China and India: Economic Ties and Strategic Rivalry

May 21, 2014

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Abstract. How well do theories of economic interdependence and structural realism explain the India-China divergence between growing economic relations and continuing strategic mistrust? This article looks at the Indian side and argues that we need to go beyond economic and strategic factors, and brings in a more contingent approach based on domestic elite discourse and thinking. The article suggests that a more nuanced and complex debate on China is emerging in India than that posited by interdependence or realism, a debate that is framed by what I term nationalist, realist and globalist schools of thought, with the latter two groups currently holding the center of gravity.

For more than a decade, India-China economic relations have been on a fast track. While their bilateral trade crossed $10 billion in 2004, leaders of the two countries then declared their aim to reach the $100 billion mark by 2015. Against the backdrop of unresolved borders and political tension, it is important to consider what this means for their future prospects in both the economic and politico-strategic realms. Given the growing economic and political heft of India and China, we can assume that the nature of their relations will have considerable implications for the international relations of Asia, as well as for the role of the United States in Asia. Understanding the dimensions of the apparent anomaly or divergence between economic and strategic relations in the India-China relationship is thus essential.

Quite apart from the economic and strategic indicators and trends, I believe that elite discourse and thinking on this divergence is even more important. The
perceptions and viewpoints of the political leadership, economic and business leaders, and strategic policymakers and analysts are even more important for policy formulations and potential outcomes. This article focuses on the Indian side and looks at the interplay between economic and strategic relations of India and China, as well as their worldviews by addressing the following questions:

- What does the literature tell us regarding the impact of economics and peaceful relations between rivals?
- What do the economic trends between India and China suggest?
- What do the politico-strategic trends between India and China suggest?
- How are key Indian domestic actors (government leaders, business and economic elites, strategic and policy analysts, and public intellectuals and media responding to the “divergence”)?

This article concludes by identifying what seems to be a more nuanced and complex Indian approach to China overall, one that cannot be explained without bringing in the growing economic factor. The theoretical and policy implication is that it is no longer possible (or desirable) to separate economic and strategic spheres and to privilege strategic variables as the dominant international relations theory of structural realism posits.¹

Impact of Economics on Peaceful Relations between Rivals

Regarding the role of economics on political and security affairs, the most significant difference is between those who believe that economic interdependence will lead to less conflicting relations, and those who argue that economic ties will not be able to overcome, what they view as, more fundamental strategic factors. These are essentially the ends of two well-known alternatives—economic interdependence and structural realism.² However, there is also a growing literature emphasizing the interconnectedness of economics and security.³ The strongest proponents of economic interdependence make their argument using a fairly straightforward cost-benefit utility calculus. They focus on the opportunity costs that would result from conflict, as well as the reduction of benefits to be gained

from conflict as economic interdependence increases. Given that economic logic is the underpinning of interdependence, the primary driver of relations is seen as material gains.4

Some recent literature interprets what the economic ties between India and China tell us. Among those who believe that the dramatic rise in economic integration between the two countries is irreversible and is laying the groundwork for further improvement in the political environment is Jairam Ramesh, a leading political and media figure in the Congress Party. He even coined the term “Chindia” to capture the fundamental transformation in their relations toward a deep convergence.5

The argument of more realist thinkers is that while the growing economic convergence between the two countries “provides a powerful incentive to set aside political differences and focus on strengthening economic ties, it is nevertheless important to note that the current Sino-Indian entente remains delicate and fragile and could quickly deteriorate.”6 For realists, economic interdependence not only means cooperation, but potentially volatile trade disputes. While interdependence theorists focus on absolute gains and market mechanisms, the realists counter with an emphasis on relative gains and zero sum games. More realist-inclined scholars would argue that the change in political climate is what is leading to increased economic interaction, rather than the other way around. According to one expert, “The improvement in Sino-Indian relations has also resulted in growing economic linkages.” In the case of China, they point to the fact that despite the close and long economic cooperation of China with Japan and Taiwan, these relationships continue to be the most antagonistic for China.

