

# **Chapter 5**

## **Sino–Indian relations and the rise of China**

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### **Introduction**

India and China are the two rising giants of Asia. How they relate once they become powerful will have a significant impact on Asian security. At present, their relationship is ambivalent, with growing people-to-people contacts and rapidly expanding trade, but also abiding strategic suspicion, especially on the part of India.

This chapter seeks to assess the future of the relationship. To do so, it needs to answer three questions. First, will China and India rise equally enough so that they will balance each other's rise? Second, if they do not rise equally and China continues to pull ahead economically and militarily, will this mean that they can remain on relatively benign terms, or will India perforce seek to balance China's rise, and if so, what will this balance look like and how will it shape Asian security? And third, what role, if any, will the United States play in that balance and how might India–US relations evolve in light of a rising China?

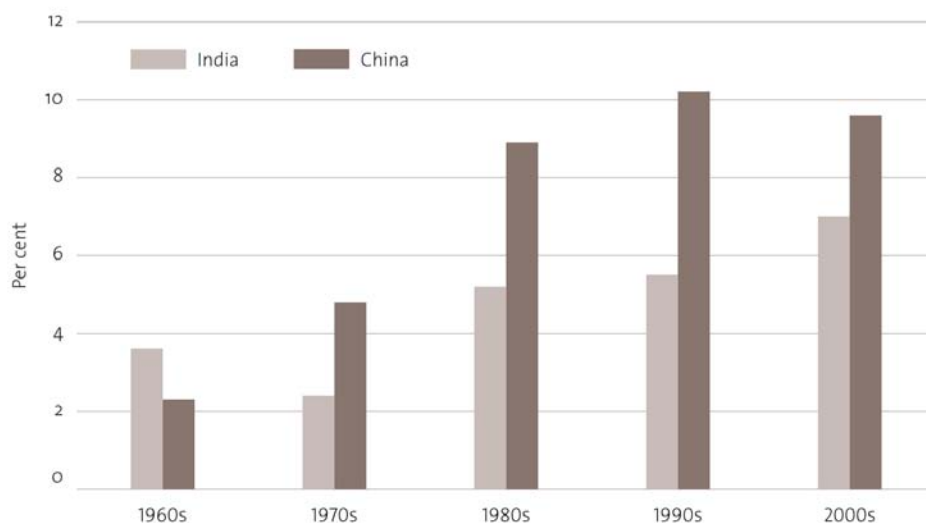
In order to fully understand the world in which China and India are likely to rise to power we will also need to gain an insight into the likely evolution of Sino–US relations. Should there be a benign evolution of relations between the United States and China capable of absorbing China's rise into a stable global system, this would likely trump any developments between China and India in terms of the wider Asian order. It would do so because it would go at least some way towards shaping the basic relationship between China and India in positive directions. And, in any case, Sino–Indian tension would not necessarily be powerful enough in itself to dictate the nature of Asian security.

Be that as it may, the Sino–US relationship is a matter others are better equipped than this author to deal with. It is also an issue dealt with elsewhere in this volume. So we will set it aside for the purposes of this chapter. It means, however, that there is an assumption in what we say that China and the United States will remain wary competitors and that China will not necessarily bed down easily as a positive player in Asian security, independently of any bilateral developments with India.

## Will India and China rise relatively equally?

China began to engage in economic reform and entry into world markets roughly a decade before India. We see from Figure 1 that before China's entry into world markets, India was, in fact, growing more rapidly. After it liberalised its economy, however, China started to draw away and, significantly for the argument of this chapter, continued to grow more robustly.

**Figure 5.1** China and India: average decadal growth



*Source: World Bank as reported in Williamson and Zagha (2002) to 1990s, then World Bank.*

