
China-India Relations

Strategic Engagement and Challenges

Zhang Li

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Executive Summary

Sino-Indian relations have become increasingly significant and produced widespread implications. The evolving bilateral relationship is reasonably seen as a result of their shifting strategies and the ever-changing global politico-economic situation. On the political front, high-level interaction plays an important role in improving Sino-Indian ties. The political willingness to improve relations helps kick-start the significant process of building confidence and trust in different areas and at various levels. As two fast-growing economies and developing giants, both China and India have pledged to contribute to bilateral and multilateral cooperation. Vibrant economic and trade links have been an essential part of the bilateral partnership over the last decade. Economic momentum will continue, although the supporting effects of economic interaction on a credible partnership have to be confirmed. Enhanced political engagement and pragmatic strategic calculus have also pressed both sides to explore defense, security and non-traditional security cooperation. The burgeoning military interaction is of pragmatic significance to nurturing mutual trust on the strategic level and achieving reciprocal accommodation.

While promising a stable bilateral relationship and peaceful rise together on the global stage, expanding engagements between China and India still face some formidable strategic challenges. Among the strategic discords are a protracted boundary dispute, diverging projections of geopolitical interest, security ties with other powers and regional actors – especially with Pakistan and the United States, and China's response to India's aspiration to be a UNSC member and enter the global nuclear club.

To move the Sino-Indian partnership forward and make it more credible, some major endeavors have to be made by both sides:

- To seek an early settlement of the border problem and prevent the enduring stalemate from completely undermining the confidence to seek a mutually acceptable recipe;
- To reconcile regional strategies in South Asia, Central Asia, ASEAN, and the Indian Ocean;
- To promote confidence-building measures and remove misperceptions and misreading of each other's

strategic intentions, and to envisage each other's core interests and strategic sensitivities;

- To reinforce the bolstering effect of vibrant trade and economic links in sustaining a stable bilateral relationship; and
- To breathe more substance into the existing framework of the declared Sino-Indian strategic partnership.

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Introduction

As rising global powers, China and India have both committed themselves to promoting peace, stability and development in the present international context. Believed to have profound implications across the globe, their bilateral relationship has become a focus of worldwide attention and public interest. In 2010, the 60th anniversary of the Sino-Indian diplomatic relationship highlights several coherent questions to be seriously addressed by both Asian giants: How can a credible partnership between China and India be nurtured and sustained in order to serve mutual benefits and bolster their global aspirations? Has their complicated relationship come full circle, or is it experiencing a new starting point on a different path? And perhaps more importantly, in meeting their regional and global aspirations will they prefer to move toward cooperation, competition, confrontation or some combination of these, and to what degree? There are various dimensions and parameters to be assessed for this meaningful purpose, both in retrospect and in prospect. After a brief overview of recent history, this article examines the basis for China-India cooperation and analyses the frictions that exist between the two countries. This assessment will be most helpful in understanding the rationales, dynamics, constraints, challenges, and future trajectory of China-India strategic engagement.

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Sino-Indian Relations: An Overview of Recent History

In the post-war Asian context, the relationship between China and India was destined to produce significant, global consequences from the very beginning. As two newly emerging Asian nations, the People's Republic of China (PRC), founded in 1949, and India, which obtained its independence in 1947, began their encounters on an equal footing. On 30 December 1949, India became the first non-socialist nation to diplomatically recognize the PRC. Beijing openly appreciated New Delhi's mediatory role in the Korean War and its categorical support for China's position on Taiwan, which included India's bidding for a PRC seat at the UN.¹ A major agreement was reached by both governments in 1954, by which India officially accepted China's sovereignty over Tibet and the innovative trading and commercial links between China's Tibet and India through the shared Himalayan frontiers were clearly defined. It was in the preamble of this important agreement that both sides first championed the "five principles of co-existence" (or Panchsheel, as it is called in Hindi).² In the Bandung Asian-African Conference in 1955, Chinese Premier Zhou Enlai and his Indian counterpart Jawaharlal Nehru came into the spotlight by mutually promoting the idea of Asia-African solidarity for achieving their socioeconomic development and world peace.³ Zhou Enlai visited India in 1954 and Nehru came to Beijing in October of the same year to have face-to-face interactions with Chinese leaders, including Mao Zedong. Through different channels, Beijing and New Delhi unmistakably conveyed their shared views of various global events. The cordial interaction between Beijing and New Delhi was vividly epitomized in the catchword "Chini-Hindi bhai bhai" (China and India are brothers).

However, the brief "honeymoon" of Sino-Indian ties was interrupted by their diverging perceptions of the border issue that in Beijing's view was left unresolved. Beijing argued that there was no

¹ For a detailed account of China's interaction with India on the Korean War and Beijing's representation in UN, see Zhao Weiwu, *A Record of China-India Relations: From 1949 to 1999*, Beijing: Global Affairs Press, 2000, pp. 35-46.

² "Milestones in India-China Relations," *China Daily*, April 1, 2010.

³ "Bandung Conference Marks New Century," *China Daily*, April 22, 2005; for Indian comment on the performances of Zhou Enlai and Jawaharlal Nehru at the Conference, see Inder Malhotra, "Coalition of Free," *The Indian Express*, June 26, 2010.

demarcated boundary between China and India along the Himalayan ridges and that a new border had to be re-defined through negotiation. But New Delhi was to stick to a de-facto boundary based on the McMahon Line, arbitrarily drawn by the British Indian administration and imposed on the then-local Tibetan authorities in 1914, which Chinese governments have since then never recognized. The disputed territory of approximately 90,000 square kilometers was and remains under India's actual control (the Northeast Frontier Agency in 1955, and Arunachal Pradesh since 1987). Added to this, the surfacing of the western end of the long boundary dividing the two Asian powers further complicated the matter. India asserted claim to Aksai Chin, a barren but strategically important area under China's jurisdiction. In fact, New Delhi was first made aware of the problem of Aksai Chin through news reports in 1958 that described China's completion of a strategic highway linking Xinjiang and Tibet through this area.⁴

