

SINO-INDIAN RELATIONS RECENT DEVELOPMENTS

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Not long back, Sino – Indian relations were all about management of differences and rapprochement. Today, bilateral relations are beyond the phase of consolidation. While agreeing to disagree on certain issues, the two countries are willing to identify new areas for partnership. This is primarily because a rising China presents both an opportunity and a challenge to Indian foreign policy. China's ubiquitous growth in trade and economy and its predominance in global trade turn it into a springboard for several developing and developed countries.¹ The business perspective² sees a big market in China and its engagement as a way to bring economic prosperity and competitive skills in India. On the other hand, the security perspective³ sees China as a challenge due to its growing economic clout, rapid military modernization and rising

political influence and, hence, a case for some anxiety.

The road map for a comprehensive relationship between India and China in recent years was laid down during Atal Behari Vajpayee's visit to China in June 2003 and a return visit by the Chinese Premier Wen Jiabao in April 2005. Since then, Sino – Indian relations have seen many developments. While most of these engagements are primarily of an economic nature, courtesy a wide range of comprehensive agreements signed during Wen Jiabao's visit, the spill over is being felt in other areas as well.

I ECONOMIC RELATIONS

India and China were busy netting comprehensive economic relations in the last one year. Sino – Indian trade has reached an all time high and was pegged at \$ 18.7 billion at the end of 2005.⁴ The average annual growth rate is over 30 percent, not to forget the near phenomenal growth of 79 percent in 2004. If this trend continues, China is likely to overtake US as India's largest trading partner by 2007. At this

*THE VIEWS EXPRESSED HERE ARE THE AUTHOR'S OWN AND DO NOT REFLECT THE VIEWS OF THE INDIAN DEFENCE ACCOUNTS SERVICE

¹ S. Majumdar, 'Business beckons Sino – Indian relations', *Business Line*, 7th April 2004.

² The Confederation of Indian Industry (CII), the Federation of Indian Chambers of Commerce and Industry (FICCI) and ASSOCHAM hold this view.

³ The strategic and security analysts hold this perspective.

⁴ This figure, however, pales when compared to China's trade with US (\$ 244 billion) and its neighbours: Japan (\$ 189 billion), South Korea (\$ 100 billion), and ASEAN (\$ 117 billion).

rate, the bilateral trade will cross \$ 50 billion much earlier than 2010.⁵

While global trade was facing a sluggish growth, the boom in Sino – Indian trade came due to a quantum push in India's exports to China last year. China's hunger for raw materials, intermediates and components saw big leap in Indian supply of raw materials. Exports of iron ore to China more than doubled, pushing Japan to the second place. Iron ore now constitutes around 40 percent of India's exports to China.⁶ The other major exports are plastic materials, steel, chemicals and soyabean oil.⁷

While India has been supplying mostly primary goods to China; value added items, especially machinery and electrical machinery constitute about 36 percent and dominate Chinese exports to India. The top 15 Chinese exports to India recorded growth between 29 percent (organic chemicals) and 219 percent (iron and steel). Border trade, though small in volume, also played a significant role in enhancing bilateral trade and economic cooperation. Moreover, it contributes to generate opportunities for the export of commodities across the bordering provinces of the two countries.

⁵ 'China set to overtake US as India's largest trading partner', *The Hindustan Times*, 16th March 2006. In fact, business sources put this figure at \$ 100 billion in next six years. See, 'Sino – Indian trade to break new record this year at \$ 20 billion', http://www.outlookindia.com/pti_news.asp?id=378426 17th April 2006.

⁶ In 2005 – 06, India exported 68.5 million tones of iron ore to China, but nearly all of that were on spot basis. India is looking for a long – term deal with China, like the one it has with Japan. See, 'India eyeing long term iron ore deal with China', *The Hindustan Times*, 5th April 2006.

⁷ S. Majumdar, Op. Cit. No. 1.

