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China and India: Cooperation and Competition

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Summary

- Strong economic growth in both India and China, and their improving diplomatic and trade relations, have led many to dub the two countries 'Chindia'. Both Chinese and Indian politicians focus on the countries' complementary industrial nature, particularly in the IT sector where India is said to have the software, China the hardware.
- Both governments are committed to regional and sub-regional cooperation, and bilaterally both accord priority to resolving their border disputes as well as to their partnership in overseas investment, at times jointly bidding for energy projects.
- Despite the rhetoric, similar regional and global interests mean the two countries are often in competition. The relationship is marred by ongoing border disputes and competing geopolitical and economic interests in third countries. These concerns manifest themselves in India's reluctance to admit Chinese firms into sensitive industries and China's ambivalence towards India's ambition to secure a permanent seat on the UN Security Council.
- Environmental and water resource issues are likely to become a future cause of contention. Key Indian rivers have their sources in the Chinese Himalayas and many in India are concerned over China's management of these resources and its future intentions.
- While trade relations are improving, the relationship is complex and steeped in historical mistrust. Competing interests, combined with concerns over longer-term ambitions, seem likely to hamper future cooperative relations.

2 China and India: Cooperation and Competition

Introduction

In April 2005, during the visit of the Chinese Prime Minister, Wen Jiabao, to Delhi, China and India announced a strategic partnership, and the Indian Prime Minister, Manmohan Singh, announced that they could 'together reshape the world order'. India's Foreign Secretary, Shyam Saran, added that India and China 'do not look upon each other as adversaries but we look upon each other as partners'. The following year, 2006, was designated China–India Friendship Year and witnessed a state visit by President Hu Jintao, the first for ten years. These developments highlight the extent to which Sino-Indian relations have improved over the past decade, driven by increasing economic interaction.

Modern-day China and India have undoubtedly been shaped by their pasts, both of which are rooted in widely differing colonial experiences. For India, British rule resulted in Western-style democratic institutions. Never subject to outright colonization, China, however, entered into a dependent trade relationship with European powers without political assimilation. This has left a legacy under which one is now the world's largest democracy, with rule of law and a well-developed bureaucratic structure, but immense problems of poverty and development, and the other is the world's largest remaining one-party state, with an ideology-free leadership and a vulnerable legal system. And this is complicated by the expectation that both are now bidding for regional and global superpower status, with the competition that implies.

It is clear that the coming decades will witness growing interaction between the two countries on a wider set of issues than ever before. But the question of whether their growing power will lead to competition or complementarity remains moot. This paper contextualizes their historical relationship, examines the current drivers behind the relationship and explores future challenges and opportunities. It demonstrates how sometimes contradictory drivers overlap to determine a multifaceted and multi-layered relationship. The main issue is whether those areas in which interaction is mutually beneficial, such as increased trade, will remain unaffected by competition over more contentious issues such as both countries' quest for energy security.

Background

The contemporary relationship between India and China is often framed in the context of their ancient histories. But despite cultural and religious contacts,

inspired by Buddhism, and economic links, comprising trade in goods such as tea, silks and spices, as well as opium, the two countries had little direct political contact.

In addition, the notion that India and China might reshape the world is not new. In 1700, the combined size of their economies represented almost half of all global economic activity, and prior to Independence Jawaharlal Nehru's vision of a 'resurgent Asia', led by India and China, was not dissimilar to contemporary notions of 'Chindia'. Nehru stressed Asian solidarity as a necessary precondition if Asia was to play a greater role in world politics, underlining the importance of regionalism and the need to institutionalize cooperation and mutual understanding.¹ In the 1950s, this translated into the mantra of 'Hindi Chini Bhai Bhai' (India and China are brothers), though this had little substantive depth in political or economic terms.

The fact that Tibet stood in the way reduced direct political interaction between India and China. During the nineteenth century, both Russia and Britain vied for influence in Tibet, nominally under Qing dynasty Chinese suzerainty, though both concluded that it was preferable for Tibet to be controlled by a weak China than by their rival. And on either side of Tibet, the expansion of British India into previously undemarcated areas in both northwest and northeast India created problems that remain today.

Although the British marked the boundary between British India and Tibet, administrative control did not extend into these regions. In 1914, the Simla Conference agreed that the McMahon Line represented the border. However, this was rejected by what was then Republican China, which was not a party to the Simla Conference on the grounds that, under earlier agreements, Britain had agreed not to negotiate directly with Tibet but only through China.

