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**INDIA, CHINA AND ASIAN SECURITY**  
*setting an agenda for cooperation*



Jabin T Jacob

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# CONTENTS

<b>INTRODUCTION</b>	<b>1</b>
<b>I. WORLD VIEWS AND REGIONAL RELATIONS</b>	<b>2</b>
India-US	3
India-China	3
India-East Asia	5
China-South Asia	6
India-Pakistan-China	6
India, China and Other Powers	6
<b>II. REGIONALISM IN ASIA – TOWARDS GREATER SINO- INDIAN COOPERATION</b>	<b>8</b>
Indian Regionalism	8
SAARC and China	9
SCO and India	11
East Asian Community/ASEAN+3+3	11
Problems and Prospects	12
<b>III. CHINA-INDIA STRATEGIC PARTNERSHIP</b>	<b>14</b>
The Border Issue	15
Situation in the Region	16
Possible Areas of Cooperation	17
<b>IV. MULTILATERAL AND INTERNATIONAL ISSUES – THE INDIA-CHINA-RUSSIA TRILATERAL</b>	<b>18</b>
Trilateral Cooperation	18
Impact of the Trilateral on Bilateral and Global Issues	19
<b>V. TRADE, ENERGY SECURITY AND ENVIRONMENT ISSUES</b>	<b>21</b>
Some Macro-economic Facts	22
Bilateral Trade	23
Anti-Dumping	24
China-India FTA	25
Energy Consumption	26
Energy Cooperation	27
Environment	28
<b>CONCLUSION</b>	<b>30</b>
<b>LIST OF PARTICIPANTS</b>	<b>31</b>

## INTRODUCTION

Both India and China are advancing rapidly and together they can change the future world order. At the Rio Summit in 1992, the two countries found that they had interests in common and the international community had to make way to accommodate their views. There is plenty that is said about the possibility of rivalry between the two countries but there is also a great potential for cooperation. India and China will probably be rivals in some spheres but are the two countries forever doomed to look at each other with suspicion and unease? An outcome of this debate is likely to shape the contours of the present century and will affect substantially the future of global peace and prosperity.

The leaders of both countries have demonstrated their ability to work together and have shaped an agenda for cooperation as is evident from the substantial agreements resulting from the visit of President Hu Jintao in November 2006 to India. As two non-governmental, autonomous research organizations of repute, the IPCS and the CRF have both a responsibility and an obligation to constructively engage each other to formulate an agenda for cooperation. They both recognize the problems left over from history and a certain gap in political trust, but also accept the need to build mutual trust and confidence as a prerequisite to future success. Both sides acknowledge that India-China relations have progressed and developed well, but the task is to advance this more rapidly while simultaneously addressing major issues. The ten-pronged agreement on promoting the bilateral relationship during President Hu's visit to India includes measures such as promoting trans-border connectivity and cooperation that would be of great benefit to the region along the border long deprived of traditional trade and other advantages for over 50 years. There is also scope for increased cooperation in other areas that are sensitive and for the strengthening of institutional linkages and dialogue mechanisms.

There has been much talk of the sort of strategic partnership India and China might develop but it is also a matter of how the two countries see each other and themselves in the world. There are several intangibles in the relationship but it is in these intangibles that ideas might be found of how to take the relationship forward. How can talk of a strategic cooperative partnership be translated into action? The Track-II mechanism can help in this respect and the IPCS-CRF talks are an important component of the overall bilateral relationship.

Perhaps no two countries share a degree of commonality in overall policy issues as do India and China. As two conspicuously rising powers, neighbours since the dawn of history and presently nuclear weapon states, India and China have a role in building the future world order. Both nations agree that a multi-polar world is better than a unipolar world and have called for a just, responsible world order and a democratization of international affairs. This common position provides a powerful basis for a sound bilateral relationship.

## I. WORLD VIEWS AND REGIONAL RELATIONS

There are three basic factors that have to be considered when evaluating the regional order:

- 1) the end of the Cold War and the consequent trend towards multi-polarity;
- 2) the rapid pace of globalization; and
- 3) the rapid advance of science and technology.

Since the end of the Cold War, there has been a long, largely peaceful period of transition to greater multi-polarity. Despite the unshakeable domination of the US, other powers are also making their presence felt globally. The end of the Cold War has made ideology a less salient factor to identify friends or foes. No longer is the line between friends and enemies clear. Countries may be both at the same time.

There is need for peaceful cooperation and development between India and China. As Kosovo and the Iraq conflicts have shown threats to sovereignty are still prominent as also other traditional security threats, as is evident in the nuclear issue on the Korean peninsula. Therefore, despite the rise of transnational crimes and other non-traditional security issues in recent years, for governments around the world, sovereignty is still an important issue. Therefore, China-US-India-Pakistan relations remain heavily focused on traditional security issues.

One issue of concern is the growing gap between developed and developing countries. Unbalanced development of the world's economies contribute to regional instability, creating failed states, increasing disappointment and anger among the young, and allowing for religious extremism to take root and the rise of security threats such as terrorism. In an interdependent world, such threats affect all countries.

Similarly, it is at the regional level that the changes brought about by the end of the Cold War have been most striking. The transformation of East Asia has been truly remarkable



with regionalism speeding up and the rise of China accelerating. How the rise of China will affect regional and world order is part of the discourse in various parts of the globe. In addition, India too is rising. How is Sino-Indian relationship likely to evolve? What are the possible points of convergence and divergence? Further, in broader regional terms, the nuclear order is open

for discussion with a likely configuration being China, India, Pakistan, North Korea and Japan.

From the Indian point of view the year 1998 was a turning point. Three important facts were in evidence from its nuclear tests: 1) India would not be pushed around; 2) despite the technology sanction regimes against it, India retained a status of a nation with advanced nuclear and other technologies; and 3) India was determined to protect its security interests no matter what the costs.

## India-US

Indo-US relations have undergone a sea change in the last few years. Many in the US believe that it was India that made a U-turn to enable better relations with the US. But the opposite is more likely to be true. The year 1998 marked the lowest point in Indo-US relations in recent times as the US imposed sanctions on India following the latter's nuclear tests. Nevertheless, within a month Bill Clinton had appointed Strobe Talbott as special envoy to India to discuss nuclear issues. In the last five years, the relationship has taken on a growing military aspect with over 40 joint exercises conducted already. The centerpiece of the relationship, however, has been the nuclear deal which will end over three decades of technology denial to India. In this context, China's support to the deal in the Nuclear Suppliers' Group (NSG) and other fora, is particularly important for bilateral relations. Both India and China agreed that President Hu's visit produced an understanding for possible civilian nuclear cooperation in the future. China has, in the past, supplied India with heavy water and low enriched uranium (LEU).

Indo-US relations are based on shared values as well as national interests of both countries. It is a strategic partnership of great promise, not an alliance against any third country. It is a friendship based on very pragmatic considerations for India; India is not turning into a satellite – it had turned down the American request for sending troops to Iraq – and will not target the relationship against any third country.

India, China and the US are enjoying the best periods in their respective bilateral relationships and this situation augurs well for Asia. It is the Chinese perception that the US has a tilt towards India, having given it a “surprise gift” of the nuclear deal.

## India-China

With over 40 per cent of the world's population India and China face common challenges for the future and need to step up the process of dialogue and cooperation. They need to proceed step-by-step in improving their relationship which holds opportunities and challenges for both countries.

India and China have to cooperate in the interests of regional and global stability. There are common areas for action but the major obstacle is the lack of adequate political trust. There seems to be continued suspicion at the highest levels of decision-making in both countries. Some in China may believe that the future could hold the

possibility of war with India, but such people are very few in number. While the Rajiv Gandhi visit to China in 1988 was a turning point in Sino-Indian relationship, nearly twenty years down the road, the level of communication between the two countries remains inadequate. There are leftover problems from the colonial era and the China skeptics in India constantly harp on the lingering border dispute, the Sino-Pak relationship and the “string of pearls” strategy of China. The endeavour, in the interests of Sino-Indian relations, must not be to silence the skeptics or ignore them, but to bring the issues on the table and seek to resolve them. What efforts, therefore, can the two countries make to eliminate this mutual suspicion and put the relationship on a sound footing of mutual trust?

Political trust also requires the resolution of historical disputes. The boundary dispute between India and China requires creative ideas for its resolution. Part of this process is to better educate domestic public opinion and especially the younger generations. China is conscious that India is rising rapidly and improving its comprehensive national strength. But one country’s rise need not necessarily be negative for another country. While an ancient Chinese proverb says that one mountain cannot have two tigers, in international relations, there are other positive options. Both countries need to guard against playing one country off against the other. China’s effort is to build a new kind of state-to-state relations not based on balance of power, or of playing off one country against the other. China’s approach is based on a vision of a new international order and the achievement of a “harmonious world.” There were good reasons why China has had good relations with Pakistan, namely, to counter the US and to balance against India. But China does not now seek a Western balance of power but seeks instead relationships based on the “five principles of peaceful coexistence” and a “harmonious world” in which disagreements are not ruled out but it is ensured that these do not end up as sources of conflict.