While the burgeoning trade holds good for both countries, there is plenty of scope for further enlargement of trade basket. Towards this objective, both sides are committed to remove trade hurdles. The CII has identified following areas for trade enhancement:

1. Biotechnology.
2. Information technology.
3. Health.
4. Education.
5. Tourism.
6. Financial sector.⁸

To foster an all round expansion of Sino – Indian trade, the Joint Study Group (JSG), that was commissioned during Former Prime Minister Atal Behari Vajpayee's visit to China in June 2003, gave its recommendations during Wen Jiabao's visit to Delhi. The JSG in its report has identified a series of measures related to trade in goods and services and other areas of economic cooperation, and recommended their expeditious implementation to remove impediments and facilitate enhanced economic engagement between India and China. The recommendations of the JSG are being further considered by the Ministerial – level – India – China Joint Economic Group (JEG).

With booming trade, bilateral investments have also picked up. However, the comparative assessment is quite asymmetrical. While China is the most popular FDI destination in the world, attracting over \$ 60 billion, India was a laggard with a paltry \$ 4.5 billion. On bilateral front, China accounts for more than 5 percent of India's total FDI receipt whereas India accounts for less than 1 percent of China's total FDI receipts. Indian companies have invested in sectors

⁸ CII, 'India – China: the road ahead',

such as iron and steel, textiles, chemicals, automobile components and pharmaceuticals. They are also active in services sector like restaurants, entertainment, culture and banking. The State Bank of India has become the first Indian bank to start commercial operations in China by opening its branch in Shanghai.⁹ Among the Indian companies that have set up joint ventures or subsidiaries include pharmaceutical companies like Ranbaxy,¹⁰ Aurobindo Pharmaceuticals, Dr. Reddy's Laboratories, and IT software companies like Aptech, NIIT, Tata Consultancy Services and Infosys. Manufacturing houses are also making their entries. On the other hand, Chinese companies are making forays in Indian market through investments in telecom, metallurgical, transportation, electrical equipment and financial sector. In fact, there is a huge optimism about benefiting from the Chinese expertise in the power sector, in particular, thermal power.¹¹

⁹ 'SBI becomes first Indian bank to launch operations in China', http://www.outlookindia.com/pti_news.asp?id=380076 24th April 2006. According to Chinese banking regulations, SBI Shanghai can offer banking services only to foreigners or foreign enterprises in foreign currency. But this would enable Indians living in China to send money back home faster and at costs much lower than they had been paying now.

¹⁰ Ranbaxy was one of the first Indian companies to make an early entry into China in 1990. The Company formed a Joint Venture Company in 1993 and started its manufacturing operations in 1995. Today Ranbaxy is a name to reckon with in China and its brand Cifran has emerged as the market leader.

¹¹ 'India invites Chinese companies to invest in power sector', http://www.outlookindia.com/pti_news.asp?id=377668 13th April 2006.

Obviously, there is a big potential for more investments. The JSG report has probed the area of investment also by identifying potential areas for investment, both in India and China. The two countries recently signed a draft bilateral investment promotion and protection agreement (BIPA). Setting up a mechanism to remove trade and investment hurdles, the two countries have decided to constitute six task forces to study issues like harmonization of standards for products, non – tariff trade barriers, rules of origin of products and raw materials and consultation on WTO negotiations. In addition, the two countries have decided to set up a CEO's Forum to identify potential areas of investments and possible collaborations. Led by China's Trade Development Bureau and the CII, the CEO's Forum is expected to become operational soon.

The JSG had also recommended an India – China Regional Trade Arrangement (RTA). However, the decision has been put on hold and instead a Joint Task Force has been asked to study the feasibility of the proposed RTA, and the benefits that may derive from such an Arrangement. It appears that China was more interested in an RTA given its export-based economy and advantages in manufacturing sector. It also wants India to grant 'market – economy' status to the world's third largest trading nation.¹² However, the Indian industrial associations felt that it is bit premature for India to enter

¹² 'China wants 'market – economy' status from India', *Daily Pioneer*, 18th April 2006. While nearly 50 countries, including the ASEAN Group, have accorded 'market economy' status to China; the US, India and the European Union have not done the same.

into any such arrangement when the country is mainly an exporter of primary commodities to China and its services sector is still fragile to compete with Chinese companies.