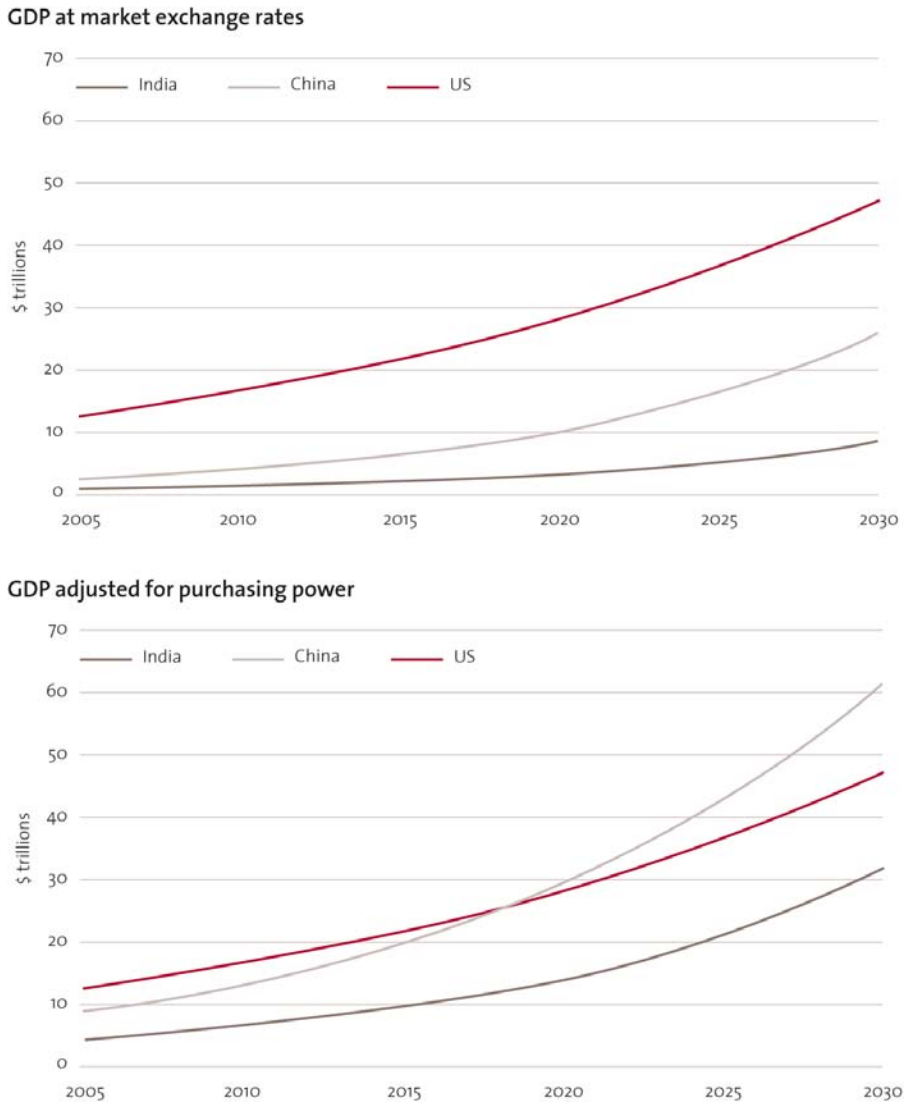
**Source:** Gordon, Sandy 2006, *Widening Horizons: Australia's new relationship with India*, ASPI, Canberra.

We see from Figure 1 that after economic reform in 1991, Indian economic growth gathered pace from the so-called 'Hindu' growth rate of 2–5 per cent to an underlying rate of about 7 per cent in the 2000s. Moreover, this pace of growth quickened as the decade drew on and provided India with four successive years of about 9 per cent growth (growth is, however, expected to slip back to 7.3 per cent in the 2009 fiscal year).

We also see from the Economic Intelligence Unit projection (Figure 2) that in market exchange rate measurements and purchasing power parity (PPP), China will continue to draw away from India. According to this projection, India's economy will be roughly half that of China's at PPP rates and about only one-third at market rates in 2030. World Bank projections (Table 1) paint an even more negative picture for India by the earlier date of 2020, with India's share of the world economy at market rates being less than one-third that of China's. These World Bank data are, however, dependent on a significant

projected slowdown in China's growth and a somewhat lesser slowdown in India's.

**Figure 5.2** Projected growth rates of India, China and the United States in market exchange rates and purchasing power parity



Source: *The Economist Intelligence Unit* © EIU

As in Winters, L. Alan and Yusuf, Shahid (eds) 2007, *'Dancing with Giants': China, India and the global economy*, World Bank and Institute for Policy Studies (Singapore), Washington, DC, p. 6.