It was also important for China to convey clearly to India what its position on the rise of India in global terms was. How did it view the Asian and global order given its own rise and that of India and Japan as well? India and China have to move from the bilateral

relationship to a more active role together in international affairs. As the Indian Prime Minister Manmohan Singh has said, “The world is large enough for both India and China.” Agreements between India and China on multilateral issues and improving their bilateral relations are very important at the global level. However, the level of cooperation between the two countries remains inadequate. There is



need for the two countries to cooperate in regional fora such as the ASEAN, SCO and SAARC. China and India could also cooperate in the field of UN peacekeeping operations and in UN restructuring. In this context, there was a perception in India that Chinese support for a permanent Indian seat in the UNSC was less than clear-cut.

Further, to blame US control over the UN for lack of reforms and action at the UN is self-serving.

An emergent trend in Sino-Indian relations is the change in the way the issue of security is being perceived following a rise in non-military threats in recent years. The latter makes more imperative greater cooperation between India and China. The very notion of power is in fact undergoing changes and it is important to identify these changes. The theory of constructivism offers a new way in which the “new security” concept can be applied to military issues such as the border question and to non-military issues such as ethnic issues, terrorism and illegal migration. India and China thus need to look at using a constructivist approach to resolve their outstanding problems.

Coming to economics, the contribution of China and India to the world economy is likely to increase still further while Japanese growth remains limited. Currently, in GDP terms at currency exchange rates, Japan is ranked second globally, China fourth and India is at No. 12, but in the not too distant future, the lineup is more likely to be China-India-Japan. It is not just that China and India are rising but Asia too is rising with them.

## India-East Asia

Indian engagement with East Asia is rising and is best exemplified by the India-Japan relationship that has taken off in recent years. The ties between the two countries are extremely positive, increasingly multi-faceted and hold great potential for mutual benefits. India’s interests in East Asia are also therefore, increasingly varied and it views a stable China-Japan relationship as critical for both itself and for the rest of Asia. Things should not come to a point where others in the region have to make a choice between one and the other.

Comparing Sino-Indian and Sino-Japanese relations, it is easier for China to address problems with India than it is to deal with problems with Japan. China feels more comfortable dealing with India because of its stress on an independent foreign policy and the belief that it will not turn into a client state. Japan, meanwhile, is caught in a dilemma of whether it is a Western country or an Asian nation. Politically, Japan is closer to the west while in geographical terms, it remains Asian. Japan remains heavily dependant on its alliance with the US. Japan wishes to be a “normal” country but what this involves is still unclear to China. In terms of historical disputes, the boundary dispute with India does not have as great a hold on the Chinese memory as do the Japanese aggressions in the past. While not saying that one country was good and the other bad, China felt that Japan’s conservative political posture was a matter of concern. China continued to have concerns with respect to the possibility of a remilitarization of Japan and especially so in light of its recent attempts to whitewash history.

The Indian side, meanwhile, is of the opinion that India and China need to be engaged in cooperative efforts not only in regional associations but also on issues with regional implications such as in Northeast Asia and in West Asia. India has already taken a step forward in this regard by stepping up its ties with Japan. Meanwhile, India is concerned about the go-soft approach of China on the Taliban. The Chinese counter view on the desire for Indian engagement in Northeast Asia was that it was “too early” for India to think of involvement in the region.

## China-South Asia

The Chinese evaluation of the security situation in South Asia is that while it was generally good in 2005, it has deteriorated to some degree in 2006. Terrorists have become more active with attacks taking place in Mumbai and in Pakistan and the latter continues to remain in focus as a source of terrorism. In Nepal, Sri Lanka and Bangladesh, the domestic political environments have worsened considerably. Anti-US sentiment has been on the rise in Pakistan, anti-monarchy protests have weakened the king in Nepal, civil war still rages in Sri Lanka and domestic wrangling in Bangladesh has vitiated the political atmosphere before that country's elections.

It was China's opinion that the South Asian countries needed to focus on reform and economic development which are the common aspirations of their peoples. They needed to develop good neighbourliness and cooperation and work harder to deal with poverty. It was imperative that they treated each other with equality and in peace.

On the broader security environment, there really is no major conflict likely in South Asia in the foreseeable future and the Chinese perceived the Indo-Pak relationship to be improving and the peace process to be irreversible. The major outside powers – US, China and EU – too were united in their desire for peace and stability in South Asia.

## India-Pakistan-China

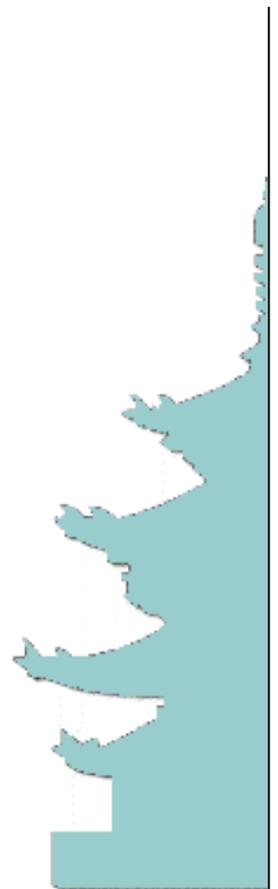
The India-Pakistan relationship has been a troubled relationship but is today at its best ever. This has been facilitated by the US because it has been taking a more even-handed approach in its relationships with the two South Asian countries. India, for its part, is no longer paranoid about the US-Pakistan relationship. China for its part, too would like India to be a little less obsessed about the Sino-Pak relationship. While China has noted that the reception in Pakistan to President Hu Jintao was a lot warmer than the Indian reception – both the Pakistani President and Prime Minister were at the airport to receive President Hu – this also testifies to the fact the Pakistanis have to go the extra mile because of the overall improvement and warming of Sino-Indian ties. Sino-Indian relations are more important to China from a strategic point of view, than the Sino-Pak relationship. The Indian side acknowledged that in the last ten years, the Sino-Indian relations have advanced at a fast pace despite the Sino-Pak relationship, and that this reflects a degree of maturity in the Sino-Indian relationship. Nevertheless, India still did not fully understand the scope of Sino-Pak military relationship. Indians often ask if China was adequately sensitive to the involvement of non-state agencies in cross-border terrorism.

## India, China and Other Powers

India and China were among major powers that opposed US intervention in Iraq. American government reports have observed that India, China and Russia are the countries to watch in the future. It has been the Chinese view that if India and China were to get together no other global alliance, including a US-EU alliance could match them. Such a coming together is important for Asian security and offers great

opportunities for both countries. The first trilateral summit among India, China and Russia was held in St Petersburg on 17 July 2006 and the important task now is to ensure concrete results including cooperation in the energy sector as one way forward.

It was the Chinese perception that the US is trying to increase its influence in Asia under the guise of anti-terror operations. India too has always protested external presence in its neighbourhood. Since 2001, however, India has perceived the US as taking a more evenhanded position. The US also played positive roles during the Kargil conflict and the post-tsunami operations. India also does not believe that the US is tilting toward India, only that the tilt toward Pakistan has stopped and that there has been a dehyphenation between India and Pakistan.



## II. REGIONALISM IN ASIA – TOWARDS GREATER SINO- INDIAN COOPERATION

The 21st century has been projected as the Asian Century because of the increasing economic and political influence of Asian powers and the increasing trend towards regional cooperation. However, regionalism is a long and arduous process and becomes an even greater challenge when states broaden their formal regional roles into geopolitical domains from which they have hitherto been distant. The presence of new states in established frameworks of regional interaction dispute political, economic and cultural assumptions giving rise to a variety of responses from other members—inclusion, anxiety and stalling.

Asian states have moved towards a “new regionalism” that is more outward looking, economically oriented, and defends sovereign rights while it moves states towards trans-nationalism. Today Asian states stand on the brink of a “second wave of new regionalism” which emphasizes their ‘Asianness’ and integrative processes such as financial integration in at least some regional initiatives and formations. For effective regionalism to take place, however, it is imperative that states make the transition from “possession goals” to “milieu goals.” This is especially important for major Asian powers like China, Japan and India which have strategic and economic stakes in Asian stability.

### Indian Regionalism

Regionalism has a short history in India’s post-independence narrative. After the demise of Bandung and the steady decline of NAM it has only been involved in two regional associations: the Commonwealth Association and SAARC. Cold War alignments and its insistence that multilateral organizations like the UN and its bodies were a sufficient forum for interstate interactions have made Indian policy vis-à-vis regionalism somewhat conservative.

