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## THE VISIT OF CHINESE PRESIDENT, HU JINTAO, TO INDIA (20 – 23 NOVEMBER 2006)

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### INTRODUCTION

1. The legacy of hostility and indifference that characterised Sino-Indian relations has been replaced with some degree of geniality and mutual engagement. This positive change has been catalysed by a confluence of strategic and economic factors since the 1990s and, as it appears from this recent visit by China's President Hu Jintao to India, the leaders of both countries seem willing to take Sino-Indian relations a step further by capitalising on the opportunities offered by globalisation and the shifting sands of the 21<sup>st</sup> century's geo-strategic landscape.
2. In this brief insight on the visit, this paper:-
  - i) considers the objectives of the visit and analyses some of the outcomes and achievements;
  - ii) identifies existing challenges and prospects for Sino-Indian relations; and
  - iii) examines the wider implications of Sino-Indian relations beyond the region.

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## **OBJECTIVES OF THE VISIT FOR CHINA**

3. The recent visit of the Chinese President (the second ever visit of a Chinese President to India) marks a landmark in Sino-Indian relations and sends a positive signal that China is committed to carrying forward the process of Sino-Indian cooperation.
4. From China's perspective, this visit was intended to facilitate a comprehensive partnership with India as agreed to in April 2005 during Prime Minister Wen Jiabao's visit to India. President Hu's visit was to reiterate China's view that a 'dynamic India-China friendship would lead to peace, stability and prosperity not only in Asia but the world as a whole.'
5. A key objective for China was to step up economic cooperation with India to build on the momentum of bilateral trade between the two countries, which has grown steadily over the years and was estimated to have reached US\$18.7 billion in 2005. This is an almost 150 percent jump over the 2003 trade figures.
6. China is also keen to sign a free trade agreement (FTA) with India, which could create the biggest free trade region in the world and provide an enormous boost to economic relations between the two countries.

## **OBJECTIVES OF THE VISIT FOR INDIA**

7. The most important aim for India was the resolution of the border issue which, from India's point of view, was the key to unlocking Sino-Indian relations. India wanted an early settlement of the border problem on the basis of the Agreement on Political Parameters and Guiding Principles signed between the two countries in April 2005.
8. New Delhi also wants Chinese support for the civilian nuclear agreement signed between India and the United States which, after being approved by the United States Congress, would provide India with access to nuclear fuel and technology. China's support is significant because the deal would need to be ratified by the 45-member Nuclear Suppliers Group of which China is an important member. There have been

indications in developments after the visit that China is willing to support New Delhi on this.

9. In terms of economic cooperation, India is keen to not only accelerate bilateral commerce and trade with China but also to widen the scope of cross-border trade by proposing the opening of two more border points with China, namely Demchok in Ladakh and Bumla in Arunachal Pradesh. These would be in addition to the Nathu La pass, a trade point linking Tibet and Sikkim which was re-opened for trade earlier in July 2006 almost 44 years after it was closed due to the Sino-Indian war of 1962.

## **OUTCOMES AND ACHIEVEMENTS**

10. A Joint Declaration was issued by India and China in New Delhi on 21 November 2006 reflecting the shared vision and mutual objectives of the two countries in a number of important areas. Both sides acknowledged that the relationship between India and China, the two biggest developing countries in the world, was of global and strategic significance and that a strong platform for common development existed.
11. More importantly, they stressed that they were not rivals or competitors but partners for mutual benefit with a responsibility to the developing world. This is a critical message – if the two can truly overcome their differences and work together, a strong partnership between India and China will directly benefit over one third of the world's population and position Asia as the potential leader of the future world order.
12. From the security perspective, both sides were of the view that greater Sino-Indian cooperation could pave the way for India and China to exercise real influence in the future of global politics and international relations. The two countries agreed to revitalise and expand the India-China Dialogue Mechanism on Counter-Terrorism and to engage the United Nations in promoting a peaceful world order that ensured balanced representation of developed and developing nations. To that end, China acknowledged and supported India's aspirations to have a stronger presence in the United Nations, but stopped short of supporting India's bid for permanent membership of the United Nations Security Council.

13. Both leaders committed themselves to a ten-pronged strategy to shape Sino-Indian relations and signed a series of 13 agreements touching on various areas, including trade, investment, cultural heritage, education and agriculture.

