

SOUTH ASIA MONITOR

Number 120

July 01, 2008

India and China: The Road Ahead

The four day visit between the Indian External Affairs Minister and his Chinese counterpart in June 2008 highlighted the cooperative dimension of Sino-Indian relations, built on expanding trade and a relatively peaceful border. But the competitive aspect of India-China relations is alive and well, marked by different views of Asia, Indian concerns about China's eventual security goals in the Indian Ocean, and Chinese suspicions of India-U.S. relations. From the U.S. point of view, both are essential players in shaping a peaceful Asia.

Expanding trade: The most dramatic success story in India-China relations is in the economic area. Both economies are growing fast. By some estimates, while the two countries' share of world population will fall from 37% to 34% by 2040, their share of global GDP, measured by purchasing power parity (PPP), will rise from 16% to 52%. The gap between China's explosive growth and India's has narrowed, but it appears unlikely that India will overtake China's economic size in the next few decades.

Two-way trade reached over \$ 38 billion in 2007. By 2010, India and China are likely to be trading \$60 billion annually, rather than the \$40 billion previously predicted. China is now India's largest trade partner for merchandise trade, although U.S. imports of Indian information technology services bring total trade with the U.S. to \$50 billion. The countries' current trade arrangement is lopsided, however. India runs a \$6.8 billion trade deficit, and its exports are overwhelmingly raw materials while it imports mainly manufactured Chinese goods. By contrast, the United States is India's largest export market.

Energy Giants: India and China are the two fastest growing energy markets in the world. After the U.S., China consumes more oil than any other

nation, a thirst it will need to satisfy by doubling its consumption of foreign oil by 2010. India's energy consumption is expected to grow by between 3.6 and 4.3 percent per year, and to more than double by 2030. This would make India the world's third largest importer of oil before 2025.

Both India and China have invested increasing amounts in foreign energy supplies. Dependence on foreign energy makes both nations vulnerable to changes in world energy markets. Both have focused on diversifying supplies and on lining up energy assets overseas. In principle, they seek cooperative energy relations, and India and China have created partnerships in two or three international energy undertakings, including investments in Colombia and Syria. China has been more successful than India in this regard, and has made more explicit use of its political and economic aid relationships to bolster its energy ambitions. Its relations in Africa are a case in point.

Indian Ocean: In the Indian Ocean, economics and security meet. As both nations import more energy and develop their trade, protecting their interests in the Indian Ocean has become increasingly important. Already, close to 70 percent of India's imported oil comes from the Persian Gulf through the Indian Ocean; China is expected to reach this level by 2015. The Indian Ocean is a key arena for U.S.-Indian cooperation, including periodic joint military exercises. India currently has the strongest Asian naval presence there. While China's major security interests are in the Western Pacific, India is concerned that China is building up facilities and access arrangements in the Indian Ocean, from its investment in a new port on the Pakistani coast at Gwadar in the West to the Cocos Islands in Burma in the East. India is watching this "String of Pearls" warily; China is watching equally carefully for signs that India's expanding military and

relationship with the United States might threaten Chinese shipments through the Indian Ocean.

Border Dilemmas: Though geography and strategy make a military rivalry natural, India and China have been working to establish trust and build cooperation. Their border dispute goes back at least five decades, intensified by the war China won against India in 1962. Both sides have addressed some of each other's concerns on the border. In 2003, the government of India addressed the Tibet issue by acknowledging Tibet as an integral part of Chinese territory, and China recognized Sikkim in 2003 as part of India. New Delhi's June 2008 announcement of a newly operational airbase in Ladakh raised eyebrows in Beijing but did not greatly overshadow Foreign Minister Pranab Mukherjee's visit to China less than a week later.

Despite high-level border talks, complete resolution seems distant. China periodically issues public reminders of its claim to the Indian state of Arunachal Pradesh, the one part of the disputed border that has a substantial population. A public statement to this effect in November 2006, just before Hu Jintao visited New Delhi, raised serious concerns about China's intentions. The borders are generally peaceful, and hence not likely to lead to hostilities, but at this point neither side is prepared to make the political sacrifices involved in a formal settlement.

Military Ties: The cooperative stance remains important, and extends even to the military. In 2007, the Indian and Chinese militaries each sent 100 soldiers to participate in a 9-day joint military exercise in southwest China. They intend to have another joint exercise, this time in India, in 2008. Annual military discussions have also been a recent phenomenon. India also exercises, more often and on a larger scale, with the United States, and with other Asian military forces as well. The exercises with China are an important means for India to show that its security posture in Asia is friendly to all the region's powers.

