

ISAS Working Paper

No. 241 – 11 October 2016

Institute of South Asian Studies
National University of Singapore
29 Heng Mui Keng Terrace
#08-06 (Block B)
Singapore 119620
Tel: (65) 6516 4239 Fax: (65) 6776 7505
www.isas.nus.edu.sg
<http://southasiandiaspora.org>



Rivals Sometimes, Friends Always? Puzzles, Paradoxes and Possibilities in Sino-Indian Relations¹

Subrata Kumar Mitra²

- *India-China relations are today less cordial but commercially buoyant.*
- *In most of the bilateral meetings both countries pledged to increase the bilateral trade volume and in 2015 have signed a strategic partnership.*
- *The relationship continues to be beset with tensions that ever so often erupt and threaten to derail efforts to manage the simultaneous rise of two giant economies and Asian powers.*
- *A trade balance vastly in favour of China rankles in India where fears for Indian manufacturing abound especially when contrasted with Chinese prowess. Issues of infrastructure, urbanisation, corruption and governance provoke regular stocktaking on the Indian side, leading to heated debates and discussions on the successes and failures of two different political systems. Strong, negative perceptions persist on both sides, characterised by deep sensitivities on political issues, most importantly, the activities of the Dalai Lama in India and the disputed border territories. Nationalism*

¹ An earlier version of this paper was presented at IARC International Academic & SingPeace Forum 2013, China and India: Splash of Civilizations, September 28-29, 2013, Cho Yiu Conference Hall, The Chinese University of Hong Kong, Shatin. The author would like to thank the SingPeace Foundation of Singapore for their financial support, Dr Selina Ho for her comments on an earlier draft, and Dr Srikanth Thaliakkattil for his critical research support.

² Professor Subrata Kumar Mitra is Director and Visiting Research Professor at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at isasmkr@nus.edu.sg. The author, not ISAS, is liable for the facts cited and opinions expressed in this paper.

often threatens to boil over and is egged on by a dynamic media in both countries. Border incidents along the un-demarcated Sino-Indian border occur regularly and are often depicted as ‘incursions’ and in the effort to calm tempers, labelled as ‘transgressions’.

- *Nonetheless, Chinese Premier Li Keqiang chose to make India his first port of call signalling that perhaps the regime in Beijing was allocating greater importance to Indian than in the past. What emerges therefore remains a confusing picture of Sino-Indian relations - on the one hand more cooperative and commercially resilient than ever before and on the other hand a relationship that continues to be vulnerable to distrust and nationalism.*
- *Reconciling this contradictory picture requires the posing of some concrete questions. Who makes India’s ‘China policy’ and who makes China’s ‘India policy’? To what extent are commercial stakeholders and military strategists involved in the process of policy-making on either side? Are there institutionalised forums within which disputes and concerns are regularly tabled and discussed? To what extent is the bilateral Sino-Indian relationship embedded within multilateral frameworks? What are the main drivers of India-China relations? Does trade continue to be the abiding priority on both sides or do emerging geo-political considerations look to shape the repertoire of concerns and ambitions? Can ‘Chindia’ become the fulcrum of a new Asian Equilibrium?*

Introduction

With their ‘on-again, off-again’ character, Sino-Indian relations continue to be puzzling for the states and societies in the two neighbouring countries, and enigmatic for the rest of the world. Measured in terms of the volume of trade and diplomatic exchanges, India-China relations are today cordial and commercially buoyant. Contrary to India’s frontiers with the South Asian neighbours, the Sino-Indian border reports little by the way of decapitation of soldiers, unprovoked or retaliatory shelling, terrorists sneaking in through unguarded areas or shots fired in anger. *In most of the bilateral meetings both countries pledged to increase the bilateral trade volume and in 2015 have signed a strategic partnership.* Nevertheless, the relationship continues to be beset with tensions that ever so often erupt, and threaten to derail efforts to manage the simultaneous rise of two giant economies and Asian powers. But

underneath this calm veneer and buoyancy in trade, one can detect a feeling of ‘cooperation without trust’, and simmering resentments. A trade balance vastly in favour of China rankles in India where fears for Indian manufacturing abound, especially when contrasted with Chinese prowess. With generous Chinese assistance to India’s neighbours, there are dark mutterings of a Chinese ‘string of Pearls’ to choke India in the corridors of the North Block and South Block – the imposing seats of government in New Delhi, and in the widely followed 24X7 news channels, only in a more accentuated form. China specialists often enthusiastically join in, pitting China and India in contrast with regard Issues of infrastructure, urbanisation, corruption and governance provoke regular stocktaking on the Indian side, leading to heated debates and discussions on the successes and failures of two different political systems.

Thus, appearances to the contrary, negative perceptions persist on both sides, characterised by deep sensitivities on political issues, most importantly, the activities of the Dalai Lama in India and the disputed border territories. Despite growing economic interests and sustained high-level diplomatic visits, nationalism often threatens to boil over and is egged on by a dynamic media in both countries. Border incidents along the un-demarcated Sino-Indian border occur regularly and are often depicted as ‘incursions’ and in the effort to calm tempers, labelled as ‘transgressions’. Nonetheless, Chinese Premier Li Keqiang chose to make India his first port of call signalling that perhaps the regime in Beijing was allocating greater importance to Indian than in the past. But Pakistan featured on this maiden visit as well, creating the impression in some quarters that the leadership change will mark no radical departure from the conventional Chinese policy of pitting the two neighbours against one another.

What emerges therefore remains a confusing picture of Sino-Indian relations - on the one hand more cooperative and commercially resilient than ever before and - on the other hand, a relationship that continues to be vulnerable to distrust and nationalism. Reconciling this contradictory picture requires the posing of concrete questions such as who makes India’s ‘China policy’ and who makes China’s ‘India policy’ and what drives these policies? To what extent are commercial stakeholders and military strategists involved in the process of policy-making on either side? Are there institutionalised forums within which disputes and concerns are regularly tabled and discussed? To what extent is the bilateral Sino-Indian relationship embedded within multilateral frameworks? What are the main drivers of India-

China relations? Does trade continue to be the abiding priority on both sides or do emerging geo-political considerations look to shape the repertoire of concerns and ambitions? And, to cap it all, can the nebulous idea of 'Chindia' become the fulcrum of a new Asian Equilibrium?

Main Trends in Sino-Indian Relations

Though India and China struck up cordial relations after Independence, the India-China border conflict in 1962 led to a serious setback in bilateral relations. A semblance of rapprochement started in the late 1970s, but there was hardly any progress. It was not until the Indian Prime Minister Rajiv Gandhi's visit to China in 1988 giving the relations a real push. Since then the relations have continuously developed and diversified. In comparison to the past, India-China relations are currently in a state of mixing competition and cooperation. Even in the same issue area, competitive and cooperative patterns could be found at the same time. While the competitive relations continue to set the dominant tone in security and border issue, there has been a substantial increase of cooperation in other areas such as economic relations, cultural and educational exchanges and multilateral cooperation.

Several major trends can be identified:

- Bilateral relations are still burdened by the historical legacy of border dispute, Tibet problem, China-Pakistan relations, and other traditional security issues. Trust deficit between them due to these issues has been difficult to overcome.
- Bilateral trade which was the driving force of their bilateral relations in the past ten years has gradually slowed down with the trade deficit of Indian side showing no indications of an early turn-around. Though the will of doing business with each other is strong, in the economic relations, new impetus and cooperative pattern need to be found out.
- The strategic relationship has entered into a state of stasis. On the political level it is in their interests to develop stable, long-term, overall relations with each other.
- At the level of people to people contact, cultural and educational exchanges, the trend is positive. Though the scope is still small in comparison to the size of the population of the two countries, it is the areas that will expand and will help two countries know more about each other which is essential for a better mutual understanding.

For both India and China, contemporary priority is the domestic development, to continue the reform and to address the need of the people, so that they can keep the pace of the current development and enhance their positions in the international community. A good, long-term relationship will help both to focus on domestic issue, and to explore each other's market for further economic growth. Both are developing countries, and have the most populations in the world, hence, they have lots of similarity as states, which give them common ground for cooperation in many issues and can learn from each other's experience and path. Both are neighbors and old civilizations that have intensive cultural and trade ties in the past. This is also a positive point that is often mentioned by the both sides that relations will benefit from more exploration on the historical and cultural ties so that both can learn from the past for develop indigenous understandings about each other. Furthermore, India and China's cooperation is also important for peace and development in Asian and the world.

There are continuously new issues emerging in India-China relations, such as competition in energy and resources, terrorism, maritime security, etc. However, the main structural constraints are the following main issues.

- *Border issue:*

The present situation in India-China dispute areas is that there is no commonly delineated line of actual control (LAC) between India and China, and both sides patrol up to their own *perceptions* of the LAC in some area, this sometimes causes border tensions. It is against this background that during the 15th round of Special Representatives' Meeting, which was held in January, 2012, an *Agreement on the Establishment of a Working Mechanism for Consultation and Coordination on India-China Border Affairs* was signed to check cases of border transgression and address such cases effectively. This agreement came in handy to defuse the border crisis erupted in April-May 2013. As of September 2016, 19 special representative meetings are held, yet there is no political will from both sides to resolve the border issue in the short term, hence, border will continue bother the relations as the main source of mutual distrust.