### **Key Aspects of the Joint Declaration**

#### Economic Cooperation

14. Both sides acknowledged that the key driver of Sino-Indian relations would be comprehensive economic and commercial engagement. In furtherance of this, the countries aimed to double annual bilateral trade to US\$40 billion by 2010. In addition, efforts would be made to 'diversify their trade basket, remove existing impediments, and utilise the present and potential complementarities to sustain and strengthen bilateral commercial and economic cooperation.'
15. Another important outcome of the visit was the signing of the Bilateral Investment Promotion and Protection Agreement (BIPA). India began negotiating and signing BIPAs as part of its liberalisation in the 1990s to assure investors that their investments in India would be protected. To-date India has signed BIPAs with more than 50 countries. The BIPA with China will be in force for 10 years and will go a long way in boosting investment and trade opportunities between the two countries.
16. More specifically, the BIPA could allay the fears of Chinese companies wanting to invest in sectors such as ports and telecommunications, deemed sensitive by the Indian government. For example, in the past, the Chinese consortium of Kaidi Electric Power Company and China Harbour Engineering, and Huawei Technologies were not considered for investment in ports and telecom respectively for security reasons.
17. A Joint Task force was also formed to assess the feasibility and benefits of an India-China Regional Trading Arrangement with the feasibility report to be submitted by October 2007.

#### International Economic Order and Regional Cooperation

18. The two sides reaffirmed their desire to strengthen their cooperation in the World Trade Organization and supported an equitable, transparent and rule-based multilateral trading system as well as the early resumption of the Doha negotiations.

In addition, the two sides are increasingly engaging each other in various regional groupings and meetings. For example, they have agreed to cooperate closely in the East Asia Summit and to expand cooperation on issues of common interest under the Shanghai Cooperation Organisation. India has also welcomed China's observer status in the South Asian Association for Regional Cooperation and China has welcomed India's membership of the Asia-Europe meeting.

19. India and China, with their booming economies and large population, are major competitors in the quest for energy. Both sides agreed to fully implement the provisions of the Memorandum on Cooperation in the field of Oil and Natural Gas signed in January 2006 and to cooperate in the exploration and development of oil and gas resources.

#### Civil Nuclear Cooperation

20. The significance of energy security is reflected in the fact that the Sino-Indian Joint Declaration specifically refers to civil nuclear cooperation between the two countries – this is a major step. Both sides have agreed to promote cooperation in the field of civil nuclear energy consistent with their international commitments and in line with international non-proliferation principles.
21. This has raised hope in some Indian quarters that China may be softening its earlier stance of criticising the Indo-United States deal as violating the Nuclear Non-Proliferation Treaty. It is likely that this subtle change in China's stand has been dictated by pragmatism, both in terms of yielding to the inevitable, and in terms of positioning itself to bid for the lucrative contracts that would invariably come up following the Indo-United States nuclear deal.

#### Boundary Question

22. An early settlement of the boundary question was seen by both sides as a 'strategic objective'. It was emphasised that pending an eventual solution to the boundary question, both countries would work together to maintain peace and tranquility in the border areas in accordance with the agreements of 1993, 1996 and 2005. China was open to ongoing negotiation in order to find a fair, reasonable and mutually acceptable solution on the contentious boundary issue, but offered no immediate measures.

23. It was also decided to expedite work on clarification and confirmation of the Line of Actual Control (LAC) and complete the process of exchanging maps indicating their respective perceptions of the entire alignment of the LAC on the basis of already agreed parameters. India claims the Chinese controlled Aksai Chin of approximately 35,000 sq km as part of the territory in Ladakh, whilst Beijing claims 90,000 sq km in the Indian state of Arunachal Pradesh.

#### Cultural Exchanges and Tourism

24. The two sides agreed to strengthen cooperation in the area of spiritual and civilisational heritage. Discussions were held for collaboration between the two countries in the digitisation of Buddhist manuscripts available in China and the re-development of Nalanda as a major centre for learning with the establishment of an international university on the basis of regional cooperation.
25. It was also decided to have 2007 as the India-China year of friendship through tourism and both sides planned to jointly organise a 'Festival of India' in China and a 'Festival of China' in India to create greater awareness of each other's cultures. Both countries would also open new consulates in Kolkata and Guangzhou respectively to facilitate trade and tourism. The Chinese government has also proposed to invite 500 young people from India to visit China in the next five years.

### **CONTINUING CHALLENGES**

26. It is apparent that there are synergistic forces that are capable of propelling Sino-Indian relations to a new level. But it would be premature to ring the wedding bells for these two giants. There are significant geo-political, economic and strategic hurdles in the way. In addition, the two countries are natural competitors for markets and resources, with aspirations to be global powers while trying to provide for their respective populations of over one billion people.

#### **Geo-political Issues**

27. India and China have a long standing territorial dispute that led them to war in 1962 and which remains unresolved. Despite a fairly comprehensive framework for resolving the border issue being agreed to during Chinese Premier Wen's visit in

2005, there has been little, if any, movement since then on the final delineation and demarcation of the LAC.

28. The vexing question of China's opposition to the Dalai Lama's presence and activities in India further underlines the inherent uncertainties in the unresolved border. From the Indian perspective, the border issue is the key, and must be addressed with greater urgency before Sino-Indian relations can truly blossom. However, China's priority is the commercial and economic aspects of the bilateral relationship and it does not want the border issue to detract from the economic and commercial relationship.