Initial negotiations on the border issue proved unfruitful and both sides felt it impossible to find common ground. At the same time, New Delhi continued Nehru's endorsed "forward policy" by setting up outposts and sending patrol squads across the border. Almost equally important, what happened inside Tibet played a visible role in aggravating Beijing's strained relations with New Delhi. As many in China believe it, India attempted to inherit British colonialist geopolitical projections, regarding Tibet as its natural sphere of influence or a buffer zone between the Subcontinent and China.⁵ Also as observed, New Delhi had been uneasily concerned about Beijing's marching into Tibet in 1950. Shortly after an abortive uprising in Tibet, Nehru's government granted the "fugitive" Dalai Lama asylum in India in 1959, which is thought to be a catalyst for Beijing's troubled ties with New Delhi. This is also argued to be one of the main reasons for Beijing's determination to "teach India a lesson".⁶ There were a series of skirmishes and crossfire along the actual border even before a major conflict started. In October 1962, a border war was fought and the Indian army underwent a debacle. After securing a victory in the battlefield, Beijing unilaterally declared a ceasefire and withdrew from the areas it took. New Delhi felt extremely discouraged and humiliated by both the military defeat in 1962 and the diplomatic hardship that followed.⁷ During the 1970s, both Beijing and New Delhi were involved in the broader geopolitical game of the Cold War, collaborating respectively with Washington and Moscow. Beijing also

⁴ Wang Hongwei, *The Himalayan Sentiment: A Study of Sino-Indian Relations*, Beijing: China Tibetology Press, 1998, pp. 119-121.

⁵ Yang Gongsu, "Sino-Indian Relations: Retrospect and Rethink," http://politics.csscipaper.com/china/chinadiplomacy/24126_5.html; and Yuan Kao, "India's China Policy and Sino-Indian Relations," *Global Academics*, Jan. 14, 2008, <http://www.chinaelections.org/newsinfo.asp?newsid=121500>.

⁶ Brahma Chellaney, "Checkmate India," *The Pioneer*, Nov. 15, 2009.

⁷ For Indian perspective of the war, see J. N. Dixit, *India's Foreign Policy: 1947-2003*, New Delhi: Picus Books, 2003, pp. 352-358.

backed Pakistan, India's arch enemy in South Asia, during the wars that pitted its two South Asian neighbors against each other in 1965 and in 1971.

The grievances in both India and China mounted as a result of the border war and, until the 1980s, Sino-Indian relations were at a low ebb. Following a prolonged suspension of interaction, 1979 and 1981 saw an exchange of visits by the two countries' foreign ministers. The low-profile dialogue on the border issue began to resume and the diplomatic missions in Beijing and New Delhi took to their business once again. Shortly after another border crisis caused by India granting statehood to the disputed territory (what India calls the Arunachal Pradesh), the then-Indian Prime Minister Rajiv Gandhi visited Beijing in December 1988 and both sides agreed to shelve the thorny border issue before finally finding a mutually acceptable solution. They would then normalize their relationship by multiplying bilateral engagements in a larger context, beyond the border issue.⁸

⁸ C. V. Ranganathan, "India-China Relations: Problems and Prospects," *World Affairs*, Vol. II, No. 2, April-June 1998.

Complex Dynamics of Sino-Indian Reengagement

Post-Cold War pragmatism

The end of the Cold War and China's shift of approaches to the prevailing international relations created an opportunity for improving Beijing's ties with New Delhi. As a result of the pragmatic mindset, China's South Asia policy underwent a visible shift beginning in the 1990s. As a meaningful feature, the adjustment was reflected in a growing emphasis on the paralleled nurturing of its bilateral relations with India and Pakistan, and a more detached response to events in South Asia. Beijing sought to repair its problematic relations with New Delhi on a pragmatic basis and, in the meantime, kept its time-tested partnership with Islamabad credibly workable. The paradigm shift also urged Beijing to modify its traditional attitude toward the Kashmir issue by advocating a negotiated settlement of the dispute through diplomatic efforts between the two South Asian neighbors, instead of any other proposed formulas.⁹ As a logical manifestation, Beijing ceased to see the chronic New Delhi-Islamabad rivalry as best serving its interests and sought to reduce tensions in South Asia. During the 1999 Kargil conflict and the 2002 armed standoff between India and Pakistan, Beijing refrained from the traditional side-taking posturing and played a constructive role in defusing the tensions, helping to avoid an all-out war between the two fledgling nuclear-capable states.¹⁰

China's serious interest in improving its relationship with India is backed by a number of identified rationales. First of all, China has begun to accept the looming reality of India's emergence as a rising power at both regional and global levels. As visibly seen, India has, with its impressive economic performance and huge potential, become among the fastest growing economies and secures widespread recognition. As a result of dynamic economic growth, India's national power and strategic assets are significantly strengthened and create profound implications. In addition to this is India's enhanced

⁹ "China: Kashmir issue should be solved through dialogue," *China Daily*, Nov. 24, 2009.

¹⁰ For Beijing's response to the events, see "China's Supportive Stance on Kargil," *Kashmir News Network*, <http://ikashmir.net/kargil1999/china.html>; "China Urges India-Pakistan Talks on Border Tensions," *People's Daily*, July 31, 2002.

global profile and proactive diplomacy, which have enlarged its politico-economic interaction with major powers and international institutions. According to an evolving Chinese view, India is expected to play an influential role in the emerging global structure in terms of its international weight, economic potential, military build-up and strategic aspiration.¹¹ India's emergence as a power necessitates Beijing's reassessment of the significance of their engagement.