**Economic Trends between India and China**

Promising Trends. It is difficult not to be impressed by the exponential growth of India’s trade with China since the late 1990s. India and China resumed trade, which had come to a halt after the 1962 war in 1978 and signed a Most Favored Nation Agreement in 1984. Trade however did not take off until much later, but when it did, it was in a stunning fashion. From a negligible level of $260 million in bilateral trade as late as 1991, it increased to $1.1 billion by 2003 and then exploded to $51.8 billion in 2008, with China overtaking the United States as India’s largest

7 Sharma, *China and India in the Age of Globalization*, p. 165.
trading partner in goods.\(^8\) Bilateral trade peaked in 2011 at $73.9 billion, but declined in 2012 by 10 percent reflecting in part the global slowdown.

Equally impressive is the priority that top leaders in each country have given to their economic interactions. Indeed, from their declarations, it would appear that they are placing an inordinate amount of hope and confidence on the economic front to bring their broader relations closer. Premier Zhu Rongji may have made the most audacious statement back in 2002, during a speech at the corporate headquarters of India’s leading software company Infosys, when he said:

Infosys stands for advanced technology, outstanding talent, modern management and tremendous achievements. It is widely recognized around the world that India is number one in software exports and China is number one in hardware. Together we can become the world's number one.\(^9\)

President Hu Jintao’s visit in 2006 was the first by a Chinese head of state to India in ten years and economics was again the big story. Even with the downturn in trade during 2012 and 2013, Prime Minister Manmohan Singh remained bullish on deepening economic ties with China.\(^10\)

A variety of mechanisms and arrangements were established to facilitate global economic engagement since 1991 when India launched its new economic policy—revamping it’s largely autarkic preferences in place since independence. With China, border trade agreements were signed in 1991 and 2003, avoidance of a double taxation agreement completed in 1994, customs agreement in 2005 and a bilateral investment agreement in 2006.\(^11\) In 2006, Chinese companies doing business in India formed a Chamber of Chinese Enterprises in India (CCEI), aiming to represent the interests of Chinese companies, as well as to promote high-level business and political talks between the two sides.\(^12\) The Chinese chamber was interpreted as a sign of growing importance of Chinese businesses in India. An India-China Strategic Economic Dialogue was set up in 2010 under which cooperation in fields, such as railways, high technology and energy is promoted.

An underlying premise for optimism on the economic partnership is the assumption in conventional neo-classical economics that the complementary nature of Indian and Chinese economies will prove to be an impetus for further growth: China’s manufacturing base and India’s service base, India’s raw material exports

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\(^8\) Embassy of India, Beijing, China, [http://www.indianembassy.org.cn/DynamicContent.aspx?MenuId=3&SubMenuId=0](http://www.indianembassy.org.cn/DynamicContent.aspx?MenuId=3&SubMenuId=0)


\(^12\) Business Standard, Dec. 6, 2006.
and China’s manufacturing exports. While this lack of value-added in India’s exports to China is creating trade imbalances, some see no reason for India to be worried. As one prominent commentator noted, “(...) it is wrong to aim for balanced trade with each trading partner.” The point is that India should behave no differently with China than with any other competitive trading partner given China’s comparative advantage.

Trade has tended to flourish when political barriers to economic engagement have been dropped or modified by China and India. For instance, when the disputed Nathu La Pass, lying between Sikkim and Tibet, was finally re-opened in 2006 (after China showed willingness to accept Sikkim as part of India), trade increased over 50 fold. Most of the trade is composed of imports of Indian goods into Tibet and the market is open for only six months of the year—between May and November. Although border trade between India and China is tiny at $14 million, during 2012, it grew by more than 20 percent, thus, bucking the downward slide elsewhere.