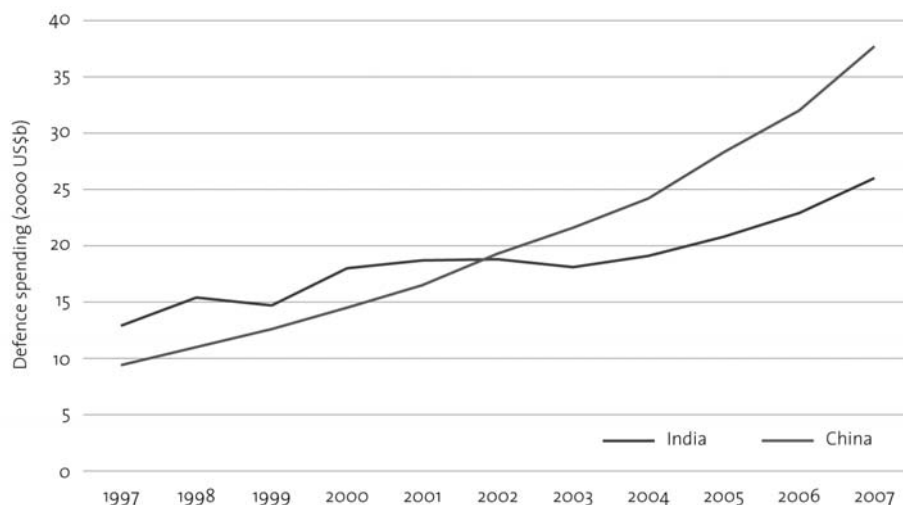
**Table 5.1** GDP as a percentage of world GDP in six large economies, 2020 (per cent)

Share of world GDP (2004 \$ and exchange rates)	Average annual real growth rates			Average contribution to world growth		
	2004	2020	1995–2004	2005–20	1995–2004	2005–20
Economy						
China	4.7	7.9	9.1	6.6	12.8	15.8
India	1.7	2.4	6.1	5.5	3.2	4.1
United States	28.4	28.5	3.3	3.2	33.1	28.6
Japan	11.2	8.8	1.2	1.6	5.3	4.6
Germany	6.6	5.4	1.5	1.9 <sup>a</sup>	3.0	3.3
Brazil	1.5	1.5	2.4	3.6	1.5	1.7
World	100.0	100.0	3.0	3.2	100.0	100.0

<sup>a</sup> The World Bank projects an annual growth rate of 2.3 per cent for the 25 countries of the European Union plus the European Free Trade Association, from which we derive the figure for Germany.

**Note:** Average growth rates are calculated as the average of annual real growth rates (US\$ constant 2000) for the period. Similarly, average contributions are calculated as the average of annual contributions. The calculation for the period 2005–20 is based on GDP in 2004 and the projected growth rates.

**Source:** World Bank 2005b, *World Development Indicators*

**Figure 5.3** China and India defence spending, 1997–2007 (US\$ billion)

*Source:* Defence Intelligence Organisation (Australia)

**Source:** Davies, Andrew 2008, *Asian Military Trends and Their Implications for Australia*, Australian Strategic Policy Institute, Canberra, p. 6.

Moreover, we see from Figure 3 that this economic situation, reflecting more rapid economic growth in China, is reflected in respective defence spending data. These data are drawn from the Australian Defence Intelligence Organisation (as in Davies 2008) and seem somewhat conservative in the case of China, with the latest *Jane's* estimate putting China's expenditure at about \$58 billion (*The*

*Canadian Press*, viewed 26 September 2008, <<http://www.canadianpress.google.com/article/ALeqM5h7mb64TOSdOPW7wvgMNHgC5Bthg>>).

Obviously, such economic and defence spending projections depend on assumptions that 'all things will remain equal'. There are several important unknowns in the category 'all things'.

First, there is the issue of political stability in both countries. Commentators have argued persistently that India is both penalised and advantaged by the fact that it has remained a vibrant democracy. It is penalised in the sense that its consensual decision-making processes mean that it has not been able to act forthrightly to develop its economy in the way that China has, enabling the latter to maintain spectacular growth rates in the past three decades. Then again, India might in future be advantaged by the fact that it has already crossed the Rubicon of democratisation, while China has not. That process, should it occur, could also be highly destabilising for China, with concomitant economic effects—or so the argument runs.<sup>1</sup>