Next, Beijing and New Delhi take similar approaches to many key issues regarding the existing global politico-economic structure. They advocate for democratizing the existing international relations and replacing unilateral and hegemonic practices with a norm-based, multipolar global order in which they assert themselves as deserving actors. Both of them highlight the authority of the UN by endorsing the reinforcement of functions of the preeminent global body and calling for upgrading the developing nations' profile and substantiating their participation in resolving core issues of global concern. Moreover, Beijing and New Delhi are highly critical of the practice of intervening in the internal affairs of a sovereign state under the pretext of protecting human rights. Both of them challenge the legality of "self-determination" in the present international relations and fear their own sovereign and territorial integrity to be seriously undermined by ethno-religious separatism. As reasonably argued, these shared perceptions and understandings are important for coordinating their global strategies.¹²

Moreover, both Beijing and New Delhi underline the importance of prioritizing economic growth, achieving socioeconomic modernization, and enhancing national capabilities with regard to their rising statuses in the present global system. The shared mantra of the "developing economy" has pressed them to search for a stable and conducive environment while preferring a proactive approach to envisaging the emerging global challenges.¹³ As a primary example, both countries play a significant role in representing the developing world in global financial institutions, such as the WTO, and seek a greater share in the global redistribution of wealth and resources. China and India have attempted to reconcile their respective agendas in securing perceived, shared interests including the Doha round horse-trading, food security, and global climate change.

¹¹ Zhao Gangcheng, "Significance of Sino-Indian Relations in China's Diplomatic Policy," <http://www.ailong.com/pages/article/15/22.htm>.

¹² For a comparative analysis of Chinese and Indian international strategies, see Zhang Li, "India's Strategic Perception and Policy Options toward China and Sino-Indian Relations" in Zhang Yunling & Lan Jianxue (eds.) *China-Russia-India Cooperation towards the Future*, Beijing: World Knowledge Press, 2007, pp. 74-94; and Lan Jianxue, "Sino-Indian Relations and a Comparative View of Chinese and Indian Diplomatic Strategies," *Foreign Affairs Review*, No. 3, 2008.

¹³ Hu Shisheng, "China-India Partnership: The Emerging Scenario and Prospects," *China Strategic Observer*, No. 1, 2010.

Political links and high-profile interaction

On the political front, high-level interaction plays an important role in improving Sino-Indian relations. During Prime Minister Narasinha Rao's visit to Beijing in 1993, China and India signed an agreement on achieving peace and tranquility along the Line of Actual Control on the border, agreeing to maintain the status quo until a mutually acceptable settlement of the dispute can be achieved and, at least in principle, excluding the choice of resorting to military force. During President Jiang Zemin's 1996 visit, both sides struck another major deal on building military confidence along their lengthy border.¹⁴ Although Beijing's relations with New Delhi witnessed a setback in the wake of India's nuclear tests, President Narayanan's trip to China in 2000 accentuated the resilience of high-profile interaction in helping the bilateral ties to get back on course after a short diplomatic crisis.

Prime Minister Vajpayee's visit to Beijing in June 2003 proved to be an expected success and both sides issued a declaration defining principles for bilateral relations and comprehensive cooperation. Instead of repeating the previous vague expressions, India confirmed its recognition of the Tibetan Autonomous Region (TAR) as an integral part of the PRC.¹⁵ Shortly after the visit, Beijing *de facto* recognized the status of Sikkim as an Indian state by deleting it from the list of independent nations on the website of China's Foreign Ministry.¹⁶ As Premier Wen Jiabao visited India in March 2005, the two governments declared a strategic partnership towards peace and prosperity. The nature of partnership, as qualifiers indicate, is to avoid confrontation, cultivate friendship, and intensify economic interaction. Added to this, both sides drew up the Agreement of Political Parameters and Guiding Principles on settling the border issue.¹⁷

Since January 2005, Beijing and New Delhi have launched several rounds of strategic dialogue that are aimed at enhancing higher level coordination and cover multiple topics of common concern, ranging from the border issue, confidence building measures (CBMs), and India's aspiration to attain permanent membership of UN Security Council to questions of non-proliferation, antiterrorism, and regional security.¹⁸ President Hu Jintao in his November 2006 trip

¹⁴ For English versions of these documents and a brief introduction, see Swaran Singh, "Three Agreements and Five Principles between India and China," in Tan Chung (ed.), *Across the Himalayan Gap: An Indian Quest for Understanding China*, New Delhi: Gyan Publishing House, 1998, pp. 505-518.

¹⁵ "Experts Applaud China-India Declaration on Bilateral Ties," *People's Daily*, June 27, 2003.

¹⁶ Sultan Shahim, "Delhi loses its way on China trade route," *Asia Times*, July 23, 2004.

¹⁷ Anil K Joseph, "Sino-India relations in good shape: Chinese premier," *Rediff. News*, June 26, 2006, <http://www.rediff.com/news/2006/jun/26china.htm>.

¹⁸ Zhang Li, "Sino-Indian Strategic Dialogue: An Exploration of Institutionalized Interaction and Constraints," *South Asian Studies Quarterly* (China), No. 3, 2009.

made a package initiative of the “Ten-pronged Strategy” to elevate the bilateral relationship. During Prime Minister Manmohan Singh’s visit to Beijing in January 2008, both countries issued a well-elaborated agenda of shared vision for the 21st century. Essentially at the urging of Beijing, it was finally agreed in April 2010 to set up a hotline for communication between the two Premiers.¹⁹ Added to high-profile visits, the two nations’ leaders have kept meaningful contacts on the sidelines of regional and multilateral gatherings.

