

# Can India and China have a Mutually Beneficial Relationship ?

Anil Wadhwa\*

The world is living in times of great flux and rebalancing of traditional relationships. The established world order is coming under strain, but there is little clarity on how it will settle down in the future. Even if a new order replaces it the chances are that it will remain one where the powerful continue to control the global system. However, a transactional approach to foreign policy, if it replaces the approach based on equality and sovereignty, will be to the detriment of the global system as a whole. Unilateralism is gaining ground, to the detriment of a free and open globalized world order, and protectionism is threatening the peaceful rise of aspirant states. Global rules and international law and norms are sought to be rewritten to suit individual interests.

India and China, large and populous neighbours in the dynamic growth centered continent of Asia, find themselves pitted against these unforeseen forces today. While China has risen surely and steadily to become the second largest economy in the world, India, showing enormous potential, is rising more gradually. Both are ancient civilizations and their relationship dates back many centuries. There is evidence of cultural and linguistic exchanges between 1500-1000 BC between the ancient Vedic civilization and the Shang-Zhou civilization. During the first, second and third centuries AD, several Indian

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Buddhist pilgrims and scholars traveled to China . Kashyapa Matanga and Dharmaratna made the White Horse Monastery in Luoyang their abode. Ancient Indian scholars and monks such as Kumarajiva, Bodhidharma and Dharmakshema contributed to the spread of Buddhism and Indian philosophy in China. Similarly, many Chinese pilgrims also undertook journeys over the centuries to India, the most famous among them being Fa Xian and Xuan Zang, to study Sanskrit, Buddhism and Indian thought.

India and China are the two most dynamic economies of the world. For long periods of history, they were the two largest economies in the world. In 1600 AD, for example, India and China accounted for almost 58 per cent of the global GDP. This shrunk to just about 3 per cent in recent times largely because of the industrial revolution in Europe and what we are witnessing today is the revival of these Asian economies on the centre stage of the global situation. China and India's economies are at present complimentary to each other. Both India and China are at critical stages in their development and modernization. The 19<sup>th</sup> National Congress of the Communist Party laid out a blueprint for making China a great 'modern socialist' country. This includes the plan to turn China into a technologically advanced country by 2025. India also has a blueprint to achieve 'a new India' by 2022 and a 15-year national development agenda.

### **Recent Positive Interactions**

In this background, over two days on April 27-28 this year, when Prime Minister Modi and President Xi Jin Ping were together in Wuhan for an 'informal' Summit, they had a freewheeling discussion without a fixed agenda. The Wuhan Summit had been preceded by a military standoff between the two armies in Doklam, and the inputs of the two leaders and wisdom of the diplomatic teams had helped in reaching a solution. Post Wuhan, work has begun on shaping a new framework for the relationship between the two countries. Both sides need to manage their differences for common prosperity. According to Indian Foreign Secretary Vijay Gokhle, the two sides agreed that "proper management of their bilateral relationship would be conducive for the

development and prosperity of the region. Reviewing their relationship from a strategic and long-term perspective, they agreed to enhance efforts to build convergences through established mechanisms and also agreed that both sides have the maturity and wisdom to handle differences through peaceful discussions, taking into account each other's sensitivities, concerns, and aspirations".

Prime Minister Modi's visit to Qingdao for the SCO Summit on June 9-10 took forward the talks and understandings reached with President Xi Jin Ping at the Wuhan Informal Summit. They agreed that Xi will visit India for an informal Summit along the lines of Wuhan in 2019, that the two sides will exchange four high-level visits before the end of the year, and that the two Foreign Ministers will lead efforts for enhancing people to people contacts between the two countries. Xi also proposed that as China prepares to buy more rice, sugar, and pharmaceuticals from India, the two countries should aim for reaching a trade target of US\$100 billion by 2020, which is not unrealistic. The agreement on the sharing of data on the Brahmaputra flows will be helpful, and another agreement on enhancing non-basmati rice exports will, to an extent, alleviate the large Indian trade deficit with China. Both these recent meetings, therefore, have given rise to some serious thinking once again, on how China India relations can be enhanced to the benefit of these two large populous neighbours in Asia.

