



India's response to China's rise

By Charles Grant

- ★ India and China, two powers rising in the same part of the world, have much in common but mistrust each other. Their relationship will be central to the geopolitics of the 21st century.
- ★ In 2010 the Indian and Chinese governments have made a conscious effort to lower tensions over their disputed border. But some Indians remain nervous about China's military build-up, its warm ties with many of India's neighbours, its more successful resource diplomacy and the unbalanced nature of the two countries' trade.
- ★ India's response to the rise of China is in the short term to avoid confrontation, and in the long run to pursue a two-pronged strategy. First, ensure stability and economic growth at home; and second, forge close relations with other countries concerned about China.

India and China have much in common, in addition to 4,000 kilometres of border. Economically, they are the fastest-growing of the newly emerging powers. They are focused on domestic economic development, and therefore reluctant to shoulder a lot of responsibility for managing international problems; but they know that as their power grows they have to become more involved in global governance.

Their economies are complementary: China has become the workshop of the world, while India excels in information technology and many business services. Two-way trade in goods between India and China grew from just \$2 billion a year in 2000 to \$43 billion in 2009, and may top \$60 billion in 2010. India and China welcome the global power shift from west to east. Both like being in new clubs such as 'BRIC' (Brazil, Russia, India and China), 'BASIC' (the BRIC countries minus Russia plus South Africa) and the G20.

And yet there is a great asymmetry in Sino-Indian relations. The Chinese are relaxed about the rise of India. Nobody in Beijing sees India as a serious competitor or threat. Most Chinese officials and scholars who deal with India say that Sino-Indian relations are very good. But Indians are much more nervous about the rise of China. New Delhi's foreign policy and defence establishments, in particular, tend

to see China as a threat. China's refusal to endorse India's bid for a seat on the United Nations Security Council hurts. So does Chinese military assistance to Pakistan, with which India has fought two major wars.

In 2008 and 2009, the atmosphere between Beijing and New Delhi grew tense, with China taking a stronger line on its territorial claim to the state of Arunachal Pradesh, in north east India. China's foreign policy became more assertive not only towards India, but also towards the US, European countries and the South East Asians. There were probably several factors behind the more strident tone of China's leaders, such as pride in their country's astonishing economic success, awareness that the financial crisis had revealed foolish policy errors by western governments, and nervousness about unrest in Tibet and Xinjiang.¹

¹ See Charles Grant, 'Liberalism retreats in China', CER briefing note, July 2009.

In 2010, China has softened its tone towards many countries, including India. Relations between Beijing and New Delhi are calmer. Nevertheless, many of India's politicians worry about the long-term implications of the growth of Chinese power. Some of them are sceptical that the recent improvement in Sino-Indian relations will endure.

The relationship between India and China will surely be one of the most important between any two countries in the 21st century. Europeans should therefore watch it closely – even if they have no particular role to play. For example, neither India nor China would want the EU to mediate in their border disputes. Neither India nor China sees the EU as a significant geopolitical actor, though both trade more with it than with each other. In the 12 months to the end of March 2010, two-way trade in goods between the EU and India reached €56 billion

² Eurostat news release
109/2010, July 22nd
2010.

(\$77 billion); that between the EU and China was exactly €300 billion (\$414 billion).²

China and India compared³

	China	India
Population, billion	1.35	1.2
GDP (nominal, \$ trillion, 2009)	4.9	1.3
Per capita GDP (nominal, \$, 2009)	3,634	1,124
Average annual economic growth (2000-09, %)	9.1	6.9
Official defence budget 2009 (\$ billion)	70.3	35.9

³ Sources: 'The military balance 2010', International Institute for Strategic Studies; Index Mundi

The border dispute and nuclear rivalry

The biggest source of tension between the two countries is their shared but disputed border. Ever since China got the better of India in a war in 1962, it has occupied several chunks of the Himalayas that had been Indian. China also claims Arunachal Pradesh, on the grounds that it once belonged to Tibet. A few years ago, the Chinese started to call the state Southern Tibet, and to refuse visas to Indian officials born there – claiming that since they were Chinese citizens they did not need visas. In 2009 China complained vociferously when first Manmohan Singh, the Indian prime minister, and then the Dalai Lama, the Tibetans' spiritual leader, made visits to Arunachal Pradesh.

Anything to do with the Dalai Lama makes the Chinese government prickly. China disapproves of India hosting not only the Dalai Lama but also about 150,000 Tibetan refugees. In 2009, China delayed Asian Development Bank loans to India because some of them would go to Arunachal Pradesh, and it tried to delay World Bank loans. The Indian army claimed that Chinese soldiers were making regular incursions into Indian territory. India responded firmly to the Chinese pressure, sending several divisions and fighter squadrons to Arunachal Pradesh. India's lively press shocked the Chinese with a plethora

of China-bashing stories. The Chinese blogosphere responded in kind.