On the whole, trade and economic relations between India and China is marked by strong political commitment of the leaderships of both countries. The structural framework of economic cooperation is being continuously strengthened and expanded. For the first time, the two countries have decided to hold regular financial dialogue between the two sides as envisaged in a Memorandum of Understanding signed during Wen Jiabao's visit. The dialogue will enable the two sides to exchange views on domestic and international macro – economic situations, national fiscal and monetary policies, financial reforms and regional or global developments of mutual interest in the financial sector and facilitate the development of bilateral cooperation between their banking sectors, budget and taxation authorities, financial regulatory agencies and capital markets. The dialogue will seek to enhance commercial and economic exchanges between the two countries and increase mutually beneficial bilateral cooperation and coordination in the International Monetary Fund, the World Bank, the Asian Development Bank and other international financial and developmental institutions.

II IT COOPERATION

Mr. Wen Jiabao landed not in Delhi but in Bangalore, the IT Capital of India. This shows how serious the Chinese are to take a lesson or two from the Indians who are world leaders in the IT sector. The Chinese have an edge in hardware but they lag

behind Indians in software. The Chinese are, however, working overdrive to close the gap. Chengdu, the capital of Southwest China's Sichuan Province, is being developed as China's own IT capital. A Sino – India software research, education and training base, the first of its kind, has been established in Chengdu to replicate the success of Bangalore.¹³ The Indian IT giant, Infosys, is rapidly spreading its presence in China. After making a modest beginning in Shanghai, the company now plans to recruit around 6,000 programmers to run its two software development centres to be developed near Shanghai. Back home, Infosys has been training around 100 Chinese software engineering students at its Global Education Centre, Mysore and at Infosys' Development Centre, Bangalore. India's largest software training company, NIIT, has already trained over 25,000 students in China through its 125 'education centres'. NIIT is still spreading rapidly in China, its number one overseas market.¹⁴ In March 2006, India's Alagappa University has signed a MoU with China's Jiujiang University (located in Jiangxi Province) for offering courses to Chinese students in Computer Science and English. The Chinese university would send about 2,000 students to the Alagappa University.¹⁵

III ENERGY SECURITY

¹³ 'China seeks India's help to become IT giant', *The Economic Times*, 10th April 2006.

¹⁴ 'India's prowess in services and China's manufacturing strength', *Financial Times*, 19th May 2005.

¹⁵ 'Alagappa varsity signs MoU with Chinese varsity', *The Hindu Business Line*, 25th March 2006. The university, established in 1985, is situated in Karaikudi in the Pasumpon Mathuramalingham Thevar district.

India and China are two of the largest, fastest growing consumers in the world. India imports around 75 percent of its oil needs, while China imports about 33 percent of its oil needs. Their combined demand has helped drive oil prices to record highs, prompting both nations to try to lock down sources of energy around the world. China's quest for energy has prompted it to strike deals with countries from Africa such as Sudan, Nigeria, Angola etc. apart from Russia and Myanmar. India is also seeking oil in Russia, Kazakhstan, and Sudan, among others.¹⁶

Bilateral competition to secure oil fields led to some rivalry throughout 2004 and 2005 wherein the national oil companies from both countries were playing the game of one up-manship. In the process, India lost biddings to its Chinese competitors for some overseas oil sources in 2005, including the competition for *PetroKazakhstan* last October, for which the Chinese would surely have paid a higher price. India then began to seek cooperation with China on energy. India's Oil and Natural Gas Corporation (ONGC) Limited joined hands with China National Petroleum Corporation (CNPC) and won the bid for Petro – Canada's stakes in Al – Furat Petroleum Company in Syria at the end of 2005.¹⁷