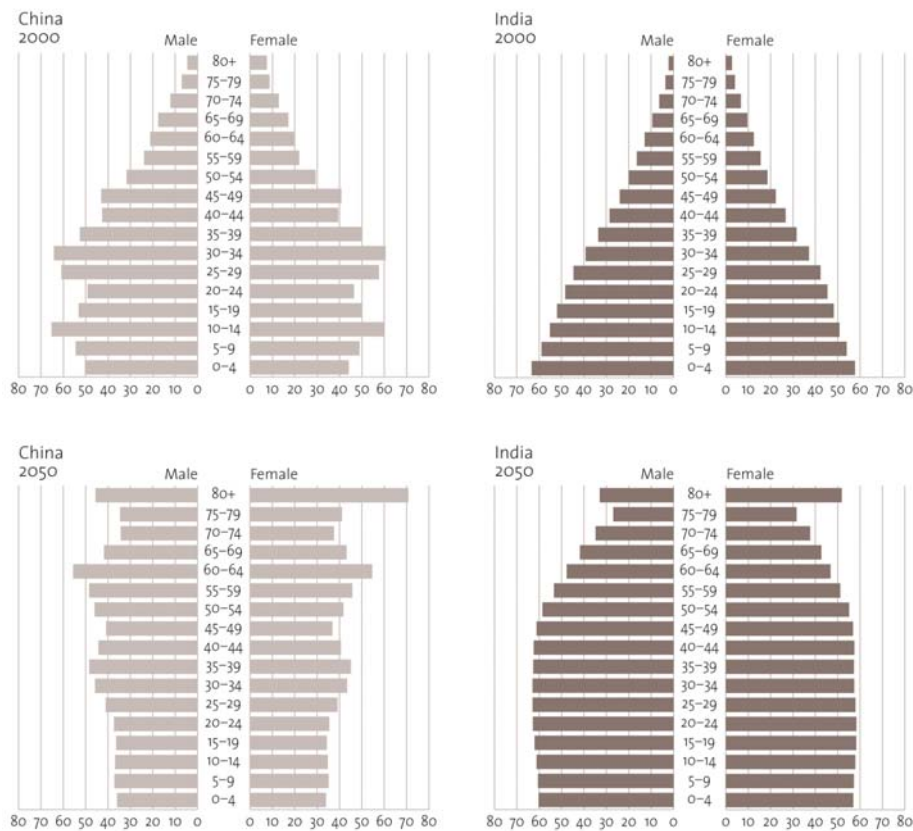
This view of the future of China is, however, increasingly subject to challenge. For example, recent research by the respected Pew Research Center (viewed 28 August 2008, <[http://pewglobal.org/reports/display.php?Report\\_ID=261](http://pewglobal.org/reports/display.php?Report_ID=261)>) shows that 86 per cent of Chinese people 'are satisfied with the country's overall direction'. The Pew Center research was conducted after the riots in Tibet but before the May earthquake. The same question asked in 2002 elicited a favourable response on the part of only 48 per cent of respondents. It is also noteworthy that respondents reported far less satisfaction with their own lives than with the general direction of the country. Moreover, the recent global downturn appears to have resulted in a significant decline in factory employment in China. Obviously, the data need to be treated with caution. They do, however, give us pause to consider whether China is, indeed, inevitably bound to liberalise its polity in the foreseeable future.

Aside from the Pew Center's research, there are other views being brought forward to challenge the belief that China must inevitably confront a damaging call for more democracy. According to Ma (2007), 'The links between economic liberalization and political reform... have turned out to be much more complicated and tenuous in the case of China.'

At the same time as doubts are gathering about the inevitability of democracy in China, there is every indication that India's politics will continue to be shaped by unstable coalitions and will be subject to considerable volatility, especially given current energy shortages and inflationary pressures. India's national election, scheduled for May 2009, is likely to result in yet another weak coalition, one that this time might not last the full five-year term.

Are there other factors that could cause economic catch-up on the part of India? Certainly, there are in the longer term, and the most prominent of them is demographics. In Figure 4, we can compare the population ‘trees’ for India and China.

**Figure 5.4** Population ‘trees’ for India and China, for 2000 and projected for 2050



Source: US Census Bureau, as reported in BBC News

Source: Gordon, Sandy 2006, *Widening Horizons: Australia's new relationship with India*, ASPI, Canberra, p. 24.

What is immediately apparent is that India—which will be the most-populous country in the world by about 2030—has a far higher proportion of young people in its population than China. This should in theory erode China's comparative advantage in labour-intensive manufactures by about 2030; but will India pick up the challenge and become the new labour-intensive powerhouse of the world economy?