Yet, it has become evident since the end of the Cold War that regions have an important part to play in enabling national objectives even as states are increasingly tied into global networks. Neighbours and states which have more or less the same attributes have a significant impact on the potential for conflict and prospects for cooperation. In turn, they also have the ability to transform the domestic attributes of individual states. Within an interdependent region states also have an additional responsibility since many outcomes are collective and affect everyone. In the process of constructing regional interdependence Asian states have discovered that interdependence is not something one has or does not have but is depends on “degrees of influence.” This is a lesson that India did not learn in relation to its neighbours or the larger proximate community in the past, but is now slowly learning.

Since India put its Look East policy in place in the early 1990s it has also discovered that the region is of immense importance to its future but it has essentially followed the tracks left by ASEAN’s regional dynamism, without defining what regionalism meant to India. SAARC, as the South Asian version of regionalism, has been a striking example

of a regional organization that revealed neither opportunity nor the desire to create opportunity. Its experience indicates that it might be impossible to sustain cooperation in the absence of social institutions that permit actors to rise above security and other conflicting issues. Without these violent conflict is often the result. Thus, South Asia has seen greater instances of war in the absence of regional social institutions which would decrease rivalries to a point where the use of armed force is considered unrealistic.

However, in the process of engaging with South East Asian states through the ASEAN process what India has learnt most recently is that the processes of interaction make sustained cooperation possible even in an environment in which many of the anarchical notions of international relations prevail. The result has been a flurry of activity related to membership in regional associations and organizations. This has expanded its scope of action and influence outside South Asia, and has had a transformative effect on its attitude and policy within the South Asian region. How effective this has also been in regionalizing its policies and interests can be viewed from its actions in three of the most important regional organizations in Asia today: the East Asian Community, the Shanghai Cooperation Organization and the SAARC.

## SAARC and China

The most significant event in SAARC has been the expansion of SAARC to give non-South Asian states observer status. While the Chinese are not fully clear on what membership of SAARC as an observer state implies, Indian analysts view China's "sideways" entry into the organization as having a number of implications for the region and for India.

Some perceive the invitation to China to be an observer at SAARC as an attempt at balancing India's influence over this organization. However, the examination of the growth towards multilateralism as discussed earlier, will bring out the compulsions of this move as a historical necessity, just as the expansion of the SCO demonstrated this earlier. Others have tried to project this as one more attempt by China to "encircle" India. While rejecting the latter notion, sensitivity towards such interpretation will need to be ensured in future developments. China's "peaceful rise" and soft regionalism may be seen as instruments of power politics. India's own notions of its "backyard" have changed significantly – it no longer considers its neighbourhood as a "backyard." As a regional cluster the state of the neighbourhood has a critical impact on conflict or prosperity in India. Therefore, the set of heavy-handed policies for its neighbours have been replaced by incentives, negotiations and



an effort to create influence. Also, the strategic and economic reach of the “backyard” beyond the region has undermined Indian assumptions of its own centrifugal force – India is forced increasingly to think of South Asia as a region that has value as a region, not just as an adjunct of India.

There is also recognition of the value of the Chinese economy to South Asian growth. India may have charted its own course in economic relations with China but China is also a major trade partner with other South Asian states. While India may be doing much better with ASEAN states the growth of economies in its neighbourhood will have a lasting effect on many of the non-traditional security issues it now confronts in the region and which drain state resources and interest from growth and development sectors. The framework for SAFTA significantly has the potential to transform the South Asian region since it includes not just trade liberalization but also trade facilitation, balance of payments issues, industrial security protection, trade disputes mechanisms and economic and technological mechanisms. However, South Asia needs to put its old political disputes behind it to implement the regional mechanisms inherent in SAFTA. China’s entry into SAARC may well rest some of the fears of Indian hegemony thereby providing momentum to SAFTA and easing some of the strategic concerns between India and Pakistan.

In addition, China’s entry into SAARC has to be viewed from the perspective of its “big periphery” regional cooperation policy. India, and South Asia as a whole, is only one part of this regional focus. Much of this is reflected also in China’s participation in a range of institutional, non-institutional and quasi-institutional international and regional organizations. Chinese policy has evidently changed from looking at South Asia as an arena of balance of power politics to looking at South Asia as the hub of new strategic concerns as well as new economic opportunities. Both Chinese and Indian concerns with a host of new security issues that need regional solutions, in particular terrorism, various kinds of illegal trafficking and the overwhelming although understated issue of environmental management are likely to create the “social institutions” essential to sustain cooperation over the long run. From the Indian point of view, it seems unlikely that China will seek to limit the advantages accruing from this by playing balance of power politics within SAARC. These changes make India more confident, not more fearful, about China’s inclusion in SAARC.

The Chinese point of view on China-SAARC relations is that relations with South Asian countries are very important to China. China acknowledges that in recent years, relations have improved between India and Pakistan, and India’s economic growth has attracted international attention. South Asia’s geo-strategic position is increasing in importance and SAARC has gradually stepped up cooperation within the organization. The US too has begun to attach increasing importance to the region. China believes however, that problems of domestic stability in the countries of the region still remain with issues related to terrorism, extremism and separatism.

China has decided that it ought to pay attention to stepping up changes in formalities and procedures and to cooperation not only with South Asian countries but with SAARC as a whole. China desires cooperation in human resources development, poverty alleviation, disaster management, and cultural exchanges and feels institutional arrangements such as a SAARC Fund as well as a SAARC+1 (China) should be established at the earliest. The latter would be a natural progression of China’s improved relations with South Asia.

## SCO and India

India has been driven by two issues in Central Asia and in the SCO: terrorism and energy. The fast emerging plans for a transportation grid across Asia have added a third dimension to Indian policy and interests. India's positions on each of these three issues differ in some respects from China although there is a broad "in principle" consensus on all three.

India and China have had conflicting views on Pakistan-supported and Taliban-led terrorism in the past. After 9/11 and China's own "anti-terrorism" policy in Xinjiang there was a general agreement on what constituted terrorism, its destabilizing propensities and a non-selective view of global terrorism. Since the regrouping of the Taliban recently, and the increasing signs of weakness of the Karzai regime, China has reportedly moved to keeping its lines of communications open with all parties in Afghanistan. Chinese and Russian anxiety over NATO's increased presence in the region and US influence have also moved it to thinking along a more negotiated solution to the Afghan crisis. Given that one of the parties to the negotiated settlement would be the Taliban/al Qaeda/Pakistan's Inter-Services Intelligence (ISI) combine India's opposition can be taken for granted. Clearly, the issue of terrorism remains one of the more complicated ones between the two states.

In the energy sector, India's energy initiative comes hot on the heels of the Chinese effort to buy, develop, reserve and transport energy for its massive development. Given its increasing foreign exchange reserves, even though barely one fifth of China's, India has emerged as a major player in the global and Asian energy markets. Yet, both nations are aware of the limits of non-renewable energy resources and are geared to implement hydroelectric and nuclear energy resources as well.

The potential for cooperation on an energy transport corridor exists based on the more significant shared assumption that this depends on Asian stability, especially along the Islamic arc. India has been less than enthusiastic in practice about the grid, generally because of security concerns, soft borders and the likelihood of destabilizing demographic shifts and cross-border crime. However, the view that it should cordon itself off from the evils of the region and Asia must change and give rise to efforts to create regional institutions to manage the new sets of interactions: customs unions, intelligence sharing and policing, labour movement laws, financial integration, etc.

While India does pursue its objectives in these areas bilaterally with the Central Asian states, as well as with the US on terrorism, the SCO allows it to create valuable networks with leaders of member states, officials and business representatives and to increase influence in the region. One of the offshoots of India's presence in the SCO has been the increasing support from China for India-Russia-China trilateral cooperation. India has not only revived its old partnership with Russia but the trilateral has emerged as an instrument for defining strategic and economic issues for Asia.

## East Asian Community/ASEAN+3+3

The major reasons which were the immediate driving factors for the rise of East Asian regionalism, economic stability and strategic concerns both military and non-military, also drive India's search for a place in the East Asian Community (EAC). Having lost ground with its early indifference to membership in the ASEAN and its more recent failure to get entry into APEC, it has been eager to consolidate the gains of its Look

East Policy by membership to the EAC. The major attraction is the creation of the focus on comprehensive security, financial security institutions (the Chiang Mai initiative) and a free trade area by 2012.