Apart from meaningful sideline contacts, regional and multi-sided arrangements also offer opportunities for Beijing and New Delhi to diversify their engagement. They have realized a growing need of engaging each other in a positive way in enlarging their own regional clout and integrating themselves into a broader politico-economic arrangement. Both China and India are influential participants of the ASEAN free trade initiatives and the regional security forum since the late 1990s. India was accepted in 2005 as an observer member of the Shanghai Cooperation Organization (SCO), which is dominated by Beijing and Moscow²⁰; and China gained a corresponding status in the South Asian Association of Regional Cooperation (SAARC) later in the same year.²¹ After years of indecisiveness and lethargy, Beijing and New Delhi began to show more interest in a tripartite regime of dialogue involving Moscow that was originally driven by Russia. As a new signal, the emerging grouping of BRICs comes to be a useful politico-economic platform for Beijing and New Delhi to intensify their constructive interaction.

Interestingly, Beijing and New Delhi have pledged not to see the other as a strategic threat despite the perceived suspicions and uncertainty.²² And political leaderships of two countries reassured each other and themselves that there is enough space, both regionally and globally, to accommodate both China’s and India’s development.²³ These rosy expressions have proved to be politically necessary in the face of the growing fear of almost inevitable confrontation between the two rising powers as a result of their clashing interests and paralleled aspirations. While alluring to some displeasing experience and the unfurling contests in various domains, however, the controversial comments can convey a political will to struggle for a healthy and stable bilateral relationship between the emerging Asian giants.

¹⁹ Saurabh Shukla, “India, China agree to create hotline between PMs,” *India Today*, April, 2010.

²⁰ “India supports basic SCO principles: official,” *People’s Daily*, June 13, 2006.

²¹ Zhang Lijun, “Closer Ties: China’s Expanding Economic Links with South Asia,” *Beijing Review*, Vol. 49, No. 2, Jan. 12, 2006.

²² “India doesn’t see China as a threat: Tharoor,” *The Indian Express*, Nov. 23, 2009; and “Upbeat mood in Sino-Indian ties,” *The Hindu*, April 1, 2002.

²³ “Message from Chinese Premier Wen Jiabao to Indian Prime Minister Manmohan Singh on 60th Anniversary of Diplomatic Relations,” April 1, 2010, <http://www.chinaembassy.org.in/eng/zgbd/t676923.htm>; and Lindsay Beck and Guo Shipeng, “Room enough for China and India: Singh says,” *Boston Globe*, Jan. 14, 2008.

Trade and economic interaction – moving toward partnership

As two rising global powers and among the world's fastest growing economies, both China and India carry increasing weight in and have a growing influence on global economic development. Even during the ongoing global financial crisis, they are keen to make their rapidly growing economies a miracle and are highly expected to contribute to the recovery of the global economy. It is widely recognized that the Dragon and the Elephant are ascending together in a big way.

Sino-Indian ties are characteristic of their enhanced economic significance and Beijing regards the economic bond as the backbone of improving its bilateral relationship with India. India became China's largest trading partner in South Asia in 1993 and the increase in two-way trade has accelerated at a spectacular rate ever since. According to China's official statistics, China-India bilateral trade reached \$51.8 billion in 2008, compared to only \$2.9 billion in 2000, with an average annual growth of 43%.²⁴ Bilateral trade hit a symbolic figure of \$10 billion in 2004, then achieved \$18.7 billion and \$38 billion respectively in 2005 and in 2007. In 2008, Chinese exports to India hit \$31.5 billion (a 31% annual increase over 2007) and imports from India reached \$20.28 billion (a rise of 38.7%). Encouraged by the dramatic trajectory, the two governments have renewed their ambitious target of up to \$60 billion in 2010.²⁵ Overtaking the United States, China became India's top trading partner in 2007, while India is among China's major trading partners (currently ranking 10th in terms of the absolute volume of two-way trade). Recent research in China indicates that China-India trade will remain vibrant in the foreseeable future and keep the trend of steady growth, although 2009 witnessed a modest drop of the bilateral trade by 16.2% (\$43.4 billion), primarily as a result of the global economic slowdown.²⁶

As compared with the dramatic increase of bilateral trade, two-way investment between China and India has remained low. The figures of 2008 indicate that India's total investment in China rose to over \$400 million, while China's total investment in India stood at about \$250 million.²⁷ Comparatively, India takes lead and shows more interest in investing in China. Over one hundred Indian companies,

²⁴ Chen Deming, "Indian and Chinese are tied together," *People's Daily*, Jan. 20, 2010.

²⁵ "Ambassador Zhang Yan relives China-India relations," March 28, 2010, http://www.china.org.cn/opinion/2010-03/28/content_19702391_2.htm.

²⁶ Liu Xiaoxue, "60Th Anniversary of China-India Relations: To Develop Closer Economic and Trade Cooperation," March 23, 2010, http://www.china.com.cn/international/txt/2010-03/23/content_19644956_2.htm.

²⁷ Chen Deming, "Indian and Chinese are tied together," *People's Daily*, Jan. 20, 2010.

including Indian industrial tycoons such as Infosys, Tata, NIIT, Ranbaxy and Dr. Reddy's Lab, run their business in China, which ranges from IT education/consultation, pharmaceuticals, banking services and restaurants to entertainment programs.²⁸ Currently, China's investment in India is essentially in the electronics and household appliance sectors. As a weak link in the commercial ties, the scarcity of bilateral investment is also inflected in a trivial ratio to their respective total outflows of foreign investment.