After Independence, India continued to hold the British position, and India's relationship with Tibet continues to rankle in China. During the visit of the Chinese president, Hu Jintao, to India in November 2006, a Chinese newspaper, *Huanqiu Shibao* (Global Times), published a report claiming that Nehru had misled then Chinese Premier Zhou Enlai about his true intentions towards Tibet: despite assuring Zhou that India respected China's sovereignty over it, Nehru had encouraged the Dalai Lama to work for independence. The use of history in contemporary debates remains a key negotiating tool in China, and to a slightly lesser extent in India.

Despite concerns over Tibet, India remained keen to engage with China. In April 1950, India became the sixteenth country to recognize the People's Republic of China, and four years later India and China signed an eight-year agreement on Tibet and agreed the five

principles of peaceful coexistence (the Panch Shila):

- Mutual respect for each other's territorial integrity and sovereignty;
- Mutual non-aggression;
- Mutual non-interference in each other's internal affairs;
- Equality and mutual benefit;
- Peaceful co-existence.

But in the absence of major economic links, multifaceted political alignments and border disputes came to dominate the relationship. Occasional border skirmishes took place throughout the 1950s, and in 1959 India discovered that China had built a road running from Aksai Chin into Ladakh, in Jammu and Kashmir.² The Dalai Lama's decision to take refuge in India (after the final stage of the annexation of Tibet into the People's Republic of China which had been ongoing since 1951) led to Chinese accusations of Indian expansionism towards Tibet. India subsequently rejected a Chinese offer that India relinquish its claim to Aksai Chin in return for China relinquishing its claim to parts of northeast India.

The doctrine of 'Hindi Chini Bhai Bhai' referred to above ended with the Sino-Indian War of 1962. Nehru's decision to place Indian military posts on the border with China, intended to prevent Chinese incursions, appeared to have the opposite effect. Amid escalating border conflicts and boundary disputes, Chinese troops invaded northeast India and Ladakh, before declaring a unilateral ceasefire and withdrawing behind the contested border. The war left a powerful legacy within India, and while recent economic growth has increased Indians' belief that they can work together with China, the notion remains that it would not accept any move to resolve the border dispute which could appear in any sense humiliating.

Throughout the rest of the 1960s and into the 1970s, relations remained poor, though at this period all of China's international relations were poor, as it closed itself off from the outside world during the Cultural Revolution. Chinese hostility to India was intensified by India's friendship with the Soviet Union, which culminated in the signing of the Treaty of Peace, Friendship and Cooperation in 1971 after the Sino-Soviet split. China provided support for rebels in northeast India, expressed support for the 1967 Maoist uprising in India and strengthened its relationship with Pakistan, which it supported in both the 1965 and 1971 wars with India. In turn, China accused India of supporting Tibetan rebels and India appears to have aided Western attempts to destabilize Tibet.³

However, Sino-Indian relations began to improve later in the 1970s, notably after the death of Mao in

1976. China did not respond to India's takeover of Sikkim in 1975, the two countries agreed to discuss boundary disputes, and cultural ties began to re-emerge. Both countries exchanged Ambassadors in 1976, and the first high-level Chinese visit took place the following year. This trend was reinforced by Foreign Minister Vajpayee's visit in 1979 and Chinese Foreign Minister Huang Hua's return visit in 1981. Mutual concern over the Soviet invasion of Afghanistan paved the way for closer ties in the 1980s. This rapprochement enabled eight rounds of border negotiations to begin from 1981. These came to a halt in 1987, amid Chinese resentment at India's decision to grant full statehood to Arunachal Pradesh and Indian anger at China's military activities in the region.

China's then paramount leader, Deng Xiaoping, warned in 1986 that China would 'teach India a lesson' if it did not stop 'nibbling'⁴ at Chinese territory. But relations warmed when the Indian Prime Minister, Rajiv Gandhi, visited China in December 1988. The ensuing joint communiqué stressed the need to restore friendly relations on the basis of the Panch Shila, broadening bilateral ties in various areas, and working to resolve the border dispute. While China expressed concern about the activities of Tibetan exiles within India and stressed that Tibet was an integral part of China, both sides agreed that their foreign ministers would hold annual meetings, that a working group would explore the Line of Actual Control, the disputed border of Aksai Chin, and that a committee on economic and scientific cooperation would be established.

The 1990s witnessed an increase in confidence-building measures including mutual troop reductions, regular meetings of local military commanders and advance notification of military exercises. Border trade resumed in 1992, for the first time since the Sino-Indian War. Consulates opened in Mumbai and Shanghai, and the Indian-Chinese Joint Working Group on the Border Issue held six rounds of talks between 1988 and 1993.

