

Asia Between China and India

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By Tarique Niazi

Relations between China and India have long been marked by an ambivalence that has led some observers to describe them as “neither friends nor foes.” [1] In the late 1940s, when China and India won freedom from imperial powers and established new governments, their relations were warm. From the late 1950s, however, relations deteriorated [2], notably from the Dalai Lama’s 1959 flight from Tibet and his refuge in India. [3] This was followed by a succession of events – the 1962 border war, Beijing’s nuclear tests in 1964, Indian nuclear tests in 1974, Sino-Pakistan defense cooperation from the 1970s, Indian nuclear tests in 1998 again – that further strained their ties. Since the 1980s and 1990s, when China and India respectively embarked upon economic reforms, their strategic competition was intensified by a scramble for economic and energy resources. [4]

Today, all major parts of Asia – South Asia, East Asia, Southeast Asia, Central Asia – bear the marks of their competitive economic and strategic outreach. [5,6] South Asia, with its abundant material and human resources, a vast consumer market, and above all geo-strategic importance, is one arena of contestation. Southeast Asia, however, is prized as the most developed part of the continent with immense economic and trade opportunities; while Central Asia’s allure pivots on its energy resources. [6]

South Asia

Since the 1962 Sino-Indian border war, China’s relations with South Asian nations, especially Pakistan, warmed. Particularly in recent years, it has built economic relations with almost all of its South Asian neighbors, including India, which are bound together in the seven-member South Asian Association for Regional Cooperation (SAARC). Beijing particularly made substantial economic and financial investments generating increased trade in Pakistan, Bangladesh, Sri Lanka and Nepal – in that order. Its investment strategy helped open up these nations for Chinese trade goods as well. As Table 1 below shows, by 2005, China’s bilateral trade with South Asia had risen to \$23bn, exceeding the projected trade for the same year by \$3bn. [7] By contrast, India’s trade with its South Asian neighbors hovers around \$2.4bn a year, [8] growing from a low base of \$382 million in 1985 and \$1.7bn in 1995. Although the combined South Asian economy (i.e., Gross Domestic Product) is valued at \$900bn, [9] four-fifths (i.e., \$720bn) of THAT is contributed by India and Pakistan alone. Beijing’s trade with India is projected to grow from \$13bn in 2005 to \$30bn in 2010, [10] which would surpass the current Indo-U.S. trade of \$20bn a year. Similarly, bilateral trade between China and Pakistan is increasing by 44% on a year-on-year basis, reaching \$4.25bn in 2005. [11]

Table 1. Bilateral Trade Between China and South Asia
(in US\$ billion)

Year	Sino-South Asian Trade	Sino-Indian Trade
1996	\$2.3	\$1.4

2000	\$4.1	\$3
2001	\$5	\$3.6
2002	\$7.7*	\$4.9
2004	\$18.6*	\$13.6
2005	\$23	\$18.7
2006	\$25	\$20
2008 (projected)	\$28	\$20
2015 (projected)	N.A.	\$100

Source: Author's calculations from multiple sources. Figures for 2002 and 2004, denoted with asterisk, also include Sino-Bangladesh trade of \$1.1bn (2002) and \$2bn (2004). For 2005 and 2006, reliable statistics for the Beijing-Dhaka bilateral trade are not available. China's combined bilateral trade with Bhutan, Maldives, Nepal and Sri Lanka is approximately several hundred million dollars.

In contrast to the rapidly growing India-China trade, bilateral trade between India and Pakistan is a mere \$300 million a year. [12, 13] Compared to their combined trade volume of \$200bn a year, their bilateral trade of \$300 million is a pittance. Economic and trade relations between India and Pakistan are, however, frozen as a result of political conflicts, notably the unresolved territorial dispute over Jammu and Kashmir. Pakistan, despite having signed the South Asian Free Trade Agreement (SAFTA) that will go into effect in July 2006, refuses to trade with India unless the Kashmir issue is resolved. [14] India's trade relations with Bangladesh, the third most populous state after India and Pakistan, are also not without friction. As a result, India is unable to gain access to Bangladesh's immense natural gas reserves of 60 trillion cubic feet (TCF), [15] which are second only to Indonesia's. Sri

Lanka, strategically located on the Indian Ocean, is the third largest economy after India and Pakistan. It has Free Trade Agreements with both India and Pakistan, but it does not take kindly to India's support for the Tamil Hindu minority in its enduring ethnic conflict with the Sinhalese Buddhist majority.