Despite its insignificant direct investment in India, however, China's contractual investment in projects constitutes a more meaningful part of bilateral economic relations. Chinese companies, benefiting from their professional expertise and competitive cost, have succeeded in bidding for lucrative construction contracts in India, especially in the infrastructural and engineering sectors, and have enjoyed a cumulative value of over \$11.1 billion since 2006.²⁹

Both Chinese and Indian leaders see closer trading and economic links not only simply serving an immediate commercial purpose, but also bolstering their bilateral relationship as a whole. Governments in Beijing and New Delhi have shown a consistent will to expand bilateral trade and economic interactions in a big way. Beijing, especially, seems to believe closer economic ties to be a panacea for bolstering their bilateral relationship, regardless of some outstanding problems. Both Beijing and New Delhi have agreed that the ongoing level of economic cooperation is still not commensurate with their actual capacities and statuses, and that there are greater complementarities and comparative advantages for both nations to enhance trade and economic cooperation in terms of their fast growing economies and huge potentials. In his 2003 visit, Vajpayee was escorted by an impressive delegation consisting of top Indian businessmen. He specified the areas for tapping potential and strengthening cooperation such as IT, transport, and banking and called for overcoming the information gap.³⁰ Wen Jiabao, visiting Bangalore in 2005, eloquently promoted the theme of Sino-Indian economic interaction and the benefits of solidarity by predicting that China and India could lead the world by combining their respective advantages in hardware and software.³¹ As a major bilateral document, *A Shared Vision for the 21st Century of the PRC and India* pushes for an early implementation of a Regional Trading Arrangement (RTA) that promises a win-win prospect as well as regional integration in Asia as a whole.³²

²⁸ "Explained: Sino-Indian ties in figures," *The Rediff Special*, Jan. 10, 2008.

²⁹ "Indian and Chinese Destinies Are Tied Together," Jan. 20, 2010, <http://www.chinaembassy.org/eng/zyjh/t652596.htm>.

³⁰ Priya Ganapati, "IT majors welcome move to China," *Rediff News*, June 27, 2003.

³¹ "Wen Seeks IT partnership with India," *China Economic Review*, April 11, 2005.

³² "A Shared Vision for the 21st Century of the People's Republic of China and the Republic of India," Jan. 15, 2008, <http://in.china-embassy.org/eng/zgbd/t399545.htm>.

At a sub-regional level, China and India have tried to move ahead in diversifying their cooperation by taking a relatively liberal agenda for their border areas in order to nurture economic interaction. Since the late 1990s, China's frontier province of Yunnan and India's northeastern states have made efforts to deepen their trans-border commercial contacts in order to remove the bottlenecks caused by poor connectivity and underdevelopment. Chinese and Indian think tanks became, both bilaterally and within the regional cooperative framework of BCIM (Bangladesh, China, India and Myanmar), increasingly interested in a number of inspiring projects for gaining mutual benefits, including extending the trans-border overland connectivity involving Yunnan, Rangoon, Dhaka and Assam.³³ In the same vein, re-opening the Nathula Pass bridging Sikkim and Tibet in July 2006 helped stimulate frontier trade between both sides of the border, in addition to being suggestive of greater border confidence.

As anticipated, the fast-growing bilateral trade and economic interaction have enhanced the interdependency of the two Asian powers, creating a positive mood for perceiving each other's development strategy and making the nature of bilateral ties more relevant to their respective core interests. Prioritizing economic interaction and strengthening trade connections also help them to reassess the significance of a non-confrontational relationship and to tune up policy options in dealing with each other.

Nevertheless, analysts are still divided on the role of economic ties in achieving political détente and moderating major conflicts of interest, given the lack of reliable, mutual trust. Some analysts voice greater self-confidence in predicting a more stable and less confrontational Sino-Indian bilateral relationship as a result of their booming and sustainable economic interaction.³⁴ Despite the relevance of increasing trade and economic links, on the other hand, most strategic scholars on Sino-Indian relations still believe that the key to making the declared partnership more credible remains confidence-enhancement and trust-building and the settlement of outstanding problems between them.³⁵

³³ Ren Jia & Chen Lijun, "BCIM Regional Economic Cooperation," *Contemporary Asia-Pacific Studies*, No. 1, 2004; and for an Indian perspective, see Patricia Uberoi, "India-China Initiatives in Multilateral Fora: Two Case Studies," *China Report*, Vol. 44, No. 3, July 2008, pp. 307-318.

³⁴ Zhang Yan, "Economic and trade ties is important part of Sino-Indian strategic partnership: An interview with former Chinese ambassador to India," *China United Commerce News*, May 28, 2010; Among Indian perspectives is Swaran Singh, "China-India Bilateral Trade: Strong Fundamentals, Bright Future," *China Perspective*, No. 62, Nov.-Dec. 2005.

³⁵ For a balanced analysis of politico-security vs. economic equation regarding the bilateral relations, see Waheguru Pal Singh and Jing-dong Yuan's *China and India: Cooperation or Conflict?* (Boulder: Rienner, 2003), pp. 175-177; and also Zhang Guihong, "China-India Relations: Certainties and Uncertainties," *South Asian Studies*, No. 1, 2010.

The Sino-Indian security and defense nexus

Enhanced political engagement and pragmatic strategic calculus have pressed both sides to explore defense and security cooperation. Given the protracted border dispute and the shadow of the 1962 war, Beijing and New Delhi have long seen each other as strategic adversaries and many in the Indian strategic community continue to regard China as a major security threat.³⁶ The border CBM agreements in 1993 and 1996 made it possible to expect mutual strategic transparency and predictability by stressing the exclusion of any military resolution of the boundary dispute. The CBMs include a reciprocal reduction of troop deployment, regular meeting of both sides' local commanders to consult and handle emergencies, and the prior announcement of military exercises along the border. As a result of the declared strategic partnership in 2005, military-to-military exchanges became part of the overall bilateral agenda, which is believed to be of "vital importance in enhancing mutual trust and understanding" between the two militaries.³⁷ Indian Defense Minister Pranab Mukerjee visited Beijing in May 2006 and both sides signed a major memorandum of understanding that was designed to spur defense exchanges and cooperation between their military establishments.³⁸ In recent years, Indian military leaders and theatre commanders have made professional visits to Tibet.³⁹

Perhaps more specifically, Beijing and New Delhi have conducted annual defense and security consultations since November 2007. Focusing on enhancing security, building mutual trust and unleashing defense coordination, the dialogue mechanism covers various areas of shared interest, including each other's strategic sensitivities and concerns, regional conflicts, and non-traditional security challenges, as well as the bilateral security nexus and available schemes on cooperation that include joint training and drills.⁴⁰ The defense and security dialogue offers a needed platform to expound the respective defense policy directions and regional security considerations, apart from helping strengthen military interaction. This initiative has also proven necessary in clarifying diverging approaches and narrowing the gap of perception between the two countries' military and defense establishments. Nevertheless, it

³⁶ Gurmeet Kanwal, "Countering China's Strategic Encirclement of India," *Bharat Rakshak Monitor*, Vol. 3(3), Nov.-Dec. 2000; Subhash Kapila, "Indian Strategic Community's Fixations with Pakistan," March 22, 2009, <http://www.boloji.com/plainspeak/177.htm>.

