

# ISAS Special Report

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## **India-China Comfort Level in Economic Affairs: Good News for Asia's Stability<sup>1</sup>**

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India and China “are getting more comfortable with each other” in allowing investments from the other side in the economic sectors with security concerns in either country, according to India’s Ambassador to China, Dr S Jaishankar.

He emphasised this emerging reality, while answering questions after delivering a special address at the symposium organised by the Institute of South Asian Studies (ISAS) in Singapore on 23 November 2012. The symposium was held in continuation of the eighth annual conference of ISAS.

Laser-like focus on the seemingly rising comfort level between India and China on matters relating to the security-sensitive economic sectors is good news for Asia’s stability. Although Dr Jaishankar did not specifically talk about Asia’s stability, it stands to reason that India-China comfort level in economic affairs is good for Asia.

In the thesis of his main address, Dr Jaishankar did in fact trace two parallel narratives that would together define India-China relations today: 50 years after the two Asian neighbours

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<sup>1</sup> This is a thematic report on the special address by India’s Ambassador to China, Dr S Jaishankar, and the follow-up dialogue session at the Symposium organised by the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore, on 23 November 2012. ISAS Director, Professor Tan Tai Yong, chaired the Symposium which was held in continuation of the Eighth Annual Conference of ISAS that took place in Singapore on 22 November 2012.

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fought a border war along the harsh Himalayan terrain in 1962. He said: “The fact is that there are two narratives of the [India-China] ties that coexist. One is centred round the 1962 conflict; the other [flowing from trade and economic engagement between the two countries] reflects their more contemporary goals and the compulsions of globalisation. Both [narratives] are equally real, even if believers of each tend to underplay the other. Reconciling them is the challenge that we grapple with daily in policy making”.

### **The Game Changer**

Viewed in this perspective, his observation regarding India-China comfort level in the security-sensitive economic sectors reinforces a key argument in his main address. This argument runs as follows: “There is no question that the game changer in the relationship [between these two neighbourly Asian mega-states] has been its economic aspects. Bilateral trade, less than US\$ 3 billion in 2000, mushroomed to US\$ 74 billion last year. India is also the largest destination for China’s project exports, with an estimated US\$ 55 billion worth currently under execution, mainly in the infrastructure sector. Nineteen Chinese state-owned enterprises have established 40-plus offices in India”.

The exact values of rapidly-growing Chinese investments “are harder to estimate, given their routing”, he said and cited Lenovo, Sany, Haier, Huawei, ZTE, Liu Gong, TBEA, and Zoomlion among China’s brands in business in India. The map of Indian corporate presence in China is dotted with Tatas, Mahindras, Infosys, Wipro, NIIT, Bharat Forge, Thermax, Sundaram Fasteners, Binani Cements, Dr. Reddy’s, LMW, and Birlas.

Going back to Dr Jaishankar’s observations in the long Q&A session, it must be said he minced no words on the salience of New Delhi’s security concerns over some Chinese investments in India and Beijing’s in regard to Indian investments.

His comments on this sensitive issue are best narrated in his own words: “There are sectors [in India], like telecom, which have been affected by security concerns [over Chinese investments in them]. I think some of the infrastructure areas also have security sensitivities. I don’t think it is something we [Indians] need to be apologetic about. Every country has its security concerns. China has it; US has it; I am sure Singapore has it. Everybody draws a red line somewhere and says it’s a level playing field up to the red line, and beyond the red line, it is my sovereign prerogative to allow people and not allow people. What is important is to be very upfront about it. My own sense is: if we actually have frank and direct conversations with the Chinese officialdom ... I don’t think China will push us beyond our levels of comfort”.

## **A Net-Plus**

A logical sequel to the two-way investments and bilateral trade is a key question on interdependence, which was actually raised during the Q&A session. On whether economic interdependence can produce a political quotient of good relations between India and China, going forward, India's envoy to China indicated that he would, in the final analysis, favour interdependence. His interpretation: "How much security and stability does interdependence buy you: that's a very tough question. Often, in [diplomacy] literature, people point to the First World War as a period where [prior to the conflagration] there was interdependence between Germany and UK, and say: 'Well, you know, interdependence didn't mean very much'. Today, there would be people who would say, 'Well, you can have countries in Northeast Asia [China, Japan, and South Korea] which are economically extremely interdependent but which have still a high degree of political tension among them'. So, I don't think interdependence is a complete solution; but ... it's clearly a net-plus. It may not be sufficient but it has clearly great value".

## **Calculus of China-India Rise**

Given the interplay of economic interdependence and political-strategic issues in the changing India-China equation, Dr Jaishankar's perspective [as amplified in his main address] illuminates the Indian thought process: "Accommodating each other's rise has not been an easy process ... Although both nations seek to expand the [civil] nuclear share of their energy mix, India's global engagement in that regard does not seem to get adequate understanding [on the Chinese side]. Nor has the Indian goal of occupying a permanent seat in the United Nations Security Council struck a chord [in Beijing], although there is ample history of Indian support for China's cause [on similar issues]. Conversely, China's growing presence and activities beyond its borders raise questions among some sections of Indian opinion".

The civil nuclear issue in focus here relates to the perception in New Delhi that China is dragging its feet on some follow-up aspects of the India-specific exemption from the stringent guidelines of the Nuclear Suppliers Group (NSG). Piloted by the United States, the NSG had approved, a few years ago, India's access to the global civil nuclear energy market to buy equipment and knowhow. This was a unique exemption, because India was and still is staying firm in its long-standing refusal to sign the Nuclear Non-Proliferation Treaty (NPT) which New Delhi sees as favouring a coterie of early-bird states that made atomic weapons. Since 1998, India is also a nuclear-armed state, albeit outside the NPT ambit.