- *Tibet:*

Tibet issue has been one of the major irritants in India-China relations and have implications on border issue as well. The Tibetan government-in-exile has emerged as a problem maker between the two governments. Through decades of effort by the Dalai Lama and the exile Tibetans, the Tibetan issue has been successfully internationalized, and the issue of the re-incarnation of the Dalai Lama also make the future unpredictable, adding more complexities to the issue. For China, the Dalai Lama still remains the main perpetrator, not only damaging China's national image but also damaging China-India relations. China has been suspicious of India on this matter. Furthermore, the India government worries about the post-Dalai Lama scenario in India, and is afraid that more violence could emerge in Tibet after the death of Dalai Lama and thus giving more pressure on India-China relations.

- *China-Pakistan relations:*

Unless India and Pakistan can have better relations, India-China relationship will be always burdened by Pakistan. India has no problem if China only helps Pakistan economically, but not militarily. India worries that Pakistan is becoming more dependent on China.

- *US's role and its geo-political interest in Asia:*

Though no longer U.S enjoys the undisputed global supremacy that it had after the unravelling of the September 11, it still has the dominant position in the international system and will have a strong impact on the dynamics between India and China. The US is wooing India and China would not like to see India getting closer to the US. Due to the India's tradition of putting weight on strategic autonomy, it is probably that India will choose the middle way that is neither getting closer to US nor China.

Chindia – Towards a 'Shared Future' for China and India

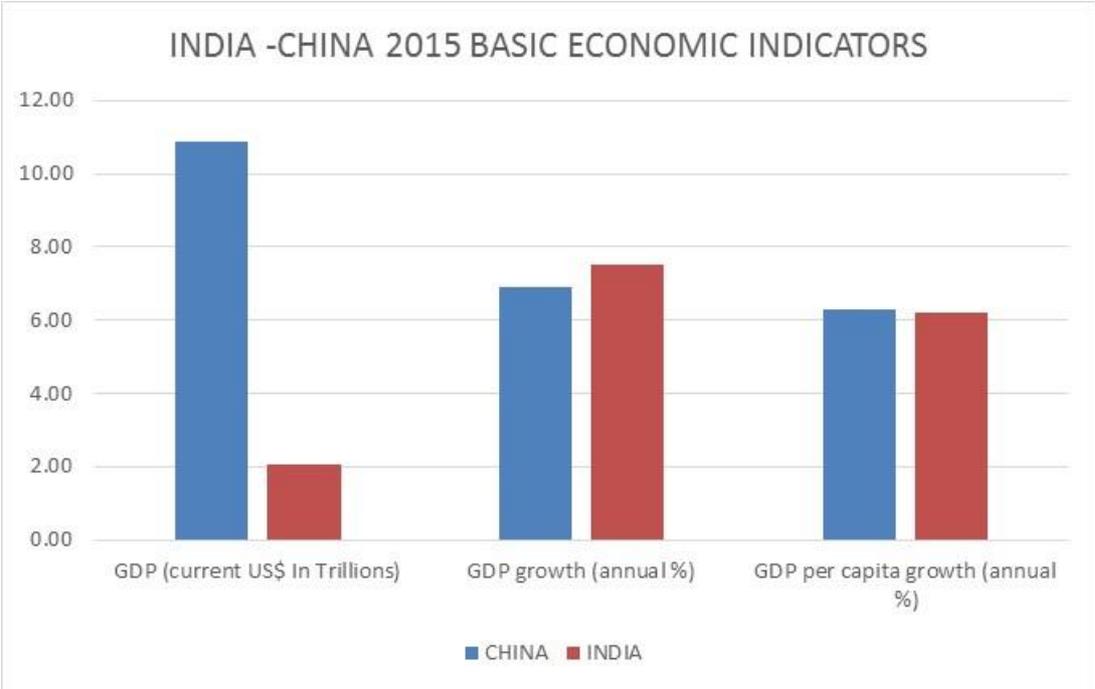
The concept of 'Chindia' – a 'loose economic entente' between China and India, with both pooling and using their resources for mutual benefit, entered Indian political discourse with a book by an Indian politician called Jairam Ramesh on *Making Sense of Chindia: Reflections on China and India* (New Delhi: India Research Press, 2005).³ The topic has been subject to

³ Merrington (2010) suggests some parallels between the ill-fated 'Hindi-Chini-bhai-bhai' and the invocation of 'Chindia' by some Indians. "The 'Chindia' concept is for the most part a Western construct developed as a response to the 'China threat' perception and tied into the former US and ASEAN policy of containment,

much controversy among specialists in view of the asymmetry in the capacities of China and India and the unlikely prospects of a dynamic equilibrium between them in the current state of regional constellation of forces.⁴

As of 2016 Chindia have a nominal GDP of around U.S \$13 trillion, more than 17% of the global share, Chindia also make up about 40% of the world population. Chindia will also remain the major growth engines of the world economy, and both country’s currency will eventually become global reserve currencies.

Figure 1: INDIA-CHINA BASIC ECONOMIC INDICATORS 2015



in which India would play an important role. The idea of a mutual rise or equating China and India was seized upon by some in India who were attracted by the idea that India has or will soon have the same type of international economic and political clout as China, even when the present reality suggests otherwise.” (Merrington 2010: 14).

⁴ See Dutta *et al.* (2005) “CHINDIA: the shape of things to come”, available at: <http://www.fullermoney.com/content/2005-06-30/RameshCINDIA--cls.pdf> for a detailed discussion of the components of this concept. For a critical appraisal of the concept, see Louise Merrington, “Debunking ‘Chindia’” Chinese and India strategic interests, foreign policy and the myth of ‘mutual rise’, paper presented to the 18th Biennial Conference of the Asian Studies Association of Australia, Adelaide, 5-8 July 2010; and Jonathan Holslag, “The Myth of ‘Chindia’: Assessing Interdependence between China and India, Asia Paper vol 3 (2), 7 January 2008 (BICCS Asia Paper).

Figure 2: CHINDIA (GDP) GROWTH STORY



In order to understand the reasons behind Indian hesitation to cast Indian economic and strategic concerns within the larger framework of Chindia, one needs to look critically at the dynamics of Sino-Indian relations during the past decades.

Table 1: India – China, 1993 - 2016: A Critical Chronology

Bilateral relations	India-China
	<p>1993: Prime Minister P.V. Narasimha Rao visits China, signs agreement on Border</p> <p>1995: India and China agree to pull back their troops on the Sumdorong Chu Valley in the eastern sector.</p> <p>1996: Chinese President Jiang Zemin visits India, the first visit to India by a head of state from China. Agreement on Confidence Building</p> <p>1998: India conducts three nuclear tests in Pokhran range in Rajasthan. China strongly condemns them. China urges India and Pakistan to give up their nuclear ambitions and sign the NPT.</p> <p>1999: Chinese “bus diplomacy” towards India and Pakistan</p> <p>2000: India and China sign a bilateral trade agreement in Beijing to facilitate China's early entry into the WTO.</p> <p>India and China initiate the first ever bilateral security dialogue in Beijing on global and regional issues of mutual interest.</p> <p>2001: China urges both India and Pakistan to exercise restraint and engage in dialogue to resolve their differences.</p> <p>2005: Increase in Sino-Indian cooperation in high-tech industries. India and China sign an agreement aimed at resolving disputes over their Himalayan border.</p> <p>2006: China and India re-open Nathu La Pass. Dispute over Arunachal Pradesh.</p> <p>2009: Bilateral trade surpasses \$50 billion and China becomes India's largest trading partner in goods</p> <p>2010: India cancels defense exchanges with China after Beijing refuses to permit a top Indian army officer a visa because he "controlled" the disputed area of Jammu and Kashmir</p> <p>2013: Chinese Premier Li Keqiang visits India</p> <p>2014: Chinese President Xi Jinping Visits India</p> <p>2015: Prime Minister Narendra Modi Visits China</p> <p>2016: NSG Issue</p>

Dynamics of the Sino-Indian Relations from 1993 to 2016

The visit of Indian Prime Minister Narasimha Rao to China in 1993 in course of which he signed an important border agreement was a major mile post in Sino-Indian relations. This was followed by the Indian and Chinese agreement to pull back their troops on the Sumdorong Chu Valley in the eastern sector, which was closely followed by the visit of

Chinese President Jiang Zemin to India, the first visit to India by a head of state from China and the signature of an agreement on confidence building. After the temporary setback of 1998 due to India's nuclear test, Sino-Indian relations continued to develop and diversify, but not without the occasional setback. The economic liberalization of India launched in the 1990s strengthened India's economic ties with China and paved the way for the inter-linkage of their markets. The economic impetus led to the intensification and diversification of relations. In 2003 and 2005, two high-level visits were made by Indian Prime Minister Vajpayee and his Chinese counterpart Wen Jiabao. The shared vision and fundamental principles for the future development of India-China relations were embodied in the documents signed in these two visits, laid the foundation for overall development of Sino-Indian relations.

