



India-China Relations: It's the economy, and no one's stupid

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Summary

The recent visit by Chinese Premier Wen Jiabao clearly had a productive focus - Sino-Indian economic ties have been re-enforced, and there has been an effort to re-balance the trading relationship. This Brief uses *irony* to communicate five propositions (i.e. the intended meaning of these five statements is the opposite of what is stated), that can be found in several discourses on Sino-Indian ties. It evaluates these propositions in the light of the tangible and intangible gains from Premier Wen Jiabao's second official visit to India.

The recent visit by Chinese Premier Wen Jiabao clearly had a productive focus - Sino-Indian economic ties have been re-enforced, and there has been an effort to re-balance the trading relationship. This Brief uses *irony* to communicate five propositions (i.e. the intended meaning of these five statements is the opposite of what is stated), that can be found in several discourses on Sino-Indian ties. It evaluates these propositions in the light of the tangible and intangible gains from Premier Wen Jiabao's second official visit to India.

1. Obama's visit had more substance for India

How do you weigh a visit by a foreign Head of State or Government – one that prods a relationship in an incremental way versus one that promises a turnaround from a low baseline? The political and strategic dimension of the India-US partnership received an immense boost with Obama's visit, and so did the economy. However, with Wen Jiabao's visit, India and China have prepared the ground for what hopefully shapes up to be a balanced economic and a healthy political partnership. If Premier Wen has second-placed talk of India and China being rivals – surely the political gains are waiting to be realized. Incidentally, the MoUs signed during Premier Wen Jiabao's visit are worth \$16 billion (against \$10 billion worth of agreements signed during the Obama visit).

Table 1: Improving the economic partnership - Key deals

Type of cooperation/agreement	Content
China Development Bank & Reliance Power Limited [Anil Dhirubhai Ambani Group]	Over a billion dollars in financing (\$1.1 billion) to the Sasan power project in Madhya Pradesh (4,000 mw coal-fired power generation project) from Chinese banks for procurement of equipment from Shanghai Electric Corporation. Bank of China, China Development Bank and the Export-import Bank of China along with Standard Chartered Bank comprise the consortium of this financing arrangement.
Industrial and Commercial Bank of China [ICBC, the world's largest lender by market value] and China Development Bank with ICICI Bank	Approximately \$ 1.5 billion financing agreement
China Development Bank & Reliance Communications [Anil Dhirubhai Ambani Group]	A \$1.93 billion agreement [70% of the loan to repay debt for launching 3G services; remaining to buy mobile network equipment from Chinese vendors Huawei and ZTE]

Shandong Electric Power Construction Corporation [SEPCO-III] and Shandong Tiejun Electric Power Engineering with the Adani Group	A \$3.63 billion agreement for supply of power equipment
Dongfang Electric Corp and Abhijeet Projects	Supply of power equipment worth \$2.5 billion for thermal power projects
Bank of China and the IDBI Bank	A \$1.2-billion facility arrangement
Shandong and the Tamil Nadu Power Corporation	Supply of \$800 million worth of power equipment
China Aluminium International & Vedanta Aluminium	Metal imports worth \$330 million
Huawei telecom	Investment of \$2 billion in a new research facility in Bangalore; manufacturing unit in Chennai
SinoSteel	Setting up an integrated steel plant in West Bengal [1 million tonne capacity per annum]
The Reserve Bank of India & China Banking Regulatory Commission	MoU to increase banking and financial cooperation; permission for banks to open branches and representative offices
Export-Import Bank of India and China Development Bank Corporation	MoU to increase banking and financial cooperation
SRM Energy & China Datang	Financing a 2,000 MW power project at \$1.4 billion