India's troubled relations with South Asia's important nations further bolster China's presence in the region, as Bangladesh, Pakistan and Sri Lanka gravitate towards Beijing to forge long-term economic and defense relations. China has recently worked its economic cooperation with these nations to its strategic advantage by building a naval port at the Arabian Sea Coast in Gwadar, Pakistan. [16]. Similarly, Bangladesh has offered China naval access to its prized Chittagong port [17], which Delhi has long sought to no avail. India needs access to Chittagong port in order to have its planned natural gas imports from Myanmar shipped to its northeast region. China, for its part, has taken its relations with Bangladesh and Pakistan to the next level by offering them nuclear power technology that each crave for. In April 2005, Beijing also signed a comprehensive agreement, covering economic and defense relations, with Sri Lanka, which provides access to Colombo's prized sea ports [18], and thereby the Indian Ocean.

China's energized economic and strategic ties with major South Asian nations paved the way for its entrée into the South Asian Association for Regional Cooperation (SAARC) as an observer, i.e., a non-voting member. The decision was taken at the 13th SAARC summit held in Dhaka at the "Bangladesh-China Friendship Center" on November 12-13, 2005. India tried to keep Beijing out of the SAARC, but it was outmaneuvered. Of all SAARC nations, only Bhutan, a tiny kingdom, sided with India in opposing China's entry into SAARC. [19] Nepal saved the day for China by threatening to veto Afghanistan's membership

in SAARC, which India sponsored, if India did not drop its opposition to China. [20] Bangladesh, Pakistan and Sri Lanka also lined up behind Nepal, leading India to drop its opposition. The whole episode led K Subrahmanyam, a prominent Indian expert in strategic affairs, to suggest that “the present impasse in SAARC provides Delhi an opportunity to review its South Asian strategy and progressively shift it away from SAARC.” [21] Pakistan, on the other hand, saw in China’s entry into the SAARC an opportunity to “counterbalance Indian designs to act as a regional power and dominate SAARC.” [22] India’s position is weakened by the fact that Bangladesh, Nepal, Pakistan and Sri Lanka are all on friendliest terms with one another and with Beijing, while all have contentious relations with Delhi.

Southeast Asia

India, however, enjoys a stronger position in Southeast Asia, where some are wary of their powerful Chinese neighbor. India’s growing economic strength has many Southeast Asian nations rethinking their relationship with Delhi. This was amply demonstrated in India’s entry into the 10-member ASEAN (Association of the Southeast Asian Nations) that is made up of Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. In December 1995, the ASEAN accepted India as its full dialogue partner. [23] India’s entry into ASEAN was engineered by the same economic and strategic factors as China’s into SAARC – economic and strategic. India’s economic potential heavily weighed in the region’s scheme of alliance-making. Several Southeast Asian nations, notably Indonesia, Japan, Philippines, and Vietnam have territorial disagreements with China as smaller South Asian nations do with India.

Nevertheless, India has a long way to go to become competitive with China in Southeast

Asia where economic and trade relations hugely tilt in Beijing’s favor. By the end of 2005, China’s trade with ASEAN stood at \$130.4bn, rising from \$6.7bn in 1990, [24] as opposed to India’s \$18bn. Although the latter’s trade is expected to rise to \$30bn by 2007, [25] trade between Beijing and ASEAN has also been growing at an impressive rate of over 23% on a year-on-year basis. Between 2002 and 2005, China-ASEAN trade has registered more than 100% growth, rising from \$54.8bn in 2002 to \$130.4bn in 2005. Experts suggest that once the China-ASEAN Free Trade Area is established in 2010, the trade volume between China and ASEAN will reach \$1.2 trillion [26] As a precursor to a Sino-ASEAN Free Trade Area, China has agreed to an Early Harvest Program (EHP) that amounts to “a concession by China” to the region to provide early benefits through tariff reductions on 573 products including agriculture and manufactured goods. [27] China’s trade with the Greater Mekong Subregion (GMS) that includes, besides China, Cambodia, Laos, Myanmar, Thailand and Vietnam, stood at \$32bn in 2005. [28]

