

India's Relationship with China and its Implication for the United States

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Chairman Shea, Commissioner Tobin and Members of the Commission, thank you very much for your invitation to testify on India's relationship with China. My testimony will focus on three issues: (i) the characteristics of and key issues in India's relationship with China; (ii) the Narendra Modi government's approach toward China; and (iii) the implications for the United States.

The world's two largest countries by population, China and India also have two of the largest economies and militaries in the world, are among the fastest growing global energy consumers, and have economies that are expected to grow at over 6 percent this year. There's a reason the two are called Asian giants—and whether or not they get along, and how they do, has implications beyond their region, including for the U.S. China-India relations have both elements of cooperation and competition. Add to that the potential for conflict that hovers over the bilateral relationship, as well as a constant concern (and uncertainty) in India about Chinese intentions, and the complexity of the relationship is evident.

Cooperation

Both Delhi and Beijing have stated that they would like a stable, cooperative relationship. It's not difficult to see why. It could stabilize one side of both countries' peripheries, helping both sets of policymakers keep their focus on domestic socio-economic objectives. In certain instances, they also share an interest in regional stability—in Afghanistan, for example, especially with the American drawdown of forces—even if not a shared approach. Domestic turmoil in Pakistan might be a common concern in the future as well. In addition, the situation in the Middle East has implications for both countries, especially given their energy dependence on that region. Existing and potential economic ties have been another stated reason to achieve stability in the relationship, with the reasoning that better politics makes for better economics. The prospect of cooperation in the multilateral realm has been another motivation.

In addition, for Delhi, a stable relationship with China opens up the possibility that Beijing might use its leverage with the Pakistani civilian and military leadership to shape Pakistan's behavior in a way that might benefit India. At times, it also needs China's support in the multilateral/global arena—for example, it'll need China's acquiescence for APEC membership, which Delhi is seeking. For Beijing, there's a desire to limit India's burgeoning relationships with the United States and Japan, as well as with other countries in what Beijing considers its backyard (Southeast Asia). Moreover, as China is preoccupied with eastern maritime disputes and the North Korean situation, stable relations on its southern and southwestern flank could also help the Chinese leadership.

¹ The views expressed in this testimony are solely those of the author. The Brookings Institution does not take institutional positions.

For these reasons and others, over the last decade and a half, bilateral engagement has increased. High-level visits are taking place at a greater frequency. Between March 2013 and May 2015, for example, Chinese premier Li Keqiang and president Xi Jinping separately visited India, and successive Indian prime ministers Manmohan Singh and Narendra Modi traveled to China. Moreover, in these past few years, Chinese and Indian leaders have met multiple times on the sidelines of various multilateral summits. The two countries now have various bilateral dialogues in place, including on Afghanistan and counter-terrorism, as well as a defense and security dialogue. Their security forces have also undertaken joint exercises. In addition, the Chinese and Indian governments have cooperated on the multilateral front, including in climate change negotiations and in demanding a greater voice and vote for emerging economies in certain global governance fora. Together, they are also founding members of the BRICS grouping and China has endorsed Indian membership of the Shanghai Cooperation Organisation.

Economic ties have also grown from a decade and a half ago. An Indian ambassador to China indeed called it “the game changer” in the relationship.² In 2000-01, India’s trade in goods with China stood at just over \$2 billion; in 2014-15, it was \$72 billion.³ If one considers just trade in goods, China is India’s largest trading partner (if services are included, as they probably should be given the role services play in India’s trade, the U.S. gets that distinction).

The investment relationship has also grown, albeit to a much lesser degree. By one estimate, in 2012 India was the main target for China’s project exports.⁴ Chinese cumulative investment till October 2012 was \$657million; a more than six-fold increase from where it stood four years before (\$91.1million). Indian cumulative investment in China stood at \$470 million till October 2012.⁵ During President Xi’s visit to India in September 2014, the Chinese government stated its commitment to invest \$20 billion over 5 years in projects in India—this fell short of the \$100 billion-commitment that Chinese officials were indicating before the visit, but was a significant jump when compared to existing investment.