Source: Compiled by the author

Re-balancing of the Indian deficit (roughly USD 20 billion) from its trade with China has been promised through enhanced trade facilitation in the pharma and IT/Engineering sectors, a proposed CEO's forum, more openness to Indian agro products, greater presence in Chinese trade fairs, and the desire for a strategic economic partnership. The present focus on infrastructure financing in India through Chinese banks is demonstrative of a 'win-win' situation for both sides. China's consumer price index (CPI)¹, a key measure of inflation, hit a two-year high of 5.1 per cent year-on-year in November 2010. Meanwhile, the People's Bank of China (PBOC; the equivalent of the RBI in India) raised banks' reserve requirement ratio (the deposits mandated to be withheld) for the sixth time in 2010 as a sterilization measure to prevent excess money supply from adding to inflation. Under such circumstances, Chinese banks have been foraying into lending operations elsewhere as well (Industrial and Commercial Bank of China's (ICBC) commercial property loan in

¹ The consumer price index (CPI) is the instrument for measuring the change in overall price levels between two given periods. The prices are those of goods and services available to consumers nationwide (prices including value added tax (VAT) and all other levies).

summer 2010 to a group led by private-equity firm, the Carlyle Group, in the United States is a case in point)

Policy Focus: The push for horizontal investments from China i.e. market seeking FDI through local production seems to have received less attention. This is an area which needs to be explored fully to address employment generation in India, and for Chinese firms to have a visible household presence in India (similar to Korean and Japanese consumer durables, for instance).

2. China has not changed. It cannot be trusted. Politically, there seems to be no progress on resolving the border dispute, and in the economic sphere there seems to be an in-built incongruence in the growth trajectories of the two countries.

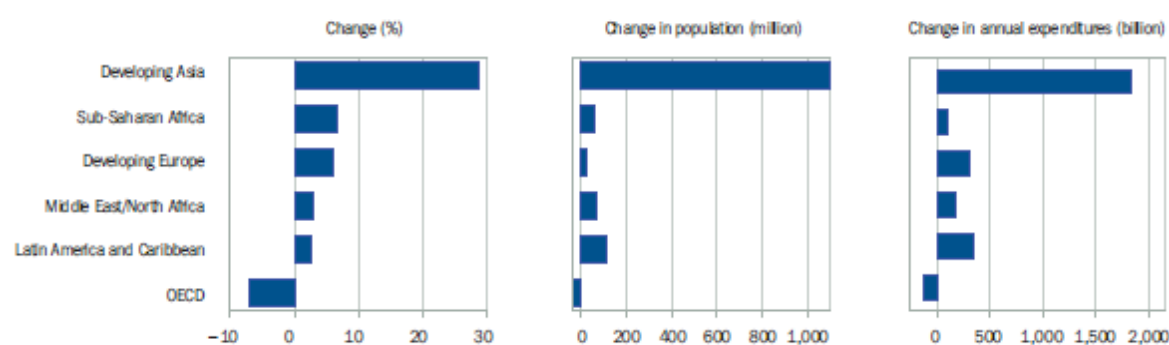
The 1962 war was the reflection of the variance in India and China's diplomatic, ideological and political approach to bilateral ties and international affairs. Those were the years running up to the Sino-Soviet split, the US engagement in Korea, Taiwan, and the second Indochina war (all involving China), and the domestic misfortune of the Great Leap forward. China had real and perceived fears of India's oscillation between the United States and the Soviet Union. However, today China is placed in different circumstances, both as a political power and as an economic power. It is now more deeply entrenched in the economic architecture of the world. China's concern to develop its Western regions coupled with diminishing incentives to foreign investors on the East Coast implies a patient and consistent effort at domestic restructuring in China. The stimulus measures and other construction projects need to be absorbed, the idea of "soft infrastructure" over "hard infrastructure" i.e. transparency and corruption-control has to be pushed through, and inequity needs to be tackled both between cities and rural areas, and between provinces in China. That is a long-drawn process of reforming social security and healthcare in China, apart from administrative reforms relating to land and labour rights (*hukou* system).