Among all of India’s policy innovations since the end of the Cold War, its “Look East” approach generally rates among the best. Prime Minister Narasimha Rao’s launch of the Look East policy in 1992 (following the twin economic and political crisis of 1991) was explicitly designed to build economic bridges to Southeast Asia and jumpstart India’s economic integration into the dynamic near-neighborhood. India steadily has used its Look East policy since the early 1990s to re-enter Asia through multilateralism and key bilateral relationships, such as those with Singapore, Malaysia, South Korea, Japan—and China. Phase II of the Look East policy is geared toward deepening economic and, just as importantly but more tacitly, India’s political engagement in East Asia. The 2010 Free Trade Agreement with the Association of Southeast Asian Nations (ASEAN) was the crowning success—an agreement that had been beset with domestic political opposition and bureaucratic resistance for nearly seven years.

**Questionable Trends.** While there is no doubt about the marked improvement in India’s economic ties with China, there are also trends which could prove hazardous to further economic expansion. Chief among them are: India’s ballooning

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16 India was faced with a political crisis after the collapse of its long time partner, the Soviet Union, in 1991 and an unrelated economic crisis which saw the untenable situation of India’s foreign exchange reserves having reached a level only sufficient to cover two weeks of imports.

trade deficit with China; overcoming mistrust for more open economic engagement; and the potentially volatile competition for energy resources.

India’s trade deficit with China was more than $27 billion in 2011 rising to $29 billion in 2012. India’s deficit with China was close to a record $30 billion for 2013, and the numbers underline a sharp decline in once-burgeoning trade. While a combination of factors such as bans on iron ore mining in India (due to corruption scandals), coupled with the global slowdown, contributed to this outcome, the ambitious goal of reaching $100 billion in trade between India and China is more elusive than ever. However, during this same time period, China’s trade with the rest of Asia, as well as with its major western trading partners, picked up, while trade with India remained in a slump. This suggests that the causes for the reduced trade with India were more structural rather than just a reflection of global trends.18

Foreign trade experts project that if a Free Trade Agreement (FTA) were to be executed between India and China to lift trade (something China has sought), the latter will gain the most. Without a major improvement in the competitiveness of Indian goods, any mutual reduction in tariffs by China and India would result in a much higher increase in Chinese exports to India than Indian exports to China.19 As even Prime Minister Singh, an economist by training, noted regarding a free trade or regional trade agreement, “I must be honest that there is a great deal of concern in our industry, given the large and growing deficit in our trade with China. When conditions are more propitious and trade is more even, we will find it more feasible to discuss an RTA or an FTA between our countries.”20

Other avenues for addressing the trade imbalance also face challenges—in India and China. Indian leaders have argued that the deficit is partly due to restricted market access in China. Two sectors where India is viewed as competitive globally—information technology (IT) services and pharmaceuticals—have not made much dent in the Chinese market.21 Both are affected by non-tariff trade barriers on China’s part such as prolonged approval times for Indian drugs, and in IT, burdensome security clearances. Stepped up Chinese foreign direct investments (FDI) in India could allay the huge trade imbalance. This seems to be the latest measure that the two countries are discussing. China has suggested the creation of a Chinese Industrial Park in India where companies from China could operate from together. China ranks 31st in terms of FDI investments in to India, which is considered unsatisfactory—especially given the trade volumes. At the same time, Chinese entry into certain sectors in India is also viewed as sensitive in political terms—most notably the telecommunications area. There is also resistance to giving Chinese firms a large physical presence in India. Long-standing mistrust between the two countries is continuing to prove difficult to overcome fully.

In 2012, India was China’s 15th largest trading partner with a share of 1.72 percent, 7th largest export destination for China and 19th among the countries

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19 Huchet, p. 63.
21 Jaishankar, “The Elusive Smoothness of the Silk Route.”
exporting to China, comprising 1.1 percent of total Chinese imports. In the same year, China was India’s 2nd largest trading partner with a share of 8.31 percent, 4th largest export destination for India and 1st among the countries exporting to India, comprising 8.32 percent of total Indian imports.23