### **Economic Issues**

29. Economic cooperation between India and China is clearly the dominant feature of the relationship between the two countries. Yet, the two countries are also competitors for natural and energy resources, markets and global influence. India and China need to manage this paradox of simultaneous cooperation and competition.
30. India's and China's quest for energy is a classic example of this paradox. Even as they compete with each other for oil and gas, the two countries are collaborating in new projects. During President Hu's visit, India's Petroleum Minister, Murli Deora, arranged a personal meeting with Ma Kai, the Chairman of the National Development and Reform Commission, and both countries agreed in principle to jointly bid for oil and gas properties in Africa and Latin America, with a formal agreement likely to be signed in January 2007.
31. While China is keen on an FTA, India is concerned that such an agreement would flood its markets with cheap Chinese goods and hurt Indian manufacturers and exporters. India's main export to China consists of primary commodities, especially iron ore, which does not guarantee long-term sustained growth. An FTA may also affect the balance of trade against India's interest. China, on the other hand, is not happy that it is being denied access to important sectors in India such as ports and telecommunication.
32. This is an area where the leaders' pragmatic stated aim of trying to 'utilise the present and potential complementarities' needs to be fully exploited. There must be give and

take, with an eye on the bigger picture. While Chinese manufacturers are more competitive, India has the edge in terms of software and service capabilities. The complementarity is starkest in the booming field of information technology, where Chinese hardware manufacturers and Indian software engineers can benefit from each other.

33. To successfully exploit their complementary strengths, both countries need to change some long held policies and practices. India needs to shift away from its protectionist mentality and accept that its uncompetitive manufacturing industry may have to suffer in the short term. China has to respect intellectual property rights and the rule of law to ensure that India's service industry and software exports are not misappropriated.

### **Strategic Issues**

34. While there is no overt hostility between India and China, and both countries are genuinely reaching out to each other, there are at least four challenges to improved Sino-Indian relations. First, the two countries have a latent mistrust of each other born of a history of conflict and a lack of understanding of each other as nations and peoples. Secondly, China has always been a supporter of Pakistan, and that creates a natural axis of conflict. Thirdly, both China and India have regional aspirations and compete for influence in South and Southeast Asia. Fourthly, both China and India are major global players and are involved in a delicate balance in terms of each other's engagement with the sole superpower, the United States, which has its own vested interests.
35. The mutual mistrust means that neither country is able to dramatically lower its military capabilities that are committed to potential threats from the other. It also means that both countries are less enthusiastic about supporting the other in playing a greater role in regional and global politics.
36. For instance, China is critical of India's nuclear capabilities and has adopted an ambiguous stance on India's aspirations to permanent membership of the UN Security Council. India, on its part, remains guarded about China's role in South Asia, fearing that China might exert undue influence in what India would consider to be its backyard. China sees India as exerting hegemonic ambitions in the region.



37. Pakistan is a major sticking point in Sino-Indian relations and it is sparing no effort in strengthening its ties with China. Immediately after President Hu's visit to India, he visited Pakistan where he was conferred Pakistan's highest civilian honour Nishan-e-Pakistan. The two countries also signed a wide ranging FTA and the new Haier-Ruba Economic Zone was inaugurated by President Hu. The two countries also aim to triple annual bilateral trade to over US\$15 billion by 2010. Pakistan is forging ahead with this despite the fact that the balance of trade was 75 percent in favour of China and critics have argued that Chinese goods have flooded the Pakistan market. Clearly, the strategic aspects of the relationship are paramount for Pakistan.
38. China also has a clear strategic interest in Pakistan, as a counter to India's growing strength and improving relationship with the United States. Despite China's visible dilution of support in recent years for Pakistan's stand on Kashmir, there are no signs of any weakening of the military and political ties between the two countries. Pakistan continues to receive advanced military and nuclear technology from China and President Hu reiterated its strategic commitment to Pakistan during his recent visit by quoting an evocative Chinese proverb, "China may forsake gold but not friendship."
39. There is a concern in India that, following the Indo-United States nuclear agreement, there is bound to be greater Pakistani pressure on China for nuclear supplies. During the current visit of President Hu to Pakistan, there was only reference to continued joint development of nuclear energy, but there are unconfirmed reports of China agreeing to help Pakistan build six more reactors to meet its growing energy demands; an arrangement some would say could even be comparable to the Indo-United States nuclear deal.
40. In terms of regional impediments to Sino-Indian relations, India has concerns about China's carefully crafted linkages, particularly in the military arena, with India's other neighbours in the region. For example, China has recently signed an agreement on the peaceful use of nuclear energy with Bangladesh. It has also cooperated with Myanmar to establish electronic intelligence and maritime monitoring facilities on the Coco Islands in the Bay of Bengal. These initiatives are seen by India as deliberate moves by China to encircle India from its eastern flank.