Intuitively, the prospects of relying on Europe and the United States as consumer markets for China over the long term are dicey (imagine how long an economy growing at 8 to 10 per cent could rely on markets that grow at between 2 and 3 per cent?). The present incongruence in the growth trajectories of India and China is ascribed to the market-first approach in China versus the business-first approach in India's liberalization of its economy. Almost as a visible consequence, China is a larger trading nation even as the private sector there is yet to benefit from lenient financial intermediation (the State plays a big role even today). India on the other hand has a promising private sector and vibrant secondary markets even as its integration into the international economy is hindered by relatively higher tariff barriers in the country. The absence of overlap in the key growth-drivers of both countries (Industry versus Services in China and India, respectively) actually presents the most important reason for India to work with China, and for China to work with India. The economic imperatives for China to engage with the larger Asian

region are borne out by the trends in consumption expenditures in this region. China presently is mired in the need to revive consumption expenditure internally, in order to offset the export-dependent economic engine of its growth. *The Key Indicators for Asia and the Pacific 2010*, the flagship annual statistical data book of the Asian Development Bank (ADB), indicates the role that Asia stands to play as an alternate consumer market in the long term. The resilience of the middle class in Asia during the 2008-09 recession is highlighted by an estimated USD 4.3 trillion in annual expenditures during the crisis (ADB 2010). This was nearly a third of the private consumption in OECD countries, and is projected to account for 43 per cent of the worldwide consumption in 2030.

Figure 1: Change in Size of Middle Class by Region

(1990-2008, based on household survey means)



Source: Chun 2010 cited in ADB (2010)

Policy Focus: India and China have a real chance of promoting mutual economic growth and development if their economic ties are not 'securitized', and the issue of tariff (from India's side) and non-tariff barriers (China's side) and protectionism (both countries) is addressed. The CEO's forum, for one, could initiate linkages with Chinese Universities to develop internship programmes drawing on China's younger generation of graduates to visit Indian companies desirous of expanding operations in China.

As for border talks, Pandit Jawaharlal Nehru and Premier Zhou Enlai agreed in the past to have mid-level bureaucrats handle talks for mediating the border issues (Hoffmann 1990: 32). Prime Minister Manmohan Singh and Premier Wen Jiabao have reached an understanding to have foreign ministers of the two countries deal with the vexed problem. Certainly, the level of engagement has been upgraded specifically vis-à-vis the border issue. Another important point to note is that, as per the Pew Research Centre's *Global Attitudes Project* (October 2010), in 2009 46 per cent of Indians expressed a positive view of China, compared with just 34 per cent in 2010. The Chinese Ambassador to India may think that the fragility in India-China relations emerges from over-reaction to issues concerning China in India. However, the same report qualifies that only 3 per cent of Indians surveyed consider China as the greatest threat for India, whereas, despite a sanctioned media, more Chinese have negative opinion on India (only about one-third of

Chinese respondents (32 per cent) have a favourable opinion). So where does the fragility come from? Does it arise from the 'looseness' of a democratic apparatus to shape public opinion? But Chinese public opinion is negative despite the regimented approach to the dissemination of information. Clearly, even if it is not the final word, these perceptions reveal how both countries need to do more to genuinely take forward the relationship at the level of ordinary citizens. The leadership in both countries has to find ways to shape debates within their countries to soft-land negotiated outcomes, if there is a genuine and concerted effort to resolve the border issue, and other contentious issues that may arise.

Policy Focus: There is a need to cultivate individual perceptions of the other, at the level of citizens. This exercise could be executed at the level of greater tourist facilitation measures or exposure to popular culture through mass media. More Indian television programmes, dubbed in Chinese, should be promoted in China (currently only a few such programmes are broadcast in China). Surprisingly, Chinese programming (similar to NHK, DW-Asia or Russia Today) is not even on offer on most satellite networks in India. Events such as the 'Festival of India in China' or the 'Festival of China in India' should be promoted on a wider scale to involve citizen participation beyond the diplomatic corps.