To facilitate this economic engagement, Delhi and Beijing have a Strategic Economic Dialogue, a Joint Economic Group and a Financial Dialogue in place. They are planning a new one between India’s Department of Economic Affairs and China’s Development Research Centre of the State Council. Both sides have identified particular areas of cooperation, including the establishment of industrial parks in India, and cooperation in the clean energy, railways and smart cities sectors.

Beyond bilaterally, the governments have cooperated in the multilateral sphere. They together established the BRICS New Development Bank and India is a founding member of the China-promoted Asian Infrastructure Investment Bank (AIIB). Though in recent years India and China have not always been on the same page on global trade negotiations, they have shared concerns on issues such as global policy with regard to food security, international financial governance, and standards. Like China, India is not a member of the Trans-Pacific Partnership (TPP), but both are members of the Regional Comprehensive Economic Partnership that is being negotiated.

² Amb. S. Jaishankar, “India and China: Fifty Years After,” Speech by India’s Ambassador to China at the Institute of South Asian Studies, National University of Singapore, November 23, 2012 (<http://goo.gl/GL80BK>).

³ Ministry of Commerce and Industry, India, “Export Import Data Bank” (<http://www.commerce.nic.in/eidb/>).

⁴ Jaishankar, “India and China: Fifty Years After.”

⁵ Embassy of India, Beijing, “India-China Bilateral Relations: Trade and Commercial Relations” (<http://goo.gl/U9XioC>).

Corporate connections between the two countries have also been established over the last decade or so, with some of their largest companies now operating in the other country. India's two largest chambers of commerce also have offices in China. In India, the interest in doing business with China is evident beyond the private sector and the central government—along with visits by a number of Indian CEOs, China has also seen chief ministers of a number of Indian states, including Andhra Pradesh, Bihar, Karnataka and Madhya Pradesh travel there. Modi, when he was chief minister of the state of Gujarat, also went to China. The motivation: to attract investment to their states and, in some cases, markets for companies from their states.

Competition, Concern and (Potentially) Conflict

The cooperative side of the China-India relationship has expanded over the last two decades. Yet, there continue to be elements of serious strain in the relationship. Their long-standing boundary dispute remains unresolved. While there have not been shots fired across the border for years, the dispute has not remained entirely dormant. It flared twice between spring 2013 and the fall of 2014, with Chinese and Indian troops facing off at the border in what is known as the western sector. Policymakers communicated through these crises and resolved them diplomatically using the border management mechanisms in place. However, the incidents reinforced the mistrust that many in India feel toward China and its intentions. They were also a reminder that despite increased engagement, bilateral differences—especially vis-à-vis the border—have the potential to stall, if not reverse, progress toward more stable relations.

There are other differences beyond the boundary dispute. Tibet remains a source of tension between the two countries though Delhi and Beijing have found a way to manage their differences on the issue in recent years. However, the likely Tibetan leadership transition in the future holds the potential to create strain. In addition, there has been concern about Chinese dam construction on its side of the Brahmaputra River and the limited information sharing about it. Moreover, China's relationship with Pakistan has been a major source of concern in India. Indian critics particularly accuse Beijing of strengthening Pakistan's conventional, missile and nuclear capabilities. Additionally, there is a sense that China has blocked Indian efforts to get Pakistan-based terrorists targeting Indian facilities and citizens placed on the United Nations-designated terrorist list. Indian policymakers and analysts also disapprove of China's assistance to Pakistan in developing projects and infrastructure in areas that are disputed between India and Pakistan.

China's growing political and economic ties with India's neighbors are also a subject of concern. Delhi watches warily increasing Chinese political and economic engagement with and in countries like Afghanistan, Bangladesh, the Maldives, Myanmar, Nepal and Sri Lanka. There is concern that this involvement means increased influence, but also that it might include a military dimension in the future. Beijing's increasing interest in operating in the Indian Ocean has also not gone unnoticed. While China emphasizes that these activities have benign goals—economic development, security for its ships, etc.—many in India remain unconvinced; others are taking a wait-and-see attitude.