The debate on the ASEAN+3 and the EAC has been interpreted in competitive terms with assessments of rivalry between China and India, the negative effects of broadening East Asian regional structures and a hierarchical division of influence with



the assumption that the +3 (Japan, China and South Korea) drive the Asian economies. However, studies show that the EAC is the logical end of the concentric circles of ASEAN+1 FTAs, creating a pan-Asian framework for regional economic cooperation and seamless integration. As a group that accounts for half the world's population, more than a fifth of global trade and production and more than

two thirds of foreign exchange reserves it stands to be a third pole in the global economy after NAFTA and the EU. India's economic rise, its location as a bridge between West Asia and East Asia, and its institutional strengths will bring immense gains to the EAC, including China.

The notion of an EAC underscores above all the notion of community building. This is a step ahead of regionalization and demands of states that they adhere to milieu goals. The emerging New Delhi Consensus on economic growth and development has placed milieu goals at the forefront of policy even if the national debate on implementation often obscures this. The 'relative gains' from increased cooperation like increase in the welfare level of the countries leads regional actors to shed some of the differences and accept cooperative outcomes.

## Problems and Prospects

To ensure a sustained commitment to Asian regionalism India and China, need to ask several questions of themselves. How far, for example, is each nation prepared to pursue the millennium goals? To what extent can they build a consensus for regionalism? To what extent do they accept an all encompassing notion of Asia and what does the concept of an 'Asian identity' mean to each? What "social institutions" can be placed on the agenda and what domestic changes are the two countries willing to accept as a consequence?

Asian regionalism is different from European regionalism or the NATO. For China, Asian regionalism has to be characterized by the construction of a harmonious region, the maintenance of peace, harmonious coexistence of different civilizations and different political institutions and harmonious development. For achieving these goals, India and

China need to give up their Western ideas, abandon Cold War era thinking and develop ideas of their own. External powers do not have the right to instruct them on what ought to be done. While the Indian side acknowledged that there are different ways of doing things in Asia, different from Western ways, it was also difficult to argue that there was any one Asian way. India would continue to use its Western heritage too in the formulation of its policies just as China too has modeled its development based on elements of Western development and thought. There are certain assumptions made in calling for Asian values but every sub-region will have different views on how to reach an Asian consensus. Cultural differences are a given but to assume that they are entirely different from those in other places is not correct. While this does not imply that Asia will follow the EU path in its entirety, there are certainly lessons to be had from that experience.

There is a need to understand the specific problems that will shape a particular regional process and architecture. Clearly, the post-Cold War period has left its mark on these processes and the Sino-Indian relationship is no exception to this transition. There is now a completely transformed approach to the concept of security. Both India and China are rising in a globalizing world and there are both supporting and constraining factors in the process. Forays into regionalism have not always been successful for India and China. China has for example, been unsuccessful with respect to the Tumen River Area Development Programme (TRADP) or the ASEAN Regional Forum (ARF) for example, while the jury is still out on its various FTAs and the EAC. For India, too, SAARC might be considered largely an unsuccessful endeavour until now.

While China has a good neighbourliness policy and believes it is natural and good for China to engage its neighbours in South Asia, it also acknowledges India's increased role in its extended neighbourhood and has noted the shift in India's thinking on Chinese membership in SAARC and in Indian policy towards its smaller neighbours. Regional and sub-regional cooperation has however, to be strengthened still further. India's attitude towards BCIM has been changing and this is a welcome development as far as China is concerned. By cooperating, the two countries can get to know each other better. It has to be acknowledged that previously, some Chinese did look down upon India but this is no longer the case. The Indian 'elephant' has started moving faster. There is plenty that China for its part could learn from India. For China, India is a crucial part of the picture in its diplomatic endeavours whether with its neighbours, developing countries, big powers or in multilateral framework.

One possible area of cooperation is that of currency cooperation involving India, China and other countries in the region. At present the two countries have an embarrassment of riches as far as their reserves go and most of these are in the form of American treasury bonds with their low rates of interest. These could be put to better uses therefore, perhaps in the form of an Asian Monetary Fund that could cut out the role of the International Monetary Fund (IMF). An Asian Development Bank or common Asian reserves could be put to use in a Keynesian project of helping out the weaker countries of Asia.

India and China need to manage their rise and competitiveness in a cooperative manner. There are real material issues such as environmental cooperation that call for such an approach. India and China which accounted for nearly 50 per cent of the world's trade about two centuries ago need to be involved more seriously in regional economic processes.

### III. CHINA-INDIA STRATEGIC PARTNERSHIP

At the 16th Party Congress in 2002, China laid out its focus on developing bilateral relations in three categories:

- 1) with the major powers
- 2) with developing countries
- 3) with neighbouring countries.

According to President Hu Jintao, India fits into all three categories and this view is a big step forward for the Sino-Indian relationship.

There are four characteristics of a strategic relationship:

- 1) It is based on a high level of national relationship in the context of globalization.
- 2) It is based on the interests of each country – political and economic.
- 3) It is comprehensive, multi-layered and offers multiple channels of promoting the bilateral relationship.
- 4) Historical problems are resolved and long term considerations are paramount.

The Sino-Indian relationship is of high strategic significance for both the region and the world. The period of conflict between the two countries in recent times was quite short in comparison to the long history of friendly relationship. The leaders have met with each other regularly and have provided a blueprint for the future development of the relationship with several agreements signed during President Hu's visit to India. In 2005, the two Prime Ministers signed a joint declaration on the political parameters for the resolution of the boundary dispute. Two years earlier the discussion on the border issue was raised to the political level and since then there have been significant progress. Further, during President Hu's visit broad cooperation in trade was stressed and studies initiated on a proposed FTA.

Both countries need to promote economic and trade relations which will provide the material foundation for the improvement of ties. Indian security concerns as well as anti-dumping cases filed against Chinese companies hurt bilateral relations. To discriminate against Chinese companies was unfair. Competition ought to be positive in nature.

A big problem in Sino-Indian relations was that knowledge of each other in the general population was largely limited to cuisine and movies but there was an urgent need to go beyond these and increase the exchange of visits of researchers, youth, etc as well as exchanges between political parties. With concerted efforts from both sides the strategic partnership between both countries can be developed and expanded.

India and China must look at where the convergences and divergences of their relationship lie. There are convergences in terms of national strategies, priorities of development, comprehensive national power and so on. India and China have to work at harmonizing their great power relationships. The US will remain the sole superpower for a long time. India has for its parts the best relations with the major powers that it has had in a long time.

The two countries also continue to show respect for the sanctity of the UN Charter and non-interference in each others' internal affairs. There is a common need to improve and restructure international organizations. There is a need also to develop a new framework to deal with environmental problems, ethnic conflict, etc. India and China have to cooperate in sustaining multilateralism and in developing ways to make regional organizations more effective.

Counter-terrorism is another area where the two countries could cooperate. The two countries have to assess the non-military strategic challenge of terrorism in West Asia and its fallout. This is an issue of great concern and the consequences are still far from certain. The view was also expressed however, that cooperation in anti-terrorism, is possibly overstated. What China knows as terrorism comes largely from within its borders while for India terrorism is sponsored from outside. In fact, what commonality exists comes from the fact that the terrorism originates from the same source country. Nevertheless, the prospects for China and India cooperating against this common source seem highly unlikely, at least for the present.

## The Border Issue

India and China both have their respective concerns on the border dispute. In the 1981-82 border talks, the two sides had agreed that the problem would be solved immediately but China's position changed after that to one that stated that the problem could be left to the next generation. Despite the fourth generation now being in power, there is still no sign of a final resolution. There remain 14 areas along the border that are considered to be in dispute between the two countries.

What is the impact of the unresolved border dispute on the strategic partnership? For the Chinese side, the question of the Dalai Lama in India remains an important one. There is a need to strengthen border dialogue and improve political trust in the interests of promoting the strategic partnership. China used to say that it had 15 land neighbours, which came down to 14, after it recognized Sikkim as a part of India in June 2003. Also, if India were to accept it, the Qinghai-Tibet Railway would be further extended to India and Nepal. True, there were military applications to the railway, but Chinese side would like to assure India that it would only be used for economic purposes. The Chinese side also feels that conditions were now very good for a final settlement of the border question.

The Indian side felt that there was a lack of sufficient appreciation on the Chinese side of the role of public opinion in India with respect to the border negotiations. In India, there is still no consensus on the border and the timing of the statement by the Chinese ambassador in India on Arunachal and the way it was played up subsequently in the Indian media raised hackles within the country. Similarly, on the question of Dalai Lama, the Indian political setup does not allow for the Tibetan leader to be evicted. India has a history of receiving refugees from all over the world and the Indian public would not stand for it. On the Indian attitude towards Tibet, the Indian side reminded the Chinese that the Dalai Lama had several years ago, made a statement saying that India was the only country that recognized Tibet as a part of China.