These meetings are a continuum of a series of high-level visits undertaken by both sides in recent years. Over the past few years, a few momentous agreements signed between the two sides have given stability and momentum to India China bilateral ties. The 1993 agreement on the Maintenance of Peace and Tranquility along the Line of Control on the India China border areas, the 2003 Declaration of Principles for Relations and Comprehensive Cooperation and the appointment of Special Representatives to explore the framework of a boundary settlement from a political perspective, as well as establishment of a Strategic and Cooperative Partnership for Peace and Prosperity and the signing of an agreement on Political Parameters and Guiding Principles in 2005 were all milestones in this

relationship. When President Xi visited India in September 2014, it was agreed to establish industrial parks and to enhance Chinese investments in India. In May 2015, when PM Modi was in China, the leadership of the two countries also addressed the opening session of the first state/provincial leaders' forum. Also in May 2016, President Pranab Mukherjee concluded some MOUs between the higher education and research institutions of the two countries. India and China today have more than thirty dialogue mechanisms at various levels, covering bilateral political, economic, consular issues as well as dialogues on international and regional issues. The Foreign Ministers, the Special Representatives as well as the Vice Ministers meet at regular intervals. A dialogue on counter-terrorism and security is in force. To facilitate high-level exchanges of party leaders from China and state chief ministers from India, a special arrangement has been entered into by the international liaison department of the central committee of the Communist Party of China and the Ministry of External Affairs of India since 2004. There is a regular party to party exchanges between the Communist Party of China and political parties in India. To facilitate exchanges between Indian states and Chinese provinces, the two sides have also established a states/ provincial leaders forum.

Bilateral trade between India and China has also seen a steady rise and reached US\$ 84.4 billion in 2017. India, however, faces a trade deficit of US\$ 52 billion, but demand for diamonds, copper, organic chemicals, cotton and cotton yarn from India to China has been growing. According to the Chinese Ministry of Commerce figures, cumulatively, Chinese investments into India were US\$4.91 billion until March last year, but there are also "indirect" Chinese investments through other countries. Indian investments in China were US\$ 705 million. In April 2017, a visa has been introduced to encourage more business people from China to travel to India. The India China economic and commercial relations are being shaped by various dialogue mechanisms

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such as the Joint Economic Group led by the Commerce Ministers , Strategic Economic Dialogue conducted by the Vice Chairman of the NITI Aayog and the Chairman of the National Development and Reform Commission of China , the NITI Aayog and the Development Research Centre Dialogue and the Financial Dialogue led by Secretary Department of Economic Affairs of India and Vice-Minister, Ministry of Finance of China. Institutional dialogues have also been set up through working groups on trade, skill development, and vocational education, information and communication technology, and high technology, regional trading agreement, agriculture, energy, and BCIM economic corridor.

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The Indian community in China is growing and on current estimates is close to 35000, of which 18000 are students in different universities in China. 280,000 tourists from China visited India, and 850,000 Indian tourists visited China last year, and the tourism sector is snowballing between the two countries.

It is clear that despite all that has been achieved, and all the mechanisms which have been put in place for the enhancement of this important bilateral relationship, the future relationship between India and China will depend on the twin prerequisites and qualifiers of conscious maintenance of peace and tranquility and sensitivity to each other's developmental aspirations and core areas of interest as well as close coordination on regional and international issues. Specifically, there are several strategic, economic, and diplomatic issues which require the attention of policymakers in India and China are as follows:

### **Strategic Issues**

Starting from the 1990s, India and China's strategic interests have evolved and expanded, not only in the Indo-Pacific but also the whole world. India and China, as the two fastest-growing major economies, have benefitted

from globalization. It would be in the interest of both to ensure that globalization, especially in the economic field does not come under threat, and that protectionist tendencies are resisted. Both depend on the outside world for commodities, energy, and technology, and hence need to coordinate closely with each other. India agrees with the Chinese assertion that at a time when global value chain plays a pivotal role in manufacturing, protectionism will harm global manufacturing. On climate change, India and China have embraced the new technologies available to grow in a healthy manner which will safeguard their populations from the hazards of polluting industries, while maintaining their growth to lift their people out of poverty. On food security, both face challenges related to land holdings and cultivation, new techniques and innovation to feed their teeming people. It is imperative that China and India continue to communicate and coordinate with each other in all these fields.

For relations to be stable and coordination to work, it is vital that the long and unsettled border between the two countries is managed in a prudent and calm manner. It also needs to be settled at the earliest. There is no delineated Line of Actual Control (LAC) between the two countries, and there are areas along the border where India and China have different perceptions of the Line of Actual Control. Specific instances of perceived transgressions are to be taken up through mechanisms such as hotlines, flag meetings, border personnel meetings, and normal diplomatic channels. The Border Defence Cooperation Agreement of October 2013 lays down concrete mechanisms to avoid confrontation. The two sides have agreed to the process of clarification and confirmation of the LAC in those segments where they have different perceptions and to the exchange of maps indicating their respective understandings of the entire alignment of the Line of Actual Control as soon as possible. Although some progress has been made much more remains to be done. In this context, PM Manmohan Singh

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and President Hu Jin Tao had agreed on the margins of the BRICS summit in Sanya in 2011 that they would set up a mechanism on coordination and consultation on border affairs in order to work out confidence-building mechanisms in the interim, pending the completion of the process of clarification and confirmation of the line of Actual control. The Special Representatives mechanism for settlement of the border issue also needs to speed up its work, and carry on interim work between formal meetings, perhaps through specific committees on different subjects. It is the turn of NSA Ajit Doval, to visit China later this year for the NSA level talks.

Further, the Confidence Building Measures agreed upon so far have mostly been in the military and air force domains. Two rounds of dialogues have been held in the maritime field – but these must be held at frequent intervals in the future because the activities of the navies of the two countries are expanding. As the outreach of the two navies expands in the Indo Pacific region, there are bound to be some misperceptions about each other's intentions which can be dispelled by cooperation. A holistic approach to healthy cooperation and competition is needed. The protection of Sea lanes of communication and freedom of navigation is important for both countries. Anti-piracy operations, humanitarian assistance, and disaster management related exercises are possible areas of cooperation. Also, discussions on the blue economy and further strengthening of bilateral cooperation must continue.

As Chinese interests in the periphery of India grow, and as Indian interests in Asian and the Pacific expand, there is a need for the two countries to maintain greater transparency and engage in consultations with each other, to "keep each other in the loop" which will eliminate misgivings and misunderstandings. A case in point is the grouping of the Quad. As Prime Minister Modi has made it clear at the Shangrila dialogue in Singapore recently, India does not see the Quad or the Indo Pacific region as a club of limited members or a grouping that seeks to dominate or is directed against any one country.

Third, as was decided during the visit of Major General Ci Guo Wei, Head of China's international military cooperation wing, General Liu Xiao Wu Deputy Commander of China's western theatre command visited with a delegation to India, signaling the start of the high-level military exchanges between India and China, that had stalled for a while. In return General Officer Commanding in Chief of Eastern Command Lt, Gen Abhay Krishna visited China from 15-19 August. He also met the PLA Commander General Han Wei Guo. During the visit of General Liu, the two sides agreed to control risks at the border area, expand tactical drills, to strengthen of cultural and sports interactions between the border defense forces, and jointly safeguarding peace and stability at the border. Chinese Defence Minister Wei Feng He is currently on a four-day visit to India starting 21 August 2018. This visit is seen as important to strengthen atmospherics and communications. Indian Defence Minister Nirmala Sitharaman had met him in Beijing in April 2018, as part of the SCO Defence Ministers meeting. The two sides will also attempt to set up a hotline between the two militaries. The exchange of visits will be followed by defense secretary-level dialogue between both sides at the earliest, which is expected to set the ball rolling on the calendar of events in the military to military cooperation segment. This will include joint military exercises. Such exchanges need to be, encouraged.