Starting with Vajpayee's China visit in 2003, the relationship has witnessed regular summit-level meetings and intensified high-level exchanges. From June 22-27, 2003, Indian Prime Minister Vajpayee paid a six-day official visit to China. Vajpayee and Chinese Premier Wen Jiabao signed the Declaration on Principles for Relations and Comprehensive Cooperation on 23 June. Although it is only a framework document, the Declaration still indicates how far the two have progressed from the mutual suspicion of 1998. At the beginning of the Declaration both sides explicitly stated that "*the common interests of the two sides outweigh their differences,*" and that they would "*fully utilize the substantial potential and opportunities for deepening mutually beneficial cooperation.*" These two points make the Declaration distinct from previous bilateral document, implying that the bilateral relationship would emphasize a firm foundation based on "common interest." Both sides agreed to promote a "*long-term constructive and cooperative partnership.*" It was decided that the foreign affairs ministers would hold annual consultations, and that personnel exchanges between ministries, parliaments, political parties, and the militaries of the two countries should be further enhanced. On boundary issue, the Declaration marks the first public acknowledgement of seeking eventual solutions of border dispute based on political considerations. It was decided to establish Special Representatives' Meeting to explore the framework for a boundary settlement.⁵

⁵ Declaration on Principles for Relations and Comprehensive Cooperation between the People's Republic of China and the Republic of India, Beijing, June 25, 2003.

After the Indian general elections of 2004 the Congress-led UPA government continued the policy of its predecessor to seek a stable relationship with China. In April 2005, Chinese Premier Wen visited India. The two governments signed a Joint Statement and a series of new bilateral documents on economic, cultural and border issues. The most significant move in the 2005 Joint Statement, compared to the Declaration of 2003, is the agreement “*to establish an India-China Strategic and Cooperative Partnership for Peace and Prosperity.*”⁶ It reflects the consensus that bilateral relations have acquired a global and strategic perspective. India and China agreed to cooperate in the field of energy security and conservation due to the challenges from the enormous energy requirement of their rapidly growing economies. In addition, the two sides also declared 2006 as the “Year of India-China Friendship” to promote mutual awareness and deepen the friendship between the two peoples.

The 2003 and 2005 bilateral documents provide a road map for the development of relations and comprehensive cooperation between India and China. They indicate the “course correction” from the earlier approaches adopted by the two governments to a conscious attempt at charting a new way out of a tangled historical legacy. The achievement acquired by these two visits was further elaborated as the “ten-pronged strategy”, which is expressed in the bilateral document signed in November 2006 during China’s President Hu Jintao’s visit to India. The ten-pronged strategy is as follows:

1. Ensuring comprehensive development of bilateral relations;
2. Strengthening institutional linkages and dialogue mechanisms;
3. Consolidating commercial and economic exchanges;
4. Expanding all-round mutually beneficial cooperation;
5. Instilling mutual trust and confidence through defence cooperation;
6. Seeking early settlement of outstanding issues;
7. Promoting trans-border connectivity and cooperation;
8. Boosting cooperation in science and technology;
9. Revitalising cultural ties and nurturing people-to-people exchanges;
10. Expanding cooperation on regional and international stage.⁷

⁶ *Joint Statement of the Republic of India and the People’s Republic of China*, April 11, 2005.

⁷ *Joint Declaration by the Republic of India and the People’s Republic of China*. November 21, 2006.

These ten strategies set the keynote and direction of the future Sino-Indian relations. However, dispute over Arunachal, continued Chinese policy of questioning the full integration of Jammu and Kashmir with India and incursion of Chinese troops into what India considers to be Indian territory, in Ladakh in 2013, and during the visit of Chinese President Xi Jinping in 2015 show tension that underpins the political dimension of Sino-Indian relations. Another significant progress in the border issue is the re-opening of border trade through Nathu La Pass, which belongs to a series of CBMs in border areas in recent years. The decision was made during Vajpayee's visit to China in 2003. After three years' preparation, the Nathu La pass was reopened in 2006. Although the border trade running in Nathu La haven't come up to expectations, the decision has symbolic significance.⁸ The trade through Nathu La was suspended since the 1962 war, hence, the resumption is a historic event in bilateral relations; second, it established firmly China's recognition of Sikkim as a part of India, since it is the precondition to reach such an agreement.

The present situation in India-China dispute areas is that there is no commonly delineated line of actual control (LAC) between India and China, and both sides patrol up to their own perceptions of the LAC in some area. As the Indian Defence Minister A K Antony described, *"There are few areas along the border where India and China have different perceptions of LAC including territory in Arunachal Pradesh. Both sides patrol up to their respective perceptions of LAC due to perceived differences in its alignment."*⁹ Hence, border transgressions from both sides take place occasionally. In the 1990s, India and China signed two Agreements about confidence-building measures in the border area.¹⁰ Since then the tensions along the LAC have been generally reduced, especially the danger of military escalation, and "peace and tranquillity is being largely maintained": *"Let me go on record to say that this (border with China) has been one of the most peaceful boundaries that we have had as compared to other boundary lines with other countries,"* said Indian Foreign minister S M Krishna.¹¹ However, in India media reports about Chinese "incursions" caused agitations in bilateral relations. The media hype on Chinese "incursions" reached a peak during August

⁸ Sarikah Atreya, Nathu La Pass trade draws blank as traders stay away, The Hindu Business Line, May 8, 2008; Nathu La opens from May 2 for trade, April 20, 2011, iSikkim

⁹ Closely monitoring activities in China, Pakistan: government.<http://www.indianexpress.com/news/closely-monitoring-activities-in-china-pakistan-government/947271/1>

¹⁰ These two agreements are: Agreement on maintenance of peace and tranquillity along the LAC (1993); Agreement on Confidence Building Measures in the Military Field along the LAC (1996)

¹¹ Border with China most Peaceful: Krishna, Times of India, September 8, 2009. http://articles.timesofindia.indiatimes.com/2009-09-08/india/28068984_1_incursions-chinese-troops-actual-control

and September 2009, and more recently, in the Depsang Bulge area of Ladakh. In response to reportedly Chinese aggressions, Indian Foreign secretary Nirupama Rao said, “*The correct term is transgression and not incursion. There are transgressions from time to time when Chinese troops come over to our side of the line of actual control and occasionally we are told that we cross into their side*”. She said such issues had to be discussed rationally. “*There is no point in trying to raise the temperature and to accentuate tension.*”¹²

Nevertheless, these Chinese “incursions” do raise much concern in India and reflect that part of the Indian society, especially the strategic community and the military is very worried about China’s growing influence and want to take a stronger stance towards China. The considerable tensions arising out of reported Chinese incursions across the border in the Indian media indicated the urgent need to establish some institutional mechanism for better and effective border management. It is against this background that during the 15th round of Special Representatives’ Meeting, which was held in January, 2012, an *Agreement on the Establishment of a Working Mechanism for Consultation and Coordination on India-China Border Affairs* was signed. This border mechanism is expected to check cases of border transgression and address such cases effectively and expeditiously.¹³ It is a small but significant step towards the settlement of border disputes between the two countries.¹⁴ The fact that since 1962, border disputes have not boiled over into more general conflict and as a matter of fact, have been confined to the localities where they occur shows the ‘contained volatility’ of relations.

Economic Relations

Trade and economic relations is an important part of India-China bilateral relations and have witnessed continuous expansion and deepening over the past two decades. The opportunities of the bilateral trade and economic relationship are enormous and manifold. The director of the Confederation of Indian Industry (CII) Srinivasan drew a bright picture for us: “*In all our*

¹² MEA seeks report on China's LoC presence, Hindustan Times, April 7, 2011.

¹³ http://articles.economicstimes.indiatimes.com/2012-01-17/news/30635916_1_india-china-border-dai-bingguo-chinese-side

¹⁴ This mechanism, which will be headed by the joint secretary (East Asia) on the Indian side and the Director General of the newly created Boundary Department in the Chinese Foreign Office, will ensure real time contact between officials on both sides so that issues of doubt arising out of different perceptions of the Line of Actual Control can be addressed immediately. This mechanism will also look at cooperative efforts in border areas like facilitating trade, religious pilgrimages and even removing practical impediments to opening up more passes along the boundary. (Samanta 2011: 1–2)

*global industry interactions, it is no more China or India”, “it is now China and India. In the coming years we see it as China with India.”*¹⁵

In the matter of trade, it has achieved rapid growth. In 1984, the two sides signed the Most Favoured Nation Agreement. In 2000, India-China bilateral trade volume was US\$2.92 billion and this reached \$70.7 billion in 2015.¹⁶ Since 2008, China has become India’s largest trading partner.¹⁷ The overall trade figure was good and the bilateral trade was growing well despite the global economic downturn began at the end of 2007. However, the trade deficit for India remains a big problem in their trade relations. By 2011, India’s trade deficit rose to over \$50 billion.¹⁸ India is very concerned with the fast-widening trade deficit and with Indian exports, largely made up of iron ore, other raw materials and cotton. China, in contrast, exports finished goods to India, mainly machinery. The high volumes of Chinese trade in India is also focussed on infrastructure development, especially telecom and energy generation equipment. Although trade and investment emerged as a strong binding force for the bilateral ties, the imbalances in trade and trade frictions became a source of discords and other uneasiness in the relations. Just as Amit Mitra, Secretary General of the Federation of Indian Chambers of Commerce & Industry (FICCI) addressed: *“Not only is India’s exports to China less than one-third of China’s exports to India, hidden in the statistic is the quantum of raw material exports from India like iron ore which at one time, smacked of neo-colonial trade relations. Obviously, such large imbalances in trade and the skewed components in the trade basket are not sustainable. They are not conducive to a deepening economic friendship and needs urgent correction.”*¹⁹

The challenge before India is to diversify its export basket to China. The Indian government urged Indian business to actively pursue opportunities for expanding non-traditional items of export and called for greater market access for Indian goods in China as a means of dealing with the rising trade deficit. India’s concerns over trade deficit have been acknowledged by the Chinese government and efforts are being made to improve market access for Indian products in China. These measures include supporting Indian participation in China’s national and regional trade fairs, advancing of trade facilitation, enhancing exchange and

¹⁵ “China, India Move Closer in Trade,” *Asia Times*, February 11, 2005.