The Chinese side felt for its part that by stressing the role of public opinion in India, what has been left unsaid is that while India was a democracy, China was not and therefore, the Indian system was deserving of greater respect. However, public opinion

was very powerful in China and Chinese foreign policy too is shaped by it. In the case of the border dispute, the Chinese people's views on the issue too have to be considered. The Chinese people view the disputed territories as having historically belonged to



China. Moreover, at the founding of the PRC, Chinese territory had only shrunk, not increased. The parliamentary resolution in India was in no way helpful for the settlement of the border dispute.

However, public opinion cannot be considered the only factor in the resolution of the border disputes. Governments have a duty to govern and reach settlements in the larger public interest.

While there have been positive developments in military exchanges, the agreements of 1993 and 1996 have however, not been substantially taken forward. After the CBMs of 1993 and 1996, 37,000 Indian troops were withdrawn but no similar withdrawal has taken place on the Chinese side. There is, therefore, a greater need for implementing the CBMs agreed to by both countries.

## Situation in the Region

India has concerns about Sino-Pak relations as well as China's relations with other countries in South Asia, while China is concerned about the Dalai Lama in India and about the developing Indo-US relationship. The Chinese wish to remind the Indians that US history has been one of expansion. The Sino-Pak relationship, however, will not affect Sino-Indian friendship. Further, US military supplies to Pakistan are greater than those of China, so should India be worried about China? Further, India and China face a common challenge from US unilateralism. Countries do not have the same political systems but each pursues its own national interests and India and China certainly have an area for cooperation in the pursuit of multilateralism.

To this the Indian response was that the US-India relationship is very different from the Sino-Pak relationship. Pakistani missiles aimed at India are of Chinese origin. Trust, therefore, cannot be a one-way street. China and India need to put practical issues on the plate before they can start talking about a strategic partnership. Vague statements will not do.

The Indian perception was that China appears to be increasingly considering Pakistan a failing state and of declining importance in the region. This has been evident from several Chinese pronouncements including Jiang Zemin's landmark speech in the Pakistan Senate in 1996.

To the question of whether following the nuclear deal, the US would formally recognize India as a nuclear weapons state (NWS), despite the fact that from the perspective of

international law, only those countries that tested nuclear weapons before 1 July 1967 are recognized as being NWSs, the Indian response was that while the US does not recognize India as a formal NWS, India had no need to be recognized formally as one. The fact is that India is a NWS and needs no international certification. The US struck the deal with India because it was more useful to have India, given its non-proliferation record as part of the solution to global non-proliferation rather than as a possible adversary. The agreement does not mention India as a NWS but the deal is a one-time exception only for India. Pakistan does not have the same history or record of non-proliferation.

## Possible Areas of Cooperation

In the nuclear field, while China signed a de-targeting agreement during Boris Yeltsin's visit and a non-targeting agreement during Bill Clinton's visit, no such agreement has been signed with India and this is a possible area of cooperation. Both countries must also not repeat the 1950s approach of moving to multilateral issues before resolving bilateral issues.

Further, it is time India and China moved from joint operations to joint exercises, including in the Pacific. They could cooperate in anti-piracy, protecting SLOC, against weaponization in outer space and undertake joint research projects.

The two countries must refrain from picking on the US as a reason for their coming together. India and China should have sufficient reasons of their own to cooperate and for developing an impetus to a strategic partnership.

One area where the bilateral relationship can be taken to the next step and which the talks on strategic partnership have not adequately addressed is the possibility of increased cooperation at the subnational levels, that is, between the regions and provinces in both countries. As long as Sino-Indian relationship remains Beijing-centric or New Delhi-centric, the relationship is not going anywhere, anytime soon. In this respect, it is hoped that the opening of an Indian consulate in Guangzhou and a Chinese one in Kolkata are measures also in this direction. There is a need to develop cooperation along the borders so that the peoples in these regions also develop a stake in the relationship.



## IV. MULTILATERAL AND INTERNATIONAL ISSUES – THE INDIA-CHINA-RUSSIA TRILATERAL

The end of the cold war and the disintegration of the socialist bloc raised the question of a new paradigm in international relations to explain and understand inter-state behaviour and interaction. The tendency to view the events of 1991 simply in terms of the defeat of one side and the victory of the other – which had dominated its immediate aftermath, is now gradually decreasing. Undoubtedly, the post-Cold War era has just barely begun. It is not possible to make any definite pronouncements regarding the post-Cold War world order. Nonetheless, certain trends are discernible, which indicate the possible shape of things to come. One such prominent trend is greater stress that is being laid on multipolarization and greater democratization of the world order. More crucially, the trends of cooperation and partnerships among the major powers in the world today must be understood as a logical consequence of the shift from Cold War and alliance politics. It is important to remember that India and China are not the only rising powers in the region and just as importantly that they are also not rising at the expense of other countries as was the case during the colonial period.

### Trilateral Cooperation

The trilateral relationship between China, India and Russia is of increasing importance on the world stage. All three are emerging big powers with the same development needs and all three nations want stable and peaceful neighbourhoods. They share a common understanding on several regional and international issues and have expressed their desire for a multi-polar world.

In the wide-ranging academic discussions that have been underway for the last five years on the problems and prospects for trilateral cooperation between India, China and Russia, it has been frequently stated that the India-China arm of this triangle is comparatively less evolved and more complex than the India-Russia or the China Russia arms. What is now being witnessed is a gradual but perceptible change in this regard. India-China relations have been on a trajectory of continuous improvement since the resolution of the tensions and misunderstanding that emerged in the wake of Pokharan II nuclear tests by India in May 1998. The last five years have in fact produced extremely positive trends in bilateral relations culminating in the establishment of a 'Strategic and Cooperative Partnership for Peace and Prosperity' during the April 2005 visit of Premier Wen Jiabao.

It has to be noted that six years after the trilateral dialogue started, interaction at the official level have outpaced those at the Track II. This is a sign that academics and scholars have not been as bold as the governments have been. The relationship is all the more significant owing to the rise of India and China and the revitalization of Russia. Also to be noted is that the contribution of the trilateral to the bilateral relationships is quite significant. There are several practical and substantial issues to

be discussed. The three countries need to know how to adjust and react jointly to global developments. They could undertake joint studies on development processes, economic and trade issues, energy transportation, clean technology, genetics, traditional medicine, coordinate action on developing strategic oil reserves, jointly develop space programmes and space technology, exchange meteorological and environmental information and conduct inter-ministerial programmes in the fields of agriculture, science and energy.



Economically, there is great potential for cooperation which has not been fully exploited. Bilateral trade among the three countries still leaves a lot to be desired. There is also political and military cooperation at various levels which need to be expanded and strengthened. The border issue, however, remains outstanding between India

and China while the Sino-Russian dispute has been successfully resolved. As the status and powers of the three countries are nearly equal, there should not be as much suspicion of each other as during the Cold War period. Nevertheless, political trust is still lacking in large measure.

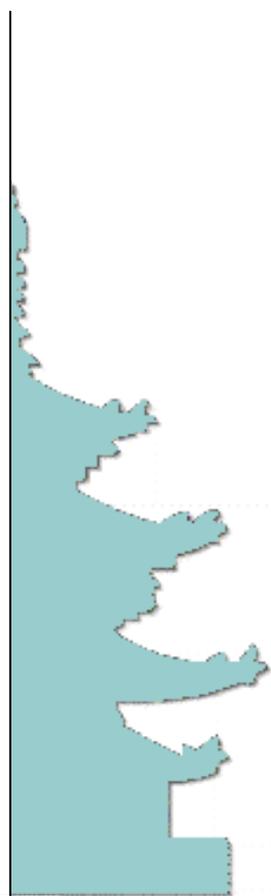
## Impact of the Trilateral on Bilateral and Global Issues

The trilateral relationship has gained momentum and made progress and is likely to play an increasingly greater role in world affairs. The joint statement during the Hu Jintao visit to India also positively assessed trilateral cooperation. The relationship is conducive to the maintenance of world peace, ensuring regional stability, multipolarity, economic globalization, the democratization of international relations and the addressing of non-traditional security problems. India, China and Russia have for example, largely common positions on the Korean and Iranian nuclear issues, and Myanmar.

While, the relationship is however, not directed against any third country but against hegemony, the central space in the China-India-Russia triangle still happens to be occupied by the US. The relationship with the latter is absolutely the key bilateral for each of the three countries and this situation is not likely to change soon. Each of the three countries also has different views of and expectations from the trilateral relationship. The counterview was that the trilateral relationship did not involve the US as the objective was to provide an alternative. At the same time, the trilateral was also not directed against the US but was rather the aim was to counter unilateralism and hegemonism. It is clear that India, China and Russia have too much stake in their bilateral ties with the US to allow for confrontation arising from the trilateral relationship and will therefore, steer clear of any geo-strategic moves or power-politics that are likely to complicate their respective relationships with the US. Further, it is not

just the US that is an important part of the trilateral relationship but also countries like Pakistan and Iran.