Indians are uncertain why the Chinese are taking a tougher line on Arunachal Pradesh, but suspect that annoyance over the growing *rapprochement* between Washington and New Delhi is a factor.

The main symbol of thickening ties between the US and India is the nuclear deal initiated by President George W Bush and Manmohan Singh in 2005. This agreement has led to the removal of many American and international sanctions that had been imposed on India after it tested nuclear weapons in 1998. India's civil nuclear power industry can now gain access to foreign technology and supplies of uranium. Indirectly, this helps India's nuclear weapons programme.

The US-India nuclear deal upset both China and its close ally, Pakistan. The deal could not be effective until the Nuclear Suppliers Group (NSG), a club of countries that have mastered nuclear technology, lifted sanctions on India. At one point China seemed ready to veto an NSG decision to do this, but in the end strong pressure from Washington cajoled Beijing into agreeing to lift the sanctions. Beijing is now getting its own back by supplying Islamabad with two plutonium nuclear reactors – against NSG rules and to the annoyance of both India and the US.

De-escalation

Strains between India and China eased during the run-up to the Copenhagen climate change summit in December 2009. At that event Manmohan Singh and Wen Jiabao, the Chinese prime minister, teamed up to resist demands from western governments and some of the world's poorest nations that they should make binding commitments to curb carbon emissions.

This year both governments have made a conscious effort to improve relations, tasking State Councillor Dai Bingguo, China's most senior foreign policy official, and Shiv Shankar Menon, India's national security adviser, with the job of solving the border problem. The two countries' armies have agreed on confidence building measures in the disputed areas, so that incursions and face-offs do not escalate. Several cultural festivals and bilateral conferences involving think-tankers and journalists are marking the 60th anniversary of Indian recognition of the People's Republic of China. In April a hotline was installed between the offices of Singh and Wen.

This easing of tension suits a group of senior Indian politicians and officials who are keen to improve ties with China. Their ranks include Singh, Menon, Nirupama Rao (the top official in the Ministry of

External Affairs) and Jairam Ramesh, the outspoken environment minister. Menon said in April 2010:

Both the trend towards multipolarity and the financial crisis have increased the opportunity and need for India and China to work together on global issues. Both countries share common positions and approaches on ...the environment and climate change, energy security, food security, remaking the institutions of global governance. In Asia, as well,

⁴ Shiv Shankar Menon, keynote address to seminar on 'India and China: Public diplomacy, building understanding', Indian Council of World Affairs, New Delhi, April 1st 2010.

there is common ground between India and China on combating terrorism and extremism, enhancing maritime security, and on the need for a peaceful environment to permit the domestic transformation of the two countries.⁴

Menon is right about the convergence of interests. On tackling climate change, neither will want to enter into binding commitments that could constrain future economic growth. China is the world's biggest emitter of greenhouse gases and India the fourth biggest. China generates 80 per cent of its electricity from coal, and India 70 per cent.

They also have a similar attitude to international relations. India and China believe in unbridled national sovereignty, and view the concept of 'responsibility to protect' with great suspicion: India does not want others interfering in Kashmir, while China feels the same about Tibet and Xinjiang. Alongside Russia and most other emerging powers, they oppose the concept of 'liberal interventionism'. Although India, unlike China, is a democracy, it has seldom allowed that fact to influence its foreign policy, which is as 'realist' as that of China. Thus India does not criticise the Burmese junta for its appalling human rights record, lest that strengthen China's position vis-à-vis India in the country.

India and China may also wish to work together on some specific problems. In Afghanistan, for example, both fear the chaos that could follow a western withdrawal. India frets that a Taliban-controlled Afghanistan would be under the thumb of Pakistan, and a source of terrorist attacks on India. China worries about the security of its investments in mines in Afghanistan. It also thinks that Taliban Islamism could not only spread to its troubled province of Xinjiang, but also destabilise parts of Central Asia.