Many Indian policymakers have been skeptical about Chinese-driven or -led regional connectivity projects. While some Indian analysts have highlighted the potential benefits of China's One Belt One Road (OBOR), Delhi has made clear that it sees this as a national initiative and disapproves of Beijing's "unilateralist" approach. Similarly, but implicitly, India has expressed concern about Chinese actions in the South China Sea.

Overall, there is a sense that while China might call for a more democratic world order, in the Indo-Asia-Pacific region it seeks an order dominated by Beijing.

Beyond the region, there are concerns about competition with China for markets, influence and resources (including energy and other minerals) across the globe. Concern has extended to cyberspace as well, with reports of cyber-attacks on Indian government, corporate and military networks allegedly emanating from China.

In addition, there is an overall sense that China does not respect India and/or that it will seek to prevent India's rise. As evidence, critics point to China's relationship with Pakistan, which is seen as driven by a desire to keep India tied up in South Asia. They also highlight China's reluctance to endorse explicitly India's demand for a permanent seat on the U.N. Security Council and its objections to India being given membership in the Nuclear Suppliers Group. Relatedly is a sense in India that China doesn't respect the country's sensitivities—evident in the repeated references in Indian statements about the necessity for China to be sensitive to Indian concerns and aspirations.

There has been and continues to be hope that China-India economic engagement—and the increasing interaction that it brings with it—will alleviate some of these problems and indeed be a driver of positive, stable Sino-Indian ties. However, these economic ties have themselves been strained. Over the last few years, trade growth has stalled. After hitting a peak of \$73 billion in 2011-2012, trade fell to \$66 billion the next two years. It recovered to \$72 billion in 2014-2015, but fell well short of the target of \$100 billion set by Chinese Premier Wen Jiabao and Indian Prime Minister Manmohan Singh in 2010. Moreover, the trade imbalance has been a major concern for Indian policymakers and analysts. In 2014-15, India had a \$48 billion trade deficit with China, which represented more than a third of its total trade deficit. Some critics in India further argue that it is getting the short end of the stick when it comes to what is being traded. They assert that while India has been exporting its raw materials to China, Beijing is “dumping” finished goods into India, which is threatening Indian small-scale industry. In addition, bilateral investment activity remains limited compared to the investment relationships that both China and India have with other countries. Investment targets have not been met. Furthermore, both Chinese and Indian businesses have had complaints about operating in the other country—often ones that third-country companies have about operating in these two countries, for example, market access.

An overarching problem, which tends to exacerbate all these Indian concerns is the lack of trust in China and its intentions. This is especially evident among the public. According to a Pew poll in 2014, only 31 percent of the Indians surveyed had a favorable opinion of China (compare that to the 43 percent and 55 percent favorability ratings for Japan and the U.S. respectively), while 39 percent had an unfavorable opinion. 72 percent expressed concern that territorial disputes between China and its neighbors could lead to military conflict. Interestingly, only 23 percent of those surveyed said they thought the growing Chinese economy was a good thing for India—double that number said it was a “bad thing.” In a Lowy Institute poll in 2013, China ranked only second to Pakistan in terms of countries that people considered threatening to India, with 60 percent indicating China would be a major threat over the next decade (an additional 22 percent identified it as a minor threat). 73 percent of those surveyed identified “war with China” as a big

threat over the next ten years. Almost three-quarters believed that China wants to dominate Asia. 58 percent felt that China's growth had not been good for India.⁶

Overcoming this mistrust continues to be a major obstacle. The legacy of history remains a problem. Every time there is a border incident it reinforces the narrative that has prevailed in many quarters in India since the 1962 China-India war: that China only understands strength; that while Beijing's leaders say China and India "must shake hands," they cannot be trusted—that one hand held out might just be a precursor to the other stabbing one in the back. Issues like the trade imbalance or whether or not Chinese companies should be allowed to invest in strategic areas or sectors are also seen from this prism. Media coverage about China and the relationship contributes to the skeptical view of China. It can get quite heated, with a tendency to focus on the negative. This problem is made worse by limited connectivity and communications, and little knowledge about the other country—even though these have improved. And all these problems are exacerbated by the lack of transparency when it comes to Chinese decision-making. This has led to uncertainty about Chinese behavior and motivations—an uncertainty that exists even among policymakers.