Apart from the trade and investment arenas, the potential for more serious resource competition between China and India is a looming threat. For both India and China, energy shortfalls constitute a major obstacle to sustained growth. Both countries will need to rely on new energy sources, which could create tensions and even cause conflict between them. In India, energy security has been singled out at the highest political level for its importance—second only to food security according to Indian Prime Minister Manmohan Singh.24 The importance of energy security scarcely was missed by the previous government either—in 2003, the Foreign Secretary, during the Bharatiya Janata Party (BJP) rule, suggested energy security was a huge challenge for India, second to combating terrorism.25 India, which currently imports nearly three out of every four barrels of oil it consumes, will likely import up to 90 percent of its oil consumption by 2032. A third of the country’s current gas consumption comes in the form of imported liquefied natural gas and India is likely to import even more gas in the future through pipelines, as well as tankers. Thus, India’s energy security policies will have to reckon with the country’s acute import dependence for hydrocarbons, but not just limited to hydrocarbons since India has been importing coal as well in recent years.

China’s energy dependence is even more problematic. Its major supply sources are situated far away and energy transport routes are controlled by its potential adversaries. Eighty percent of China’s oil imports come through the Indian Ocean by way of the Strait of Malacca. President Hu Jintao is credited with coining the term “Malacca Dilemma” in 2003 to describe China’s challenge. Shortly after Hu Jintao’s statement, the China Youth Daily claimed that “It is no exaggeration to say that whoever controls the Strait of Malacca will also have a stranglehold on the energy route of China.”26 China also is concerned about the ability of the United States to disrupt its sea lanes of communication from the Persian Gulf to Northeast Asia. According to some U.S. analysts, such a disruption would pose a clear threat to China’s economy, even more than to its military capability. As China develops its anti-access/area denial (A2/AD) strategies against the United States, it will become difficult, if not impossible, to distinguish between China’s aim of ocean control for protection of sea lanes of communication, on the one hand, and a threat to freedom

22 Embassy of India, Beijing, China, http://www.indianembassy.org.cn/DynamicContent.aspx?MenuId=3&SubMenuId=0
of navigation, on the other. 27 This situation along with the “Malacca Dilemma,” could very well result in spillover effects that harm Indian energy security.

China’s national energy strategy increasingly also includes port construction and access points in the Indian Ocean. China’s far flung acquisitions in Africa have been likened to the “new scramble for Africa.” China’s tactics appear geared toward edging out competitors: China extends aid and loans to oil-rich countries such as Angola; finances and builds infrastructure in host countries where it owns assets; and makes advance payments for long-term oil supplies. China even attempts to suggest political solutions for disputes in the countries where it is invested, such as in Sudan. China’s overseas investments are five times those of India, apart from loan commitments, which are even larger. 28 China is a giant compared to India regarding global energy presence and China’s tactics, which could close off energy sources, may set up potential competition in the future.

Political-Strategic Trends between India and China. Political-strategic trends between India and China present a mixed picture. The two have an unresolved border dispute but their armies have carried out joint military exercises. China has strong enduring ties with India’s adversary Pakistan, but India and China call themselves strategic partners.29 On the one hand, it could appear that China is deliberately encircling India by: reaching new heights in Sino-Pakistan ties with the Chinese construction of Pakistan’s Gwadar port (Phase I completed in 2007 and Phase II currently underway), and talks of building a trans-Himalayan highway; forging unprecedented ties with Sri Lanka including construction of the Hambantota port facility in 2010; cultivating ties with Bangladesh through critical energy and infrastructure projects and the Chittagong port; and consolidating relations with Myanmar over the past several decades including port access. These relationships are all along India’s critical sea lanes in the Indian Ocean. Many Indian analysts now routinely describe this as the Chinese “string of pearls.” Further afield in Afghanistan, as the U.S. withdrawal looms, China is becoming more active—particularly in its quest for mineral resources. 30 Whether these moves represent a shifting balance of power in India’s strategic neighborhood is yet to be seen. A big question is the extent to which Chinese activities are driven by commercial and economic imperatives (especially energy security), rather than by hostile military aims.