### **Economic Concerns**

There are genuine concerns in India about the huge trade deficit between India and China, which is heavily in China's favour. Favourable policies and market

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access for Indian products such as pharmaceuticals, agricultural products, and services such as information technology which are in any case needed in the Chinese market will help ameliorate the situation to an extent. It is a positive sign that Chinese officials from

the agricultural produce regulatory authority have been to India to check the



standards for Indian non-Basmati rice. Recently, China has decided to reduce import tariff on 8500 items from India and other Asia-Pacific countries under a multilateral agreement. The zero tariff on Indian soybean from 3 percent at present will help push up Indian exports. China has agreed to reduce duties on some Indian medicines, except cancer drugs, which are much cheaper than western alternatives. In April 2018, it was announced that import duties would be reduced by China on 28 drugs -- a move that could also allow India to compete in exports. It is, however, better that half-hearted and unworkable measures are avoided. It is not the tariff issue per se but also the registration of Indian drugs in China that has faced problems. During a visit by a Chinese trade delegation to India in late March, Chinese and Indian companies signed as many as 101 trade agreements covering black tea, castor oil, peppermint oil, coconut fiber, coffee beans, and other products. Following a meeting between the two leaders at Johannesburg for the BRICS summit in July, an Indian trade delegation also traveled to China on August 1 and 2. Among the issues they discussed are exports of soya, sugar and non-basmati rice and they also looked at the issue of possible import of urea from China. An Indian pharmaceutical delegation was in Shanghai from August 21 to 22. The proof of the pudding, however, is in the eating, and all this requires a lot of follow up. In 2018 November, India has been invited, along with other countries, to hold a large-scale international products exposition in China. When last heard, the Indian side was facing problems in acquiring adequate space at the exhibition. It is the hope among Indian companies that they will receive full support from the State institutions and enterprises from China.

To bridge the huge trade deficit, it is also important that Chinese industry invests and manufactures in India instead of just exporting its products to it. China can rapidly create world-class infrastructure and possesses liquidity to finance long-term projects. India would like Chinese industry to finance long-term infrastructure projects and bring its cutting-edge technology to India. Chinese investments in India have been welcomed and will be welcomed in the future, but the pattern shows that these have so far focused mainly on brownfield projects, fintech, e-commerce, etc. India, of

course, has become the fastest market in e-commerce. According to a report by Tracxn, a start-up research company, in 2017 some US\$ 5.2 billion was invested in India by Chinese internet companies such as Alibaba, Fosun, Baidu and Tencent. This showed a five-fold jump from US\$ 930 million in 2016. Alibaba group has joined forces with a \$250 million Chinese venture capital fund called Ganesh ventures that will be its strategic investment partner in India. The entire corpus of Ganesh ventures will be deployed in startups over the next 3-5 years. Alibaba group's India portfolio includes domestic digital payments market leader Paytm and online grocery company Big Basket. Several other Chinese venture capital funds are scouting for and increasing bets in India's startup ecosystem. India, however, needs investments in green-field projects, especially in manufacturing. China needs to look at investments in areas like railways, infrastructure, industrial parks, etc. According to an *Invest India* report of June 2018, China has drawn up a list of 600 odd companies for future investments into India. It is understood that Sany Heavy Industry, Pacific Construction, China Fortune Land Development, Country Garden Fosun group and Dalian Wanda are all planning investments in India, which will be in the right direction. However, tightening of norms for capital investment by the Chinese government has affected not just investments in India but the global expansion plans of these companies.