3. The status of Tibetans in India proves that India is meddling in China's internal affairs

If, for China, resolving the Tibet issue has to come at the price of demanding unreasonable concessions from India, it would be an unfair situation to present to India. India's position on Tibet has evolved over the years. India has demonstrated a fine balance on Tibet as a humanitarian concern (with Tibetans settled in India) and the risks of using Tibet as some sort of a political trump card. The latter largely remains an insinuation against India – at least over the last quarter century, and has failed to be reflected in China's foreign policy towards India. Today the tail seems to be wagging the dog since China suspects India of covertly using Tibet and the Dalai Lama for furtherance of some political goal. Such misperception is in contrast to China's relatively muted antipathy to those countries that issue a visa to or host Rebiya Kadeer in exile (Virginia, USA), or where the Tibetans are better organized (USA, Australia and several parts of Europe). In any case China would be aware that India has refrained from seeking alliances in the Southeast and East Asian region. Likewise, it is counter productive for elements in the Indian strategic community or media to play-up the 'Tibet card' (whatever that means) or indulge in political gimmickry that reflects insensitivity towards the core concerns of either side.

Policy Focus: India has to maintain a balance between 'justice' and 'fairness' on the issue of Tibetans living in India, and the risks of political opportunism that could be associated with insensitivity towards China's concerns. This principle when applied to India's own core concerns vis-à-vis China could lead to better diplomacy based on the principle of reciprocity.

4. China engages in doublespeak – political statements of intent differ from actions

The recent row over the arrest of Chinese fishermen in Senkaku/Diaoyutai islands, and the detainment of the captain of the Chinese fishing boat, raised concerns about whether such pin-pricking was part of China's national strategy. Similar pin-pricking happens on the Line of Actual Control (LOAC) on the India-China border where alleged incursions by PLA soldiers are often amplified in the Indian media. With imperfect information on these matters, one can assume that Beijing would have spelt out a policy direction to go "hard" or "soft" on fishing, for instance, in contested waters (Senkaku/Diaoyutai dispute), but China's coastal marine and fishing administration may have decided to err on the side of caution. The same reasoning may, for all we know, apply when the military on either side of the LOAC patrol the disputed boundary. Beijing may have a policy line on "border vigilance", which division level PLA officers implement by opting to err on the side of caution by "proactive border patrolling". While the benefit of doubt could be extended for occasional misunderstandings on any front, it is really up to Beijing to clarify whether pin-pricking as a manifest behaviour results from overzealous implementation on the ground or is a real instrument of policy, which is what is suspected by some China-watchers in India. If China feels it has been misunderstood in all these instances, one should extend the benefit of doubt to the leadership in China. This could apply to the issue of stapled visas to Indians from Jammu and Kashmir (J&K) as well. That the visa issue was "administrative," as Premier Wen Jiabao has clarified, makes China's political stand reasonably clear. Then it is for China to reconcile. Accumulating such irritants over time undermines security since most people would only read the direct military and administrative challenge posed to India through such acts. It would be naïve to assume that such incidents would be consequence free and that in the long run public dividends from the salience of an India-China partnership would remain unaffected.

Policy Focus: India should not draw itself into diplomatic situations that make it appear uncompromising. Hence, more institutional channels could be opened up between ministerial counterparts (water, power, trade and commerce, border, education, foreign affairs i.e. multilateral negotiations, and other areas) and even between political parties in order to propose more pluralistic options on areas of contention or interest for both countries.

5. China has not addressed India's concerns on Pakistan

While several elements in the China-Pakistan relationship remain antithetical to India's core concerns, it is futile to forever assess the relationship climate of China and Pakistan as impinging excessively on the health of India-China relations. Such a pursuit does not leave enough room for upgrading the India-China relationship. The classic case is that of the US-Pakistan relationship which for most of the Cold War years and even subsequently

did not hinder a drastic upgradation in India-US relations in this decade, when the ground was favourable for the United States to recalibrate its foreign policy on South Asia. Similar room for upgradation of the India-China relationship is essential.

More importantly, what should be expected from a Head of State/Government visit? Was there any resolution on matters relating to currency revaluation, or environment or human rights during Obama's visit to China in 2009? Did the November 2010 Joint Statement of Prime Minister Manmohan Singh and President Obama affirm the status of Jammu and Kashmir, or even mention Kashmir in the entire text? When it comes to the Indian state of Jammu & Kashmir, India is confident of not involving the United States as a party to the resolution of the Kashmir issue. Obama's offer to 'delegate' regional policing in South Asia to China in 2009 was rebuffed by India, and China has only distanced itself from that issue. The question of seeking clarification from China on its neutrality on Kashmir is one thing. However, since when did seeking China's affirmations on the status of Jammu and Kashmir become imperative for a Joint Statement?