For each nation, military modernization is a priority. According to the Stockholm International Peace Research Institute (SIPRI), China and India

are among the top importers of conventional arms in the world. In 2007, SIPRI estimated China's military expenditure was estimated to be \$58 billion, an increase of roughly 12 percent from the previous years' \$51 billion. According to the same source, India spent slightly less, placing just tenth in the world with approximately \$24 billion spent on defense. China's army is currently much larger than India's, and Beijing's spending is ensuring that its military continues to grow faster than the Indian military. Beijing is investing in advanced technologies like anti-satellite (ASAT) missiles, lasers, and other space weapons. New Delhi's purchases of sophisticated equipment are focused largely on the Air Force and Navy, designed to assure its continued strong position in the immediate neighborhood and provide the capacity for power projection.

The Asian Neighborhood: Although India and China profess to be cooperating, they often find themselves at cross-purposes on regional issues. In fact, they have different regional goals. India does not want one power to dominate Asia, and is trying to build up a larger Asian presence and role for itself. China, on the other hand, would eventually like to see itself as the undisputed leader in Asia, and prefers to look on Asia as several distinct sub-regions – South Asia, Southeast Asia, North and Northeast Asia – with China itself as a central player in all of them but India playing a significant role only in South Asia. These different ambitions and concepts often play out in incompatible Chinese and Indian goals in regional organizations. In 2005, China became an observer in the South Asian Association for Regional Cooperation (SAARC). India is a dialogue partner of the Association of South East Asian Nations (ASEAN) and a member of the ASEAN Regional Forum (ARF) and, despite China's efforts to keep it out, of the East Asian Summit. India is an observer nation in the Shanghai Cooperative Organization, which groups China, Russia, and several Central Asian countries. The future of India's regional role in Asia will depend not only on India's relations with China, but on how well India and the other Asian countries see their interests aligned.

The Problem of Pakistan: Close Sino-Pakistani relations have been in place for half a century.

Until about 1990, Beijing clearly sought to build up Pakistan to keep India off balance. New Delhi saw Beijing's supply of M-11 missiles, nuclear assistance, and missile-related technology to Pakistan as a strategic threat. In the past decade and a half, China has taken a more neutral position on India-Pakistan issues such as Kashmir, and has begun to take the relationship with India more seriously. China's apparent disapproval of Pakistan's incursion into Kargil, across the Line of Control that separates the Indian and Pakistani-controlled parts of Kashmir, is a case in point. But China's continuing investment in Gwadar port and close relationship with the Pakistan military raises fundamental questions about whether China's strategic direction has changed, or only its tactics.

India and China on the global scene: In global institutions, India seeks to match the role China already has. India wants a permanent seat on the Security Council, and in the meantime is working hard to obtain a non-permanent seat that will open up in 2011. China does not want to see India's position built up in this way, but will probably try to avoid overtly blocking it. Both countries are regular guests at the meetings of the G-8; both would probably like to be full members. They will both be increasingly important players in global discussions on the environment and global health. Both will continue to be difficult for the United States to deal with on multilateral trade issues.

An Asymmetrical Relationship: For India, China is both a friendly neighbor with a mutually profitable economic relationship and the country's major strategic challenge. If China's economic growth stumbles while India's continues to surge, China's strategic outlook may change, but for now, its rivalry with India is not at the strategic level. China is confident of its ability to maintain a strategic edge over India, but is very wary of India's growing relationship with the United States. India remains a relatively small trade partner for China, accounting for only 2 percent of China's trade.

The view from Washington: From the U.S. perspective, the big prize is the peace and security of Asia. China has always been central to this, along with Washington's traditional ally Japan. In the past decade and a half, India has become a key

element as well, which explains the development of security ties with India and the U.S. assertion, in a White House briefing in 2005, that it wishes to help India become a major power. A harmonious India-China relationship is welcome, because it will help secure peace and economic growth in the region, and to embed China in a peaceful region and a network of regional organizations. There is a strong consensus in the United States in favor of engagement rather than confrontation with all the participants in the emerging de facto balance of power.

This U.S. vision of the Asian future is probably more congenial to India than to China. It assumes a major U.S. role in Asia into the indefinite future. American policy does not see India as a counterweight to China, but as a key player, with the United States and others, in a complex network of Asian power and commercial relationships. Similar U.S. and Indian security interests in Asia will be one of the foundations of the future U.S. partnership with India. U.S. policies in Asia will need to reflect the nuances in the India-China relationship and how they play into U.S. interests in the region.

—Elizabeth G. M. Parker & Teresita C. Schaffer

South Asia Monitor is published by the Center for Strategic and International Studies (CSIS), a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions; accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the author(s).

© 2008 by the Center for Strategic and International Studies. All rights reserved.