¹⁶ <http://www.commerce.nic.in/eidb/iecnt.asp>

¹⁷ India, Ministry of Foreign Affairs, <http://www.mea.gov.in/mystart.php?id=50042452>

¹⁸ <http://www.commerce.nic.in/eidb/iecnt.asp>

¹⁹ Mitra, Amit (2010), Secretary General of the Federation of Indian Chamber of Commerce & Industry (FICCI), in *IndiaChina Ties: 60 Years 60 Thoughts*.

cooperation of pharmaceutical supervision, stronger relationships between Chinese enterprises and Indian IT industry and speedier completion of phytosanitary negotiations on agro products.²⁰ However, this trade deficit has its structural roots and will not be overcome in a short term. At the same time, India is worried that a large number of Chinese cheap goods could hurt domestic industry. According to Indian Minister of State for Commerce and Industry Jyotiraditya Scindia in December 2012, India initiated 149 anti-dumping cases against China, accounting for more than 50 per cent of all cases India has filed against foreign countries.²¹

On the mutual investment front, despite strong potential for development, their mutual investment is still limited. By October, 2011, India's FDI in China reached USD 0.564 billion, compared to China's FDI in India till 2014 of 3 billion.²² Chinese investments in India are still being confronted with lots of restrictions, either due to protection of its own market or considerations of security reasons.²³ Nevertheless, there has been an upswing in Chinese investments since the two countries signed a bilateral investment protection and promotion pact in November 2006. According to India's 12th Five Year Plan, India's infrastructure sector will require investment of about USD 1 trillion.²⁴ This will provide enormous opportunity for Chinese companies investing in India.²⁵

The boosting air links between India and China is the evidence of the growing economic ties as well. In March 2002, India and China opened the first direct flight between them from Beijing to New Delhi.²⁶ The MoU signed during Premier Wen Jiabao's visit to India on 9-12th April 2005 provides for major liberalization of air links between India and China.²⁷ Since then, flights between the two countries have increased exponentially as trade further grows and ignorance between China and India dissolves. Several direct air links are launched since 2002 when first time India and China opened a direct air link between two countries, some of

²⁰ Joint Communiqué of the Republic of India and the People's Republic of China, December 16, 2010

²¹ India China meet to discuss trade disputes, the Hindu, April 15, 2012, <http://www.thehindu.com/news/international/indiachina-meet-to-discuss-trade-disputes/article3315474.ece> (accessed 5 April, 2013)

²² India, Ministry of Foreign Affairs, <http://www.mea.gov.in/mystart.php?id=50042452>

²³ See Swaran Singh 2008 "India China Relations: Perception, Problems, Potential" p. 94.

²⁴ India's 12th Five Year Plan

²⁵ http://smehorizon.sulekha.com/china-eyes-india-s-1-trillion-infrastructure-plan_construction-viewsitem_6250

²⁶ http://english.peopledaily.com.cn/200203/29/eng20020329_93082.shtml, *People's Daily*, March 29, 2002.

²⁷ <http://www.indianembassy.org.cn/DynamicContent.aspx?MenuId=3&SubMenuId=0>

these are Beijing-New Delhi, Shanghai-New Delhi, Guangzhou-New Delhi, Chengdu-Bangalore, Kunming-Kolkata, Shanghai-Mumbai, Beijing-Mumbai²⁸, Shenzhen-Kolkata²⁹.

In addition to government effort, the local governments are also playing active role in strengthening India-China economic ties. Sichuan province in China's southwest agreed with West Bengal to promote commercial exchanges.³⁰ Its capital Chengdu, is ambitious to attract Indian IT companies to replicate the success of India's Bangalore, a hub for India's IT sector.³¹ Gujarat, which is considered to be India's growth engine, is also actively seeking Chinese investment. In November 2011, during its chief Minister Narendra Modi's fourth visit in China there were about 80 Chinese companies taking part in the meeting "Business and Investment Opportunities in State of Gujarat," jointly held by embassy of India along with the China Chamber of Commerce for Import and Export of Machinery and Electronic Products (CCCME).³² Shortly before his visit, a Chinese transformer manufacturer TBEA signed a MoU with the Gujarat Government to develop a green energy park at an investment of Rs 2,500 crore.³³ The Visit of Chinese President Xi Jinping in 2014 and Indian Prime Minister Narendra Modi to China in 2015 saw the signing of many economic agreements between the two countries. During this visits China promised several billion dollars of investment in India, especially in the areas of Infrastructure development.³⁴

Multilateral Cooperation

In international regimes, such as the WTO, the BRICS, the G20, the UN Framework Convention on Climate Change (UNFCCC), India and China cooperate better than they do bilaterally, not only because they have common interests as the two largest emerging economies and developing countries in these regimes, which lay a solid foundation for their cooperation, but also because there are less entanglement of security and the long shadow of past disputes. There are many successful examples. In the WTO negotiations of 2003, India

²⁸ <http://www.thehindubusinessline.in/2003/04/09/stories/2003040902540500.htm>, *The Hindu Business Line*, April 9, 2003.

²⁹ Opened in June, 2011, <http://kolkata.china-consulate.org/eng/zlgxw/t830604.htm>

³⁰ "Trade Fair Venue Shifted to Salt Lake," *Hindu Business Line*, January 18, 2007. <http://www.thehindubusinessline.com/todays-paper/tp-economy/article1646742.ece>

³¹ "Panda city collects Indian techies as it builds a Bangalore," *Hindustan Times*, December 14, 2009.

³² "Narendra Modi seeks Chinese investments for Gujarat," http://articles.economicstimes.indiatimes.com/2011-11-09/news/30377684_1_chinese-investments-india-and-china-china-india

³³ "Chinese firm's India deal, hailed as example, serves as warning", *The Hindu*, November 9, 2011.

³⁴ http://www.thehindu.com/system/topicRoot/Xi_Jinping_in_India/; <http://www.thehindu.com/opinion/op-ed/prime-minister-narendra-modis-china-visit/article7231248.ece>.

and China, together with Brazil and South Africa, formed a negotiating bloc with some other developing countries and submitted an alternate plan to WTO demanding immediate removal of export and production subsidies on agriculture in developed countries. This proposal marked the creation of the G-20 developing country grouping at the WTO.³⁵ During the UN's Climate Change Conference of 2009, the cooperation of India and China was one of the remarkable features, irrespective of the outcome at Copenhagen that the conference did not achieve a binding agreement for long-term action. Together with Brazil and South Africa, they urged developed countries to fulfil their obligations and commitments, forced the western nations to accept the principle of equity while drafting the final agreement thus protected the rights and interests of the emerging economies and vast developing countries.³⁶ The Chinese appreciated the fact that India stood with China and ensured that China could not be isolated.³⁷ Trust was built on climate change through the two countries' coordinated approach to the Copenhagen negotiations. In 2010 India and China agreed to continue their consultations on climate change negotiations and strengthen bilateral cooperation in green technologies.³⁸ The BRICS is another successful example of India and China's cooperation in multilateral regimes. Chinese President Hu Jintao claimed BRICS countries are the defender and promoter of the interests of developing countries.³⁹ Although the grouping has been criticized that the members have less in common other than large emerging economies, its development has gained momentum based on practical cooperation, especially in the context of global financial crises since 2008. The cooperation between the BRICS countries led to the establishment of the BRICS development Bank in 2014, now known as New Development Bank (NDB).⁴⁰ The decisions on creations of a joint development bank, as a possible alternative to international banks, and trade in local currencies, are important achievements of the BRICS, marked its increasing influence in global decision-making and the shift of the economic power towards the East.

³⁵ CSH Occasion Paper, No. 18, 2006, IBSAC (INDIA, BRAZIL, SOUTH AFRICA, CHINA): A Potential Developing Country Coalition in WTO Negotiations, by Debashis CHAKRABORTY, Dipankar SENGUPTA, p. 52

³⁶ <http://in.china-embassy.org/eng/sgxw/t651205.htm>

³⁷ How India saved China from isolation at Copenhagen http://articles.timesofindia.indiatimes.com/2010-05-09/india/28305207_1_india-and-china-copenhagen-talks-climate-change

³⁸ Joint Communiqué, December 2010

³⁹ <http://www.thehindu.com/opinion/interview/article3251562.ece> BRICS is the defender of the developing world, The Hindu, March 28, 2012

⁴⁰ <http://ndbbriics.org/>

Joint Military Exchanges

Though not at the same pace as the economy, bilateral military exchanges have been growing too, though there was a temporary setback in 2009 and 2010. In 2003, Indian Defense Minister George Fernandes visited Beijing and helped ease the tensions after the Indian nuclear tests in 1998. This was followed a return visit by Chinese Defense Minister Cao Gangchuan in March 2004, and quite significant, coming from Fernandes who had earlier declared China as 'India's enemy no. 1'. In 2006, China and India signed a Memorandum of Understanding (MoU) on defense cooperation during Indian Defense Minister Pranab Mukherjee's ongoing visit to China, which formalized the "regular and institutional contacts between the armed forces and defense officials and experts." The first Annual Defence Dialogue between India and China was held in Beijing in November 2007; in the same year, Indian and Chinese armies conducted their first joint training exercise "Hand-in-Hand" on land in China's Kunming province. In 2008 the joint exercises took place in Belgaum, India. 2009 witnessed a worsening of bilateral relations and India suspended military exchanges with China in August 2010 after it was refused to grant permission to a senior Indian Army Commander to proceed on an official trip to Beijing.⁴¹ In 2011 the military exchanges resumed and both side agreed to enhance defense exchanges and communications for better understanding and mutual trust in the Annual Defence Dialogue held in December. The third "Hand-in-Hand" military exercises will now be held in 2013 as a major confidence-building measure between the two armies.⁴² However, the demilitarization of the border area and their increasing military exchanges cannot change the fact that they have disputed boundary. The defence of border is still prominent and the logic of balance of power continues in their military strategic planning.