A visit to Beijing by then Indian Prime Minister Narasimha Rao in 1993 witnessed another round of agreements (on cross-border trade, and on increased cooperation on the environment and in radio and television broadcasting) as well as the signing of a border agreement which committed both sides not to use or threaten to use force, to observe the Line of Actual Control and to reduce the number of troops along this line. Throughout the 1990s both sides continued to reiterate that the border dispute should be resolved by negotiation, and focused on attempting to define the Line of Actual Control as a means of regulating military exercises.

4 China and India: Cooperation and Competition

Despite these positive steps, the rapprochement has not been smooth. The announcement by India's Defence Minister, George Fernandes, that China was India's 'number one' threat unsurprisingly strained relations, coming soon after India's 1998 nuclear tests. His statement led China to cancel the Joint Working Group on the Border Issue which was to have been held soon after. However, Fernandes has since become a keen proponent of improving ties with China. India changed its stance following China's neutrality during India's confrontation with Pakistan in Kargil, sending Foreign Minister Jaswant Singh to Beijing to strengthen ties during the confrontation in the summer of 1999.

Border disputes

Since China's apparent recognition of India's claim over Sikkim, there are only two major outstanding border disputes. India claims Aksai Chin, a 38,000 sq. km territory occupied by China since the beginning of the twentieth century. The area had been part of Ladakh, but was seized by China in the 1962 border war. China also appropriated the 58,000 sq. km Trans-Karakoram Tract in 1963. This territory, which had formed part of Pakistani-administered Kashmir, was given to China by Pakistan, possibly to cement relations, or in recognition that Pakistan would be unable to defend the region against any Chinese aggression. India recognizes neither Aksai Chin nor the Trans-Karakoram Tract as Chinese territory.

China in turn claims that the northeast Indian state of Arunachal Pradesh is part of China – claims reiterated by China's ambassador to India in November 2006. The border between Arunachal Pradesh and China forms part of the boundary drawn up by McMahon at the Simla conference. Although Tibetan representatives agreed to the line at the conference, China refused and has argued that since it had sovereignty over Tibet, the line is invalid without Chinese agreement.



Source: http://news.bbc.co.uk/1/hi/world/south_asia/4431299.stm.

The traditional Chinese stance has been to swap Aksai Chin for Arunachal Pradesh, a position India has refused. Back in 1988, during Rajiv Gandhi's visit to China, the two nations agreed to establish the China-India Joint Working Group on the Border Issue, mentioned above, which would meet annually and be led by the Indian foreign minister and the Chinese vice minister of foreign affairs. During Vajpayee's 2003 visit to China, the two governments appointed their respective special representatives to give political impetus to the process. China tacitly recognized Indian sovereignty over Sikkim, issuing a revised map of the area showing Sikkim as part of India and no longer listing it as an independent state. However, China has failed to issue a formal statement recognizing the area as Indian territory.⁵

During Wen Jiabao's 2005 visit both sides signed a landmark Agreement on the Political Parameters and Guiding Principle for the Settlement of the India-China Boundary Question. This stipulated that:

- future negotiations must be final, covering all sectors of the boundary;
- the settlement will take due consideration of the two sides' mutual security;
- the settled population's needs will be considered before any decision is made.

In the December 2005 meeting between Prime Minister Manmohan Singh and President Hu Jintao some differences in approach arose. India wanted a fast-track route to border resolution and talks involving a settlement on all disputed sectors at once. The Chinese favoured a step-by-step approach.

There seems little likelihood that any final agreement is imminent. Neither side has given ground and the border issues seem to be taking a back seat relative to the developing economic ties. India remains reluctant to pursue the 'border swap' idea, arguing that it should not have to cede 'its' territory in Aksai Chin to get China to drop its claim on another part of India. India has explicitly ruled out giving away any inhabited areas to the Chinese. Yet no other potential solutions appear to be under discussion. The question of border disputes was raised in February 2007 when Chinese Foreign Minister Li Ziaoxing met his Indian equivalent, Prahlab Mukherjee. While both ministers renewed their commitment to resolving the issue, no concrete steps were taken. Although China resolved a long-standing border dispute with Russia in 2005, it has ongoing disputes with its neighbours, notably over the Spratly Islands in the South China Sea, and the Senkaku/Diao Yu Tai islands in the East China Sea.

Trade ties

While the border dispute had dominated Sino-Indian relations until recently, from 2000 a new, positive linkage developed: trade. Following the 1962 war, trade between the two neighbours stopped entirely, not restarting until 1976. The upswing in Sino-Indian relations has clearly stemmed from rising trade, and has been facilitated by India's rising self-confidence about its own economic future.