India's worries

In public, India's leaders speak warmly about China. But in private many of those responsible for India's foreign policy express strong concerns. They complain, for example, about the erratic nature of Chinese

foreign policy – its tendency to blow hot then cold. The views of senior figures in the opposition Bharatiya Janata Party, whose creed is Hindu nationalism, are generally similar to those of the ruling Congress Party's leadership. Indians' concerns include:

★ *China's military build-up, especially its naval presence in the Indian Ocean.* In recent years China's defence budget has grown at more than 10 per cent a year, while the Indian defence budget has grown at a much slower rate. China has managed to keep three or more warships off the coast of Somalia for the past two years, as part of the international anti-piracy effort – revealing considerable logistical strength. China now has more than 60 submarines. It is building commercial ports along the shores of the Indian Ocean in Burma, Pakistan, Sri Lanka and elsewhere. Some Indians worry that the ports could have a military use. The Chinese say they need to be in the Indian Ocean to secure supply routes for imports of oil and raw materials. In Tibet, China has built roads, railways and airports, which could serve as a launch pad for a potential attack on India. The Indians are belatedly trying to improve infrastructure on their side of the border. Senior figures in the Indian defence establishment say that the main reason for having nuclear weapons is to deter China rather than Pakistan.

★ *China has forged warm relations with many of India's neighbours, such as Bangladesh, Burma, Nepal, Pakistan and Sri Lanka.* Some Indian strategists worry about being surrounded by countries that have entered China's orbit. In Nepal, China has good relations with the Maoists, who are the most powerful force in that unstable country. China is the dominant power in Burma, where it is building pipelines to transport oil and gas from the Bay of Bengal to the province of Yunnan. China has invested massively in Sri Lanka, constructing ports, roads, power plants and airports. Last year China was Sri Lanka's biggest donor, providing \$1.2 billion of aid. It is also the country's main supplier of weapons. China and Pakistan have a longstanding diplomatic alliance and do not criticise each other. The Indians believe that Beijing is still giving Islamabad direct assistance with its nuclear weapons programme.

★ *China has been more successful than India in its natural resource diplomacy.* Both worry about their dependence on imported hydrocarbons and other raw materials. The Indians often compete against the Chinese for access to natural resources, in Central Asia, Latin America and above all in Africa. China tends to win contracts

against Indian competition because its state-owned firms are prepared to pay over the market price; this has happened, for example, in Kazakhstan, Uganda and Ecuador. In 2009 Chinese companies spent \$32 billion acquiring energy and resources assets overseas, against a single \$2.1 billion investment by India's Oil and Natural Gas Corporation.⁵

⁵ Rakteem Katakey and John Duce, 'India loses to China in Africa-to-Kazakhstan-to-Venezuela oil', *Bloomberg*, June 29th 2010.

However, in some places, like Sudan and Syria, Chinese and Indian companies have teamed up to extract oil. Some senior figures in the Indian government are relaxed about

Chinese supremacy in resource diplomacy: they believe the market will provide India with the oil and gas it needs. And they note the success of many private Indian companies in Africa, Latin America and South East Asia, in fields like telecoms, pharmaceuticals, and training for software and outsourcing.

★ *Although Sino-Indian commerce is booming, it is unbalanced.* China enjoys a large trade surplus, worth \$16 billion in 2009. India exports mainly raw materials, such as iron ore, while it imports Chinese manufactured goods. The Indians believe that China's undervaluation of the renminbi explains some of the deficit, and that is one reason why they are unenthusiastic about the free trade agreement that the Chinese have mooted. India complains about Chinese restrictions on imports of Bollywood movies, IT services, pharmaceuticals and fresh food, as well as non-tariff barriers that hurt Indian companies. The Indian government can also be protectionist: it has restricted imports of toys and in May it told Indian telecoms operators not to buy equipment from China's Huawei or ZTE – some Indians feared the equipment could be used for spying or spreading viruses. India's business community is divided between those who hope that warm relations with China will encourage commerce, and those who see Chinese competition as a threat.

India's response

The Indian government's response to China's rise has not been simply to try and copy its giant neighbour. While China is in some ways starting to behave like a global power, Indian diplomacy is less ambitious in places like Africa and Latin America. Nor is India trying to emulate China's military build-up. It knows that it cannot win an arms race – although it is boosting defence capabilities to make China think twice before attacking. India knows that it will be weaker for a long time.

So in the short term India will try to avoid a serious confrontation. In the long run the government is pursuing a two-pronged strategy. The first prong is to reinforce India's internal strength, by boosting economic growth (including through the development of closer economic ties with China) and by tackling both terrorism and separatism. The idea is that China will have to show more respect for an India that is strong.

The second prong is to develop a set of alliances and relationships that will reduce the potential threat from China. Indians do not want to be part of an American strategy for containing China, and parts of the intelligentsia remain instinctively anti-American. But most of the political elite see the link with the US as an important insurance policy against China.

