

# Time to Consolidate China-India Relations

by Ramtanu Maitra

The ease with which the newly-elected coalition government in New Delhi has begun to interact with Beijing, makes it evident that Sino-India bilateral relations have reached stability, and are quite capable of absorbing minor shocks such as change of leadership in either country. This is a very positive sign and an indication that these two countries, contributing almost one-third of world's population, are fully capable of moving forward jointly to work out an economic and financial system which would make them stronger internally, and help enable smaller and weaker Asian countries to find their feet.

Between China and India, the most visible cooperation is taking place in bilateral trade and in joint economic cooperation. Both areas show promise, but are lagging far behind the actual potential. Spurred by an over 30% jump in India's trade with China, combined bilateral exports and imports are expected to touch the \$10 billion mark in Fiscal Year 2004-05.

## Fast Trade Growth

"Our bilateral trade has been growing at an annual rate of 30%, and now the neighbor on the north accounts for 4% of India's foreign trade," said Governor Mohammad Fazal of the India state of Maharashtra, after inaugurating the first China-Guangdong Products Exhibition in Mumbai (Bombay) on May 20. There is a good scope for both the countries to increase cooperation in various industrial sectors. For instance, in the IT sector, India's software exports to the world have reached \$10 billion, while China is the leader in computer hardware, with total turnover of \$25 billion in 2002, the Governor said.

Tata Consultancy Services (TCS), one of the world's largest software and services consulting organizations, and India's first global billion-dollar IT company, completed its first two years in China last June. TCS established itself in China in 2002 as part of a strategic plan to bolster its presence in the Asia Pacific region. Today, it has offices in Shanghai and Beijing as well as a software development center in Hangzhou. A number of Chinese companies have set up shop in Bangalore, India's one major software development center. Chinese business delegations from Shenzhen and Yunnan are

visiting Kolkata, a major port-city in India's east, to set up collaboration. Kolkata, much closer to southeastern China's growth centers, has begun to look more attractive to the Chinese, since the city is full of skilled professionals who will work for low wages.

Beyond the private companies of each country taking advantage of each other's strengths, at the governmental level concrete policy cooperation has also become visible. The Chairman and Managing Director of the Export-Import Bank of India, T.C. Venkat Subramanian, announced last May that "for the first time, the Exim Banks of India and China have had an initial exchange of views on exchange of reciprocal lines of credit to finance project exports in each other's country."

China had extended a credit line of \$100 million last year to finance export of Chinese capital goods to India. Following this, the Exim Bank of India was designated as the nodal agency in India to discuss the matter further. "The Exim Bank of India, with the approval of the Government of India, has also proposed a reciprocal credit line," Subramanian said. Also last May, India and China formally launched talks to study the feasibility of signing a bilateral Free Trade Agreement (FTA) as well as a Comprehensive Economic Cooperation Agreement (CECA) to cement their booming commercial ties, official sources said in Beijing. Both sides expressed confidence that they would work together in order to be able to submit to the two governments economic and trade cooperation proposals by December 2004.

## Growing Internal Disparities

Both nations, harboring a massive number of poor, have come to realize the problems that the sheer growth-oriented economy imposes on the socio-economic system. It is necessary to address, at an early stage of agro-industrial development, the issue of poverty eradication, and to bear in mind that agriculture, food security, and economic development are inextricably linked to each other.

India and China are agro-industrial nations, but the majority of their workforces are involved in primary agriculture. To reduce the agricultural workers and bring them into industrial and skill-based service sectors requires an all-around developmental planning, based in both countries. Both have to get their heads together to work out a program which would assure such development. As of now, growth, and the trickle-down effect of the growth, are all that China and India have emphasized.

Only recently, some movements have been noticed in this crucial area. India's new premier, Manmohan Singh, on June 29 proposed to the leaders of India's village-centered administrative instrument, the Panchayati Raj, the creation of rural business hubs on the lines of the Chinese model, revamping rural development programs to make agriculture an engine of growth.

"We must examine our rural development programs afresh," Singh told a Chief Ministers' conference on the Panchayat Raj in New Delhi. It is not clear exactly what the Indian prime minister has in mind, but it is nonetheless refreshing to note the Indian interest to interact with China to resolve a crucial problem.

In return, China has said it will enhance consultations with India on the key issue of agriculture at the World Trade Organization talks. Agriculture subsidy is a key sticking point at the WTO talks; the United States is putting pressure on China to support its stand of setting a definite timetable for eliminating agricultural export subsidies. "China wants to enhance communication with India and other sides within the framework of the WTO," Commerce Minister Bo Xilai had told the Indian Ambassador to Beijing in May. It is evident that both India and China would do well to expedite their collaboration in the economic and financial areas.

One of the reasons is the increasing likelihood of pressures to be exerted by Washington on both countries in the coming days. Speaking before a U.S. Senate panel on March 8, U.S. Trade Representative Robert Zoellick pointed out that America is devoting more enforcement resources to pressure China and India into rescinding their "discriminatory" technology trade policies.

India is under increasing American criticism for benefitting from offshoring of U.S. service industry jobs, while returning little in trade incentives to America. Democrats hope to make offshoring a Presidential election-year issue. Zoellick said China's VAT policy is a violation of WTO rules prohibiting a member country from treating domestic producers and products more favorably than imported products.