Meanwhile, the overall upward trends in bilateral ties are likely to contribute quite positively to the trilateral dynamics. The fact that the foreign ministers of the three countries had their first stand-alone meeting in New Delhi in early 2007, testifies to their increasing understanding and confidence as well as greater cognizance of the immense benefits that will flow from cooperative strategies. The fallout on the processes that are re-shaping the post-Cold War world order and international relations as well as their role in tempering some of the negative consequences of globalization, can be significant. While the trilateral relationship is of a far more substantial nature today than ever before, the three nations also need to examine the possibilities of other multilateral relationships. Another trilateral relationship just as relevant to this discussion is the one slowly emerging between India, China and Japan.



## V. TRADE, ENERGY SECURITY AND ENVIRONMENT ISSUES

In the late 1940s when India became independent and China was liberated, perhaps no two countries were more similar; today they are widely dissimilar in many key respects related to economic and social indicators with China ahead in most respects except for the fact that there may be more inequality in China than there is in India. China crossed India in 1986 in terms of GDP/capita. While the US is still expected to be the biggest economic player for the next 50 years or more, India might be able to replicate the Chinese pace of growth, that is, double the economic output every nine to ten years.

India and China today have a historic opportunity to enable greater economic cooperation between them. Fifteen years ago there was talk of competition between China and India for FDI, markets, etc but this has not happened. There is room for both countries. The rise of one does not necessarily impede the other. The potential for cooperation is bigger than the possibility for trade conflict. Both countries have however, to take active steps in removing trade barriers. The FTA will be an important tool for the development of trade and economy.

Competition is inevitable but normal. It is the trend of politicizing economic disputes that makes them difficult to solve. India and China are newcomers to the existing international system and therefore, can and must cooperate to gain their legitimate shares and places in the global system. The two countries cannot imitate western development models and need to work on trade diversification.

It is imperative that both countries move out of poverty. China suffers from huge regional disparities and inequalities. For middle-level cities to catch up to the standards of Beijing will take about 30 years and it will take a similar timeframe for the low-level cities to catch up to the present standards of the mid-level cities. China might be ranked 4th in GDP but it cannot forget the huge gap that separates it from developed countries in per capita GDP. While the GDP of both China and India are increasing the absolute gap between China and the US and India and the US in GDP terms is also increasing.

China has more social problems than India and its GINI coefficient is higher than that of India. However, problems can also be considered as driving forces. Gaps in development are only a further incentive to work harder at catching up. Regional disparities must similarly provide the impetus to work at reducing them. Investors from China's prosperous coastal provinces are thus, now investing in the interior underdeveloped provinces of China. Similarly, it is the underdeveloped areas that are the future of China's cities.

Both countries also needed to pay attention to the rise of non-state actors not just in international relations but in the international economy too. If India wishes to increase its exports, it must aim at the US market which is the largest in the world and this can only mean that Indian and Chinese companies will go head-to-head in the coming years. This however, does not mean that relations are going to be necessarily adversarial in the years to come. The two countries need to understand and cooperate in dealing with the process of globalization that is unfolding today. To allow companies

like Wal-Mart into India would mean that goods obtained at very low prices in China would be sold with a heavy markup in India, with profits going to neither. Both countries need to be clear that the present international economic order and its rules have been created by the developed nations. India and China need to be level-headed and not think only about catching up with those ahead of them.

## Some Macro-economic Facts

The first essential difference between India and China in economic terms comes from the percentage shares of agriculture, industry and services in their respective GDPs. Figures indicate that in 2004, agriculture contributed 23 per cent and 15 per cent of GDP respectively in India and China, but it is in the other two sectors that the major mismatches between the two countries come. While manufacturing contributes over 50 per cent of the GDP in China, in India it is services that show a similar figure. Thus, while in China, employment generation has been high with over 200 million in employment, in India, growth has not been accompanied with a commensurate increase in employment figures. Indian services employ only about 2 million.

China and India also differ in terms of international trade. The big difference in FDI flows to the two countries is important because a bulk of China's exports and employment is generated by FDI inflows. Of the top five sources of FDI in China in 2003, as a percentage of total utilized FDI, Hong Kong contributed over 50 per cent. Here, besides the phenomenon of round tripping of capital, Hong Kong also serves as the transit point for capital from overseas Chinese. The equivalent statistic for India for the year 2004, shows that Mauritius contributes nearly 60 per cent which is to say that Indian companies are using relaxed laws in that island nation to invest in India. In other words, the bulk of the FDI in both countries comes from their own people.

Demography is another important indicator with implications for economic growth. Comparing China and Japan it is seen that by 2020 the two countries will have approximately the same percentages of their populations in the working-age cohorts but also sizeable populations of the aged. India by contrast in 2020 will have a large majority of its population under the age of 30 and the working-age cohort will remain predominantly young even as late as 2030.

According to Goldman Sachs figures, projected GDP and GDP per capita for India are likely to be way behind those of China even in the year 2050. However, even a 1-2 per cent increase to the rates of growth for India would mean that India's per capita GDP would begin to catch up with that of China by about 2035. In the meantime, however, India has a lot to learn from China.



Coming next, to international trade, the US remains the major trading partner for both China and India but in 2005, China became India's largest market for manufactured goods, with ASEAN also becoming a major market. It might well be the Asian Century with the continued growth and combined might of the Chinese, Indian and ASEAN economies, together with the Japanese economy. In the last five years, China has registered a great increase in foreign trade. This year, it will be US\$1.7 trillion – a 20 per cent year-on-year growth. Of late, India too has become a major destination for FDI and Indian corporations have also begun buying up foreign companies.

## Bilateral Trade

Sino-Indian trade has taken off from under US\$5 billion before 2002 to exceed all projections and stand at over US\$20 billion in 2006. India is China's biggest trading partner in South Asia and President Hu has called for trade to hit US\$40 billion by 2010 but this might well go up to US\$50 billion by that date. There is a very high commodity concentration – the top 10 products contribute more than 80 per cent of trade in both directions – and India's exports were mainly low value added (iron ore, iron and steel). The trade is not diversified enough with India exporting largely iron ore and China exporting manufactured goods. This structure might be unsustainable in the long term. The Joint Study Group Report of 2005 suggested trade facilitation involving customs procedures, inspection/certification for SPS and technical standards and the improvement of shipping and air transport links.

There are also several understated but sensitive issues in the bilateral economic relationship. Indian anti-dumping measures on imports from China and China's request for "market economy status" are two such examples. Prospects for and the benefits of

bilateral China-India FTA too are a matter of differing perceptions on both sides.



Chinese companies have complained that they are being discriminated against in India owing to the "security" factor and this has continued even after the Hu Jintao visit with even visas for businessmen being denied on occasion. Chinese newspapers have made quite a bit of noise on

these problems. The Indian side acknowledged that it was unclear how a civilian contractor like China Harbour being allowed the opportunity to invest in Indian ports could affect Indian security but stated that India has sought to address such concerns by taking the decision that if there is going to be any security issue involved, countries will not be discriminated against but the sectors involved will be segregated. Chinese companies also needed to realize however, that foreign companies need to lobby the

Indian government to achieve their goals and Chinese companies could expect no exceptions.

The Indian economy is also very stratified. What India needs is further economic reforms and it needs to learn from China in the process. The two countries might be physically close but border trading posts like Nathu La are not practicable for higher end goods.

Both countries might still have a lot of catching up to do with the developed world but they also need to be very satisfied with the present rates of economic growth. On bilateral trade, there is a need to be patient as such ties take time to develop and the market must be allowed to take charge. Without competition, there is no development, and without development there can be no cooperation.

## Anti-Dumping

Article VI of GATT states that “Dumping” is exporting at a price less than “normal value.” Normal value can be established as price in exporter’s domestic market, price charged by exporter in a third country or exporter’s estimated costs, with allowance for “reasonable” profits and is based on data provided by producers. If a country can establish both “dumping” and “material injury” to its domestic industry, it can impose an anti-dumping duty up to the dumping margin which is the difference between export price and normal value.

However, GATT/WTO rules are very general and widely abused. Moreover, in the case of China standard GATT/WTO rules are not applicable. Section 15 of the Protocol of Accession to the WTO allows other members to ignore Chinese prices and costs in calculation of normal value. Other countries often use prices of a comparable market economy, e.g. India, as a surrogate for Chinese costs. India’s Directorate General of Anti-Dumping (DGAD) also does this, using cost data provided by petitioners themselves and which is not made public. This makes it easy to prove dumping and establish a high dumping margin. From 1995 to June 2006, 94 of the 448 anti-dumping petitions by India at the WTO were against imports from China while the count for China against India stood at only 4 out of 126.