Back in April 2001, India removed quantitative restrictions on imports. Fears that Chinese goods would swamp India were widespread. But, at first at least, the flood did not come. Total bilateral trade reached more than US\$18bn in 2005, and within the next two years China is likely to overtake the US as India's largest trading partner (though India is currently only China's tenth largest trading partner). In 2005, Wen Jiabao set a target of US\$20bn in trade for 2008, a figure already likely to be achieved in 2007 as *Hindi Chini Bhai Bhai* becomes *Hindi Chini, Buy, Buy*.

The two countries signed a draft bilateral investment promotion and protection agreement (BIPA) during President Hu Jintao's visit to India in November 2006. The agreement was one of thirteen trade pacts signed between India and China during the official visit and provides an institutional and legal framework for increased foreign investment flows between the two sides. India and China also agreed to encourage cooperation in oilfield bidding and exploration and the development of hydrocarbons in third countries.

Much of the rhetoric has focused on synergies in the IT sector, between Indian software skills and Chinese hardware knowledge. During his 2005 visit, for instance, Wen Jiabao, visiting Bangalore, said that 'Cooperation is just like two pagodas, one hardware and one software. Combined, we can take the leadership position in the world.' On a similar theme, Wang Jinzhen, the Secretary General, Assistant Chairman and Spokesman of the China Council for Promotion of International Trade, said that 'Chinese manufacturing plus Indian services, Chinese hardware plus Indian software, will create an ideal win-win situation for both the countries'.⁶

Indian software companies have shown enthusiasm for collaboration with China. Wipro and Satyam now have bases in China, and it is expected that more companies will follow suit. But despite overtures made by both countries for cooperation in the IT sector, little has been achieved so far, owing to mutual mistrust. India is worried that China wants to challenge its position as a global software exporter, while China fears that India could soon be competing with it in hardware manufacture.

TABLE 1: MAJOR INDIAN EXPORTS TO CHINA, 2003–4

Product	%
Iron ore	27.8
Primary & semi-finished iron & steel	19.1
Plastic & linoleum products	10.0
Other ores and minerals	4.4
Processed minerals	3.4
Drugs, pharmaceuticals & fine chemicals	3.3
Marine products	2.9
Inorganic/organic/agro chemicals	2.8
Cotton yarn, fabrics etc.	2.5
Machinery and instruments	2.5
Others	21.3

Source: Report of the India-China Joint Study Group on Comprehensive Trade and Economic Cooperation.

TABLE 2: MAJOR CHINESE EXPORTS TO INDIA, 2003–4

Product	%
Electronic goods	34.1
Organic chemicals	11.7
Coal, coke & briquettes etc.	5.5
Other commodities	5.4
Medicinal & pharmaceutical products	4.6
Machinery (not electric or electronic)	4.5
Silk, raw	2.8
Other textiles, yarn, fabrics etc.	2.7
Inorganic chemicals	2.6
Silk yarn & fabrics	2.6
Others	33.5

Source: Report of the India-China Joint Study Group on Comprehensive Trade and Economic Cooperation.

A detailed analysis of trade between the two countries does not bear out this focus on IT, however. Iron ore continues to dominate India's exports to China. As China attempted to dampen its economy in 2006, exports fell off, and while Indian cotton cloth went some way to make up the difference, in the first six months of 2006 India's exports to China fell year on year. Chinese exports, however, are dominated by higher value-added goods such as automobiles and machinery, and these have continued to rise.

TABLE 3: SINO-INDIAN TRADE

Year	Chinese exports to India (\$m)	Indian exports to China (\$m)
1987/88	118.9	14.6
1988/89	98.0	91.1
1989/90	39.5	23.5
1990/91	31.0	18.2
1991/92	20.9	48.2
1992/93	126.0	141.3
1993/94	302.0	279.1
1994/95	760.8	254.2
1995/96	812.0	332.7
1996/97	756.9	614.8
1997/98	1,119.3	718.1
1998/99	1,096.7	427.2
1999/2000	1,286.7	538.8
2000/01	1,502.2	831.3
2001/02	2,036.4	952.0
2002/03	2,792.0	1,975.5
2003/04	4,053.2	2,955.0
2004/05	7,098.0	5,615.9
2005/06	10,739.5	6,721.2

Source: Ministry of Finance, India.

India has been an increasingly keen user of anti-dumping measures in recent years, and China has not been immune. Some Chinese business representatives, such as Wang Jinzhen, the Secretary General of the China Council for Promotion of International Trade, have argued that this attitude is acting as a deterrent to Chinese investment, claiming that Chinese firms were discouraged by the 'over-cautious attitude toward Chinese investment and a stream of anti-dumping cases filed in India against Chinese companies'.⁷ Among the key moves to combat Chinese exports was the imposition in May 2006 of duties of up to 108% imposed on silk goods worth US\$180m.