A desire to institutionalize cooperation on energy security and avoid unbridled rivalry to the advantage of

sellers led to some high level oil diplomacy between India and China in recent times. Notable among them was the visit of the then Indian Petroleum Minister, Mani Shankar Aiyar to China in January 2006. During this visit, the Indian delegation had parleys with major Chinese players such as China Petrochemical Corporation (SINOPEC), China National Offshore Oil Corporation (CNOOC), apart from the CNPC. The two countries finally signed five memoranda to strengthen their energy cooperation. The full spectrum cooperation will firstly involve in upstream exploration and production, building joint ventures on seismic warning and oil and gas exploration. Secondly, there will be cooperation on prospecting and petrochemical production and marketing. The third area is the transmission of gas and urban gas supply. The two sides will also join hands on domestic and cross – border oil pipelines, unconventional oil and gas resources, the innovation and development of energy technologies, and software and information technology in energy sector.¹⁸ India, during Aiyar's visit, also supported a Chinese suggestion for creating an Asian counterpart to the International Energy Agency to coordinate the long – term energy import policies of major oil importers in the region.¹⁹

IV TRANSPORT AND COMMUNICATION LINKAGES

¹⁶ Esther Pan, 'India, China and United States: a delicate balance', 27th February 2006, available on www.cfr.org

¹⁷ Richa Mishra, 'India – China combine faces tough competition in Syrian oil stake bid', 12th December 2006, available on <http://www.thehindubusinessline.com/2005/12/12/stories/2005121202840300.htm>

¹⁸ 'India, China to strengthen energy cooperation', 13th January 2006, available on <http://english.people.com.cn>

¹⁹ Anil K. Joseph, 'India, China plan Asia energy agency', 13th January 2006, available on www.rediff.com/money/2006/jan/13oil.htm

While the two countries have opened up trade and commercial relationship, absence of sufficient number of transport and communication linkages between the two sides is most discouraging. Border trade is still underdeveloped and most of the freight takes the oceanic route. During Chinese Premier Wen Jiabao's visit, India and China inked a Memorandum of Understanding on Civil Aviation which provides for major liberalization of air links between the two countries with multiple designation of carriers and an 'Open Skies' policy for cargo,²⁰ an increase in capacity entitlements, more points of call and an increase in the number of intermediary and beyond points. According to the Memorandum, the designated airlines of both parties are entitled to have unlimited third, fourth and fifth freedom traffic rights with unlimited capacity entitlement for dedicated cargo services. The designated airlines of both parties may co-terminalize any two points in the territory of the other party without any cabotage rights with the exception for airlines designated by India to combine Beijing and Shanghai, Beijing and Guangzhou, Shanghai and Guangzhou. With the new capacity entitlement, the designated airlines of the two countries will be allowed to operate as many as 42 weekly frequencies by mid 2006.

However, passenger traffic between the countries remains so little that it is a struggle for airlines to ensure that even the few existing flights are economically viable.²¹ Historically, the

²⁰ Open skies policy means that foreign airlines are allowed to operate cargo services without any restrictions.

²¹ Pallavi Aiyar, 'No ticket to fly between India, China', *The Indian Express*, 29th March 2006.

two countries have been closed to each other, and particularly after the 1962 War, no direct routes existed between India and China. Indian passengers going to China had to take a detour either via Bangkok or Hong Kong. Due to political reasons, the passenger movement between India and China is also woefully low. Hence, it will take some time before people get addicted to travel directly to the other side.