Asymmetry of Size, Location and the Security Dilemma

To understand the source of hesitation and the tendency to 'cooperate without trust' that many have noticed in India's dealings with China, one has to look at the asymmetry of capacities between India her South Asian neighbours and China, and the pattern of the wars that India has fought since Independence. Indo-Pak rivalry has followed a trajectory based on

⁴¹ http://articles.economictimes.indiatimes.com/2012-06-20/news/32336067_1_joint-military-exercises-annual-defence-dialogue-chinese-navies

⁴² India, China to boost defence ties, resume military exercises http://articles.timesofindia.indiatimes.com/2012-09-05/india/33614691_1_defence-ties-general-liang-guanglie-military-exercises

an underlying, structural disequilibrium where China’s role is seen as a pivotal factor. The solution to this disequilibrium points towards bringing China into the tent, and basing Asian security on a broader basis that includes the legitimate interests of India, Pakistan and China. The consequences of the present state of security leading to an arms race, based on self-help, distrust and unstable alliances is discussed below.

Table 2:⁴³

Country	Area (sq. Km)	Population (July 2015 est.)	GDP (PPP) (2015 est.)	GDP Per capita (PPP) (2015 est.)	Military Expenses (percentage of GDP)
Bangladesh	143,998	168,957,745	\$577 billion	\$3,600	1.09% (2014)
Bhutan	38,394	741,919	\$6.385 billion	\$8,200	1% (2005 est.)
India	3,287,263	1,251,695,584	\$7.96 trillion	\$6,200	2.4% (2014)
Maldives	298	393,253	\$5.191 billion	\$14,900	5.5% (2005 est.)
Nepal	147,181	31,551,305	\$70.09 billion	\$2,500	1.41% (2012)
Pakistan	796,095	199,085,847	\$931 billion	\$5000	3.5% (2013)
Sri Lanka	65,610	22,053,488	\$223 billion	\$10.600	2.43% (2012)
China	9,596,961	1,367,485,388	\$19.39 trillion	\$14,100	1.99% (2012)

As one might notice in the Table 2 above, India is the largest state in South Asia, but surrounded by South Asian states that are not necessarily allies of India. As such, in effective terms, the relative capacity of India which is smaller in absolute terms than China gets even reduced. Because of the unresolved issue of Kashmir which continues to simmer despite several inconclusive wars and diplomatic efforts, India is locked in a long-term conflict with Pakistan. Facing India, the bigger power, Pakistani strategies have consisted of Alliance with the US and internationalization of Kashmir issue, Balancing the US and China, Multiple triangles with Islamic states, Proxy wars in India and Afghanistan and Covert support for Jihad, and a re-appraisal of its options.

The comparative question that one might raise here is why don’t India Pakistan relations come to an equilibrium? To be more precise, as one learns from Axelrod, under four conditions, namely knowledge (of one another), proximity (the adversary is within reach), tit-for-tat (guaranteed sanctions and rewards for good behaviour) and recursiveness (continuity of the game, i.e. ‘there is a tomorrow’), adversaries come to a steady and stable understanding. Why does this not apply to India and Pakistan? The answer that one comes up from Indian discourse, is, the presence of China as a ‘spoiler’.

⁴³ All figures are taken from CIA Factbook: <https://www.cia.gov/library/publications/the-world-factbook>

The simulation of adversarial relations between India and Pakistan can take four different forms. Each calculates the expected utility of cooperation (both disarming), competition (both procuring armaments), and one disarming while the other holds on to continued procurement. Armaments and delivery systems do not come cheap and the countries engaged in the game have a great need for cash for development. Yet, the spectre of a fatal attack by the adversary when one has lowered one's guard is seen with great apprehension by both, even though the relative threat is asymmetric (meaning, parts of India down South might escape a fatal attack by Pakistan where as Pakistan runs the risk of being wiped out if India were to launch a fatal attack and caught Pakistan napping.) The result is that both enter an arms race, and forfeit the chances of cashing a 'peace dividend'.

Countries, smaller than their adversaries, solve the problem of sub-optimal outcomes in a situation like the above by working out a system of asymmetric security levels. I simulate a similar situation between India and Pakistan, by offering Pakistan a 1:3 security level whereby Pakistan can have one unit of force (one tank or a bomb of a particular calibre), open to inspection, for India's 3, considering the fact that India is known to be at least five times better endowed in capacities. However, one can see in Table 4 that the asymmetric parity will break down easily because India, having acquired a dedicated capacity against Pakistan will require something on those lines against China (k in my example); and of course Pakistan, not being sure that India will not divert these forces against Pakistan in a war, will ask for an additional security of $k/3$ units. Since India is not sure that Pakistan will not use the extra units against India, will want three times the Pakistani additional forces, i.e., another k units. In the next sequence we will see India with $3+2k$, and Pakistan will increase its demands, with full justification. It is hard to see the equilibrium because following the logic of the game ('security matters), the countries will keep chasing their minimum security levels until one of them goes bankrupt.

Table 3: Pay off Matrix - India-Pakistan Arms Race⁴⁴

		PAKISTAN		Minimum gains India
I N D I A		<i>Maintain status quo</i>	<i>Reduction of armament</i>	
	<i>Maintain status quo</i>	c,c	b,d	c
	<i>Reduction of armament</i>	d,b	a,a	d

Key: Preference ordering: a > b > c > d (the letters stand for expected utility to the player). Decision rule: maximin, ie, actors first identify the minimum gain to them from possible options and choose the one that gives them the best payoff. In other words, they try to go for the option that is the least damaging to their prospects.

The security situation in South and East Asia reflects some of the side effects of the kind of arms race we have depicted above. In the 1990s China formulated a military strategy of active defense, which is based on winning local wars in conditions of modern technology, particularly high technology.⁴⁵ Since then China has made significant progress in modernizing its military. According to the Chinese government, China's military expenditure in 2016 totalled US\$146 billion, is the second-largest in the world. As a share of GDP, China's military spending has remained extremely stable at approximately 2 per cent since 2001. However, from 2005 to 2014 china's official military budget grew at an average of 9.5% annually, after adjusting to inflation, according to pentagon estimates.⁴⁶ Although China constantly emphasizes the peaceful intent of its military build-up, the high military expenditure has unavoidable caused concern among China's neighbors, as well as the US.

⁴⁴ Subrata K. Mitra. War and Peace in South Asia: a revisionist view of India-Pakistan relations', *Contemporary South Asia* (2001), 10(3), p. 367.

⁴⁵ China's National Defense in 2008, White Paper of China

⁴⁶ Chris Buckley and Jane Perlez, "China Military Budget to Rise Less than 8%, slower than usual, March 4, 2016, New York Times, http://www.nytimes.com/2016/03/05/world/asia/china-military-spending.html?_r=0.

Table 4: China as ‘Spoiler’ in a Three-Person Game (Mitra 2001: 371)

	Pakistan’s security needs	India’s perceived security needs
Sequence 1	1	3
Sequence 2	1	$3 + k$ (+ k being an Indian security against China)
Sequence 3	$1 + k/3$ ($k/3$ is the additional security that Pakistan demands as proportional increase, since India can redeploy her forces)	$[(1 + k/3) \times 3] + k = 3 + 2k$ (+ k being an Indian security against China, to be added to k . As before, India needs three times the Pakistani holdings to guarantee her sense of relative security)
Sequence 4	$(3 + 2k)/3 = 1 + 2k/3$	$(3 + 2k) + k = 3 + 3k$ (India seeks to match the Pakistani additional capacity through a proportional increase, while retaining the minimum security against China)
Sequence 5	$(3 + 3k)/3 = 1 + k$	$[(1 + k) \times 3] + k = 3 + 4k$
Sequence 6

India has increased military spending by 66 per cent since 2002. China factor do contribute to India’s military build-up, since in many ways India sees China as a rival for regional power, plus the prolonged border dispute. Currently, its military expenditure is ranked seven in the world. India was the largest weapons importer in the world from 2007 to 2011. The share of military expenditure in GDP is higher than China, which is in the range from 2.3 to 3 in the period 2001-2010. India increased its military deployments in the eastern sector. “*The emerging security scenario has the attention of the highest levels in our government. ...we have full support in the implementation of various plans in the Eastern Air Command’s area of responsibility,*” said Air Chief Marshal P V Naik.⁴⁷ The Indian air force deployed four squadrons of frontline Su-30 MKI fighters in Tezpur and Chabua. The Indian army raised two new mountain divisions with HQs in Zakama (56 Division) in Nagaland and Missamari (71 Division) in Assam, and considered the deployment of Ultra Light Howitzers and light tanks. Several new and old airfields were activated and new roads are being constructed to enable the quicker movement of troops and equipment.⁴⁸ However, comparing to military forces that China can mobilize along the LAC, these moves still appeared to be inadequate. In general, China’s infrastructure along the LAC is much better than India’s. By developing road, rail and air connectivity in Tibet and Xinjiang, China connected all the passes and military posts on the LAC with highways, logistic depots and military installations. The

⁴⁷ “Efforts to build military infrastructure in North-East to continue: ACM Naik,” http://articles.timesofindia.indiatimes.com/2011-06-30/india/29721414_1_algs-eastern-air-command-ziro-and-vijaynagar, *Times of India*, June 30, 2011.