The Modi Government and China

Indian governments have pursued a blended approach of engaging China, competing with it, deterring it, and preparing in case Beijing's behavior turns hostile. The exact blend has depended on perceptions of China and its behavior, India's strength and its options in terms of partners and instruments, as well as the worldviews of the senior policymakers involved. Prime Minister Narendra Modi, too, has followed this blended approach, with perhaps a greater intensity—both more engagement, but also more of each of the other elements. His government has simultaneously sought to enhance cooperation, reduce asymmetries, manage competition, and deter conflict.

Prime Minister Modi, no stranger to China, having visited multiple times as Gujarat chief minister—has repeatedly stated that he wants to do business with Beijing. While his government sees China as a strategic challenge, it also sees the economic opportunity. Chinese firms' and financiers' ability to build infrastructure and finance projects is particularly attractive to Prime Minister Modi—especially given the limited number of countries that can bring these instruments to the table and given his government's emphasis on enhancing domestic infrastructure and manufacturing. His government also sees increased bilateral better-balanced economic ties as giving China an incentive to seek broader stability in the relationship. Senior policymakers see Beijing's desire to do business with India as potentially providing them leverage, though they realize that this works both ways.

The first leader-level bilateral summit after Prime Minister Modi took office took place when President Xi visited India for the first time in September 2014. During that trip, the prime minister departed from protocol, welcoming the president at his hometown in Ahmedabad. The two countries signed a number of agreements, including on cooperation in the railways sector and on smart cities, as well as an understanding about the establishment of special economic zones in the Indian states of Gujarat and Maharashtra. However, the potentially conflictual side of the relationship was also evident during that visit, with a border incident coloring the atmosphere, dominating

⁶ Pew Research Center, "Report: Global Public Opinion About the United States, China and the International Balance of Power," July 14, 2014 (<http://goo.gl/GNtCkC>); Australia India Institute and Lowy Institute for International Policy, "India Poll 2013," May 20, 2013 (<http://goo.gl/LElIx5>).

Indian news coverage, and perhaps changing the tone of the ensuing statements somewhat.

The cooperative and potentially conflictual aspects of the relationship were also seen in the trip that Prime Minister Modi took to China in May 2015. While there, he expressed his hope to see increased Chinese investment in infrastructure and manufacturing in India. The Chinese side joined in acknowledging that bilateral trade was “skewed” and likely unsustainable if it remained so. However, the Indian prime minister was also more candid in his remarks about Indian concerns than is normal for Indian leaders during China-India summits. While senior Indian policymakers often downplay bilateral differences during visits and focus more on cooperative elements, in two speeches and in the joint statement released during the trip, Prime Minister Modi mentioned them repeatedly. He talked about the relationship being “complex,” as well as about issues that “trouble smooth development of our relations” and held back the relationship. He urged China to think strategically (and long-term) and “reconsider its approach” on various issues.⁷

Even before that point, Prime Minister Modi and other government officials hadn’t hesitated to be vocal about India’s sensitivities, acknowledge the competitive element in the relationship, or express concern about Chinese behavior in the region. The Modi government, for example, has repeatedly asserted that Arunachal Pradesh is an Indian state (China claims what it calls South Tibet). The prime minister appointed a deputy home minister from Arunachal Pradesh and he and a number of other officials have traveled to the state. Indeed, in the weeks before Prime Minister Modi’s China visit, the Indian defense minister traveled to the state, where he also went to a 1962 war memorial; the deputy defense minister soon followed as well.