At the same time, there are signs of marked improvement in India-China political and strategic relations for some time. During Prime Minister Atal Bhari Vajpayee’s visit to China in 2003, which turned around the slump following India’s

29 The relationship is increasingly seen as a paradox; see, for example, Times of India, Oct. 17, 2013.
nuclear tests, the countries signed the Declaration on Principles for Relations and Comprehensive Cooperation, charting a path for future collaboration. The two countries then signed a highly touted Strategic and Cooperative Partnership for Peace and Prosperity in 2005. Since 2003, high level summits have become the norm; there are a variety of ministerial and lower level committees and working groups in the political arena; a hotline was set up between the foreign ministers in 2008; and there is an ongoing annual defense dialogue.31 Beyond the bilateral level, the two countries are key members of the so-called BRICs (Brazil, Russia, India and China); they, together with Russia, interact in the Trilateral Summits; usually uphold multi-polarity promoting mechanisms, and tend to be sovereignty hawks on the global stage. As the title of an article in the Economist on India and China put it, “India and China: Friend, Enemy, Rival, Investor.”32

Indian Domestic Worldviews on the India-China Economic/Security Divergence

The Indian elite consensus holding that China and India are rivals, which dates to the 1962 war, began to weaken after Rajiv Gandhi’s visit to Beijing in 1989 (the first by an Indian Prime Minister since 1954). The pace of relations did not quicken until the early 2000s, having weathered a serious downturn in the wake of India’s nuclear tests in 1998.33 There is still deep-seated mistrust of China to be found, but the burgeoning economic ties and greater political interaction has allowed more diverse viewpoints to emerge on the Indian side.34

Indian perspectives regarding the co-existence of increasing economic ties alongside political tensions and rivalry between India and China can be identified by three main orientations or worldviews: realist; nationalist, and liberal-globalist.35 Realists tend to emphasize the importance of self-reliance in the international arena. According to realists, the international system is anarchic; a country cannot rely on international institutions for protection. They place a great deal of importance on

32 The Economist, June 30, 2012.
33 This episode was aggravated by the leak of a letter by Prime Minister Atal B. Vajpayee to President Bill Clinton after India’s nuclear tests, justifying the tests by citing a threat from China.
the role of great powers as actors in the global system and privilege hard power over ideology and economics.

Nationalists, like realists, emphasize self-reliance and self-strengthening. However, nationalists may embrace these goals not only as a means to the end of meeting foreign threats, but also as a goal in itself. Proponents of the globalist school tend to favor international political and/or economic integration. They emphasize economic means and institutional goals. In the economic realm, they often argue for free trade and fewer restrictions on capital movement. Globalists are relatively skeptical about military power as a tool of statecraft.

The key question regarding India-China relations is whether China is viewed as a threat or opportunity for India. Aided by the highly charged history of India and China, Indian public discourse is often dominated by hard nationalists, who start from a premise of distrusting China across the board—in economics and politics. However, behind the bellicose public and media discourse, there is a much more nuanced view on India’s relations with China. While this is especially true in the business sector, that stands to gain from increased economic activity with China—such as information technology, pharmaceuticals and financial services—it is also found among a cross section of businesses and strategic elites, political leaders and even bureaucrats.36

China as Threat or Opportunity

To return to the theoretical models, an economic interdependence proponent clearly would see China not only as an economic opportunity for India, but that the economic ties would have beneficial political spinoffs. Many of the Indian business leaders who I interviewed seem to hold this view. They believe that there is a positive relationship between economic interaction and political relations. In general, this belief was held by even heads of businesses that stood to lose from Chinese competition. A representative view was that “If there’s a significant amount of trade interdependence, it makes them less inclined, or less able, to have military conflict. This is especially good for India, being the weaker country.” Not all saw this direct correlation, but most believe that economic relations between India and China will not be negatively affected even if political relations go sour. Short of war, they were confident that economic ties would not be severely disrupted. Unsurprisingly, most reflect a liberal market-oriented globalist outlook.