China and Russia have been trying to get market economy status (MES) from India which would allow all their producers to be treated under standard GATT/WTO rules, like those of other members. While Russia has got MES from the EU and US, China has got it from 66 countries, including Australia, Brazil, New Zealand, Malaysia and Thailand. Indian industry is opposed to granting MES to China owing to concerns about Chinese industries getting cheap credit and land from government agencies and thus the JSG Report only calls for both sides to work together and promote dialogue. There is, however, no justification for using Indian costs as surrogate for Chinese costs of other inputs. Even with MES, Chinese and Russian exporters will still have to provide data and respond to questions from investigators. Meanwhile, the Protocol allows Chinese prices or costs to be applied for individual producers who can prove that “market economy conditions” prevail in their industry. India allows this for China and Russia, and producers have successfully claimed market conditions in some cases. However, the procedure is very complicated.

## China-India FTA

The JSG Report does not go into detail and the Joint Task Force the two governments had set up to explore the feasibility of the FTA met only once in March 2006. Both countries are meanwhile, also exploring FTAs with other partners, such as the ASEAN, for example. An Indian view of the FTA is that bilateral FTAs can result in welfare loss due to trade diversion. In this particular case, India as the partner with the higher tariffs is more likely to lose. FTAs also require complicated and costly Rules of Origin which does not make the task any easier.

India has an advantage in the services sector while China has advantages in manufacturing. However, given that India's tariffs are higher than those of China, a FTA in goods would mean that India will have to make more concessions and there is likely to be higher preference margins for Chinese exports. The flood of manufacturing imports may cause social / political problems in India; perhaps even a backlash which will affect improvement of political ties. Also worth consideration in this respect is the fact that there has been almost zero growth of employment and wages in India's organized manufacturing sector in the last seven years.

In the services sector, it is unlikely that there is any scope for China giving preferences to India's exports. For Mode 1 services supplied across borders, WTO agreements on IT and e-commerce already establish a free trade regime and hence no possibility for more preferences. For Modes 3 and 4, meanwhile, market access is regulated more by work permits, FDI rules, recognition of professional qualifications/certification and it is not easy to give preferential treatment under General Agreement on Trade in Services (GATS) MFN rules

A simulation for 2007-2025 in the Asian Development Bank's (ADB) Asian Development Outlook 2006 compares the effects of a pan-Asian FTA to Chinese bilateral FTAs resulting in a "hub and spoke" arrangement with China as the hub. China gains very little from an Asian FTA, but more from being the hub. India, on the other hand, gains from the Asian FTA but loses from being a spoke of the China hub. From the Indian point of view, regional FTA involving other Asian countries would be less problematic as there are fewer possibilities of trade diversion, more openings for Indian exports and less complicated rules of origin. Meanwhile, bilateral "trade facilitation" measures recommended by the JSG should be pursued and this will also promote people-to-people contact. It is imperative that anti-dumping procedures should be made less cumbersome.

Multilateral trade agreements are certainly better than regional agreements and regional agreements are better than bilateral ones. There are however, almost insurmountable difficulties between developing countries and what is more developed countries expect impossible concessions from developing countries. It is thus, that there has been a shift of emphasis from multilateral to regional and bilateral trade arrangements. Different bilateral agreements should over time merge into larger agreements.

As Jagdish Bhagwati has pointed out, RTAs can either be building blocks or stumbling blocks. There are several bilateral issues to be resolved within SAFTA and also before the India-ASEAN FTA can reach fruition. SAFTA has been bogged down in politics despite years of negotiations and there is a view in India that China could reap advantages from SAFTA and could also perhaps use its powers of persuasion with Pakistan to moderate the latter's stance on several contentious issues. However,

China's observer status in SAARC does not necessarily help within SAFTA at the present juncture.

## Energy Consumption

India and China have a major role in strengthening Asian regional energy cooperation. According to the International Energy Agency, by 2030 global demand for energy is expected to rise by 53 per cent and 70 per cent of this rise in demand is expected to come from developing countries like China and India. Global demand is expected to grow by more than half over the next quarter of a century, with coal use in particular rising the most in absolute terms. Most of the increase in oil demand comes from transport sector – driven by developing countries

China's energy consumption will grow at 7 per cent and that of India at 2–3 per cent. So China has stronger concerns about energy security than India. 60 per cent of Indian oil imports come from foreign sources which will increase to 70 per cent by 2020. China too will reach 60 per cent oil dependence by 2020. A breakup of oil consumption



patterns in both countries shows that transportation is responsible for a large share of consumption in India at over 40 per cent at the turn of the century while the corresponding figure for China is quite low at 9 per cent. India's total exports grew by 36.5 per cent in 2004-05 but the corresponding increase in India's oil imports was 40.8 per cent. Presently, the world per capita consumption of energy stands at 1.66

tonne of oil equivalent (toe). For the US, it is 7.78 toe and for Japan 4.1 toe while for developing countries like China (1.16 toe) and India (0.35 toe), it is much below the world average. However, since the latter are in the midst of economic and social transformation, their energy requirements are likely to go up and put pressure on global sources of energy.

Energy consumption in India has slowed down despite an economic growth rate of over 6 per cent while China's consumption keeps on growing. This is because India's economic growth is services based, unlike that of China's. Rising oil prices nevertheless, pose a major threat to the prospects of developing countries besides the fact that most developing are already either lack any energy resources of their own or possess these in very limited amounts.

While oil production is likely to be high even up to 2030, geopolitical factors form another major threat to oil supplies. India-China competition for oil can lead to future geopolitical challenges and the US will not want the resulting high oil prices because it affects American operations worldwide. India and China face price-related risks in

international markets. High oil prices hang like a Damocles' sword over China and its acquisitions abroad. The cyclic factor in oil prices cannot be entirely ruled out. If the Iran nuclear issue gets any worse, prices could go up to US\$80 a barrel or more but without the crisis, it might have fallen to as low as US\$50. India and China cannot afford to scramble for more oil the way the Japanese did in the 1970s and push up prices.

China already faces a great risk from the volatility in the oil markets but India too could be affected just as badly in the future. In this context, criticism of China's cooperation with the so-called problem countries of Iran, Sudan and others is unwarranted. China's energy needs are too large and further, this phenomenon might also be repeated in the case of India whose own energy needs are growing. Neither country has the luxury of low-priced oil as they are latecomers to the energy markets.

## Energy Cooperation

In 2004-05, the cost to India and China of oil imports were approximately US\$45 billion and US\$65 billion respectively. While, petroleum consumption in India and China remains comparatively low when compared to the consumption of the developed economies, their oil dependence is going up. Energy consumption might be rising in Asia but pricing is still fixed by the West and are higher than what Asian countries can accept. The Asian premium of about US\$2 per barrel needs to be eliminated. China, therefore, believes there have to be Asian prices that can be set by a joint mechanism of Asian nations. China and India deserve a say in global forums on these matters and such cooperation will ensure that they have it. It will however, take time to change the old mechanisms.

The two countries can cooperate in the business of oil pipelines. India, China, South Korea and Japan could combine to negotiate jointly with West Asian oil producers to get oil at lower prices. These major consumers in Asia should not be engaging with each other in vicious competition for oil whether from West Asia or Russia. The US has 50 per cent of its oil supplies coming from Latin America, the EU depends largely on Russia and North Africa, and therefore, India and China should also make use of their geographical locations to tap into the nearest sources of oil. Energy cooperation is not a zero-sum game; it can be a win-win situation. Competition need not be a barrier and the price of oil should not lead to vicious competition between the enterprises of the two countries. For example, in Northeast Asia, Japan and China are involved in such competition and this is not good for either country. Similarly, there is not sufficient cooperation between India and China in the energy sector. The two countries along with Russia should be major players in Asia.

The common response must be to increase and strengthen cooperation in the energy sector. There are several ways of cooperation that China and India might consider. For one, the two countries need to be open to the possibility of joint investment in energy resources and infrastructure. It must be noted however, that the case for joint bids by India and China for oil reserves around the world is perhaps overstated and without economic rationale. No matter the Indian or Chinese investments in foreign oil fields, it will still be the host country that owns the oil and both India and China will still have to pay market prices for it. Nevertheless, global energy investments are expected to exceed US\$20 trillion by 2030 – China alone will require US\$3.7 trillion. Since these

resources are unlikely to be available with any one developing country, they need to be able to pool them together so as to make the most of the opportunities.

India and China also need to work together to ensure a multifaceted energy resource structure including the development of renewable sources of energy. The two countries have to improve their dialogue on issues of mutual interest and work together towards establishing a global mechanism for administering and guaranteeing energy resources. In addition, joint efforts are needed also to increase awareness of energy conservation and improving energy efficiency. The development of clean technology and the need to learn from and consult each other are imperative to ensuring energy security in both countries.