The government has also focused on building up internal strength and external partnerships. On the first, beyond economic growth and better internal connectivity, there is a stated desire to modernize Indian military capabilities, increased budget allocations for border roads development and plans to continue (and, ideally, speed up) upgrading border infrastructure. There has also been an emphasis on better integrating and developing India’s northeast.

On the partnership front, there have been two elements of the Modi government’s approach. One has involved India’s neighborhood; the other China’s. Prime Minister Modi has made the Indian neighborhood a priority, both in terms of senior policymakers’ travel, willingness to make concessions, and attempts to try to get deals done (with an announced intention of delivering on them more effectively). The second has been high-level and expanded engagement with many of the countries in China’s periphery, including Australia, Japan, Mongolia, South Korea, the United States, and Vietnam. The government has made it clear that it will not let China have veto power or even serve as a brake on its relations with them.

The Modi government has also gone further in publicly expressing the kind of Asia-Pacific that it would like to see. While the previous government had not expressed its view on the South China Sea dispute in bilateral documents, the Modi government has

⁷ Quoted in Tanvi Madan, “Modi’s trip to China: 6 quick takeaways,” Brookings Blog, May 15, 2015 (<http://brook.gs/1p26qz4>)

done so with Japan, Vietnam and the United States.⁸ It has found ways to indicate that it does not share what some have outlined as President Xi's vision of Asia, with China the dominant country and with the United States playing a minimal role. Policymakers have repeatedly stated that they would like to see a continued and effective U.S. role in the Asia-Pacific, as well as the Indian Ocean, unusually joining the United States to sign a Joint Strategic Vision on the Asia Pacific and Indian Ocean Region.⁹ Prime Minister Modi also seemed to respond to what was seen as President Xi's "Asia for Asians" suggestion,¹⁰ noting, "When I look towards the East, I see the western shores of the United States. That tells us that we belong to the same vast region."¹¹ With Japan, India outlined the kind of Asia it would like to see, noting the responsibility that the two countries share to shape "the character of this region."¹² India, Japan and the United States have also upgraded their trilateral to the ministerial level, and India and the U.S. have made their bilateral annual maritime exercise (Malabar) into a trilateral one including Japan.

Implications for the United States

India's relationship with China has implications for its bilateral relationship with the U.S., but also for U.S. policy in the broader region.

First, uncertainty and concern about Chinese behavior is partly what is driving the India-U.S. partnership. New Delhi's China strategy involves strengthening India both security-wise and economically (internal balancing) and building a range of partnerships (external balancing)—and it envisions a key role for the U.S. in both. Some Indian policymakers highlight another benefit of the U.S. relationship: Beijing takes Delhi more seriously because Washington does. On the U.S. side, too, strategic interest, especially in the context of the rise of China, has been one of at least three key imperatives for a more robust relationship with India (the others being the economic and the values imperative).

Second, India shares with the U.S. an interest in managing China's rise. Neither Delhi nor Washington would like to see what some have outlined as President Xi's vision of Asia, with a dominant China and the U.S. playing a minimal role. India and the U.S. recognize that China will play a crucial role in Asia—it is the nature of that role that concerns both countries. This has led the two to discuss and work together in what U.S. Defense Department officials now call the Indo-Asia-Pacific. Both countries have also articulated the role they see for the other in the region. The Obama administration has repeatedly stated that it sees India as part of its "rebalance" strategy. The Modi government, in turn, has made the region a foreign policy priority through its Act East strategy. The two governments see these approaches as complementary. In a *Wall Street Journal* op-ed, the prime minister stated that the India-U.S. partnership "will be of great value in advancing peace, security and stability in the Asia and Pacific regions..." and, in September 2014, President Obama and he "reaffirm[ed] their shared interest in preserving regional peace and stability, which are critical to the Asia Pacific region's continued prosperity."¹³

⁸ India-Vietnam Joint Communique, September 15, 2014 (<http://goo.gl/M8K55E>), U.S.-India Joint Statement, September 30, 2014 (<http://go.wh.gov/A4mmdf>), India-Japan Joint Statement, December 12, 2015 (<http://goo.gl/NO6B71>).