Others, such as the head of a major Indian bank with offices in China, asserted that China and India are too important to each other and “cannot ignore the other.” He contended that the two are complementary and competitive, and while their relations tend to be “unpredictable,” especially regarding neighbors and borders, “they will not push it beyond a point.” One of India’s top information technology

36 During 2011 and 2012, the author conducted a series of focused interviews across a broad spectrum of Indian economic and strategic elites, geared specifically to accessing their views on the India-China economic and political divergence. This is the first such effort, as far as I know. References to opinions unless otherwise indicated are from these interviews, based on non-attribution rules.
company officials referred to Chinese Premier Zhu Rongji’s comment, while in India during 2002, that the Integrated Chip (IC) should stand for “India China.”

Indian business leaders appeared less worried about India’s future relations with China. They placed a great deal of confidence in the idea that “business sense dominates all else” in China. As the managing director of a major engineering corporation said, “I do worry about China strategically but China is also very commercial minded.” While these business leaders are concerned about the political pressure that China can exert on India (relations with Pakistan was the top pressure point identified), they believe that businesses are primarily exempt. They tend to view the political and business spheres as fairly compartmentalized in this regard. Moreover, they view China’s younger generation as much less ideological than earlier ones. The most important factor for many Indian business leaders is the need to have continuing leadership on both sides who understand that countries cannot grow without putting economics ahead of politics.

More surprisingly, political leaders from the different parties have been supportive of economic initiatives toward China as well—even when the idea of deepening economic ties were being first raised in the early 2000s. As far back as 2003, when Sino-Indian relations were being renewed after the post-nuclear test dip, it was not hard to find members of parliament urging more trade and economic ties with China.\(^37\) Congress Party members praised the efforts of its rival Bharatiya Janata Party (BJP) to step up economic engagement with China. As one leading Congress member noted,

> Lucky, with all your [BJP government] efforts, the trade has increased from US $ 1 billion to US $ 5 billion and, very soon, I think, we will be able to reach US $ 10 billion. […] We are discussing common issues, like trade, culture and other things, and especially the issue of environment. All the rivers flow from China to India. If there can be any collaboration between India and China to tame those rivers, it will be beneficial to us.\(^38\)

Prime Minister Vajpayee and his Chinese counterpart went on to set up a respective “Group of Eminent Persons,” on each side to carry interactions forward at a high public level. On the Indian side, it was notable that BJP chose the chairperson from the Congress Party, signaling a deliberate cross-party approach to this key bilateral relationship.

This trend seemed to strengthen fairly quickly. In 2004, under a new Congress government which defeated the BJP, it was possible to find support not only from BJP and Congress, but other regional parties as diverse as the Hindu nationalist Shiv Sena, to the Communist Party of India.\(^39\) The words of the Shiv Sena member of parliament are worth quoting at length:

\(^38\) General Budget for the year 2003-2004.
The Foreign Minister…has said that while we are committed to resolve the border dispute with China, we would also like to further our economic relations with China. I am sure we cannot miss out an opportunity with China, which is now the fastest growing economy in the world, which is growing so fast that probably one day it will be surpassing the U.S. economy within the next few years’ time. So, between India and China, we have more than 33 percent of the global population and if they have a common market, it can influence the world economy in a very significant way.

The Communist Party member agreed with the sentiment that improved economic ties can influence global affairs. According to him, “We are initiating—it is a very important thing—a policy by which India, China and Russia will go together. It creates a condition whereby we together prosper economically; it has an implication in terms of preserving world peace.”

Such views show an adherence to liberal-globalist principles that underlie the interdependence model. While the favorable business opinion toward China seems to have remained consistent, even with the emergence of the large trade deficits, and the ups and down in political relations, policy commentators and politicians have shown more susceptibility to nationalistic and realist sentiments. From 2008 onwards when the deficits became more pronounced, parliamentary debates, for example, revealed rising concerns that went beyond just economics.