In the initial stages of India's economic liberalisation, this did not appear at all likely. Indeed, some commentators were even claiming that India had a leapfrog economy that would bypass the labour-intensive phase altogether (Das 2006). Until quite recently, India's labour-intensive push into world markets was restrained not so much by tariff policy as by foreign direct investment (FDI) restrictions, labour laws, lack of infrastructure and state-imposed restrictions on the large-scale manufacturing sector, which had the effect of reserving labour-intensive manufacturing for the small-scale sector (see Arvind 2008).

On the other hand, the enormous capitalisation of the Chinese economy also promises to enable it to substitute capital for labour on an immense scale as its labour force ages, ensuring that it retains a formidable competitive edge and a substantial share of the world economy. The models here would be first Japan and, more recently, Korea and Taiwan.

Of course, the analytical picture is far more complicated than the one we have been able to present above. At the very least, however, we have been able to provide sufficient information to show that it is a big call to assume that India will catch up with China. Indeed, it is quite possible that the World Bank projections provided above will prove fairly accurate.

So what might this mean for Sino-Indian relations?

## **The effect on Sino-Indian relations**

The Sino-Indian relationship is worryingly ambivalent. On one side of the equation we see a flourishing people-to-people relationship underwritten by what is projected to be the world's largest bilateral trading partnership sometime between 2010 and 2020. In the past four years, trade has grown at a phenomenal average of 52 per cent to a total of US\$25.76 billion in 2006/07; trade is on track to being worth US\$40 billion by 2010 (Acharya 2008:10).

China and India have also made a mutual decision to set aside fighting about their disputed border while the two giants develop their economies and enter world markets—known in the case of China as the 'peaceful development' doctrine. In 2005, the two agreed on a set of 'guiding principles' to govern border negotiations. There is a flourishing process of two-way visits, even at the senior military level, culminating in the visit of president Hu Jintao to India in late 2006 and the reciprocal visit of Prime Minister Manmohan Singh to Beijing in January 2008. In recent years, China's image of India has evolved from that of a weak country of no real consequence to what the Chinese call a 'comprehensive national power'.<sup>2</sup>

This is not, however, a simple relationship from India's perspective. India's trade deficit with China has been growing and now stands at more than US\$9 billion.<sup>3</sup> As Chinese imports increase into what should be a labour-intensive

manufacturing country, the vaunted trading 'revolution' could look less promising from the Indian perspective. India asserts that China is dumping large quantities of manufactures onto the Indian market. New Delhi has refused vital Chinese investment in key areas that it considers to be security risks, such as telecommunications and port development. It continues to deny China market economy status and resists China's offer of a free trade agreement. Clearly, this is a country that lacks confidence that it can meet the economic challenge posed by its giant neighbour.

The issue of the contested border can also be presented in negative as well as positive terms. China's ambassador to New Delhi shocked India two days before Hu's visit by asserting that Arunachal Pradesh—a populated part of India—was still disputed territory. The Indians were of the view that China had previously conceded that it belonged to India. The Chinese reversal could simply have been viewed as tough negotiating tactics in Beijing, or it could have reflected Chinese concerns about Tawang, in populated Arunachal Pradesh—the birthplace of the sixth Dalai Lama. It was, however, perceived in New Delhi as 'disingenuous yo-yoing designed to keep India second-guessing and on its back foot' (Aiyar 2008). According to the Indian version of the 2005 guiding principles, China also breached those principles in laying claim to a portion of land containing a substantial, settled population. It caused India to question seriously China's veracity as a negotiating partner and possibly to wonder how China might behave once truly powerful.

Closely associated with border issues is the issue of water. According to Ramachandran (2008), China's plans to divert 40 billion gallons of water annually from rivers in Tibet—especially the massive Yalong Tsangpo, which becomes the Brahmaputra in India and subsequently the Megnad in Bangladesh—to the parched Yellow River Basin are causing considerable concern in India and Bangladesh. The situation is exacerbated by the melting of the Himalayan glaciers that feed the great rivers of Asia, on which 47 per cent of the world's population depends. Ramachandran concludes that China's plans mean it will 'acquire great power leverage over India, worsening tensions between these two countries'.