There are no land routes presently operational across Sino - Indian border, except for the limited number of transit points for cargo traffic.²² A new point for border trade is being opened through the traditional trade route between India and China across the Nathu La Pass in Sikkim.²³ There is also a possibility of starting a Gangtok - Lhasa bus service now that Sikkim has been accepted as India's inalienable part by China.²⁴ However,

²² In a bid to promote India - China trade links and develop infrastructure along the border, the Indian Government has recently announced a proposal to build a 608 kms. Road along the border. The road link will include areas from Jammu and Kashmir, Himachal Pradesh, Uttaranchal, Sikkim and Arunachal Pradesh. The road which is expected to cost Rs. 900 crore, will be guarded by the Indo - Tibetan Border Police (ITBP) along with the Army.

²³ In fact, China has already announced the opening of a vital trade market just 16 kms away from the Nathu La Pass. The 6,400 sq. mt. market, named Dongqinggang, would open twice a week from June. China is also busy constructing roads leading to Nathu La Pass with an involvement of over 1,500 workers. See, 'key trade route on China - India border through Sikkim to open', http://www.outlookindia.com/pti_news.asp?id=376073 6th April 2006.

²⁴ The Sikkim Government has sent a formal proposal to the Central government which is under consideration. Once implemented, the bus service on the 500 kms distance will boost tourism in the region. See, 'Sikkim to take up Gangtok - Lhasa bus service issue with the Centre', *The Hindu*, 31st May 2004. If Kathmandu - Lhasa bus service, in operation

the idea is still at a conceptual stage. The historic Stillwell Road,²⁵ connecting India's Northeast to China's Yunnan's province through Myanmar has not been open despite its huge potential to boost cargo traffic to China. On its side, the Chinese have already begun to renovate the road.²⁶ After reopening the distance from Baoshan, a border city in Yunnan, via Myitkyina in Myanmar, to Ledo in India will be a touch above 500 kms. And the distance between Kunming, capital of Yunnan, and Ledo, a railway hub in Northeast India, will be 1,220 kms.²⁷ Once the Bangladesh – Myanmar – India – China (BMIC) initiative, popularly known as the Kunming initiative, becomes a reality, the Stillwell Road is expected to be in high demand.

V FUNCTIONAL COOPERATION

Being developing economies, agricultural development is very important in both countries and, both the sides are willing to learn from each other's experience. In March 2005, the Indian Agriculture Minister Sharad Pawar had visited China. Hectic

from May 2005, is any indication, this proposal has immense potential.

²⁵ Starting in Ledo, the road was constructed in 1942 by General Stillwell, connecting some section of the old 'Burma Road' stretching from Kunming. Some 60 kms of the Stillwell Road lie in India, 1,000 kms in Myanmar and more than 600 kms in China. However, parts of the road have virtually disappeared due to lack of maintenance.

²⁶ 'Historic Highway to India to get facelift', *Xinhua News Agency*, 13th April 2005.

²⁷ At present, trade between Yunnan and India has to follow a convoluted route from Kunming to Zhanjiang port in Guangdong Province, then to be loaded onto ships bound for Malacca Straits and India – a total of 6,000 kms.

parleys led to some protocols being signed during Wen Jiabao's visit. A comprehensive MoU on agriculture has been signed during the return visit of the Chinese Agriculture Minister, Du Qinglin, to Delhi in March 2006. The MoU identifies many areas for cooperation including exchange of information and experience of best practices in respect of crop production, horticulture, fisheries, and animal husbandry. The two parties shall establish a Sino – India Committee of Agricultural Cooperation to ensure the implementation of this MoU.²⁸

The two sides are also cooperating on common environmental issues. For example, during Wen's visit, the two sides have signed a MoU that envisages provision of hydrological information in respect of the Sutlej / Langqen Zangbo River in flood season for flood control and disaster mitigation in downstream areas. The arrangement entails building of a hydrological station by the Chinese side on the Sutlej / Langqen Zangbo River before the flood season of year 2006 and provision of hydrological information to the Indian side beginning the flood season of 2006. The Chinese side will also provide information on any abnormal rise / fall in the water level / discharge. Both sides will continue to discuss the possibility of same arrangement in respect of two more rivers – Parlung Zangbo and Lohit / Zayu Qu.

