

CHINA BALANCE SHEET

INDIA

The direction that China and U.S.-China relations take will define the world's future. For the United States, a rising China increasingly affects American prosperity and security, calling for some clear-eyed thinking and tough economic, political, and security choices. As the twenty-first century unfurls, the stakes have never been higher for getting U.S. policy toward China right. By untangling the complex, sometimes contradictory, strands of this vast and dynamic country, *China: The Balance Sheet* lays the foundation for informed and effective U.S. policy toward China, the world's emerging superpower.

BACKGROUND

- China-Indian relations have a long history of trade and cultural exchange, dating back at least to the early first millennium A.D., when contact along the emerging Silk Road led to an exchange of items and ideas between South Asia and China.
- Following the independence of India in 1947 and the establishment of the People's Republic of China in 1949, both states emerged as leaders in the developing world as “non-aligned” signatories of the Five Principles of Peaceful Coexistence, or Panchsheel, in 1954.
- Frictions over territorial boundaries in Aksai Chin, along Indian Kashmir and China's Xinjiang province, and Arunachal Pradesh, along India's northeast and China's southern Tibet, led to deterioration in relations. Skirmishes erupted into full-scale war in 1962 as China sought to “teach India a lesson”.
- Prime Minister Rajiv Gandhi's visit to Beijing in 1988, the first visit by an Indian prime minister since his grandfather Nehru visited in 1955, served as a turning point in the bilateral relationship, as the two countries sought to stabilize their strategic relations with the end of the Cold War approaching.
- The rise of the right-wing Bharatiya Janata Party in the late 1990s led to a brief deterioration in China-Indian relations. India's nuclear test in 1998 was justified not only as a response to Pakistan but also on a prospective “China threat,” which startled China.
- In January 2005, China and India took part in their first bilateral Strategic Dialogue, which was followed by the signing of the “India-China Strategic and Cooperative Partnership for Peace and Prosperity.” The two countries declared 2006 to be a “Friendship Year,” with numerous political, economic, military, scientific, educational and cultural exchanges taking place.

For further information, see *China-India Relations*, by Derek Mitchell and Chietig Bajpae, published in *The China Balance Sheet in 2007 and Beyond* and available online

China: The Balance Sheet: What the World Needs to Know Now about the Emerging Superpower

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CURRENT SITUATION

- As the world's largest developing countries, China and India share a number of interests. Chief among them is priority focus on domestic development and economic reform.
 - Both countries are experiencing a period of exceptional economic growth, and are struggling with complex social challenges that are arising as a result.
 - India in particular has increasingly looked to China as an economic model to emulate, especially given its achievements in poverty reduction, urban development, and attraction of international investment.
- Both countries are also struggling to define their role in the world given the growth of their economic power and their new-found influence on global affairs.
 - China and India share great power ambition, and seek to preserve a position of dominant political influence, if not hegemony, in their respective neighborhoods.
 - They both promote the notion of a multi-polar world in which they each may serve as major players in the international system alongside the United States.
 - Both states also continue to display enormous sensitivity on the maintenance of their sovereign independence against the influence of outsiders, a lasting residue of their colonial experiences.
- China's strategic interest in India stems from its desire to:
 - maintain a peaceful international environment, particularly through stable relations with bordering nations, to prevent distractions that will divert attention away from addressing critical domestic challenges;
 - prevent the formation of anti-China blocs, particularly led by the United States;
 - develop new markets, investment opportunities, and resources to fuel its economic growth.
- China has viewed India largely as an economic opportunity, although in recent years it has also begun to take notice of the implications of India's rise, particularly India's growing political and potentially strategic relations with the United States and Japan.
- Nonetheless, a persistent underlying mistrust remains between the two countries fuelled by historical memory; a long common border; continued territorial disputes; potential competition for resources, most notably energy; military rivalry; and overlapping ambitions for regional influence.
- Both countries' relations with third parties add an additional layer of uncertainty and strategic suspicion to Sino-Indian relations that will remain even as political and economic ties improve in coming years.
- Pakistan
 - China's relationship with Pakistan continues to rile India, which remains resentful and suspicious over continued arms sales and other elements of 45-year historical partnership.
 - In recent years, however, China has adopted a more balanced approach toward its relationship with Pakistan and India, fuelled by Beijing's desire to maintain amicable relations with all states along its periphery, its recognition of India's growing economic and strategic potential, especially in the wake of improving U.S.-India relations, rising concern over the future viability of Pakistan, and China's shared concerns with India over Islamic extremism and separatist movements in their respective countries.
 - Nonetheless, Beijing continues to employ the "Pakistan card" on occasion to demonstrate its displeasure with actions taken by India.