Indian concerns about the security implications of Chinese investment are also becoming apparent. In October 2006 it was announced that India was drafting a new policy towards foreign investment which would include China, Afghanistan and North Korea, as well as Pakistan and Bangladesh, on a list of countries considered sensitive in relation to national security. A comprehensive review of India's foreign direct investment policy is expected to be announced this year. Until now, China has faced scrutiny in sensitive areas, such as telecoms, but according to the draft this scrutiny would be extended to non-sensitive areas, ending any automatic clearance for Chinese FDI in areas such as pharmaceuticals, energy and consumer goods.

It is widely believed that Chinese companies have already faced discrimination in telecoms investments. In October 2006 a Chinese firm, ZTE, and Motorola were disqualified from bidding in a tender for 60m new GSM lines on technical grounds. It was widely believed that ZTE was disqualified on the grounds of being Chinese, and Motorola because it would source part of its equipment from Huawei, another Chinese firm.⁸ The Indian government cites security concerns as a reason for blocking Chinese investment in telecommunications and port management. Security concerns relating to foreign direct investment (FDI) first arose after the Indian Ministry of Home Affairs objected to Egypt's Orascom Telecom. However, FDI in the telecoms and IT industry amounted to over \$18bn between 2005 and 2006. Between 2004 and 2006, India approved 33 out of 38 Chinese investment applications. These projects are mainly related to township development, cash-and-carry wholesale trading of toys, shipping services, trading in IT products and the publication of journals.⁹

Rising trade has itself contributed to an easing of the border issues. China's recognition of Sikkim as part of India enabled a 2004 agreement to open the Nathula and Jelepale Passes in Sikkim as trading links. Closed since 1962, in July 2006 the Nathula Pass finally reopened. However, trade through the pass, once the route for 80% of bilateral trade, has been limited, primarily benefiting areas in close proximity to the pass. It consists mainly of small-scale exchanges of consumer goods such as traditional woollen products and pirate DVDs. In the 51 days of trading in 2006, trade totalled US\$186,250. While the opening of the pass has been broadly interpreted as a goodwill gesture, there is still mutual mistrust. Both sides have placed restrictions on items that can be traded across the pass. India has limited Chinese imports to a list of 15 items, including silks and goat and yak products, while China has allowed imports of 29 items, including tea, spices, dyes, blankets and farm implements. The Indian government is exploring what other items could be traded via this route.¹⁰

Diplomatic manoeuvres

While India's diplomacy from Independence until the 1990s focused primarily on promoting the non-aligned movement, and on related concepts such as anti-imperialism, China had long had cause to adopt a more proactive diplomatic outlook, driven by the need to gain recognition at the expense of Taiwan.¹¹ But effective diplomacy can require financial backing, and it was not until the 1980s, in the case of China, and the late 1990s, in India's case, that foreign exchange reserves enabled both to take a more assertive foreign policy.

The rise in both countries' foreign exchange reserves stemmed from rising economic prosperity, and this in turn presented both governments with new policy drivers: the need to gain market access and to secure energy supplies to enable continued economic growth.

One of the first points of contention was Burma (Myanmar), amid Indian concern at the growing interaction between China and the military regime in that country. Before the 1990s, Burma had not figured highly on India's foreign policy radar, despite occasional concerns at Burma's policy towards secessionist groups from northeast India. Prior to the 1988 coup Burma had attempted to remain neutral *vis-à-vis* India and China, but Indian disaffection with the coup led to a shift in Burma towards China. Following the election of 1990, which the National League for Democracy won but which the military ignored, Indian hostility towards the military and support for the pro-democracy movement increased.

As India formulated its Look East policy, first conceptualized in 1992, its policy towards Burma began to change, as it became clear that better relations with Burma were conducive for improving relations with that country's southern neighbours. Concerns about China's motivations for involvement in Burma, and the realization that Burma's support for counter-insurgency operations against northeast Indian militants was necessary, underlined the need for a new policy.

India accepted that the democracy movement was an internal matter for Burma and resumed high-level links with the regime. It also began providing military assistance to the regime both to tackle Indian secessionists and to try to negate Chinese influence, but this has created another set of tensions. In 2006, India sold Burma two British-made maritime surveillance aircraft, despite UK objections that Burma was subject to an EU arms embargo. Consequently, the UK halted the supply of spare parts to India for these planes. India also offered Burma an assistance package that included helicopters and upgrades to Russian and Chinese planes.