³⁷ "Joint Statement of the People's Republic of China and the Republic of India," Xinhua News Agency, April 11, 2005, <http://www.china.org.cn/english/2005/Apr/125627.htm>.

³⁸ "Mukherjee: India sees no China threat," *China Daily*, May 29, 2006.

³⁹ Tang Lu, "Indian military delegation allowed to visit Tibet," *International Herald Leader*, Nov. 21, 2003; "Indian eastern theater chief meets Chinese general in Tibet," *Tibet Daily*, Sept. 4, 2009.

⁴⁰ Hao Yalin & Ma Jie, "China and India step up defense cooperation," *Xinhua News Release*, Jan. 14, 2008.

seems uncertain for Beijing and New Delhi to institutionalize their defense and security cooperation in its strict sense in the near future given the trust deficit and strategic discords.

Several joint military and maritime training and drills are reasonably seen as a sign of deepening military engagement, regardless of their limited scale. These operations are reported to enhance their coordinated ability to achieve multiple tasks of combating terrorists, targeting piracy, and carrying out humanitarian missions in case of natural calamities. Indian naval vessels paid a port call before launching a joint training with Chinese navy in November 2003 and a small Chinese fleet joined hands with the Indian navy in December 2007 for a search and rescue drill coded “Sino-Indian friendship 2005” in the Indian Ocean. The first joint army training was held in December 2007 in Kunming, China, which received unusual media coverage.⁴¹ A follow-up, coordinated training between the two armies was staged in India’s Belgaum one year later.⁴² As jointly proposed, Chinese and Indian air forces are expected to launch their maiden joint exercise in 2010.⁴³ Occasionally, each side also invites the other to watch military exercises with other countries.

In the long run, the burgeoning Sino-Indian military interaction is of pragmatic significance to nurturing mutual trust in the political and security fields, in addition to its immediate effects on easing common security concerns. It may urge each side to make reasonable assessments of the other’s strategic intentions and security concerns. It could be helpful for augmenting transparency and predictability and avoiding miscalculations on a reciprocal basis before any crisis moves beyond control.

Non-traditional security: opportunities and constraints

Unlike the uneasy chipping away of the strategic trust deficit or resolving the vexed boundary disputes, non-traditional security provides more room for Beijing and New Delhi to cooperate and substantiate their declared strategic partnership. The areas of promising cooperation in this regard involve, either actually or potentially, combating terrorism and extremism, fighting maritime piracy and cross-border drug trafficking, tapping overseas energy resources and achieving energy security within a unified regional mechanism, transregional environmental protection and water resource sharing, and stepping up nuclear confidence as well as reinforcing the non-proliferation of WMD.

⁴¹ Dong Zhaohui, “Military official: Sino-Indian military training successful,” *PLA Daily*, Dec. 26, 2007.

⁴² “China-India joint anti-terror drill,” *Xinhua News Release*, Dec. 8, 2008.

⁴³ “India-China air forces to interact in November,” *The Hindu*, April 13, 2008; “Indian Air Force plans joint exercise with China,” *Global Security*, Nov. 17, 2008.

Energy security: cooperation vs. competition

Meeting the energy security challenge together is a potentially significant dimension in expanding cooperation between China and India. Over the years, both countries have witnessed robust economic growth and, at the same time, become major energy consumers and avid importers. Statistics indicate that China's oil imports account for approximate 40% of its total oil consumption during 2000-2009 (47.3% in 2006 as compared by 29.1% in 2001)⁴⁴ and hit a record 52% in 2009, reaching the globally recognized energy security alert level.⁴⁵ The data also suggest that this trend will continue. India's energy scenario is even more challenging. Figures indicate that imported oil accounted for 68% of India's total consumption in 2008 and, according to global energy experts, India will be the fourth largest net oil importer following the US, China, and Japan by 2025.⁴⁶

The growing reliance on overseas supplies suggests that, for both Beijing and New Delhi, energy security and sustainable economic growth come to be increasingly dependent on an insecure global energy market that, perhaps more threateningly, leaves them in an unfavorable position regarding the prevailing global energy economics. This shared perception makes them think alike and develop similar agendas to meet the challenge.

There are some effective ways for China and India to acquire overseas energy, either individually or collectively, including joint ventures with energy-rich countries or multinational consortiums, equity-participation in exploration and production, investment in old oil/gas-field refurbishment and bidding for concessions or projects. The adoption of energy diplomacy has credibly bolstered these activities. To acquire reliable and affordable overseas energy, Beijing and New Delhi have begun seeking innovative relationships with energy exporting countries in the Persian Gulf, Central Asia, Russia, the Caspian littorals, Africa, Southeast Asia, and Latin America. These endeavors have proved a modest success.

By nurturing better political partnerships and offering luring economic aid, China has solidified beneficial cooperation with Central Asian republics, Kazakhstan in particular, to transport the region's energy resources to Chinese industrial centers.⁴⁷ Beijing also successfully wooed Russia into extending the Siberian oil pipeline to

⁴⁴ "Analysis of China's energy import and export," *Xinhua News Agency*, March 26, 2007.

⁴⁵ Wang Qian, "Oil imports hit alarming level in China: Study," *China Daily*, Jan. 14, 2010.