As for India's aspiration to become a veto-empowered permanent member of the UN Security Council, the Indian Ambassador's narrative here refers to China's apparently

ambivalent, if not totally rejectionist, attitude. His counter-point in this context is that India, by contrast, had enthusiastically supported the credentials of the People's Republic of China for a central role at the UN when Taiwan was a veto-empowered permanent member of the Security Council. The story of how PRC successfully unseated Taiwan (after over a quarter-century) falls outside the purview of this paper.

Interestingly, Dr Jaishankar answered, during the Q&A session, several questions on various collateral aspects of the changing India-China political-strategic equation. Questions were also raised about the United States as a factor in the China-India engagement for several decades now and into the future. What follows now is a piecing together of the Indian envoy's observations on all these issues in a logical sequence.

### **China and Power Balance in South Asia**

“China has [over the last several decades] sought to influence the balance of power within the Indian subcontinent, and this has consequences that continue to this day... This is part of what I call the first narrative, the 1962-based narrative. And, a number of things happened around the 1962 period which included changes in Chinese policy *vis a vis* countries in South Asia beyond India... The balance of power within the Indian subcontinent is part of the first narrative, the difficult narrative... The second narrative [of India-China cooperation in recent years and today] ... is very economic-and-global-issues-driven.

“But there is [also] a third narrative of a natural competition among states... The Chinese had relationships with [the now-bygone] Soviet Union and with the United States. Today, my sense is that a lot of the Chinese concern about what is happening between India and the US is because the Chinese also think that India has a behavioural mode which is similar to the Chinese' behavioural mode in using the United States. So, the third narrative is there: the third narrative is a permanent fixture of international relations”.

The Indian envoy, while talking of the third narrative, was recalling how the People's Republic of China was originally seen as a power in a geostationary orbit around the Soviet Union before Beijing and Washington made common cause against the Soviet Kremlin in the early 1970s. And, the argument he advanced, by citing these issues of relatively recent history, is that Beijing seems to think that New Delhi might now act, in association with the Americans, *a la China* and seek to target the Chinese themselves adversely.

In further elucidations of the newly-emerging dynamics of engagement among the US, India, and China, with particular reference to whether Washington and Beijing could also target New Delhi adversely in some future scenario, Dr Jaishankar's commentary, during the Q&A session, was on the following lines.

## **Dynamics of US-China-India Equations**

“On the US and China coming together [against India]: there is history there, going back to the '70s and subsequently a few times after that... At the moment [however], I really cannot think of any issue where that's going to happen. So, it's a theoretical concern. I concede: it happened in the past. But if you ask me, 'Is it something that is going to happen in the near future?', my imagination has its limits. I can't think of any issue where Indian interests would [now] be adversely affected in that [kind of] situation”.

In this particular reference to the 1970s, the Indian Ambassador to China quietly drew attention to the overtures by the then US President, Mr Richard Nixon, and his main strategic affairs associate, Dr Henry Kissinger, towards Beijing. From an Indian perspective, their parallel attitude of dim disdain and open hostility towards India as it helped East Pakistan emerge as Independent Bangladesh is also recalled in this historical reference by Dr Jaishankar. India's top envoy did not, however, rake up such matters of recent history in any manner detrimental to the evolution of India-China ties, going forward.

Deserving mention, in this specific context, is his observation in response to a different question, this on the media coverage of India-China issues. On how the Chinese media is now viewing the 1962 Sino-Indian war (or *India's China War* as narrated by a Western observer like Neville Maxwell), half a century after that conflict, Dr Jaishankar said: “I haven't seen in People's Daily, in Xinhua, or in PLA Daily [all news outlets with avowed links to the Chinese state and the long-governing Communist Party of China] any *suo motu* commentary on the 1962 conflict at all. Other papers have carried commentaries. And, often, the peg on which the stories are run is something which happens out of India. ... Would the use of air power in 1962 have made a difference in the outcome? It was debated in India, and then there were comments in China about the debate in India. A fair description of the Chinese attitude towards 1962 [is that it] has been very reactive and very cautious”. This observation suggests that a substantive sense of triumphalism is hardly noticeable in the Chinese public domain over the outcome of the 1962 Sino-Indian war.

A subtle and substantive nuance that may impinge, perhaps even influence, the India-China engagement into the future is best captured in Dr Jaishankar's responses to a few other questions.

## **China-India Commonalities**

“There are two fundamental commonalities between China and India. One is that they are still developing economies, and that gives you a whole set of interests as developing economies. And that's really what shapes your attitude towards climate change, what shapes

your attitude towards trade. Secondly, [China and India] are still, to global decision making, relative outliers. We are still looking at very much a Western-based global decision making model. And, after all, that's the basis for BRICS [a forum of Brazil, Russia, India, China, and South Africa], states who have not been, in a sense, given their due place. And, also because of our history, we [India and China] both have very strong sovereignty concerns. And that creates a lot of convergences on non-traditional security issues and, in a sense, perhaps offsets some of the natural competition which might happen in more traditional international politics.

### **A Positive Direction**

“Nuclear dialogue [between India and China] is [indeed] in the works. We used to have one before. We are trying to re-establish that. There is no objection in principle. We are just trying to close that. And similarly, on the navy [issues], we have agreed on a maritime dialogue earlier this year. It should happen soon. But we don't have the incidents-at-sea problem. I don't think the Indian Navy and the Chinese Navy have that kind of proximity to each other which the US Navy and the Soviet Navy had during the Cold War. It is less an issue of avoiding an accident at sea or misunderstanding at sea. It is much more [about having] a better sense of communication... [In all] a big change in the relationship is that India and China are talking to each other on a whole lot of issues... The direction is positive. So, where we go [from here and now] I wouldn't put limits on it. Part of getting it right is to respect the sensitivities of the other side”.

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