India has launched a 6-nation Mekong-Ganga Cooperation (MGC) project that includes Cambodia, Laos, Myanmar, Thailand, and Vietnam. Since 9/11, India’s growing economic cooperation with ASEAN and its economic and military cooperation with Japan have gained visible strategic dimensions. Tokyo with an enduring history of economic and security relations with India, has supported Indian entry into ASEAN and APEC – the Asia-Pacific Economic Cooperation. The latter is not yet in sight, however. India is likely to benefit from ASEAN’s planned integration into the East Asian Free Trade Area (EAFTA) for which it, together with China and Japan, is pushing hard [29]. The ultimate goal of the EAFTA is to form an East Asian Community, modeled on European Community, which will include ASEAN+6 (the six being Australia, China, India, Japan, South Korea, and New Zealand).

The 16-member East Asian Free Trade Area would comprise half of the world's population and a combined economy of \$8.3 trillion. [30] China could well be the largest beneficiary of the EAFTA, as its trade and investment relations with the ASEAN are deepening by the day. As of 2005, ASEAN was China's fifth largest trade partner with a bilateral trade of \$130.4bn; while China, in 2005, was set to out-trade the U.S. as ASEAN's largest trade partner. Similarly, ASEAN has made a cumulative investment of \$34bn in China. [31] To further help grow ASEAN's combined economy of \$1 trillion, China has heeded its advice on territorial disputes in the South China Sea that is bordered by China and Taiwan in the north, Vietnam in the west, Malaysia, Indonesia and Brunei in the south, and the Philippines in the east. [32] Until recently, Vietnam has been in control of the largest number of the Spratly islands. In 1987, China set up an observation station there and five years later passed a law declaring sovereignty over the entire South China Sea. [33] There have since been sporadic conflicts involving the Philippines, China and Vietnam over control of the islands. In March 2005, however, the three countries peacefully resolved the conflict by agreeing to joint search for natural resources, i.e., oil and gas, in the disputed area. [34]

Central Asia

In addition to South and Southeast Asia, India and China are vying for the largest sliver of energy-rich Central Asia. Despite its immense, proven and estimated hydrocarbon resources, the Central Asian economy is far smaller than its sister economies of South and Southeast Asia. Its combined size hovered around \$70bn in 2005 [35]. Kazakhstan, with its GDP of \$42.7bn in 2005, dominates the Central Asian economy, [36] while Tajikistan and Kyrgyzstan trail behind with a GDP each of around \$2bn in 2005. Turkmenistan (\$14bn in 2005) and Uzbekistan (\$10bn in 2005) are respectively the second and third largest economies of the

region.

China's gateway to Central Asia is the only Muslim-majority autonomous region of Xinjiang. Trade between Xinjiang and the five Central Asian states accounts for 40% of the total trade between China and Central Asia. [37] Xinjiang's trade with Kazakhstan alone was valued at about \$3.3bn in 2004, which accounted for 73% of China's national trade with Kazakhstan. [38] China further solidified its relations with Central Asia with massive economic investment in Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. It also resolved border disputes with neighboring Kyrgyzstan and Tajikistan, which further contributed to mutual confidence building. In terms of investment, however, China concentrated on Kazakhstan, followed by Kyrgyzstan, Tajikistan, and Uzbekistan. With the largest economy, Kazakhstan also has proven oil reserves of 2.7 billion barrels. [39]

In 1997, China pledged \$10bn in investment for oil exploration and infrastructure building. [40] In December 2005, it bought Kazakhstan's flagship oil company, PetroKazakhstan, for \$4.18bn. [41] In addition, it invested \$700m in building a pipeline that will connect Kazakhstan to China through Kyrgyzstan. [42] Similarly, China is building a vast network of rail and road links in Kyrgyzstan, which is a transit state, to connect China with Uzbekistan. For this communication network, Beijing pledged in 2005 an investment of \$900m in Kyrgyzstan, which is almost half of its GDP of \$2b. [43]