Sitting in opposition this time, the BJP was more prone to take a harder line on economic imbalances with China, in contrast to their earlier position. Against this development, what is notable also is the steady policy orientations and commitment of the ruling Congress government to continue uninterrupted relations with China along market liberal globalist lines. In this effort, a more energetic partner for the government was Indian industry—from business associations to important companies that were global market leaders. The industry associations, in particular, have emerged as key domestic actors since the mid-2000s in helping to shape Indian government strategies. According to some Indian Commerce Ministry officials, they are increasingly turning to groups like the Confederation of Indian Industries (CII) and the Federation of Indian Chambers of Commerce and Industry (FICCI) for advice and even strategy papers, given a serious dearth of expertise on China in Indian ministries. The dominant view of CII and, even the more domestically oriented FICCI, is that India cannot isolate China, and instead needs to work with China. Their view is that India needs to “manage” relations by trying to raise Chinese stakes in India.

Implications of India’s Trade Deficit and Political Linkage

Concerning linkages between economic and politics—for example, whether the border dispute was getting in the way of improving economic relations; or whether the development of economic relations was hampering a border solution, some specific questioning can be found in parliament. The issue was whether any inherent contradiction existed between India’s goals of promoting its economic
relations with China and resolving the border dispute. In a 2004 discussion, Foreign Minister Natwar Singh answered such queries thus:

No, there is no contradiction. There is an instrumentality on both the sides for dealing with the border. Special representatives are discussing the border question. With regard to trade, I am glad to inform you, that our trade with China by the end of this year should touch $10 billion. So, the discussions on the border issue are not coming in the way of improving our economic relations which are doing extremely well.  

But political-economic linkages took on more significance as the growing economic ties also led to a significant trade deficit for India by 2008. Until then, India’s deficit, while growing, was generally viewed as manageable.

Nationalist, and to a lesser degree, realist opinion in India envision the widening trade gap in China’s favor as giving the Chinese yet another pressure point over India. In their view, China’s economic advantage is providing additional leverage over India in the political sphere—an arena where there are still serious unresolved issues. So far, however, the center of gravity seems to be on the globalist market oriented side of Indian opinion, especially given the continuing support of the government.

In 2009, under questioning from parliamentarians on relations with China, as the deficit swelled and received high media attention, Prime Minister Singh tried to quell rising fears of China by putting it in a broader context:

I should say that China is our strategic partner. We have a multi-faceted relationship with China. There is enough space—I have said so often—for both China and India to develop and contribute to global peace, stability and prosperity. We do not see our relations with China in antagonistic terms. We have a large trading relationship, we consult each other on global issues, whether in the G-20 process on climate change or terrorism, and we share a common commitment to maintain peace and tranquility on our border.

Although the deficit became a controversial issue from 2008 onwards, it is safe to say that under Congress rule and even under the earlier BJP, the approach to this was largely shared and governed by the idea that it is better to engage than confront China. A senior Indian official pointed out that although the BJP is “talking big” on China as the opposition party, when it was in power, it was a different story with Prime Minister Vajpayee instrumental in improving relations with China.

The nationalists would like to see India achieve more balance in trade by getting the Indian government to do more to help Indian businesses. They point to Chinese governmental support for business that gives them an unfair advantage.

41 Lok Sabha Debates, April 20, 2010 and Dec. 21, 2011.
42 Lok Sabha Debates, June 9, 2009.
Indian national manufacturers and traditional businesses, along with sections of the strategic community, argue that the Indian government needs to push for a “level playing field.” They note that while Indian power equipment producers are operating under “unfair” conditions vis a vis Chinese companies, the Indian government is giving duty free access to the Indian market to Chinese power equipment producers. (The Indian government would respond that it is struggling to meet India’s energy needs in the most economical fashion—thus, disappointing Indian equipment producers but making Indian power generating companies happy.)