⁴⁸ <http://www.thehindu.com/news/national/article1517133.ece>, “China has 58,000 kms of road network in TAR: Antony,” *The Hindu*, March 7, 2011

development in India's North-East was long ignored by the government. The lag of infrastructure development in the eastern sector has undermined India's military capability in the eastern front. Only in recent years, India began to rethink border issues and in particular focus on increasing military capability by strengthening infrastructure in its border areas with China, including the states of Jammu and Kashmir, Himachal Pradesh, Uttarakhand, Sikkim and Arunachal Pradesh.⁴⁹ Sources in Indian Home Ministry and Border Roads Organization confirmed its massive road network projects along the Indo-China border region which have been attached maximum priority to the completion.⁵⁰

Nuclear deterrence is also important in India's China agenda. In the late 1990s India reached sufficient nuclear deterrence vis-à-vis Pakistan, since then its nuclear and missile development programmes have shifted to be China-centric. India, however, is not in an arm race with China like the US-Soviet rivalry of the Cold War era. It is important to reach a minimal deterrence capability against China but not for equivalence. *"We are not looking at how many missiles China or Pakistan has. [...] we only want a sufficient number of missiles to defend the country in the event of a crisis,"* said the DRDO (Defence Research and Development Organisation of India) chief V K Saraswat.⁵¹ The Agni missile is at the heart of deterrence in the larger context of Sino-Indian equation. In April 2012, India successfully tested its Agni-V intercontinental ballistic missile.⁵² The Agni-V demonstrates that India has entered the ICBM (Intercontinental Ballistic Missile) club. With a range of over 5000 km it will be able to hit high-value targets deep inside China.⁵³ The Agni-V technologically narrows the missile gap between India and China and gives India more confidence when dealing with relations with China. *"Agni-V is to meet our present-day threat perceptions, which are determined by our defence forces and other agencies,"* DRDO (Defence Research and Development Organisation of India) spokesman Ravi Gupta said.⁵⁴ Kanwal Sibal, former foreign secretary of India wrote, *"China, in any case, possesses missiles with even longer range. Earlier it was India that was vulnerable to Chinese missiles and now the reverse will*

⁴⁹ "Govt. keeping eye on Chinese works in border areas," *The Hindu*, December 14, 2011.

⁵⁰ "India plans major road projects on China, Pak borders," *Rediff*, March 29, 2011. <http://www.rediff.com/news/report/the-great-india-china-road-race/20110329.htm>,

⁵¹ "Eyeing China, India to enter ICBM club in 3 months," *Times of India*, November 17, 2011.

⁵² India named its ballistic missiles the Agni series. Agni, is the name of the Hindu god of fire. The first missile, Agni-I was tested in 1991.

⁵³ "Eyeing China, India to enter ICBM club in 3 months," *Times of India*, November 17, 2011. http://articles.timesofindia.indiatimes.com/2011-11-17/india/30409335_1_agni-v-agni-iv-agni-programme-director

⁵⁴ [http://m.bbc.co.uk/news/world-asia-india-17765653?%25253FPDA=1&\(none\)&ssfrom=comp](http://m.bbc.co.uk/news/world-asia-india-17765653?%25253FPDA=1&(none)&ssfrom=comp)

*be true, creating a better balance in deterrence.*⁵⁵ While keeping wariness, China openly dismissed the importance of the test.⁵⁶ By answering question about India's missile test, the spokesman of foreign affairs ministry Liu Weimin said "*China and India are cooperative partners rather than competitive rivals,*" and "*The two sides should cherish the hard-won sound relations.*"⁵⁷ China emphasizes it will not be involved in arm race with India. It has the confidence that the weight will be hold on its side. "*But for the sake of regional stability, China should continue to develop defence systems against ballistic missile threats,*" said Zhang Zhaozhong, a professor with the National Defence University of China.⁵⁸

Although India and China both insist their defensive purpose of military build-up, there are concerns about the escalation of the regional arms race. Only six days after India tested Agni-V, Pakistan military said it successfully tested an improved intermediate-range ballistic missile.⁵⁹ Pakistan also wants to keep a minimum deterrence capability vis-à-vis India. Paul K. Kerr, a non-proliferation expert, said when China, India and Pakistan fire missiles, it "*has potential ripple effects, and there's no arms control among the three.*"⁶⁰

⁵⁵ Sibal, Kanwal, "Agni V a positive step on security," *Dailymail*, April 23, 2012.

⁵⁶ "India Successfully Tests Long-Range Missile. China Unimpressed," *Time*, April 19, 2012.

⁵⁷ See Foreign Ministry Spokesperson Liu Weimin's Regular Press Conference on April 19, 2012 <http://www.fmprc.gov.cn/eng/xwfw/s2510/t925291.htm>, Ministry of Foreign Affairs of the PRC.

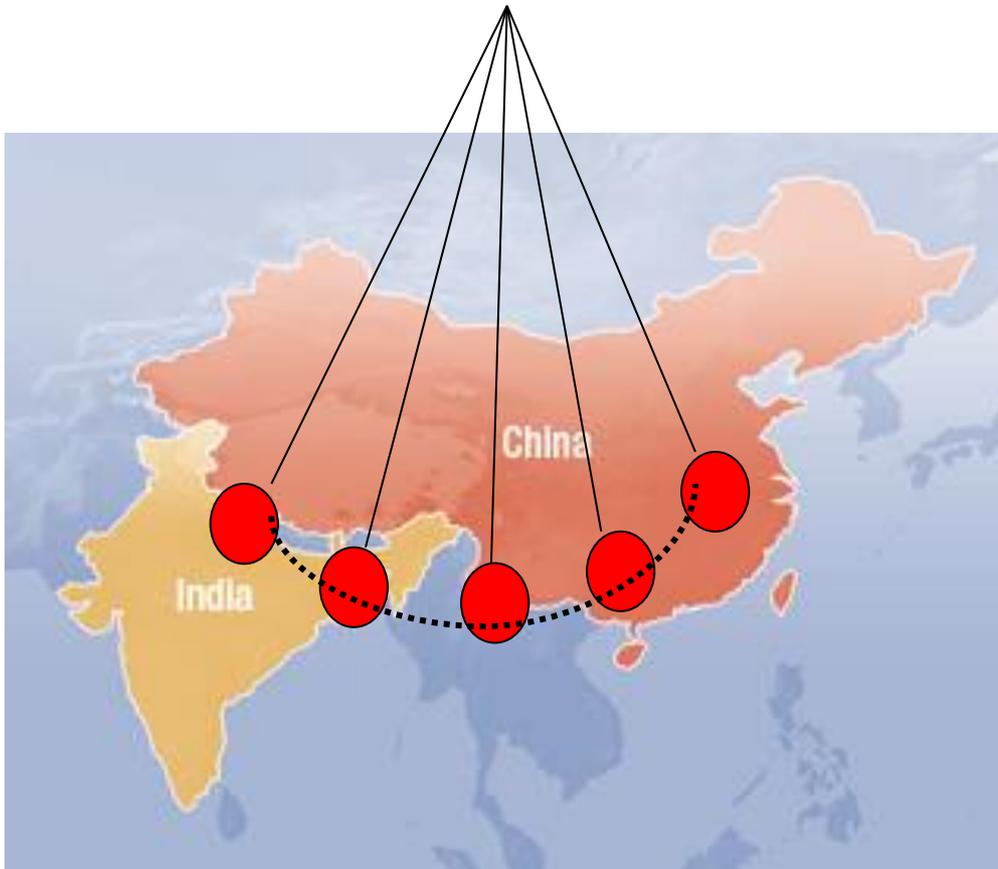
⁵⁸ "India postpones missile test," *Global Times*, April 19, 2012.

⁵⁹ "Pakistan Says It Test-Fires Nuclear-Capable Missile," *New York Times*, April 25, 2012.

⁶⁰ "Signs of an Asian Arms Buildup in India's Missile Test," *New York Times*, April 19, 2012. http://www.nytimes.com/2012/04/20/world/asia/india-says-it-successfully-tests-nuclear-capable-missile.html?pagewanted=2&_r=4&hp

China-Pakistan-India Triangle as the Key to a New Asian Equilibrium

Figure 3: A New Balance of Power?



China-Pakistan-India triangle has been one of the protracted problem issues in the Sino-Indian relations. The intimate relationship between China and Pakistan developed in a special historical context, in which China's adversarial relationship with India was one of the most important factors. Today in the context of China and India's strengthening relations, the trend of cooperation also had impact on this issue area. China still remains Pakistan's closest friend and strategic ally, but this relationship is no more mainly aimed at India. Pakistan and China have their own stakes in each other to continue their strategic closeness. India and Pakistan relations witnessed twists and turns in this period, yet some CBMs were established and economics might become the new impetus between them. However, the distrust in the triangle cannot be easily dismissed in the short run and the competition remains as the dominant force in this area.