VI CULTURAL RELATIONS

While economic relations have picked up, cultural relations between India

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<http://www.chinaembassy.org.in/eng/sgxw/t244571.htm>

and China are in a stalemate. The two countries have been traditionally closed to each other, with very little exchanges taking place. This societal gap is probably one of the reasons for many misperceptions about each other. The leaderships of the two countries have shown eagerness in opening up their social face. Coinciding with Wen Jiabao's visit, representatives of 23 Chinese universities visited India to advertise their institutions, which are now home to 1.1 million foreign students, but only about 800 Indians among them. The aim, the representatives said, was to create awareness about Chinese universities, their curriculum, scholarship facilities and the many opportunities available to the student fraternity.

During Wen Jiabao's visit, the two sides signed a protocol that envisages the constitution of the India - China Film Cooperation Commission to strengthen cooperation and promote bilateral exchanges between India and China in the entertainment sector, with special focus on films, both features and documentary and animation. Under another Memorandum, India will build an Indian Style Buddhist Temple in the International Garden on the west side of the White Horse Temple in Luoyang, which is the oldest icon of India - China exchanges in the field of Buddhism. It is expected that the Temple, once completed, will become an enduring symbol of the centuries old Indian influence in China and epitomize how Buddhism from India became an integral part of Chinese culture and life.

In 2005, the two countries also celebrated the 55th anniversary of the establishment of diplomatic relations between India and China. To mark the

occasion, the two countries organized a series of commemorative activities. These included the 'Cultural Festival of China' in India and 'Cultural Festival of India' in China. In order to further promote mutual awareness and deepen the friendship between the two peoples, the two sides are celebrating 2006 as the 'year of India - China friendship'. Numerous activities are planned for the current year. These include high level visits, including the proposed visit of Indian Defence Minister to China; trans - border interactive visits and sporting activities between the two armies; academic and literary publications on the bilateral relations; educational cooperation among major universities of both sides; a series of cultural, sports and youth exchanges; and above all, a fresh set of recommendations by the Eminent Persons Group (EPG) to promote bilateral relations based on deliberations in previous EPG meetings. A comprehensive India - China Cultural Exchange Programme for 2006-2008 is also on the anvil.²⁹

While the two governments have taken the initiative, people from the two sides are also getting to know more about each other through various mechanisms. Needless to say, the business opportunities and the great power potential of the two countries have generated curiosity about each other. Journalistic coverage about each other has increased in domestic newspapers. More and more Indian journalists are living in and reporting from China.³⁰ Similarly,

²⁹ 'Activities planned for India - China friendship year - 2006', Press release, Ministry of External Affairs, 23rd January 2006.

³⁰ Prominent among them are Anil K. Joseph who reports for Press Trust of India, Pallavi Aiyar who reports to The Indian Express and The Hindu. While both these correspondents have been stationed in Beijing, P. S.

China and India are hot topics for comparative studies among the strategic think tanks of the two countries. Educational activities are now less dependent on official support and Indians are now looking towards China as a possible destination. Indian yoga is getting more popular among the Chinese citizenry. However, all these are at a small level given the huge size of the two countries and their geographical proximity to each other. Language is still a big barrier that prohibits any diffusion of ideas or cultural perspectives across the border.

VII MILITARY RELATIONS

Although the two countries abide by a series of confidence building measures (CBMs) agreed under the 1996 treaty and the subsequent protocols, additions were again made during Wen Jiabao's visit. The 2005 Protocol includes among others border meeting points at Kibithu – Damai in the Eastern Sector and Lipulekh Pass in the Middle Sector; exchanges between the relevant Military Regions of China and Army Commands of India; and exchanges between institutions of training, sports and culture of the two armed forces. In 2006, such activities have gained momentum. Both sides held joint naval exercise in December 2005 off the Kochi coast in the Arabian Sea. According to naval sources, the emphasis was on communication exercises, maneuver procedures and exercises relating to casualty evacuation. Earlier, in 2003, Indian naval vessels had taken part in joint exercises off the Shanghai coast in