China's growing footprint in the Indian Ocean, and especially in South Asia, is also deeply worrying to a country such as India, surrounded as it is by vulnerable borders and volatile countries with which it is often at loggerheads. China is selling weapons to all India's immediate neighbours except Bhutan and constructing deep-water ports in Myanmar, Bangladesh, Sri Lanka and Pakistan. Although claims of Chinese military bases in Myanmar are exaggerated, India feels surrounded in its own backyard.<sup>4</sup>

India's discomfort with China's growing Indian Ocean footprint is expressed most clearly at the official level in the Indian Maritime Doctrine, issued to the public in 2005. Having declared that the Indian Ocean is India's 'backyard' and



outlining an ambitious schedule for Indian naval expansion in the Indian Ocean, the document cites China as a major reason for this expansion in the following terms: 'China has embarked on an ambitious military modernization programme...the [People's Liberation Army] Navy, which is the only Asian navy with an SLBM capability, is aspiring to operate much further from its coast than hitherto.'<sup>5</sup>

India and China have also become locked in urgent competition for energy in the Middle East, Africa, Central Asia and Myanmar. This sense of competition has become all the more urgent for India because of the poverty of its domestic supplies of liquid hydrocarbons and its energy-intensive requirements for maintaining economic growth from a low base.

Some observers assert that India and China have adjusted their competition for energy such that they do not unduly compete in the same markets and inflate prices (Khanna 2008). India was nevertheless shocked to find that natural gas from two leases it had helped to develop in the Shwe field off Myanmar was sold by Myanmar's nationalised oil company not to India, as expected, but to China. This unexpected loss was likely due to pressure on the Myanmar junta from China (see Clarke and Dalliwall 2008; Lees 2006). Moreover, in seeking compensation, India was apparently given sole controlling rights to Sittwe port, which it is developing—but this too was later overturned, again apparently after pressure from China (Lees 2006).

Although the *official* Indian position on China is positive, if one scratches the surface, Indian commentary often quickly descends to visceral suspicion of China. Such commentary ranges from the prominent Indian academic Brahma Chellaney (2008), who asserts that in 'order to avert the rise of a peer rival in Asia, China has sought to strategically tie down India south of the Himalayas', and the commentary of officials such as Admiral Prakash, who said India would keep a 'close eye' on China's naval intentions in the Indian Ocean (OPRF 2005:9), to India's Maritime Doctrine, cited above.

Given this ambivalent relationship, it is not difficult to imagine that if China continues to surpass and draw away from India economically and strategically—as we assess to be the case on present indications—such ambivalence will soon give way to wariness, concern and, ultimately, the more overt desire to balance China's rise.

## **Balancing China and India-US relations**

From India's perspective, there is already a hedging quality in India-US relations, notwithstanding that New Delhi has made it clear to the United States that it does not wish to be a pawn in any balancing game against China, or any other country.

This hedging quality is evident in the evolving strategic relationship, which, significantly, was initiated in 1991 by the then Commander-In-Chief, Pacific Command (CINCPAC), and which has since developed powerful military–strategic overtones, with the apparent agreement of India.

While there are many voices and motives in Washington directing the nature of the Indo–US rapprochement, at the heart of the relationship is the United States’ desire to create of India a major Asian military power capable eventually of helping to balance China’s rise. It is important to recognise that this ambition does not necessarily imply that Washington believes it can win and maintain India as an ally, but rather that it will unsettle the power equation for China to have another Asian power—and one that is already in competition—rising rapidly in military capability.

The supposition here is twofold: first, a powerful India will be a more benign and pro-United States presence in the region than a powerful China; and second, if the United States refuses to give India what it wants—strategic parity with the P5 nuclear states—then others, such as Russia, will.

This desire on the part of the United States is a major factor behind the Indo–US nuclear agreement, which is not to say that other motives are not also present. The reason why the nuclear agreement is important is that it will be difficult for the United States to support and build Indian power in some key technologies—for example, ballistic missile technology, anti-ballistic missiles and space—without first bringing India into ‘the nuclear tent’.

This, then, is the deal—and where it cannot be done directly with US support, it can be done through the surrogacy of Israel, which has drawn increasingly close to India on high-tech military exchanges.