⁴⁶ "India Energy Data, Statistics and Analysis," Energy Information Administration, March 2009, <http://www.eia.doe.gov/cabs/India/pdf.pdf>.

⁴⁷ Annivaer Amuti & Sun Wenjuan, "Energy Cooperation between Central Asia and China in the Geo-structure of International Energy," *Research on Development (China)*, No. 5, 2009.

its major refineries by using highly attractive financial incentives.⁴⁸ Equally, India has attempted to secure gas supplies from Iran by promoting the proposed overland gas pipeline via Pakistan to meet its huge demand gap, although this project has yet to come to fruition for a number of reasons including the security and geopolitical concerns.⁴⁹ In recent years, the energy factor has pressed New Delhi to improve its problematic relations with Pakistan, Myanmar and Bangladesh.⁵⁰ Also, the expected energy cooperation between China and India is believed to have affected their bilateral relations as a whole in a positive way.

There are a few successful cases to mark the potential opportunity for China and India to reconcile their endeavors for obtaining overseas energy contracts. Early in 2000, China National Petroleum Corporation (CNPC) and India's Oil and Natural Gas Corporation (ONGC) signed their first memorandum on joint exploitation of oil reserves in the developing countries. Both China and India obtained considerable stakes in exploiting Sudan's oil deposits in 2004, thereby forging an actual partnership based on shared benefits.⁵¹ Starting from 2002, Chinese and Indian energy enterprises also linked-up for oil exploration in Kazakhstan, despite the fact that this endeavor ultimately led to a contest that India would lose several years later.⁵² ONGC and China International Trust and Investment Corporation (CITIC) planned to join together to bid for a huge share of the Nations Energy Co. in Kazakhstan. ONGC also expressed growing interest in participating in the China-Kazakhstan oil pipeline project.⁵³ As the first attempt to win overseas oil contracts together, CNPC and ONGC Videsh Limited (OVL) joined hands to acquire the Petro-Canada's stakes in Syria in December 2005. OVL and Sinopec, another Chinese energy giant, also secured joint bidding for sharing 50% oil assets of US Ominex Resources in Columbia in August 2006.⁵⁴ Other interactive endeavors, possibly towards tangible cooperation in this regard, are Beijing's explicit interest in participating in the proposed Iran-Pakistan-India gas pipeline arrangement (IPI)⁵⁵ and calls from both Beijing and New Delhi to bolster Pan-Asian energy cooperation to enhance their energy security.⁵⁶

⁴⁸ An Bei & Zhang Yi, "CPNC strikes a deal on Russian Oil," Xinhua News, Nov. 11, 2008, <http://news.qq.com/a/20081101/001287.html>; "China, Russia sign 20-year deal swapping oil for loans," *Shanghai Daily*, Feb. 18, 2009.

⁴⁹ "India, Iran to talk energy during Ahmadinejad visit," *China Daily*, April 30, 2008

⁵⁰ Siddharth Srivastava, "India looks east for gas," *Asia Times*, Sept. 28, 2005

⁵¹ Ye Hailin, "China and South Asian relations in a new perspective," Oct. 23, 2008, <http://www.iapscass.cn/english/Articles/showcontent.asp?id=1118>.

⁵² C. Raja Mohan, "Sakhalin to Sudan: India's Energy Diplomacy," *The Hindu*, June 24, 2002.

⁵³ Ding Xingan, "Sino-Indian Energy Cooperation," *World Outlook* (Shanghai), No. 8, 2007.

⁵⁴ "China-India join hands to bid for oil assets in Columbia," *21st Century Business Herald* (Guangzhou), Aug. 18, 2006.

⁵⁵ Lee Geng, "China Keen to Participate in IPI Pipeline," *Energy Tribune*, June 18, 2008.

⁵⁶ Mani Shankar Aiyar, "Asia's Quest For Energy security," *Counter Current*, Feb. 17, 2006.

The SCO provides another helpful platform for Beijing and New Delhi to expand their cooperation in energy. The concept of creating a SCO energy club, initiated by then-Russian President Vladimir Putin in December 2006, envisages the unfurling of energy cooperation among its member nations at global, regional (both full and observer members of the SCO), sub-regional (Central Asia), and national levels. As one of the observer members, India is increasingly interested in cooperating with Russia, China, and Central Asian republics in energy. The proposed energy club is believed to enable SCO members to moderate, if not remove, the existing competition among them, such as one between China and India for energy resources and supplies.⁵⁷

The other side of the same coin is an unfolding contest between Beijing and New Delhi over energy acquisition. Fierce tussles between them over bidding for oil/gas projects abroad have been often heard, although it is too early to fathom the intensity and consequences of future competition. The contest has begun to spread over most energy-rich regions where both of them have attempted to take an upper hand. As observed in vying for bids in Angola, Kazakhstan, Venezuela, and Myanmar, among others, Chinese companies eventually outbid their Indian opponents to obtain project contracts thanks to more attractive terms for the host countries.⁵⁸ But a worrisome fact is that to out-survive each other for project contracts or equity oil, either China or India had to pay much more than proposed bidding prices. This unexpected practice urged them to try a tentative joint bidding. During former Indian energy minister Mani Shankar Aiyal's visit to Beijing in 2006, both governments reached a consensus on working together to maximize their capacity of acquiring energy abroad and to overcome the effect of the "Asian premium". A significant cooperative accord was signed by their respective energy giants, namely the CNPC and the ONGC.⁵⁹ In the future, Beijing and New Delhi have reasons to continue this revisionist strategy as far as their own energy security and cost-interest considerations are concerned. Sino-Indian collaboration on energy security may also have profound ramifications for energy geopolitics and economics in the long run, although the contest between them has proven unavoidable.

Combating terrorism

Fighting terrorism and extremism has an increasing bearing on Sino-Indian collaboration in the field of non-traditional security and can possibly serve as a rallying point for enhancing trust between them,

⁵⁷ Sergei Luzyanin, "SCO-2009: Development Problems," *Russia in Global Affairs*, No. 2, April-June, 2009.