China.³¹ The Chinese were also invited as observers, along with other international observers, during the Indian Army's war game exercises in Western Sector in 2005. A high – level Indian Army delegation led by the GOC – in – C Eastern Command, Lt. Gen. Arvind Sharma visited China in February 2006 and interacted with their Chinese counterparts, including those from the Chengdu Military Region that guards the Chinese side of the Sino – Indian border. The two armies are planning more CBMs, including more sporting events along the Line of Actual Control (LAC) so as to keep the border areas incident free.³² The Indian Defence Minister Pranab Mukherji is slated to visit China in May 2006. Hopefully, India and China will work out more interactive activities with each other.

However, there is a growing concern about Chinese military modernization and its repercussions for India's national security. Officially, India has chosen to maintain diplomatic silence, letting others speak.³³ This year though, India has expressed concern over the rapid development of military infrastructure by the Chinese in Tibet. The completion of Qinghai – Tibet Railway and construction of a series of 'all weather roads' in Tibet has provided China strategic

³¹ 'Indian and Chinese naval vessels conduct bilateral exercises', *The Indian Express*, 3rd December 2006.

³² 'Militaries of India, China to interact more on border areas', http://www.outlookindia.com/pti_news.asp?id=357182 22nd February 2006.

³³ At the 2005 Shangri La Dialogue, the US Secretary of Defence criticized China for rapid military modernization and fudging its defence budget. US is also bringing an annual report on the military power of China. Besides US, Japan and Taiwan are also critical of Chinese military modernization.

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advantage near the Sino – Indian border.

VIII POLITICAL RELATIONS

Upward trade and economic relations supplemented by a policy decision by the political leadership of both sides to focus on improvement of bilateral relations and keep the border issue aside has helped in forging better political relations between the two countries. To a great extent, high-level political exchanges at regular intervals between the two sides have also helped to bring down their differences on major bilateral issues and global issues.³⁴ Witness, for example, China's new world map which shows Sikkim as part of India or its toned down rhetoric on Pakistan. Similarly, India's position on Tibet is more accommodative to Chinese demands.

Both countries have also resorted to strategic dialogue to discuss in detail all issues pertaining to bilateral, regional and global importance. Two rounds have been concluded so far: January 2005 and January 2006. Issues such as globalization, democratization of international relations, UN reforms, non – proliferation and regional cooperation were discussed in both these rounds. The issue of terrorism is being discussed separately.³⁵ On all these issues, the two countries share a common vision and approach. The differences, however, do exist on the specifics, particularly where India and

³⁴ In 2005, the top leadership of the two sides met six times.

³⁵ During the Indian Home Minister Shivraj Patil's visit to China in September 2005, the two countries signed a Memorandum of Understanding on intelligence sharing and counter – terrorism. See, 'India, China sign MoU on counter – terrorism', http://www.outlookindia.com/pti_news.asp?id=321822 8th September 2005.

China are the parties. For example, on the Security Council reforms, while Wen Jiabao did sympathize with India, China opposed tooth and nail the claim of G – 4 that included India and Japan. 'In fact, China's vociferous opposition to its Asian rivals' may well now be the major obstacle to the realization of their aspirations.³⁶ Similarly, while India and China have got 'observer' status in Shanghai Cooperation Organization (SCO) and South Asian Association for Regional Cooperation (SAARC) respectively, China was not comfortable when India was invited at the East Asian Summit (EAS) in December last year. Its discomfort was visible once again when the Indo – US nuclear deal was signed. Without being openly critical, China has sounded a cautious note appealing India to give up its nuclear weapons programme and join the Nuclear Non – proliferation Treaty (NPT) as a non – nuclear state.³⁷