Since the 1990s imposition of U.S. sanctions on Pakistan, Sino-Pakistani military cooperation has deepened with joint projects producing armaments ranging from fighter jets to guided

missile frigates. China also played a major role in the development of Pakistan's nuclear infrastructure by helping Pakistan get material and technology. After US and India reached civil nuclear agreement in 2008 China and Pakistan decided to cooperate in civilian nuclear program.⁶¹

Besides close military relations, economic cooperation has become another main theme in their relationship over the past decades, specifically trade and energy have taken precedence. A comprehensive free trade agreement was signed in 2006, giving each country unprecedented market access to the other. "China-Pakistan bilateral trade volume, which amounted to \$4 billion in 2006-7, reached an all-time at \$12 billion in 2014-15. Pakistan's exports jumped to \$2.1 billion in 2014-15 from \$575 million in 2006-07. Correspondingly, China's exports to Pakistan increased to \$10.1 billion in 2014-15 from \$3.5 billion in 2006-07".⁶² China is betting heavily on Pakistan while other countries are withdrawing from Pakistan. More than half of the total FDI that Pakistan received in July-May of 2015-16 originated from China alone. FDI from China amounted to \$571.2 million in the first 11 months of the fiscal year, which is up 144.2% year on year and equals 52.7% of the total FDI Pakistan received over the same period.

For China, Pakistan has a unique economic, security and strategic value in today's international environment. First of all, it is the first Islamic country to establish diplomatic relations with China and has been the bridge for China to the Islamic world. Second, Pakistan's location which connects West Asia and Middle East is significant for China in securing energy routes for its economic development. Third, Chinese battle against Islamic terrorism need cooperation with Pakistan. After the September 11 attacks in 2001, Pakistan became a key ally against terrorism with the United States. This directly led to deterioration of Pakistan's domestic security environment and the spill over of Islamist extremism from Afghanistan and Pakistan into the restive autonomous region of Xinjiang. The riots between Han Chinese and the Muslim Uighurs in Xinjiang in 2009 forced Beijing to pay greater attention to the sources of international terrorism in Pakistan. Fourth, Pakistan is an important card to play to keep its influence in South Asia.

⁶¹ <http://www.bbc.co.uk/news/10340642> "China says Pakistan nuclear deal 'peaceful'"

⁶² Peer Muhammad, "Pakistan has failed when it comes to trade with China", *The express tribune*, June 26, 2016, <http://tribune.com.pk/story/1130268/free-trade-agreement-pakistan-failed-comes-trade-china/> (Accessed June 27, 2016).

Islamabad places greater value on its relationship with Beijing. For Pakistan both China and the United States are crucial for it. Pakistan's special relationship with China does strengthen its strategic importance in the eyes of the US and other western countries. Although Pakistan is the "non-NATO ally" of the US in its War on Terror, Pakistan considers China a more reliable ally than the United States because China is an "all-weather" friend while the US is a friend only in "good-weather". China's "no-strings attached" economic aid to Pakistan mainly used in Pakistan's infrastructure construction is more appreciated than the aid it receives from the US, which often comes with attached conditions. The year 2011 is a turning point of the US-Pakistan alliance. A series of events including the assassination of Osama bin Laden led to deterioration of their relations and Pakistan was under the pressure of growing diplomatic isolation. Many in Islamabad have the opinion of moving even closer to China so that it can show to the international community that Pakistan has an emerging world power standing behind it. Nevertheless, China is no longer simply a regional power that has to cater to Pakistan's interests alone but started seeing Pakistan through the prism of its global interests. Beijing is dealing with the relationship in a more cautious manner and is unlikely to supplant the United States in Pakistan.⁶³ Growing closeness between India and the US caused concern in China about U.S. attempts to encircle China by integrating India into a U.S. alliance. If Pakistan gets closer to China strategically, India would possibly move faster to the U.S. This is a situation that China will not be willing to see. Hence, China has been trying to court India to keep it from getting closer to the United States.

Pakistan's relations with China was negatively affected by several constraints. First, Pakistan has run a substantial trade deficit with China. Excessive import of cheap Chinese products is distorting the market, hurting local industries,⁶⁴ though Pakistan hasn't made anti-dumping complaints against China. Appropriate action has to be taken to deal with the trade deficit and analyse the implications of current trade trends. Second, Chinese investment has failed to create the expected number of jobs, for example in Balochistan and there are delays in implementation of agreements. Third, the Chinese direct investment is far from reaching its proper scale because of considerations over Pakistan's domestic instability. Chinese workers have become targets of extremists. China also worries Pakistan's inability to curb terrorism. In 2011, a large Chinese coal mining company, China Kingho Group, cancelled a \$19 billion

⁶³ <http://www.nytimes.com/2011/10/07/world/asia/pakistan-pulls-closer-to-a-reluctant-china.html>

⁶⁴ "Does Pak-China trade reflect mutual benefit?" *The Express Tribune*, October 11, 2010.

contract in Sindh Province, citing concerns about security, in particular employees' safety.⁶⁵ Fourth, cultural relations and people-to-people contacts are still weak fields in Pakistan-China relations. Pakistan's relations with China have been so far dictated by the military, and it is the military which benefit the most from this relationship. However since the announcement of Pakistan-China economic corridor by the Xi Jinping government there is new impetus in China- Pakistan economic relations, and largescale Chinese investments are planned and pouring in to Pakistan. Even though there is progress in Pakistan's economic and military relations with China, still Pakistan need to expand their constructive and concrete cooperation in other sectors as well, i.e., from military to people-to-people contacts, so that the benefits of such a deep relationship can accrue also to ordinary Pakistanis.⁶⁶ Without mutual cultural understanding between two people, it would be difficult to establish a sustainable relationship between the two countries in the long run.

Although current Pakistan-China relations are not without question marks, the basic framework of this strategic partnership is likely to continue. The Chinese steadfast support for Pakistan has been an ongoing source of tension in the Sino-Indian relationship. India-China-Pakistan triangle has long been understood as a relationship of mutual constraint. However, as the international environment changed, this understanding also reached its limit to explain new development between them. Over the years, Sino-Indian relationship has acquired an independent dynamism and cannot be easily hamstrung by the all-weather friendship between China and Pakistan. The two, despite their differences, are destined to a deeper economic interdependence. Any confrontation between India and Pakistan would put Beijing in the position of having to choose between the two countries. This is not in China's interest. Currently, the rapidly deteriorating situation in Pakistan has already jeopardized India and China's own security. Both India and China share the stake to stabilize the situation in Pakistan. At the same time, China is increasingly reluctant to get trapped in the quagmire of South Asian politics, and Kashmir in particular.

The Kashmir dispute is at the heart of the South Asia Problems which led to the situation of India-Pakistan rivalry. The Pakistan-India relationship has undergone twists and turns over the past years. Some confidence-building measures, such as the 2003 ceasefire agreement and the Delhi-Lahore Bus service, were successful in deescalating tensions between Pakistan and

⁶⁵ http://articles.economictimes.indiatimes.com/2011-09-30/news/30229047_1_civilian-aid-pakistan-military-spokesman-pakistani-government-official

⁶⁶ <http://tribune.com.pk/story/297535/pakistans-relationship-with-china/>

India. However, these efforts have been consistently impeded by terrorist attacks. In 2008, the Mumbai attacks carried out by Pakistani militants again gave the bilateral ties a severe blow. The deterioration of the US-Pakistan relations in 2011 brought a new opportunity to the normalization between India and Pakistan. Pakistan, which with its own confrontation with the US, does not want to fight wars on two fronts. The country's economy is also structurally in deep trouble. The pressures to change in Pakistan are real. All these pushed Pakistan to get closer to India. Pakistan agreed to grant India the most-favoured nation (MFN) status in 2011 and to relax visa restrictions as well as discuss trade and the Kashmir issue simultaneously.⁶⁷ Though there is occasional efforts of normalization between India and Pakistan, most of which are unsuccessful to date, the efforts to expanded economic engagement between India and Pakistan can alter the dynamic of mutual suspicion and rivalry in South Asia, and will be a positive step towards regional cooperation. Since Pakistan reposes its full trust in China, China could play a bridge-building role between Pakistan and India and in South Asian cooperation. Yet, India traditionally views the India-Pakistan and India-China relationships as separate issues, connected by China's support for India's enemy. It still remains to be seen whether India can accept China to play such a role.