That this interpretation is correct is suggested by statements by the Bush Administration of unambiguous support for India’s rise as a *major* Asian military power made at the time when the nuclear deal was first mooted. According to Secretary of State Condoleezza Rice’s policy adviser, this shift in US policy is motivated by the fact that the United States’ ‘goal is to help India become a major world power in the 21st century’. He added, ‘We understand fully the implications, including military implications, of that statement’ (Rajghatta 2005).<sup>6</sup>

It is also explicit in the type of technologies being transferred to India—through the United States directly and through Israel. These include an ABM system probably based on the Israeli Arrow 2, in turn developed jointly with Boeing with US technology. While Arrow 2 is an anti-tactical ballistic missile, Arrow 3 will have an anti-MRBM capability. India is also to launch Israel’s new spy satellite in early 2009; a quid pro quo could be assistance with India’s own military satellite program, which will be especially important for its naval

targeting in the Indian Ocean and, eventually, a more sophisticated ABM capability. Israel has also sold to India, with US permission (previously denied to China), the Phalcon AWAC system. The United States has also directly sold sophisticated targeting radars and large naval vessels. The United States is also in the market for India's new strike-fighter project.

While the transfer of military technology is important, the deepening military-to-military relationship also brings with it the exchange of military doctrine, inter-operability and intelligence. This is very much an evolving, multifaceted relationship, albeit one focusing on maritime warfare. At its heart is a 10-year defence agreement signed in 2005 and a program of ever more sophisticated exercises, especially in the maritime sphere.

None of this indicates, however, that India will enter any US 'sphere' or abandon its important relationships with other powers, especially Russia. While there have been recent hiccups in the arms sale relationship between India and Russia to do with late delivery, escalating costs and poor supply of spare parts, the relationship is still of considerable importance to India and will not be easily discarded.

Indeed, from India's point of view, it can continue to conduct its strategy of 'playing both ends against the middle', as it has attempted to do, with varying levels of success, as a central plank of its foreign policy over many years. Within this pattern, however, it will likely 'tilt' somewhat towards the United States—the exact reversal of the situation during the Cold War.

As time goes on, and given the hypothesis of a China that rises more rapidly than India, this 'tilt' could increasingly take on an element of power balancing, whether New Delhi feels comfortable with that role or not. Nor is this label likely to be used in New Delhi.

Of course, it needn't happen that way, but the drivers of a more successful outcome will have far less to do with Sino-Indian relations and far more to do with Sino-US relations and US-Russian relations. Should competition between China and the United States intensify, China's rise in Asia is unlikely to be an easy one.

As a 'swing' state in Asia—to use the term of the US Central Intelligence Agency (CIA)—India is therefore likely to be courted by a number of other rising powers. It will make the best it can of this situation in order to acquire the means to military and economic power itself—whether it be Russian energy and platforms or US/Israeli high technology.

## Conclusion

It is not at all clear whether China and India will rise equally. Indeed, it is somewhat more likely than not that China will continue to draw away from India

economically and militarily. Should this occur, India could seek implicitly (or even explicitly) to balance China's rise, either through an intensifying relationship with the United States or, less likely, with Russia. India is, however, unlikely to enter into any formal alliances during this process; and the ultimate nature and extent of this power-balancing arrangement will depend more on Sino-US, Sino-Russian and Russia-US relations than it will on the relationship between those three countries and India.

While the best outcome would be something akin to Coral Bell's (2005) 'concert of powers', such an outcome is not at all certain. Indeed, it is a 'slippery slope' around the edges of a concert of powers arrangement that leads quickly to classic power balancing. A concert of powers implies, among other things, that India and China will be able to control and channel their emerging competition in productive ways. While this too is a distinct possibility, I have tried to show in this chapter that it is by no means a certainty. Indeed, there are some deep-seated concerns in India about a rising China and what this means for India's position in its sub-Himalayan backyard.

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## ENDNOTES

<sup>1</sup> For an expression of this view, albeit a highly nuanced one, see Desai (2003), especially pp. 17-18. See also Gordon (1995:2).

<sup>2</sup> Aiyar (2006), quoting Professor Ma Jiali of CICIR.

<sup>3</sup> All trade data are from the Indian Ministry of Commerce web site, viewed 28 August 2008, <<http://commerce.nic.in/eidb/iecn.asp>>

<sup>4</sup> On the exaggerated claims of Chinese bases, see Selth (2007).

<sup>5</sup> Copy in possession of the author (no publication details) entitled *Indian Maritime Doctrine INBR* [*Indian Naval Book of Reference*] 8, with a foreword by the Chief of Naval Staff, Admiral Singh, dated April 2004. The document appears to have been released to the public in 2005. For the quoted passage, see page 69.

<sup>6</sup> Originally in Gordon (2006:40).