Earlier in August 2002, China gave Kyrgyzstan \$970m in military aid. [44] Also, Beijing is helping Uzbekistan to develop its modest oil fields in the Fergana Valley. Kazakhstan aside, by 2004 China had invested \$4b in Central Asia. [45]

Under the Shanghai Cooperation Organization (SCO) umbrella, Beijing has set aside a credit of \$900m for Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. [46]

India is far from rivaling China's economic, financial, and political influence in the region. Since 9/11, Delhi has used the post-Taliban Afghanistan -- whose current leaders are beholden to it for its unswerving support in the 1990s against the Islamabad-backed Taliban regime and for Afghanistan's entry into SAARC as its 8th member state in November 2005 -- as a gateway to Central Asia. It subsequently set up its first-ever foreign military base in neighboring Tajikistan [47], whose majority population has ethnic bonds with the Tajiks in Afghanistan who dominate that nation's ruling Northern Alliance of Afghanistan.

The region is a zone of China-India rivalry. When China built a naval port on the Arabian Sea in Gwadar, Baluchistan, which connects land-locked Central Asia, including Afghanistan, with the outside world, India retaliated by building a port of its own at Chahbahar in Iran, which links Afghanistan and Central Asia with a shipping corridor in the Persian Gulf. Both ports are located in a highly volatile region, and are within striking distance of each other.

To integrate Central Asia, China launched on June 15, 2001 the Shanghai Cooperation Organization (SCO) with Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan as founding members. The Russians, who inherited from their Soviet past a long history of economic and defense relations with India, invited it in July 2005 to sit on the SCO as an observer. To neutralize Indian presence on the SCO, China supported the entry of Pakistan and Iran, having sealed a \$100bn deal to develop its giant Yadavaran oilfield near Iran-Iraq border. [48] Iran is, however, equally closely allied with China, India and Russia.

Pakistan is China's long-term ally. In South Asia, it has tied down 500,000 to 700,000 Indian troops in Kashmir for the past 18 years [49], which indirectly eases Indian pressure on the 4,000-kilometer Sino-Indian border.

Pakistan is China's "Silk Route" to energy-rich and trade-hungry Central Asia, access to which Pakistan denies India despite persistent U.S. intercession on the latter's behalf. In Southeast Asia, Pakistan is also China's bridge to Beijing-wary Indonesia, Malaysia, and energy-rich Brunei, all nations with predominantly Islamic populations. Beijing's major concern, however, is the Strait of Malacca, which is patrolled by Jakarta and Kuala Lumpur and through which three-quarters of Beijing's oil imports pass. Pakistan plays an indispensable role as an Islamic ambassador of good will for Beijing in southeast Asia with its large Muslim population.

Conclusion

China is deftly deploying economic diplomacy to build strategic alliances in South, Southeast, and Central Asia. By contrast, India is far from competing with China's economic and military reach. The Indian economy was valued at \$660 billion in 2005 [50] and even with projected growth to \$800bn in 2006 it still stands at about one-third of the Chinese economy of \$2.2 trillion, which has just overtaken that of the United Kingdom as the world's fourth largest. [51] Similarly, Indian defense spending in 2005 of \$19bn [52] grew to \$20bn in 2006. [53] By contrast, China's officially stated \$29bn defense spending in 2005 [54], which Rand put at between \$42-51bn for the same period, [55] has risen to \$35.3bn in 2006. [56] The latest increase in military spending was officially announced in Beijing soon after India and the U.S. signed a nuclear deal in Delhi in March this year.

China's economic and strategic influence is visible throughout South Asia, where all important South Asian nations -- Bangladesh, Nepal, Pakistan and Sri Lanka -- are bound with Beijing in a string of defense and security agreements, while their relations with Delhi continue to be marked by mistrust. India is greatly helped by China-wary ASEAN and Japan

to deepen and widen its economic and strategic influence, although China remains ASEAN's largest trade magnet. China's economic diplomacy paves the way for its privileged access to energy-rich Central Asian Republics. On the other hand, India's foothold in Central Asia is limited to the marginal nations of Afghanistan and Tajikistan, where its formidable competitor is Pakistan, not China.

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