IX THE BORDER ISSUE

Improved political relations between India and China in recent times have led to better understanding on the border issue. During Wen Jiabao's visit, the two sides exchanged views on the issue and reiterated their readiness to seek a fair, reasonable and mutually acceptable solution, through equal and friendly consultations and proceeding from overall interests of bilateral relations. The two countries

³⁶ J. Mohan Malik, 'Security Council reforms: China signals its veto', *World Policy Journal*, (Spring 2005), pp. 19 – 29. On record, China is saying it is opposed to the G – 4 Plan as Tokyo was in the group. See, 'We will support India minus Japan: China', *The Indian Express*, 14th April 2006.

³⁷ 'China backs India's efforts to develop nuclear power', http://www.outlookindia.com/pti_news.asp?id=373991 30th March 2006.

also signed a landmark Agreement on the Political Parameters and Guiding Principle for the Settlement of the India – China Boundary Question. Such an agreement was necessitated as the two sides were convinced that an early settlement of the boundary question will advance the basic interests of the two countries and should therefore be pursued as a strategic objective. The agreement is not merely a political statement but carries some significant provisions:

- Article III: The boundary settlement must be final, covering all sectors of the India – China boundary.
- Article IV: The two sides will give due consideration to each other's strategic and reasonable interests, and the principle of mutual and equal security.
- Article V: The two sides will take into account, inter alia, historical evidence, national sentiments, practical difficulties and reasonable concerns and sensitivities of both sides, and the actual state of border areas.
- Article VI: The boundary should be along well – defined and easily identifiable natural geographical features.
- Article VII: In reaching a boundary settlement, the two sides shall safeguard due interests of their settled populations in the border areas.

India's Prime Minister Manmohan Singh spoke to Chinese President Hu Jintao on the sidelines of the East Asia Summit in Kuala Lumpur in December 2005 about a fast – track border resolution mechanism and also emphasized on moving simultaneously on all three disputed sectors. The Chinese, on the other

hand, favour a sectoral, so – called 'step – by – step' approach, but the PM told Hu this was slackening the pace and delaying a solution. Officials said that though the Chinese president agreed to speed up the process, he still felt a final solution would take 'long'.

It appears now that the two countries are serious to resolve the border issue once and for all. As revealed by India's National Security Advisor (NSA) M. K. Narayanan recently, the agreement on Political parameters and Guiding Principles on the boundary issue was the first stage of a three stage process that the two countries have adopted to resolve the vexed issue. Now the two countries are in the second phase that involves evolving a framework. This is the stage where the hardest negotiation is taking place and the speed can pick up any time in future. The third phase involves delineation of the boundary, the NSA said.³⁸

Meanwhile, the institutional mechanisms to sort out the border issue are on their job. The India – China Joint Working Group and the India – China Diplomatic and Military Expert Group continue their work under the Agreements of 7 September 1993 and 29 November 1996, including the clarification of the Line of Actual Control (LAC) and the implementation of CBMs. In March 2006, India and China also concluded the seventh round of talks on the border dispute. Special representative M. K. Narayanan and Dai Bingguo led their sides for four rounds of talks in a southern Kumarakom resort in Kerala. It was learnt that the two sides were

³⁸ 'Boundary negotiations with China at "hardest" phase', http://www.outlookindia.com/pti_news.asp?id=379946 23rd April 2006.

negotiating a package proposal on all sectors of the border.

CONCLUSION

It might take some time before the border issue is sorted out. The good thing is that both countries are also eager to sort it out. It is probably a question of 'when' and not 'how'. The strategy of not letting the border issue to be an obstacle in the overall improvement of comprehensive relations between the two countries has paid dividends. Relations between the two countries have improved, the political and the societal gap are being narrowed and overall relations are less emotional than they were around a decade back. Hopefully, there will be many a positive vibes during the 'Friendship Year' in 2006 and they will serve as 'building blocks' for further consolidation of Sino - Indian relations.