However, China's military relationship with Burma is much deeper. China is Burma's major source of arms, and has been more heavily involved than India in training the Burmese military. But one part of the relationship appears to have been exaggerated. It has long been reported that in 1992 China established listening posts in the Coco Islands, which lie north of India's Andaman and Nicobar Islands, with the intention of monitoring shipping movements in the eastern Indian Ocean. For the past four years, it has been clear that China does not have major strategic assets on the islands.¹² Nonetheless, China's moves to invest in port development in Pakistan, Bangladesh

and Burma is seen as part of a 'string of pearls' strategy aimed at containing India.

In terms of economic links, too, India trails behind China, which is investing heavily in Burma, especially in energy and infrastructure. According to Chinese government statistics, trade between the two countries was around US\$1.46bn in 2005/6,¹³ compared with US\$557.68m between India and Burma,¹⁴ though both figures are likely to undervalue trade. It is also hard to gauge the exact volume of Chinese investment. Much of this does not go through the National Investment Board, so that official figures are likely to be greatly undervalued.

In 2006 China signed a memorandum of understanding with Burma granting access to its offshore natural gas reserves. Although India is keen to use that country as a major source of energy, moves to construct a pipeline from Burma to northeast India, across Bangladesh and West Bengal, have halted because of complex trade demands by Bangladesh. Nonetheless, India is tapping in to Burmese energy resources. In December 2006, in association with a Singaporean company, Silver Wave Energy, Gail India Ltd signed a deal allowing the company to begin drilling for offshore oil.

India has also invested heavily in Burma's infrastructure, and has several large-scale projects at various stages of completion. In 2001 the Indo-Myanmar Friendship Road was opened, connecting northeast India with northern Burma. Currently, India is working jointly with Burma and Bangladesh to develop the Sitwe port and has invested in the \$500m Kaladan project, to link the Kaladan river with northeast India and provide easier access between the two countries.

Both China and India have had something of a free rein in Burma, given the existence of Western sanctions against its military regime, and their investments, coupled with those from countries in Southeast Asia, have nullified the effect of US and EU sanctions. China has used its position on the UN Security Council to protect Burma from the West. In January, China, along with Russia, vetoed a US-backed resolution condemning the junta. Along with its deeper pockets, permanent Security Council membership is another advantage for China over India in dealing with third countries.

China's and India's policies of non-interference in the internal affairs of other countries have been similarly applied in their interaction in Africa, where these policies often seem preferable to the Western model, with its strong emphasis on conditionalities relating to governance or human rights. While India appears to view Africa more as a potential market than India does, both countries have been strongly drawn towards energy supplies – in some countries (e.g.

Sudan) as collaborators and in others (e.g. Angola) as competitors. The provision of assistance, often in infrastructure development, has underpinned attempts to strengthen relations with African countries.¹⁵

Similar trends are apparent in Latin America, another potential source of raw materials and energy supplies. China has pledged FDI worth US\$100bn over the next five years in Latin America, and left-leaning Latin American leaders such as Hugo Chávez appear keen to cultivate a stronger relationship with China to reduce their countries' traditional dependence on the US. India's entry into Latin America has been slower and less dramatic than China's, though the Jindal Group has announced plans to invest \$2.3bn in Bolivia's El Mutun iron ore mine.

The relationship between India and China in other countries varies. While their interests may be similar, they are at times competitors and at times collaborators. In January 2006, India's then minister of petroleum and natural gas, Mani Shankar Aiyar, signed an agreement with Ma Kai, director of China's National Development and Reform Commission, under which India's ONGC Videsh and the China National Petroleum Corporation would jointly bid for promising projects abroad. But in many cases they continue to act as competitors.

A new Great Game?

Longer-term, strategic visions also affect Sino-Indian relations, or at least perceptions of Sino-Indian relations. Many in Delhi believe that China is attempting to encircle India through its relationship with other states in South Asia, and through its increasing pre-eminence in Southeast Asia. For China, perceived US attempts to woo India through, for instance, the civil nuclear deal make India, like Japan, part of a US-led buffer against Chinese expansionism. While Chinese military strategists have factored in the US alliance with Japan, a partnership with India is a significant cause for concern, and some Indian military strategists believe that China's biggest fear is of the US and India 'ganging up' against it.¹⁶

The relationship with the US is complex. While both India and China are concerned about US hegemony, both countries are keen to find favour with the United States. Economic links between the US and China dwarf those with India, but the latter's democratic credentials, coupled with the strength of the Indian caucus in Congress, mean it is currently the stronger favourite in Washington. The US has developed an information-sharing system with India, under which they will jointly monitor the Chinese army's activities in Southwest China. Japan too is seeking to consolidate ties with India; in 2005 it

established a ministerial-level 'Japan-India Strategic Dialogue' framework.