India has embarked on infrastructure led growth. Besides the Delhi Mumbai industrial corridor, India is also developing the Chennai-Bangalore-Mumbai corridor, Vizag-Chennai corridor, and the Bangalore-Mumbai corridor. These are new areas of growth with new urban cities and logistics as the backbone where China can work with India. One of the lessons India would like to learn from China is the strategy of rapid urbanization based on manufacturing. India is supporting projects related to connectivity, which are vital and which enhance trade and prosperity. There are many connectivity projects in the region and in India's periphery. If these are to succeed, there must be building of bridges of trust. These initiatives, therefore, need to be based on respect for sovereignty and territorial integrity, consultation, good governance, transparency, viability, and sustainability. They must empower

nations, not place them under impossible debt burdens; they must promote trade, not strategic competition. Besides developing infrastructure within India, New Delhi is doing its part by working on projects in its neighbouring countries that uphold these principles. India is also an active participant in the Asia Infrastructure Investment Bank and the BRICS New Development Bank. One of the main reason why India has been unable to support the Chinese BRI proposal is that it incorporates the China Pakistan Economic Corridor, which passes through Indian territory occupied by Pakistan. India was not consulted before this Corridor was included in the overall concept of BRI, and India's sovereignty concerns have been conveyed to the Chinese interlocutors at the highest levels.

### **New Strategic Framework**

India and China need a new strategic framework between them, taking into account their economic development, management of the border (either through settlement or management of the situation), management of relations in their periphery, approach to economic integration, and shape of the Indo- Pacific economic architecture. This includes the ongoing negotiations on RCEP, where India wants a balance between trade, investments and services, and a liberalization of the services regime to keep pace with proposed reduction of tariffs on goods and services, and a graded structure of tariff reductions for countries with which it does not have a free trade agreement.

In keeping with India's ongoing federal decentralization, there is growing engagement of Indian states with the outside world. Under the agreement signed by Chinas Communist Party's International Liaison Department with the Ministry of External Affairs of India, state-level delegations are exchanged between the two countries on a regular basis. Communist Party leaders from China and provincial delegations also make visits to India under this programme. Both sides need to ensure that proper access is provided to the visiting delegations of both the countries and their programme arranged with care. If not organized properly, cancellation or

postponement of visits has the potential to set back exchanges with the state or province concerned.

Finally, creating a positive atmosphere between India and China is essential. Popular perceptions often reflected by national elites are deeply rooted in long-term experiences with the other. They can hardly change overnight. What can be done is controlling official propaganda, diplomatic language, stated goals – all of which China has used in extreme manner against India. Greater understanding of potential obstacles in the relationship, avoiding conflict and laying emphasis on potential areas of cooperation is needed. Differences on significant issues should not be deferred for discussion at an unspecified future – but have to be squarely addressed, especially if these concern sovereignty issues. India and China need to be talking to each other and conversing with each other more than in the past. This could be done at many different levels – including at the leadership level, the official level, and the people to people level. Such communication should be frank, candid and open.

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From the India perspective, some core issues which remain open to resolution besides the unsettled border issue, for instance, are the issues of stapled visas for certain Indian citizens, the placement of wanted international terrorists like Hafiz Saeed on the UN indicted list, Chinese support for India's permanent membership of the reformed UN Security Council, and its membership in the Nuclear Suppliers Group. Every so often, the issue of Dalai Lama and Tibet is raised by the Chinese side due to lingering suspicion about India's intentions. India's position on Tibet is clear and consistent. His Highness Dalai Lama is revered in India as a spiritual and religious leader. India accords him courtesies and respect befitting his stature of a great religious and spiritual personality. However, India does not allow Tibetans to engage in anti-China political activities in India. This should allay any suspicion or fears that the Chinese side may have.

As Prime Minister Modi has said, “Competition is normal, but contests must not turn into conflict, differences must not be allowed to become disputes. “ and that we must “rise above a narrow view of our interests and recognize that each of us can serve our interests better when we work together as equals in the larger good of all nations”.

In practice, attaining such a goal with China has not been easy in the past.