Indians do not warm to President Barack Obama: George W Bush singled out India for special favours, and Obama does not. They worry that the war in Afghanistan is pushing Obama to prioritise US relations with Pakistan, at India's expense. And many top US officials seem more concerned with China than with India. Nevertheless, there is cross-party support for maintaining good relations with Washington. Indians are keen for the US to remain an Asian power, and for the dollar to retain its global role.

India is also building a web of close ties with other countries that worry about China's ascendancy. India's armed forces enjoy warm relations with those in Vietnam, Singapore, the Philippines and Indonesia. There is an increasingly intimate relationship with Japan, which is now a big investor in Indian infrastructure. India holds naval exercises with Japan and the US. Some Indian strategists are open to the idea of reviving the 'quadrilateral initiative'; in 2007 this informal grouping of the US, India, Japan and Australia led to discussions on security, as well as naval exercises in the Bay of Bengal. But when China made a fuss about the grouping a couple of years ago, Australia pulled out and the initiative faltered.

The American strategy for dealing with China can be described as 'engage and hedge' – engage with China, to promote greater contact, particularly in the economic sphere; but hedge against the risk of it turning nasty by building alliances with others who have worries about China. For the foreseeable future India's own strategy will be very similar.

Will India's strategy succeed?

Since India and China are both rising powers, in the same part of the world, there is bound to be friction between them. Many Indian leaders are concerned to see several South East Asian countries being pulled into the 'Sinosphere' – that is to say becoming so

closely connected to China that they will be incapable of standing up to it on an important issue.

India will escape that fate. It is too big to bully. And most of the Indian government's strategy for coping with China's rise makes sense. But some caveats are in order. One is that India needs to develop greater expertise on the country. Few Indian universities or think-tanks focus on China. With a few exceptions, Indian news organisations do not have correspondents in Beijing, though many of them have people in London. Although India worries more about China than China does about India, China has more expertise on India than vice versa.

A second caveat is that India's leaders are finding it difficult to ensure internal stability. The unrest in the Muslim-majority state of Kashmir, though less serious than several years ago, persists. And the Indian government cannot smother the 'Naxalite' insurgency, which continues to affect large swathes of central and eastern India. This Maoist rebellion killed 800 people in the first seven months of 2010. It draws its strength from the miserable social and economic conditions afflicting India's tribal areas (the Indian government claims that Nepal's Maoists encourage the revolt). But the Naxalites do not threaten the Indian state as a whole: because their rebellion is tied to pockets of the most extreme poverty, its potential geographical extent is limited.

The third and perhaps most important caveat is that India has a poor record of befriending its immediate neighbours. "We can call it Chinese encirclement till we go blue in the face. The problem, however, is rooted in Delhi rather than Beijing," writes one of India's top strategic thinkers. "So long as India refuses to imagine and implement policies that make economic

⁶ C Raja Mohan, 'The Middle Path', *Indian Express*, September 30th 2009.

co-operation attractive to our neighbours, Chinese economic penetration of South Asia will continue unimpeded."⁶

The lack of economic integration in South Asia is extraordinary: only 5 per cent of South Asian countries' exports go to the region. Poor infrastructure that raises transport costs, cumbersome border procedures, enmity between governments, non-tariff barriers and high tariffs have all smothered trade.

The South Asian Association for Regional Co-operation (SAARC) has achieved very little. India should take the lead in trying to remove barriers to trade – and as the region's economic giant, it should offer to lower its barriers more quickly than its neighbours lower theirs. At the political level, Manmohan Singh is trying to do some of the right things. He has built good relations with Sheikh Hasina, the Bangladeshi prime minister, and has even done his best to encourage a thaw between New Delhi and Islamabad (though powerful forces in both India and Pakistan have prevented this). And in the Indian Ocean, Singh's government has built close ties with the Maldives and Mauritius.

India should take a lesson in managing its neighbourhood from Beijing: in recent years, China has solved land border disputes with all its neighbours (bar India), offered them preferential trade terms, and made large investments in infrastructure that will encourage commerce (such as building roads into Nepal and pipelines into Turkmenistan).

In the words of one Indian government official: "The best response to the rise of China is the rise of India." India is rising, driven by strong economic growth, likely to be more than 8 per cent this year. One big difference between India and China, of course, is their political systems. But Chinese officials are not envious of India's democracy. In fact one reason for their disdain towards India is that they think its decentralised and often chaotic political system creates inefficiencies that hamper economic growth. If Singh could push through many of the structural economic reforms that he would like to see but which his own party is blocking, Indian growth rates could approach Chinese levels – and those disdainful Beijing officials would be proved wrong. In any case, the continuing rise of India requires not only strong growth, but also clever diplomacy. India has done well to build friendships with the US, Japan and many South East Asian states. But it needs to improve its performance in its neighbourhood.

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