The relationship between China, India and Russia is yet more complex. Russian Prime Minister Yevgeny Primakov recently referred to a 'strategic triangle' among Russia, China, and India. The three countries are militarily interdependent and all three share concerns over US hegemony. Even in India, the most pro-US of the three, concerns about the preferential treatment given to Pakistan give rise to claims of double standards.¹⁷ Both China and Russia insist that increased cooperation between the three countries is not directed at any third party but is for mutually beneficial peace and development. Along with military links, the three countries, which have more than 4,000 km of common borders, share economic, political and cultural ties.

Both China and India are heavily dependent on Russian weapons, and are the markets for around 70% of Russia's total exports. From 1990 to 1996, India's arms purchases from Russia totalled US\$3.5bn; the average annual arms trade approximates \$800m. Russian military supplies to India include Su-30 multifunctional fighter planes (reportedly more advanced than those sold to China), advanced T-90 tanks, frigates, a submarine, the S-300 anti-missile air-defence system, and a heavy aircraft carrier. About 60% of the Indian army's military hardware is Russian-made, while 70% of naval hardware and 80% of air force hardware is Russian-made or of Russian origin.

Since 2000, Russia has delivered weapon systems to China including fighter aircraft, submarines and destroyers, at an average annual cost of around US\$2bn. China has been the largest consumer of Russian military equipment for a number of years. As with India, Russia's arms trade to China is an important factor in the cooperation between the two countries. However, unlike China, Russia allows India to produce higher-specification military hardware under licence.¹⁸

In June 2005, India was invited to join the Shanghai Cooperation Organisation (SCO) as an observer, along with Pakistan and Iran. Beijing said that it 'welcomed' India's membership status in the SCO, which exists to promote regional cooperation and combat terrorism. India has now applied for full membership status. However, China was surprised by India's low-level representation at SCO summits in Almaty and Shanghai in June 2006. India sent Oil and Gas Minister Murli Deora instead of Manmohan Singh, while most of the other participating countries were represented by heads of state. There was speculation within China that India was trying to downplay involvement in the SCO to keep in with the United States, since the vote on the US-India nuclear deal

was approaching in the US Congress. In 2005 China received observer status in the South Asian Association for Regional Cooperation (SAARC). While Bangladesh, the Maldives, Nepal, Pakistan and Sri Lanka have said they would grant China full membership, India has opposed this, backed only by Bhutan.

China's attitude towards India's gaining a permanent seat on the UN Security Council reflects a similar ambivalence. Wen Jiabao, during his 2005 visit to India, initially said that China would be 'pleased to see India as a permanent member of the UN Security Council'. But on his return he announced that although China would not block India's nomination, regions should decide their own candidates and a regional consensus should be built before a nomination was made. Given Pakistani hostility to Indian aspirations, this effectively scuppered Chinese support for India. Furthermore, China reiterated its opposition to Japan's gaining a permanent seat (which it was seeking along with Brazil, Germany and India).

Shared concerns

The relationship between India and China has been dominated, in turn, by religion, by politics and now by economics. In the future, environmental issues may well become the main focus of the relationship.

Water resources in particular are often a contentious issue between them. Both have similar environmental concerns. Both will be hard hit by the effects of global warming, which are already becoming apparent in the Himalayas. Some reports¹⁹ suggest that glaciers on the Tibetan Plateau are receding by 10–15 metres per year. These glaciers feed seven major rivers in India and China, including the Yangtze and the Brahmaputra. Further melting may cause serious seasonal flooding and droughts. The plateau has also become a potential source of additional water for China's north. As a result India has become concerned over China's diversion of rivers on the Tibetan Plateau and has accused it of being slow to share information about the condition of rivers in the run-up to landslides.

In 2000, Arunachal Pradesh was hit by flash floods, which India believed to be the result of China's mismanagement of a dam on the Tsangpo. In 2003, China announced plans for a major dam in Pema Koe, in the Tibet Autonomous Region, near India's northeastern border. New Delhi has expressed concerns over the dam, which would be uncomfortably close to the Indian border, and could potentially make parts of India dependent on China for the stability of its water supply.

Concerns about water are often seen through a military rather than an environmental prism. In August 2004, an artificial lake in Tibet threatened to burst its banks, exposing a valley in the Indian state of Himachal Pradesh to serious flooding. Although China eventually warned India about the blockage, saying that it was caused by rocks from a landslide, Indian commentary focused on the fact that this demonstrated India's vulnerability to environmental warfare.²⁰ This interpretation was reinforced by the delay in China's warning to India, and the fact that it subsequently provided conflicting information about the size of the lake.