Sen. Max Baucus (D-Mont.), at the same Senate hearing, pointed to India. "We all know India is benefitting enormously from the offshoring of service-sector jobs from the United States," Baucus said. "But the United States is not getting anything in return. Why? Because India has such a closed market, and India is certainly one of the leading countries holding back greater market access in the WTO."

## Political Interaction

India-China relations in the political arena are developing, albeit slowly. On May 31, China took a significant step by recognizing Sikkim as part of India, by not showing that northeastern state as an independent country in the just-released Annual Yearbook of China's Foreign Ministry. This is a development of great import, since China had continued to identify Sikkim as an "independent mountain kingdom," despite the fact that it had become a part of the Republic of India in 1975.

At the celebrations on June 27 in New Delhi of 50 years of "Panchsheel"—the five principles of co-existence which are cornerstones of China's foreign policy—Indian External Affairs Minister K. Natwar Singh, who was recently in China,

made the point that "the relevance of Panchsheel is timeless. It is rooted in the cultural traditions of the Indian and Chinese civilizations, two of the world's most ancient."

India and China, the joint enunciators of Panchsheel 50 years ago, have asserted once again that the five principles guiding international relations are "timeless," and could provide a new paradigm of global interaction in the post-Cold War era. Equally important is the June 29 statement by the Chinese Assistant Foreign Minister Shen Guofang. While upbeat on finding a mutually acceptable solution to the Sino-Indian border issue, Shen said that bilateral ties in other areas will not be impeded by the delay in resolving the contentious territorial dispute. "Even if our border issues are not completely settled, we are still enjoying development in our bilateral relations," Shen said in Beijing during a meeting with visiting Indian journalists.

During the same meeting, Shen Guofeng made clear that differences between India and China exist in some very important areas, such as nuclear weapons development. He said China was not in favor of welcoming India and Pakistan into the five-member, exclusive nuclear powers club, and hoped the international community would stick to principles of the Nuclear Non-Proliferation Treaty, as well as the spirit of UN Security Council resolution 1172, passed soon after the South Asian nuclear tests of May 1998. "In our region, we have seen many wars and conflicts, which have been either due to historical reasons or mutual non-confidence. So we believe that peace and development should be the main principles and policies for the countries in this region," Shen said in justification of his argument.

On the other hand, Beijing gave a boost to India's quest for a permanent seat in the UN Security Council, saying for the first time on June 26 that it supports a "greater role" for New Delhi in the international arena, including the United Nations. "The Chinese government values India's influence and role in international and regional affairs and is willing to see a greater Indian role in the international arena, the United Nations included," Tang Jiaxuan, who oversees China's foreign policy as a senior Cabinet minister, told the India news agency PTI in an interview.

## Military Questions, and U.S. Power

However, the area where India-China relations have not developed significantly is in the area of security. The basis of bilateral relationship established by these two states was also founded in the historical context. The notion of military power as an instrument of internal and external policy has formed a substantial part of the Chinese policy framework. This was not an entirely new element in Chinese political management. However, China's military has remained mostly in charge of protecting its geographical boundary. Similar is the background of the Indian military in recent years.

But the present world situation, and the interdependency between the two countries for the sake of maintaining the developmental process on a day-to-day basis, requires active participation in providing security beyond one's own borders.

U.S. Secretary of Defense Donald Rumsfeld, addressing the Shangri-La Dialogue—the third Asian Security Conference in Singapore on June 17—made clear that Washington would not only retain its “forward presence” in the Asia-Pacific region, but would also seek to update its military-strategic balance. The United States has made no secret of its intent to form a regional military cooperation under its tutelage to police the Straits of Malacca, a sea-lane that facilitates enormous oil traffic to all the Southeast and East Asian nations. The United States wants to protect the oil cargo from terrorist attacks. It is interesting to note that it was neither China nor India, but rather the United States, that dominated the security talks about the Asia-Pacific region at Singapore.

It was soon noted that Rumsfeld was not indulging in idle rhetoric. It has already been announced that the U.S. Navy's first exercise of its new operational construct, the Fleet Response Plan (FRP), will take place in the Pacific, and it will be a huge one. FRP is about new ways of operating, training, manning, and maintaining the fleet that results in increased force readiness, and the ability to provide significant combat power to the American President in a national emergency or crisis. For the exercise, four aircraft carriers from the Atlantic squadron, and three from the Pacific squadron will be deployed from the 12 total aircraft carriers the U.S. military has. The exercise will last for three months from June 5 until August, with over 50,000 soldiers taking part. In the East Pacific area, all seven aircraft carriers will gather to perform a joint drill from mid-July to August, a senior U.S. Navy officer said.

There is no doubt that the U.S. Navy's exercise in the East Pacific is to establish through show of force “who is the boss.” This show of muscle was considered necessary by the “war-hawks” in Washington because some have become aware of the growing military capabilities of both China and India. For instance, James F. Hoge, editor of the Council on Foreign Relations' *Foreign Affairs* magazine, wrote recently that “the transfer of power from West to East is gathering pace and will dramatically change the context for dealing with international challenges—as well as the challenges themselves.

“Many in the West are already aware of Asia's growing strength. This awareness has not yet been translated into preparedness. And therein lies a danger: that Western countries will repeat their past mistakes,” Hoge said. Singling out India and China, he added, “Like Japan and Germany in the early 20th Century, these rising powers are nationalistic and seek redress of past grievances. Asia's growing economic power is translating into greater political and military power.”