⁹ U.S.-India Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region, January 25, 2015 (<http://go.wh.gov/eJYHdJ>).

¹⁰ "China's Xi Calls for Asia Security Framework at Summit," Bloomberg News, May 21, 2014 (<http://bloom.bg/1VxXx9Z>).

¹¹ "Text of Remarks by Prime Minister at the India-U.S. Business Summit," January 26, 2015 (<http://goo.gl/yIC1Dz>).

¹² Tokyo Declaration, September 1, 2014 (<http://goo.gl/MFL1nH>).

¹³ Narendra Modi, "An Invitation to 'Make in India'," Wall Street Journal, September 25, 2014 (<http://on.wsj.com/1rn9ToO>).

Third, India's concern about China's intentions, as well as its desire to diversify its economic and strategic options has led it to seek closer relationships with U.S. allies in the region like Australia, Japan and South Korea. The U.S. should continue to support the development of India's relationships with its allies. But while nudging and, to some extent participating in, the development of these ties, Washington should let them take shape organically. Relationships driven by—and seen as driven by—Delhi and Tokyo or Delhi and Canberra will be far more sustainable over the long term rather than partnerships perceived as driven by the U.S. A networked set of relationships will also be less burdensome for Washington in many ways than the traditional hub-and-spoke model of relationships between U.S. allies in the region.

Fourth, under the rubric of its Act East strategy, India is building relationships and connectivity with Southeast Asian countries. Delhi has to demonstrate that it can deliver and deepen both strategic and economic cooperation with the region. It will also need to move beyond its traditional aversion to all external powers' activity in South Asia and consider working with the U.S. and others to shape the strategic and economic options available to India's neighbors. Indeed, perhaps realizing that it cannot deliver alone since it does not have the capacity and resources that Beijing can bring to bear, it is already exploring this approach. The India-Japan-U.S. trilateral mechanism is being used to discuss what the three countries can do together to enhance regional connectivity (implied is that their approach will be more consultative than the Chinese approach with OBOR). India has said it will complete existing projects and announced new initiatives. Japan committed last year to providing \$110 billion worth of funding (via aid and loans) over five years for "innovative" and "high-quality" infrastructure projects in Asia. Public project financing is not a tool available to the U.S., but Washington too, can make funds available for activities in the broader region through the Export Import Bank and the Overseas Private Investment Corporation.

Fifth, India has become more vocal about its concern about challenges to the rules-based international order in the Asia-Pacific. Indian officials routinely stress the importance of freedom of navigation and peaceful resolution of disputes. They also point to India's acceptance of international arbitration (and its verdict) for an India-Bangladesh maritime dispute as an example model for other large countries. U.S. officials, in turn, have also used this example to contrast this—implicitly or explicitly—with China's approach.

Sixth, uncertainty about the other's China policy—and the other's willingness and capacity to play a role in the Asia-Pacific—can be a source of question and concern in the India-U.S. relationship. Indian policymakers worry both about a China-U.S. condominium (or G-2) and a China-U.S. crisis or conflict. There is concern about the reliability of the U.S., with the sense that the U.S. will end up choosing China because of the more interdependent Sino-American economic relationship and/or leave India in the lurch. (In the near term, there is some concern in Delhi about the U.S. choosing to cooperate with China and Pakistan on Afghanistan in a way that potentially could adversely affect India's interests.)

Seventh, partly because of these reliability concerns, India is likely to maintain other partnerships in its attempt to balance China—including one with Russia—that Washington might not like.

Finally, it is crucial to keep in mind that, like the U.S., India will continue to engage with Beijing; this can indeed benefit all three countries and demonstrate the advantages of cooperation. Moreover, when it comes to China, India and the U.S. must have realistic expectations about the other. And, while a strengthening U.S.-India relationship will, in and of itself, shape China's perception and options, it is important for policymakers and analysts in both countries to keep in mind that an India-U.S. strategic partnership solely based on China is neither desirable nor sustainable.