In December 2006, India and China announced their plans to send a joint expedition to the Himalayas to the sources of the Sutlej and Brahmaputra rivers to monitor the effects of climate change on glaciers. The findings of the expedition will help both countries to plan for water management in the region. Such measures are vital to build trust over environmental issues between the two countries.

Access to water is also threatened by the rapid rate of industrialization. This, along with reliance on coal and the growing number of cars, has meant that eight of the ten most polluted cities in the world are now located in China. In parts of the country, water polluted from manufacturing waste is unsafe to drink. Severe air and water pollution throughout the country has triggered significant medical problems that the state health system is struggling to address, including rising rates of cancer and respiratory disease.

In India too deforestation, soil erosion, water pollution and land degradation are worsening. As in China, industrialization and urbanization are straining the limited infrastructure and causing serious air pollution problems. Urban air quality in India's main cities, Delhi, Calcutta, Lucknow, Kanpur and Ahmedabad,²¹ rank among the world's worst, India has the highest recorded number of deaths attributed to outdoor and indoor air pollution, including vehicular emissions and untreated industrial smoke.

Both countries are taking steps to tackle these issues. Unlike China, India has long had sufficient environmental legislation, but enforcement has been poor. China has begun to take measures to prevent further pollution and switch to cleaner and renewable sources of energy. These shared concerns may lead to collaboration over new ways of tackling environmental issues.

The future

Clearly, India and China are both attempting to put their disputes to one side, concentrating on improving

mutual confidence while expanding economic interaction. Although long-standing issues such as the border dispute appear irresolvable at present, continued meetings of the long-running working group seem intended to kick the issue into the long grass for now.

But while trade between the two countries works as a confidence-building measure, other economic activities, notably the quest for energy security, are often a source of tension. The more India and China become integrated into the global economy, competition, rather than collaboration, seems likely to become more pre-eminent, particularly given India's belated attempts to bolster its own manufacturing industry. The large populations and heavy reliance on raw materials are likely to increase economic competition in third countries.

This may be beneficial to all sides and to those countries, notably in Africa, in which India and China are investing. But a number of changes are likely to occur on the way. Both countries are already finding that policies of non-interference become less tenable the greater the economic involvement. Western rhetoric about aid is often seen to mask what is perceived as long-standing exploitation by Western firms. However, as Western donors found in the 1950s and 1960s, government-to-government links can prove detrimental in the event of regime change.

Nevertheless, China and India's policies of non-interference are already being diluted. In Zambia and Sudan China has admitted involvement in domestic policy. In the case of Zambia it threatened to withdraw financial aid and involvement if the opposition candidate (who had made anti-Chinese comments) won the elections. China also claims to be involved privately with Sudan over the issue of Darfur. And as Chinese interests in Africa expand, it is becoming increasingly clear within Africa that these interests are just as commercial as those of Western firms. In some senses, China has begun to replicate Western rhetoric about development in Africa, though in negotiations with Western governments it equally stresses its own status as a developing nation.

India is likely to face a different challenge. One of its key foreign policy targets in recent years has been

to gain a permanent seat on the UN Security Council. This has necessitated building relationships with other governments. But as the world's largest democracy, and a growing partner with the US, India's ability in the longer term to balance its commercial interests with its potential role as a powerful force for democracy remains uncertain.

Trading links are the key positive driver in the relationship. Here, India needs to increase its export of higher value-added goods to China, and reduce its reliance on raw material exports. India's manufacturing sector is currently growing strongly, though total output is just one-sixth of China's. As Indian manufacturing expands, India may well increase its use of anti-dumping duties to protect itself from Chinese competition.

Perhaps the biggest fear is of misperception. On the one hand, military links between the two countries are growing as a means of building confidence. But there are widespread concerns in India that, for instance, the new railway to Tibet has a clear military subtext, enabling more rapid troop deployment.²² From India's perspective, Chinese actions can be seen as a means of encirclement, and China's relationship with Bangladesh, Burma and Pakistan as an attempt to hem in India. But from China, the world looks different. US relations with Japan, several countries in Southeast Asia and, more recently, India, can be seen as an attempt to encircle China.

In the short term, Sino-Indian relations are likely to mirror China's relationship with Japan. Close economic ties have failed to erode long-standing political animosities.²³ But in the future environmental issues – particularly relating to water supplies – have the potential to develop into a serious obstacle to greater harmony between the two countries. Concerns over water from Tibet are likely to be exacerbated by the impact of climate change. As economic growth breeds national pride in both countries, domestic hostility in each country towards the other seems more likely to wax than wane. And the risk that economic growth will breed national pride (potentially directed against the other Asian giant) may rather undermine relations.

Endnotes

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