

A Thaw in India-China Relations

The July 2003 state visit to China by Prime Minister Atal Bihari Vajpayee of India, the first by an Indian prime minister in a decade, represented a major step forward in New Delhi's relations with its giant neighbor and competitor. Dramatic increases in bilateral trade set the stage for nine bilateral agreements covering trade, education, easing of visa regulations, and development projects. The artful language of the agreements suggested progress on the long-standing Sino-Indian border dispute. More substantial relations between India and China are good news for regional stability, although this relationship will remain wary, and China's strong interest in Pakistan will continue to be a constraint.

Old animosities show signs of easing. Relations between India and China, divided by the Himalayas and contrasting cultures and customs, have remained frosty since India's humiliating defeat in the border war of 1962. Even before the war, tension had surfaced between the two countries when India gave sanctuary in 1959 to the Dalai Lama and his followers as they fled China's crackdown on the uprising in Tibet. That conflict ended the dreams of *Hindi-Chini Bhai Bhai*, Sino-Indian brotherhood, promoted by India's first prime minister, Jawaharlal Nehru, and signed into a treaty in 1954. Disputes about the delineation of the 2,200-mile common border, aggravated by China's open military and covert nuclear assistance to Pakistan, kept Sino-Indian relations tense.

It took nearly a quarter of a century for relations to return to something like normal with the visit of then-Prime Minister Rajiv Gandhi to China in 1988. Since then there have been 14 meetings of the joint working group set up to settle the border disputes. These negotiations have prevented the situation from aggravating, but have moved at a snail's pace.

Relations once again deteriorated in 1998 with India's nuclear tests, which the Indian defense minister said were motivated by the long-term security threat from China. Since then, relations have started to improve once again. Last year Zhu Rongji, then the Chinese prime minister, visited India. The two countries have adopted similar positions on a number of international issues such as terrorism and the war in Iraq. China Eastern Airlines started flights between Beijing and New Delhi earlier this year, the first direct air link between the two countries. But most importantly for India, China has shifted its position on the Kashmir dispute toward a more neutral formulation.

Progress on border issues. In agreements signed during the visit, India for the first time referred to Tibet as the Tibet Autonomous Region, China's name for it. At the same time,

China tacitly recognized India's claim to the Himalayan state of Sikkim by agreeing to a border trade regime with adjoining areas of China. Predictably, both countries claimed that their fundamental positions were unchanged.

The border dispute is far from being resolved, however. India claims part of Chinese-controlled northern Kashmir, ceded to China by Pakistan, and the remote Aksai Chin area. China claims large parts of the northeastern India. Even while Vajpayee was in China, Chinese military patrols had detained Indian surveillance teams in disputed border areas. The two countries have appointed envoys to settle these unresolved disputes. Neither country's leadership seems in a hurry to withdraw any part of its contested territorial claims. But the mutual policy adjustment is unmistakable and points toward continued slow and pragmatic progress.

India-China security rivalry. Pragmatic diplomacy aside, India sees China as a long-term strategic rival, the benchmark for its nuclear arsenal, and the standard for the great power status it wants. At present, India's fledgling nuclear and missile capability is no match for China's arsenal, but that gap is decreasing. According to intelligence reports, India is expected soon to test its Agni III missile, which will be able to target major Chinese cities. In addition, India is developing a submarine-launched missile, dubbed Sagarika. India is also modernizing its conventional capabilities by importing advanced early-warning systems such as the Phalcon airborne warning and control system (AWACS) from Israel, which is similar to the version used by the U.S. Air Force.

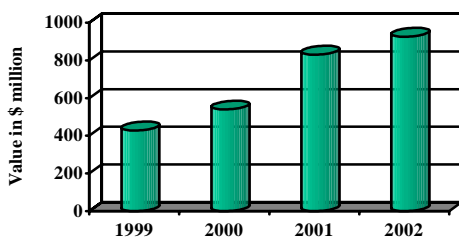
Beijing officials regard India as a lesser power on the other side of the Himalayas and focus most of their attention on the United States, Japan, and Europe, but they have taken note of these developments, coupled with the nuclear tests. India's support for President George Bush's missile defense plan, which China vehemently opposes, also irked the Communist leadership. One of the key considerations for Indian defense planners is how China responds to the U.S. missile defense proposals.

