been the main trading partner of Nepal accounting for 60 percent of Nepal's total trade. A new treaty was signed between the two countries in 2009 that is expected to increase the trade further as more products from Nepal would have duty free access into India. Indian firms are the biggest investor in Nepal. In absolute terms, Chinese FDI in 2007-08 was Rs. 3.76 billion while that of India was Rs.17.98 billion. India has assisted in the development of Nepal's infrastructure is a big way, agreed to extend a \$ 250 million soft line of credit and have come to an understanding on holding talks over the contentious issue of river waters, an essential means of building goodwill with Nepal. China is trying to garner goodwill through its offers of 'no strings attached' aid in the form of concessional loans, economic and technical assistance. It has pledged military assistance to Nepal for procuring 'non lethal' weapons and logistics and training Nepal Army.

Of all these nations, Pakistan's strategic significance is priceless for China. Although a smaller nation, Pakistan rivals India in unconventional weapons. It has long denied India access to western and Central Asian nations, while at the same time literally paving the highway – Karakoram – for Beijing's direct access to Eurasia. Above all, it has tied down

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500,000 to 700,000 Indian troops in the Kashmir Valley for the past 15 years, indirectly helping ease India's challenge to China's defenses on their disputed border. More importantly, Pakistan emboldens the region's smaller countries to stand up to India and seek Chinese patronage, hurting India's stature in the region. China became Pakistan's leading arms supplier after imposition of sanctions by US on Pakistan in 1990. China has always played a significant role in developing Pakistan's nuclear infrastructure. China's military and non military assistance to Pakistan is driven by two motives –first, to counter India's growing power in the region and to divert India's military force and strategic attention away from China; second, to gain strategic access to Oil Rich Middle East.

China is now taking a keen interest in the developments in Afghanistan. Kabul on its part now sees a critical Chinese role — both political and economic — in the endgame that is playing out in Afghanistan. For Beijing, limiting the instability on its turbulent south-western frontiers is an important national security objective. China's growing interest in Afghanistan is reflected in its aid programme that has now reached nearly US\$ 250 million. Kabul has also encouraged Chinese companies to join the economic reconstruction of Afghanistan and the development of its natural resources. In contrast, constrained by geography of not having a border with Afghanistan and state-sponsored terrorism from Pakistan, India's involvement in that country is Afghanistan is rather modest and mostly in socio-economic development like building hospitals, schools, parliamentary buildings and infrastructural projects like building roads, that has earned enormous goodwill from the Afghan people and its government.

As a result of the FTA, Sri Lanka's exports to India increased by almost 9 times over the period from 2000 to 2008. Likewise, India's exports to Sri Lanka too have grown by 5 times. Since 2001, India has become the largest exporter to Sri

Lanka overtaking Japan. India is also the largest trade partner of Sri Lanka now, even though Sri Lanka's trade deficit with India has continued to widen over the last decade. The volume of trade between China and Sri Lanka has registered a steady growth over the last decade with significant increase in Sri Lanka's exports to China since 2000, mainly due to large exports of mineral sands (as zirconium ores), coir fiber and electrical components etc. However, the volume of Sri Lanka's exports to China does not yet seem comparable to that vis-à-vis India. However, the trade balance has remained constantly in favour of China. India has become one of the top five countries investing in Sri Lanka mostly in the services sector like health, education, fuel distribution, hotel industry, tourism, IT training, computer software, and airlines industry. China's investments in Sri Lanka have been directed mainly towards development of infrastructure and specific regions such as Hambantota. In 2008, Sri Lanka also signed an arms deal with China worth US\$ 37.6 million. China has also used its veto power in the United Nations Security Council to block the discussion on steps undertaken by the Sri Lankan Government in its fight against the LTTE.

Like India considers South Asia as its backyard, China views Southeast Asia as its Nanyang, (literally meaning Southern Ocean) geographical region south of China. China today is much more integrated with ASEAN in comparison to India. The value of China's trade with ASEAN is 4 times larger than that of India – ASEAN trade. In terms of total trade share, India's trade with ASEAN constitutes about 10 percent of India's total trade, whereas from ASEAN side, ASEAN's trade with India constitutes about 2.7 percent of its total trade, which is way below the India's trade share. Similarly, China's trade with ASEAN constitutes about 9 percent of China's total trade and from ASEAN side; ASEAN's trade with China constitutes about 10.5 percent of ASEAN's total trade. India obviously cannot match China's massive economic resources, but it has started to respond positively by, for example, signing a Free Trade deal with ASEAN countries and South Korea. China signed FTA with ASEAN much earlier than India. An important aspect of India's approach towards the FTA is its inclusion of shorter negative list of goods than China having superior negotiating capabilities compared to India.

III CONCLUSIONS

Both India and China have high dependence on imports of oil and natural gas, and thus, the common aim is to secure stable resource

supplies in to the future. Other than the Middle East, Central Asian region has the capacity to meet extraordinary energy import need of India and China. Both India and China are making simultaneous attempt at securing and diversifying country's energy sources in that region. In recent years India has taken several initiatives to extend collaboration with Central Asian countries in oil and natural gas sectors, particularly with Turkmenistan and Kazakhstan. India joined the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline project in 2008 to import natural gas from Turkmenistan.

In comparison with China, India is at a disadvantage because of its geography, for it does not share its border with any of the Central Asian countries to facilitate trade. Another hurdle is the stiff competition from China, as in late 2005 India lost out to China in a bid to acquire Petro Kazakhstan Inc, Kazakhstan's third largest oil producer, despite Oil and Natural Gas -Mittal Group's lead over China National Petroleum Corp, in the first round of bidding. More recently, China has taken a clear lead over India in the gas imports from the region as well. It is almost through with the construction of the gas pipeline from Turkmenistan via Uzbekistan and Kazakhstan to Xinjiang in China, when India is still reconsidering its strategy to viably import gas from Turkmenistan.

The Chinese government has been much more proactive in their decision making which allows them to operate in an efficient and effective manner. It is time India rethinks its strategy in overcoming the political, economic, infrastructural and geographical bottlenecks in facilitating trade and investment in Central Asia.

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All the trade figures of India are taken from http://business.gov.in/trade/trade_stat.php, whereas China's is taken from <http://english.mofcom.gov.cn/statistic/statistic.html>



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