Modi –Xi Jinping Era and the Prospects of Chindia

Xi Jinping came to power in China in 2013, and is widely considered as the most powerful leader China has seen since Mao Zedong and Deng Xiaoping. In 2014, Narendra Modi led Bharatiya Janata Party won Indian national elections with an overwhelming majority and Modi became India's Prime Minister with unchallenged authority in the government and ruling party. With two powerful leaders in both sides who have the political will and support to implement changes and carry forward it, India and China relations can be said to have entered into a new phase. Putting emphasis on economic growth and reforms, Xi Jinping followed a policy which in character is not much different from his predecessors, however, Modi's emphasis on economic development and reforms during the elections and after the elections are a departure from previous Indian leaders. The emphasis on economic development in both sides made it easier for both India and China to push forward

⁶⁷ Could The 'China Model' Finally Improve Relations Between India And Pakistan? http://articles.businessinsider.com/2012-04-09/news/31311515_1_india-pakistan-trade-india-china-trade-deals (Accessed April 22, 2013)

cooperative relations. Xi Jinping visited India in 2014⁶⁸ and Modi reciprocated the visit in 2015,⁶⁹ both state visits produced many agreements and Memorandum of Understandings. Some of the agreements signed during Modi's visit in 2015, such as Cooperation between states and municipalities - establishment of India-China state leaders forum, Agreement on the establishment of sister states Sichuan and Karnataka, and several agreements on establishing sister city relations between Indian cities and Chinese cities, as well as numerous agreements of cooperation ranging from tourism, think tanks, media to geo sciences, pointed to a deepening interaction between India and China involving leaders, scholars, civilians, and officials.⁷⁰ The Xi Jinping Modi era also saw a qualitative shift in the nature of relations. China became leading global investor and source of technology knowhow, and Chinese companies' view India as an attractive market for their future growth, especially in view of the massive infrastructure development needs in India.⁷¹ Chinese companies are also investing in Indian startup companies in a big way. The emerging trade and economic interlinkages, as well as Indian and Chinese leadership's efforts to deepen the cooperation have the potential to take the Chindia story a long way to the future.

Conclusion: Steps towards a Shared Future of Peace and Prosperity

The above analysis shows that despite the likely gains of cooperation with trust, the trust necessary for the rapprochement that Chindia assumes is not there. What might then be the way forward? Those keen on promoting closer China India relations with regard to trade, cultural and scientific exchanges and peaceful mutual relations should look at the following issues with critical attention.

- *Taking perception seriously*

Regardless of objective realities of force, economy or ground situations regarding borders, what matters most for a country or political actor is how they perceive reality. As regards a 'New Asian Order', those with long memories will recall how a similar idea, mooted by

⁶⁸ "Chinese President Xi Jinping visits Delhi", *Times of India*, September 18, 2014 <http://timesofindia.indiatimes.com/india/Chinese-President-Xi-Jinping-visits-Delhi/photostory/42819464.cms> (Accessed June 12, 2015).

⁶⁹ "PM Modi's visit to China: Day 3", *Narendramodi.in*, May 16, 2015, <http://www.narendramodi.in/pm-modi-s-visit-to-china-day-3-81908> (Accessed June 6, 2015).

⁷⁰ "24 Agreements Signed Between India and China during PM Modi's Visit", *NDTV.com*, May 15, 2015, <http://www.ndtv.com/cheat-sheet/24-agreements-signed-between-india-and-china-during-pm-modis-visit-763246> (Accessed June 6, 2015).

⁷¹ "China's Xi Jinping signs landmark deals on India visit", *BBC*, 18 September 2014, <http://www.bbc.com/news/world-asia-india-29249268> (Accessed November 7, 2015).

Japan before the Second World War was perceived in Japan and in the neighboring states (see below) and how it eventually became a means towards generating legitimacy for Japanese hegemony. A similar fate might befall the slogan of Chindia. It is not surprising that the concept comes up against considerable resistance in India's collective memory, impregnated with the old Indian slogan of 'Hindi-Chini-bhaibhai' which, for many Indians, is the single most important cause of India's disastrous performance in the 1962 border war with China.

Figure 4: Greater East Asia Co-Prosperity Sphere⁷²



Key: 1935 poster of Manchukuo promoting harmony between Japanese, Chinese, and Manchu. The caption, written from right to left, says: "With the help of Japan, China, and Manchukuo, the world can be in peace." The flags shown are, left to right: the flag of Manchukuo; the flag of Japan; the "Five Races Under One Union" flag.⁷³

⁷² Source: From Wikipedia, the free encyclopedia

⁷³ The Greater East Asia Co-Prosperity Sphere (大東亜共栄圏 *Dai-tō-a Kyōeiken*) was an imperial concept created and promulgated for occupied Asian populations during the first third of the Shōwa period by the government and military of the Empire of Japan. It promoted the cultural and economic unity of the East Asian race. It also declared the intention to create a self-sufficient "bloc of Asian nations led by the Japanese and free of Western powers". It was announced in a radio address entitled "The International Situation and Japan's Position" by Foreign Minister Hachirō Arita on June 29, 1940.

With the above caveat in mind, one can look at the initiatives currently under way. The Joint Statement, signed by Manmohan Singh and Li Keqiang on 20 May 2013 during Li Keqiang's visit to China gives the framework of the development of their future relations. Issues at all level of interaction are listed out, including the economic and financial cooperation, military exchanges, social and cultural exchanges, (tourism, cooperation on Chinese language teaching, enhancing media exchanges, exchanges of traditional knowledge and medicine), and new areas of cooperation such as mitigation and management of earthquake and national disaster. Though Since the signing of the joint statement in 2013, the Chinese President's visit to India and Indian Prime minister's visit to China greatly improved the cooperation between the two countries, some aspects in the relations should be further promoted.

- *Enhancing people-to-people level interaction*

The current interaction on this level hasn't reached its proper scope. There is much space to be explored. There are more and more Indians visiting China for work, education and tourism, but much less Chinese visiting India. They are mainly hindered by the difficulty of getting visa and other considerations such as infrastructure and security. Yet there are more Chinese journalists in India reporting India than Indian journalists in China. Here is important to mention the communication deficit because of information deficit between the two countries. Very little understanding or knowledge exists on either sides about the other, this lack of information hinder the effective communication both at the political level and the civil society level. These kinds of gap should be bridged through the common efforts from both governments.

- *Starting practical cooperation in some soft issues, if the cooperation in hard security issue is difficult*

The difficulties in border issue and should not block the development in other issues. A possible way is to start with easy things such as enhancing cultural, educational and media exchanges, promoting trade and investment, encouraging personnel movement and connectivity across border. Through cooperation in the "soft issues", mutual trust could be gradually fostered and this is important for making progress in other difficult issues.

- *Consolidating the existing institutional mechanisms and exploring the possibilities of new mechanisms*

Over the past years, intensive high level exchanges have been institutionalized. And there are many mechanisms existing for dialogue and communication. For example, in economic sectors, there are India-China Strategic Economic Dialogue (SED) and India-China Joint Economic Group (JEG) to foster trade and investment. In border issue, there are Special Representatives' talks and consultation and coordination mechanism on the border to mitigate the conflicts and maintain a peaceful border. Yet lots of discussions and dialogue within these mechanisms stay at the paper level and could not be proper implemented. This situation should be changed. Moreover, with the expansion of communication and dialogue in new areas, more mechanisms will be also established that foster a more intensive interaction between the two countries.

In the final analysis, rather than reading too much into the sentiments of Asian solidarity, when it comes to Sino-Indian relations, one would do well to keep in mind the advice of Oliver Cromwell, fighting the soldiers of King Charles, "Have faith in God, but keep the powder dry." A corollary to this idea is the management of borders which urgently need clear marking and proper management. Here, the EU countries which have loosened border control without abolishing them are a good case in point. India will do well to learn how important the Chinese investment in the infrastructure and manufacture been, just as China might consider the importance of transparency and reciprocal gestures as a step towards sustained good relations. Despite the differences of their official ideologies, there are commonalities between China and India that could be the basis for long term collaboration. The ultimate challenge for India is to learn the important lesson of committing public resources for the enhancement of welfare and productivity of the masses⁷⁴, just as the successful Indian experiment with the freedom of expression and pluralism that if followed by China might enhance the legitimacy and long-term sustainability of the Chinese political system.⁷⁵ That would be a promising step towards achieving the idealistic objectives that underpin Chindia.

.

⁷⁴ See interview with Dr Wen Tiejun, appendix 1 in CLSA report, op.cit. Also see excerpts of Jairam Ramesh. Op.cit. in CLSA Chindia: the shape of things to come.

⁷⁵ On this, see Louise Merrington, op.cit. who suggests that "the two countries [China and India] can be viewed as separate but parallel entities rather than as 'Chindia'". (p. 14)

Selected Bibliography

- Chakraborty, Debashis and Dipankar Sengupta. 2006. *IBSAC (India, Brazil, South Africa, China): A Potential Developing Country Coalition in WTO Negotiations*, CSH Occasion Paper, No. 18.
- Dutta, Anirudha *et al.* 2005. CHINDIA: the shape of things to come, CLSA Asia-Pacific Markets, available at: <http://www.fullermoney.com/content/2005-06-30/RameshCINDIA--cls.pdf>
- Merrington, Louise. 'The Rise of China and India: A New Asian Drama by Lam Peng Er; Lim Tai Wei,' *The China Journal*, July 2010, No. 64, pp. 269-270.
- Mitra, Subrata K. 'War and Peace in South Asia: a revisionist view of India-Pakistan relations', *Contemporary South Asia* (2001), 10(3), pp. 361-379.
- Mitra, Subrata K. 2011. *Politics in India: Structure, Process and Policy*, London: Routledge.
- Mitra, Subrata K. and Jivanta Schoettli. 'The new Dynamics of Indian Foreign Policy and its Ambiguities' *Irish Studies in International Affairs*, vol 18 (2007), 19-34
- Ramesh, Jairam. 2005. *Making Sense of Chindia: Reflections on China and India*, New Delhi: India Research Press.