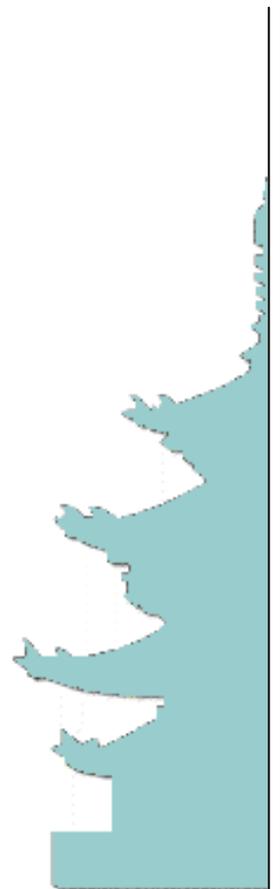
The two countries have considerable scope for cooperation in the development of alternative sources of energy. According to the International Atomic Energy Agency, in 2003, India generated only 3.3 per cent of its electricity from nuclear power, and China only 2.2 per cent. While China has gone into nuclear power plants in a big way, there are only 16 nuclear power plants in operation in India and their total capacity is only 3900MWe. This is one reason why the Indo-US nuclear deal is such a big thing for India. China and India need to cooperate also in refining technology, biofuels and hydro-electric power. While energy from alternative sources such as hydel, solar and wind power remained very limited in both countries, indicators for energy cooperation can also come from Indo-US cooperation in various fields. For example, India and China can cooperate in hydrogen energy, green coal technology, and extracting methane from the seabed. Since the two countries are also heavily dependant on energy from coal, this is perhaps another area for scientific cooperation. Technology costs need to come down such that photo-voltaic cells and other alternative energy sources become more affordable and practical.

## Environment

India and China are different economies and have different consumption patterns but similar environmental problems. There are environmental pressures created by the rising demand for energy. For example, half of the projected increase in emissions until 2030 comes from new power stations, mainly using coal and mainly located in China and India. The World Bank has estimated that the economic losses due to environmental degradation in China amount to between 8 per cent and 12 per cent of Chinese GNP. Chinese energy efficiency is quite low with energy consumption per unit of GDP at more than two times the world average while India's energy consumption is at the world average. In addition, it has to be noted that China is heavily dependant on foreign trade – its trade surplus is largely garnered by the MNCs – and its exports largely high on energy consumption. China exports the best goods but leaves the poor quality goods at home, thus causing further environmental damage.

China has been losing forest cover at an alarming rate and its rivers are heavily polluted. It has been estimated that cleaning up the environment will cost about US\$300 billion, which is about one-third its US\$1 trillion GDP. The environment is under stress in India as well. The US Energy Information Administration (EIA), states that while India and China presently contribute only about 4 per cent and 14 per cent respectively, to the total global carbon dioxide emissions, these figures are likely to increase to 5 per cent and 18 per cent by 2025, roughly equaling that of the US.

On the question of the environment, there is a question of fairness involved as it has been the developed countries that have contributed the most to pollution and global warming and continue to do so. Meanwhile, China and India need to share their experiences in problems of policymaking and implementation and to better educate their people on energy conservation.



## CONCLUSION

The mentality of the geographical divide between India and China seem slowly to be disappearing as is evident especially from the last three agreements signed between them in 2003, 2005 and 2006. This demonstrates that there is greater political will for change on both sides but there is still considerable mutual distrust that remains a major obstacle in the relationship. This is the basic problem that the two countries will have to deal with and will require greater exchange of views and genuine and unremitting efforts. Both sides will have to understand each other's strategic concerns and threat perceptions. There is need for a balanced understanding on these issues, to keep the interests of the peoples of both countries paramount and to continue the dialogue and discussion on the bilateral relationship and on expanding political trust. The strategic partnership must extend to cooperating and acting also on other matters of wider global significance. Their respective relationships with the US and EU are issues that can come up for future discussions. The two countries also need to exchange views and ideas and cooperate on emergent situations in different parts of



the world such as West Asia and Africa. India and China need to put their heads together on a variety of international issues not least the reform and restructuring of international institutions.

China and India need to be satisfied with the progress so far in bilateral trade given the initial conditions. More and more people on both sides recognize the advantages and benefits

of bilateral trade and the potential of the markets of both countries. China and India should jointly improve their understanding of WTO issues, strengthen the G-20 to make it pro-active and extend beyond issues related to agriculture. The two countries also need to learn from each other on how to cushion the social consequences of economic reforms.

Issues that may complicate Sino-Indian relations in both the bilateral and regional contexts include questions of how the two countries will handle their simultaneous rise in the global order and their relations with a third country. The buildup of militaries in both countries, competition for markets and trade and inadequate institutional arrangements for cooperation pose further challenges. The solutions to these issues lies in increased Track II dialogue and developing more areas of cooperation and engagement in matters related to the economy, environment, tourism, counter-terrorism as well as in international affairs.

## LIST OF PARTICIPANTS

November 2006

### INDIAN DELEGATION

Dr. Alka ACHARYA

Chairperson, Centre for East Asian Studies, Jawaharlal Nehru University, New Delhi.  
Member, India-China Eminent Persons Group and Member, National Security Advisory Board, Government of India

Maj. Gen. (Retd.) Dipankar BANERJEE  
Director, Institute of Peace and Conflict Studies, New Delhi

Mr. Mohan GURUSWAMY  
Chairman of Centre for Policy Alternatives, New Delhi

Ambassador Salman HAIDAR  
Former Indian Foreign Secretary and Ambassador to China

Mr. Jabin T JACOB  
Research Fellow, Institute of Peace and Conflict Studies, New Delhi

Dr. Srikanth KONDAPALLI  
Associate Professor, Centre for East Asian Studies, School of International Studies, Jawaharlal Nehru University, New Delhi

Ambassador Lalit MANSINGH  
Former Indian Foreign Secretary and Ambassador to the United States

### CHINESE DELEGATION

Mme. CAO Xiaobing  
Council Member, Chinese Association of International Understanding

Prof. CHEN Fengying  
Director, Institute of World Economic Studies, China Institutes of Contemporary International Relations, Beijing

Ambassador CHENG Ruisheng  
Former Chinese Ambassador to India and Myanmar, and Member Council for Security Cooperation in the Asia-Pacific (China)

Prof. MA Jiali  
Research Professor, China Institutes of Contemporary International Relations, Beijing

Maj. Gen. (Retd.) PAN Zhenqiang  
Executive Counselor, China Reform Forum, Beijing



Ambassador ZHOU Gang  
Former Chinese Ambassador to Pakistan and India, and Research Fellow, China  
Institute of International Studies, Beijing

**March 2007**

**INDIAN DELEGATION**

Dr. Alka ACHARYA  
Chairperson, Centre for East Asian Studies, Jawaharlal Nehru University, New Delhi.  
Member, India-China Eminent Persons Group and Member, National Security Advisory  
Board, Government of India

Maj. Gen. (Retd.) Dipankar BANERJEE  
Director, Institute of Peace and Conflict Studies, New Delhi

Prof. Madhu BHALLA  
Department of East Asian Studies, Faculty of Social Sciences, Delhi University

Prof. Aditya BHATTACHARJEA  
Department of Economics, Delhi School of Economics, University of Delhi

Mr. Jabin T JACOB  
Research Fellow, Institute of Peace and Conflict Studies

Dr. Srikanth KONDAPALLI  
Associate Professor, Centre for East Asian Studies, School of International Studies,  
Jawaharlal Nehru University, New Delhi

Mr. M V RAPPAL  
Visiting Fellow, Institute of Chinese Studies, New Delhi

**CHINESE DELEGATION**

Prof. LIU Jianfei  
Institute for International Strategic Studies, Central Party School, Beijing

Prof. MA Jiali  
Research Professor, China Institutes of Contemporary International Relations, Beijing

Mr. RONG Ying  
Director, Strategy Division, China Institute of International Studies, Beijing

Col. Dr. WANG Guifang  
Associate Professor, Department of War Theory and Strategic Studies, Academy of  
Military Science

Ambassador ZHOU Gang  
Councilor, China Reform Forum

Prof. WU Zhonghu  
China Institute of Energy Studies, Beijing



### **INSTITUTE OF PEACE AND CONFLICT STUDIES**

B 7/3 Safdarjung Enclave  
New Delhi 110029 INDIA  
Tel: 91-11-41652556 – 59  
<http://www.ipcs.org>



### **CHINA REFORM FORUM**

Kuanpinyuan, Friendship Hotel  
1 Nandajie Zhongguancun  
Beijing, 100873, People's Republic of China  
Tel: 86-10-68949045  
<http://www.crf.org.cn>