Two systems, one grand rivalry. Beyond the security field, Indians suffer from a national inferiority complex when it comes to China. It is not hard to see why. In 1980, living standards and other social and economic indicators in the two countries were roughly the same. But by 2001, China, fuelled by 22 years of dynamic economic reforms, had overtaken India in almost all major development indicators. Economic reforms in India began only in the early 1990s and have moved forward fitfully, beset by political and bureaucratic inertia.

India's performance is no match for its rival's. According to UNESCO and the World Bank, 18.8 percent of Chinese were living on less than \$1 a day in 2001, compared with 44.2 percent of Indians. Although poverty figures in India and growth figures in China are disputed, the contrast is clear. India's GDP growth and especially foreign direct investment are nowhere near China's. India has also fallen behind in other important areas. The personal computer penetration in China, for instance, was 15.9 per 1,000 people in 2001, compared to India's 4.5. Foreign cellular companies have found China far easier to navigate than India. India's 6 million mobile phone population is tiny compared to China's 150 million. At the same time, the size of India's population continues to grow and, if present trends continue, will overtake China's by 2050.

Trade, a new area for cooperation? Observers expect the most promising news to come from expanding trade between the two countries. Vajpayee during his stopover in Shanghai made it a point to stress the need to improve trade ties between the two countries, especially in areas of software and services where India leads. India is hoping that bilateral trade with China will rise to \$10 billion within five years. Most analysts believe this figure is realistic if relations continue to improve. Already, cheap Chinese toys, televisions, clothes, and other consumer

Export from India to China



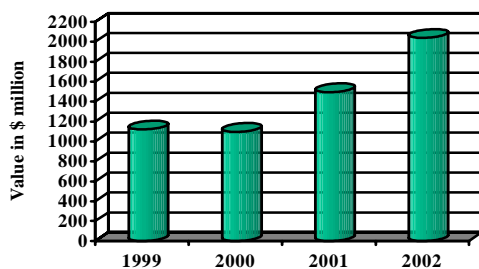
goods have started to flood the Indian markets. Indian companies, while apprehensive about the Chinese economic juggernaut, have begun to fight back by setting up plants in

China to manufacture products from tires to microwave ovens. The Federation of Indian Chambers of Commerce and Industry (FICCI) and the Confederation of Indian Industry (CII), the two major business associations, have sent exploratory investment delegations to China.

But the most promising areas for cooperation are software and related

services. China is a leader in manufacturing, while Indian companies continue to move up the value chain in the global software business, earning about \$10 billion a year in exports, according to industry estimates. Some Indian

Export from China to India



software companies dread the competition from China. However, India's leading software and services companies, like Wipro and Infosys, view China not as a threat, but as a springboard to new markets in East Asia, notably Japan. Indian companies expect entry into Japan to be easier through China-based subsidiaries since Chinese characters form the basis of Japanese script. Some, like NIIT and Infosys, have set up subsidiaries in China and plan to expand their operations aggressively in the coming years. Nasscom, an association of Indian software companies, expects more joint ventures with China and is hoping to secure a large share of software services jobs for India in the 2008 Beijing Olympics.

China's special relationship with Pakistan. Pakistan was one of the first countries to establish diplomatic ties with China in 1951, but it was in 1961, when it voted at the UN General Assembly for the motion to restore China's legal status in the United Nations, that relations between the two countries took off. Clandestine nuclear Chinese assistance to Pakistan has been a major concern for Indian authorities. According to various news and intelligence reports, China supplied Pakistan with weapons-grade uranium and the nuclear-capable M-11 missiles.

Indian leaders no doubt hope that further progress in India-China relations will act as a brake on the transfer of weapons to Pakistan. Analysts expect China's strong support for Pakistan to continue, albeit more discreetly. No major transfer of weapon systems or related technologies, conventional or nuclear, has been reported in the media since 2000. China still sees Pakistan as an important ally to keep India off balance. China's opposition to Pakistan's incursions into Indian-controlled Kashmir in the summer of 1999 show that there are limits to its support for Pakistan. China has a strong interest in Pakistan's internal stability, however. They see the Musharraf government as the best bet to prevent Pakistan-based Islamist terrorist groups from becoming active in Xinjiang.

A "soft" balance of power. Vajpayee's accomplishments in China suggest that India and China are headed toward greater pragmatic cooperation, but not toward any broader alignment on foreign policy or national strategy. This is good news for regional peace and stability. Both countries' strong relations with the United States, interestingly, are likely to reinforce this process. The result should ideally be a kind of "soft" balance of power between the three countries, where each country will try to protect its own interests by aligning with each country individually on an issue-by-issue basis.

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