The China-Pakistan relationship does not thrive on what is casually assumed to be a singular anti-India agenda. China's relationship with Pakistan as a window to the Islamic world often receives muted attention. Since 2009 foreign policy challenges for China arising from condemnation and criticism from Turkey, Iran and Indonesia, in particular, and the Organization of the Islamic Conference (OIC) over the handling of the Uighurs in Xinjiang region have become acute. While liberal democratic sympathies from the West for Uighurs exists, the prospect of pan-Islamic support for the Uighur cause (on the lines of threats issued by militant preachers such as Abu Yahya al-Libi) is not something China would want to see in its troubled West. From a utilitarian perspective, Pakistan (with a majority Sunni population) serves perfectly fine as a window to the Islamic world, which China could use to placate concerns or grievances against the Chinese state being anti-Muslim in its handling of Xinjiang (most Uighurs practice a moderate form of Sunni Islam).

Policy focus: China and India interaction, particularly in the academic arena, are fewer than the number of Indians and Chinese in conference-circulation in the United States and Europe. This observation is more intuitive, than empirical, but doesn't seem inaccurate. Greater discussion and engagement to develop a wider and pluralistic understanding of contentious issues would go a long way in understanding each others' concerns. A 'semester abroad' programme for researchers or faculty in academic and research institutions from both sides could go a long way in building civic networks.

Conclusion

Both India and China have new avenues to pick up the threads, as it were. Even on the issue of India's claim for a UNSC permanent seat, the Joint Communiqué this time reads: "China attaches great importance to India's status in international affairs as a large developing country, *understands and supports* India's aspiration to play a greater role in

the United Nations, including in the Security Council” (emphasis added).

Table 2: MOUs/Agreements signed during visit of the Chinese Premier Wen Jiabao

No.	Name of the MOU/Agreement	Chinese Signatory	Indian Signatory
1.	Programme of Cultural Exchange for the years 2010-2012	Cai Wu, Minister of Culture	S.M. Krishna, Minister of External Affairs
2	Memorandum of Understanding on Cooperation in Green Technologies	Zhu Zhixin, Deputy Minister of the National Development and Reform Commission	Jairam Ramesh, Minister of State (Independent Charge) of the Ministry of Environment and Forests
3	Memorandum of Understanding between the Ministry of External Affairs of the Republic of India and the State Council Information Office of the People’s Republic of China on Media Exchanges	Zhang Yan, Ambassador of China to India	Nirupama Rao, Foreign Secretary
4	Memorandum of Understanding between the Ministry of Water Resources of the Republic of India and the Ministry of Water Resources of the People’s Republic of China on Provision of Hydrological Data on the Sutlej River in Flood Season by China to India	Hu Zhangyue, Assistant Minister of Foreign Affairs	D.V. Singh, Secretary, Ministry of Water Resources
5	Memorandum of Understanding between the Reserve Bank of India and the China Banking Regulatory Commission	Wang Zhaoxing, Vice Chairman, China Banking Regulatory Commission (CBRC)	Shyamala Gopinath, Deputy Governor, Reserve Bank of India
6	Memorandum of Understanding between Export-Import Bank of India and China Development Bank Corporation	Gao Jian Vice Governor, China Development Bank Corporation	T.C.A. Ranganathan, Chairman & Managing Director, Export

Source: Ministry of External Affairs; URL: <http://www.mea.gov.in>

Prime Minister Manmohan Singh, and Premier Wen Jiabao have affirmed the idea of “there being enough space to accommodate the growth of China and India, and for both to cooperate.” This space needs to be nurtured further and the coming year, the Year of China-India Exchange, should be a starting point to engage with China in the shaping of institutional norms for mutual growth and development.

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