China-India by the Numbers

- *China-India trade - \$24.86 billion (2006)*
- *China is India's second largest trading partner*
- *India is China's 10th largest partner.*
- *China-India trade target - \$40 billion (2010)*
- *China accounts for 5 percent of India's total trade volume*
- *India accounts for 0.8 percent of China's total trade volume.*
- *Chinese investment in India - \$50 million*
- *Indian investment in China - \$130 million*
- *Taiwan-India trade - \$2 billion (2005)*
- *India accounts for 0.67 percent of Taiwan's total trade volume*
- *Taiwanese investment in India - \$116 million*

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● United States

- Many Chinese have viewed the Bush Administration's attention to developing strategic relations with India since 2001 as an attempt to contain or at least balance against China in South and East Asia.
- Growing U.S.-India military-to-military cooperation, most notably in the Indian Ocean, has emerged as a particular source of concern in Beijing, given China's growing dependence on oil imports transiting the Indian Ocean. China expressed discomfort as a matter of principle over the March 2006 U.S.-India civil nuclear agreement that in essence recognized India as a nuclear weapons state

● Russia

- The legacy of India's close relations with the Soviet Union during the Cold War lingers in its attitudes today toward Russia.
- China-Russian rapprochement in the aftermath of the Cold War has brought about a convergence in Chinese, Russian and Indian interests to combat Islamic extremism within their borders; promote a multi polar world; and preserve strict adherence to the principles of state sovereignty and non-interference in internal affairs of states.
- China and India share an interest in importing Russian energy resources, and intersect in their interest in confidence-building in Central Asia.
- Russia remains the main source of India's advanced weaponry today; Moscow in fact provides technologies even farther advanced than those it sells to China.
- Nonetheless, the prospects of an active strategic triangle, for instance poised against the United States, are extremely unlikely.
- Not only do India and China continue to mistrust one another, but India at least shows no desire to lean toward China and Russia at the expense of its on-going political rapprochement with the United States
- Trilateral meetings themselves are in a nascent phase in which non-military, non-strategic issues, such as energy, agriculture, industrial restructuring, and environmental protection, are discussed

● Taiwan

- Taiwan's leadership has reached out actively to New Delhi in recent years as a possible alternative investment destination and democratic comrade-in-arms with which the island might work to raise its international profile and perhaps constrain mainland action across the Strait.
- However, India sees Taiwan as primarily an economic opportunity rather than a potential political ally.
- India is quite aware of the sensitivity of the Taiwan issue to China, and the potential for it to affect China-India relations. Indian decision-makers reject any notion of using the Taiwan issue as a way to distract or exercise leverage against China.

IMPLICATIONS

- China and India recognize the inexorable reality of the other's increasing involvement in its neighborhood.
- The two nations are quietly balancing the prospects for cooperation and competition in their relationship without letting any residual suspicions, tensions, or mistrust derail their mutual desire to test the possibilities of political rapprochement, economic engagement, and confidence-building in years ahead.
- Unless India is the clear aggressor, China is unlikely to support Pakistan automatically in any future India-Pakistan conflict, as China's focus on internal development and maintaining a stable periphery will lead Beijing to place its primary emphasis on stopping any hostilities or unrest along its border
- New Delhi will have no interest to ally with Washington in any active strategy to contain or oppose China's rise absent extraordinary provocation from Beijing. India will maintain its strategic independence to pursue a multi-layered approach combining both cooperation and competition with China that serves its own unique political, economic, and security interests