The hard nationalists among the strategic elite (and realists) see a severe lack of leverage by India over China to get redress on the economic or political side. What they recommend is that India pursues a strategy of military modernization to close the capability gap, in particular, by expanding its naval power. Some argue that India will get relief on the trade imbalance only if the Indian government is able to gain more leverage via political hardball. As one national security commentator I interviewed put it: “If we give in on Tibet and South China Sea, we’ll have no leverage. India is keeping that leverage and should continue to do so.” Realists, in particular, see India’s economic prowess in terms of how it can be useful as “economic statecraft,” to achieve more global influence and great power status. For them, India’s economic growth is important for its strategic agenda, as opposed to the globalists and domestically-oriented nationalists. Moreover, according to some realists, one positive side effect of competing with China is that it makes India “think big.” Ultimately though, realists would not depend on economics as a strategic asset—they value military power and “alliances” with other major powers. They would argue, for instance, that China ultimately came around to taking India seriously as a “peer” only after the historic U.S.-India 123 nuclear agreement and unprecedented India exception in civil nuclear trade. The first official reference to possible civil nuclear cooperation with India by China appeared in a joint declaration released after talks between Prime Minister Manmohan Singh and President Hu Jintao in 2006, on the heels of the 2005 U.S-India nuclear accord. For realists, it was the huge turnaround in U.S.-India relations since 2002 that has led China to turn to India more seriously—thus, in their view, economic relations can only go so far and political concerns are primary.

The globalist counter-argument is that a major reason for India’s trade imbalance is internal to India: it is India’s lack of a strong manufacturing base. India’s manufacturing exports comprise only 18 percent versus 55 percent of Chinese GDP. They urge a faster-track development of manufacturing and note that as China moves up the value chain, Indian businesses can enter these vacated spaces. So it is up to India to correct the course, not China or any other country. They also point out that India, too, is gaining generally from trade. For example, the critical telecommunication products are cheap due to Chinese cost efficiencies; likewise with Chinese power plants. As one industry expert said to me, “China is

subsidizing the Indian consumer.” Other commentators argue that while the pattern of trade may be skewed, Chinese imports, like machinery, chemicals, steel and electronic goods, play an important role in India’s own industrialization process. In other words, “Simply put, a part of India’s industrialization and infrastructure development becomes viable only if it can piggyback on the price competitiveness of Chinese industry.” Others have said that the trade deficit with China could work the other way around, too: China becomes export dependent, so India gains some leverage.

Globalists see the political atmosphere and continuing mistrust as the biggest hurdles in the economic relations. In a globalized free market system, trade deficits should not matter and political tensions are blamed for the protectionist sentiments from nationalists and realists. Many top industrial leaders seem to believe that if the suspicions between the two countries are alleviated at the political level, thorny economic issues could be dealt with. They are confident that there are many “win-win” opportunities for India and China to exploit, which are likely to be missed as a result of unfavorable politics. On the question of ties between China and Pakistan, which is identified as a major source of mistrust (along with the unresolved border), the dominant view tends to be that Pakistan is no longer a major preoccupation for China. There was little apprehension that China would seriously risk relations with India over Pakistan.

A consensus common to all the schools of thought is that India should deepen ties with countries in China’s immediate neighborhood—for both economic and strategic reasons. Little disagreement exists about the need to continue India’s Look East policies, though globalists emphasize the economic benefits and the realists underscore the soft balancing that India could gain against China. Realists point out that this can be accomplished with little effort on India’s side, given the threat from China that many neighboring countries currently perceive.

Conclusion

This article has tried to show that neither the conventional realist view nor the pure interdependence argument fully explains the impact of growing economic ties. I suggest that apart from simply the level of economic activity or strategic interaction that India has with China, the key lies in how elites in India perceive, interpret and give meaning to these factors. While a globalist worldview has emerged and strengthened in India since the 1990s, placing its hopes on economic integration regionally and globally, the realist and nationalist worldviews continue to make the notion of economic interdependence with China vulnerable to challenges. Thus, while the interdependence adherents are too optimistic, the realists are also unduly pessimistic.

The characterization of China as both a threat and opportunity appears to have led India to adopt a much more nuanced perspective. Led by globalists in the

government and industry, the challenge from realists and nationalists on the growing imbalance in economic relations in China’s favor, seems to have been managed successfully so far. However, the inescapable fact is that at both the economic and strategic levels, there is an asymmetry of capabilities between India and China. Thus, one further question is whether the deepening economic relationship itself is changing China’s incentives toward greater cooperation with India. This analysis remains to be undertaken.