## **EXTERNAL IMPLICATIONS OF SINO-INDIAN RELATIONS**

### **India-US-China**

41. India, China and the United States have, singly and collectively, been three of the most influential actors in shaping regional dynamics and the balance of power in Asia.
42. With the steady rise of India, it is seen as a major strategic power by both the United States and China, and each has sought a strategic partnership with India. China is pursuing a strategic and cooperative economic partnership with India and the United States has offered to help India transform itself into a world power.
43. There is a view in some quarters that the emerging partnership between the United States and India is driven by the growing Chinese interest in improving ties with India on the one hand and widening differences between China and the United States on the other. It is unlikely that there will be any firm entente or triangular relationship between India, China and the United States in the near future, as these countries historically have not trusted each other and presently have divergent strategic perspectives and competing aspirations.
44. What is likely to happen is that these countries will gradually weave interlinking bilateral and multilateral strategic and economic ties with each other. Eventually, these various strands will become so interconnected that a web of equilibrium will be achieved, balancing the interests and tensions of the three countries.

### **Asia-Pacific**

45. With the new forces of globalisation, it is becoming increasingly more difficult for South Asia and East Asia to remain as distinct entities interacting only at the margins. This offers both opportunities and challenges to Southeast Asia, which lies at the junction of these two regional bodies.
46. It is only in the last decade that India's growing economic power and its 'Look East' policy have extended its reach into the broader region. China, on the other hand, has historically played a crucial role in the Asia-Pacific region for both political and economic reasons and will continue to do so. China is also a key player in the

ASEAN region because of the large Chinese Diaspora, geo-political compulsions and extensive trade and investment linkages with the member countries.

47. Japan, which is the other major player in the Asia-Pacific, will be closely monitoring Sino-Indian relations. Following India's warming of relations with the United States, Japan acted quickly to firm up its own relationship with India. Similarly, closer Sino-Indian relations will galvanise Japan to enhance its own ties with India to ensure that it is not sidelined. As a historic rival of China, Japan has a vested interest in ensuring the regional balance of power involving India, China and US does not tilt in China's favour at Japan's expense.
48. India has revitalised its ties with ASEAN countries after years of relative neglect. India has signed an FTA with ASEAN which is due to take effect in January 2007 and has pursued individual bilateral agreements with selected ASEAN states, for example the Comprehensive Economic Cooperation Agreement with Singapore and Thailand. India is also strengthening its defence ties in the region, especially in terms of naval cooperation. India's expansion of its naval and maritime influence in Southeast Asia will not be welcomed by China, which has ongoing maritime disputes in the region. India's inclusion in the East Asia Summit is a further testament to its growing interaction with the region.
49. Given the important role of China and India in the region, Southeast Asia remains sensitive to the future course of Sino-Indian relations. Friendly and cooperative relations between India and China are widely seen as beneficial to Southeast Asia's long term economic and political stability. Being huge economies, they can play an important role in significantly raising the economic profile of the region and giving a lift to ASEAN states. While there is a risk that, if India and China are too successful in their mutual engagement, the ASEAN region may be sidelined in the process, it is more likely that this is outweighed by the opportunities provided by improved Sino-Indian relations.

## CONCLUSION

50. Despite the inevitable undercurrents of competition and contest, Sino-Indian relations will be marked by a strong desire for mutual engagement and cooperation. One can speculate that relations between India and China will remain largely stable and stay on course with little or no possibility of confrontation in the foreseeable future. Indeed, the leaders have pledged in the Joint Declaration that the forward direction of the relationship is intended to be irreversible.
51. Relations between India and China have a very important bearing in shaping the future of Asia and the world at large. Closer cooperation between the two Asian giants will go a long way in promoting peace, stability and prosperity in the region and beyond. The sentiments in the Joint Declaration offers hope. Both leaders have declared that India and China are not rivals but partners for the future, and both leaders have stressed that Sino-Indian relations will go beyond the two countries and serve the interests of the rest of the world, especially the developing world.
52. Nevertheless, there are two potential impediments. First, it is apparent that there is some degree of cross-purpose in the dialogue in Sino-Indian relations. India's priority remains the resolution of the border dispute whereas China's is the development of trade and commerce. Secondly, India and China are giant economies that can survive on their own, thus making mutual engagement a desirability rather than a necessity.
53. The existing political realities on the ground have to be attuned if economic cooperation between India and China is to achieve its full potential. Otherwise, the two countries will simply continue to plod along. But, if the reality matches the rhetoric and if these two giants unleash the full potential of their partnership, the outcome will be nothing short of revolutionary and could herald a new Asian renaissance in the global order.

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