⁵⁸ "China beats India for Angola oil deal," *Xinhua News Release*, Oct. 19, 2004 http://news.xinhuanet.com/english/2004-10/19/content_2110896.htm; Rakteem Katakey & John Duce, "India Loses to China in Africa-to-Kazakhstan-to-Venezuela Oil," June 29, 2010, <http://www.bloomberg.com/news/2010-06-30/india-losing-to-china-in-africa-to-kazakhstan-to-venezuela-oil-purchases.html>.

⁵⁹ "Indian minister heads to Beijing for energy," *China Daily*, Jan. 8, 2006.

despite some differences yet to be resolved. For years, India has been a major victim of terrorism and elicited sympathy and support worldwide. But the terrorist scourge in this region, as widely recognized, is entangled with the protracted Indo-Pakistan rivalry and the Kashmir imbroglio in particular. Until recent years the complexity of the issue has limited Beijing's reaction towards the challenge that India has had to confront.

China became more responsive to the transregional terrorism and extremism with its growing sense of insecurity brought about by the militant Eastern Turk separatists operating within its frontier autonomous province of Xinjiang. There has been a mounting perception in China that the threat posed by extremists, separatists and terrorists (namely, the "three evil forces" as Beijing brands it) has become a grave threat shared by China, India, and Russia.⁶⁰ Beijing conveyed its sympathy to New Delhi shortly after the terror attack on the Indian Parliament in December 2001 and condemned the perpetrators.⁶¹ Terrorism has been listed as one of major subjects of shared concern in a series of bilateral consultations. Following a signed bilateral memorandum of security cooperation, the PLA and the Indian army undertook the first joint anti-terror war game in Kunming in December 2007. One year later, another joint special combat training was staged in Belgaum, India. The agreed bilateral documents indicate that there has been a general consensus on targeting the terrorist scourge "in all its forms and manifestations, and in all regions of the world" and both sides pledge to work together for this purpose in both regional and global frameworks.⁶²

Nevertheless, both sides will have to remove some formidable stumbling blocks before moving toward a credible partnership in tackling the terrorist challenge. The expressed consensus is still far from working out any operational agenda in this direction. The lingering political distrust and the diverging perceptions of terrorism in the South Asian context have limited, and will continue to limit, the scope and depth of cooperation between them. As widely perceived in China, to target Pakistan-based terrorist outfits might be used by New Delhi to enlarge its strategic capability vis-à-vis Islamabad or even launch a preemptive war against Pakistan.⁶³ New Delhi, in return, sees Beijing's measured reaction towards the Mumbai terror attack in November 2008 as a sign of Beijing's insensitivity to the terrorist challenge facing India and, more simply, of a pro-Islamabad

⁶⁰ Pan Zhiping, "Geopolitics in Xinjiang and China's National Security," *Frontier Historical and Geographical Studies* (China), Vol. III, 2003.

⁶¹ "China, India Vow to Fight Terror," *China Daily*, April 24, 2002.

⁶² "A Shared Vision for the 21st Century of the People's Republic of China and the Republic of India" (Jan. 15, 2008), *Beijing Review*, No. 9, Feb. 28, 2008.

⁶³ Fang Hui, "India seeks advanced arms to deal with Pakistan," *International Herald Leader*, Feb. 12, 2009; Wang Wuyang, "Don't use anti-terror as excuse for war against Pakistan," Dec. 21, 2008, http://bbs.tiexue.net/post_3251702_1.html.

policy.⁶⁴ Rarely unnoticed by Chinese, in return, India's media became reticent on the attacks on Han-Chinese conducted by radicalized ethnic Uyghurs in the Xinjiang capital of Urumqi in July 2009, in contrast to other international media. According to an Indian analyst, the Indian public's unresponsiveness to the incident was linked to Beijing, as they perceived it, being always silent on the terrorist atrocities in Kashmir, although many Indians "are worried over the brutality of the Uyghur jihadis to the Han Chinese civilians" and "will feel the same way against the trouble-makers" in Xinjiang.⁶⁵

Regardless of the existing disarrays, however, to address the menace of terrorism is expected to be one of major arenas of promising collaboration for both sides to explore mutual trust and reconcile their regional strategies. At the October 2009 Bangalore meeting attended by Indian, Chinese and Russian foreign ministers, Beijing, joining New Delhi and Moscow, vowed to strengthen global collaboration in fighting rampant terrorism and asserted that "there can be no justification for any act of terrorism anywhere", explicitly condemning the terror strike on the Indian diplomatic mission in Kabul, taking place immediately before the meeting.⁶⁶

China responding to India's global aspirations

Beijing's feedback on India's aspirations to be an emerging power is a telltale indicator for assessing their complicated relations. It also reflects various parameters in the bilateral ties. There are several identifiable core goals for India to pursue in achieving this ambitious strategy: to elevate its global prestige and profile through economic development and by promoting pragmatic power diplomacy; to obtain the permanent membership of the UN Security Council (UNSC); and to be counted among the legitimate nuclear powers within a shifting global nuclear regime. New Delhi sees these aspirations to be interrelated and mutually supporting. Based on sophisticated considerations and binding commitments, Beijing's response is differentiated, selective, and open-ended as far as each of them is concerned.

In general, as mentioned earlier, China recognizes the reality of India's ascension as an important power in the ever-changing global socioeconomic structure. There are increasing positive comments on and balanced analyses in the Chinese media of the role of India in pushing for a multipolar world order. India's significance to the burgeoning politico-economic grouping of "BRICs" (Brazil, Russia, India,

⁶⁴ D. S. Rajan, "China's Reaction to Mumbai Terror Strikes: Pro-Pakistan Bias," *South Asia Analysis Group Paper*, No. 2972, Dec. 8, 2008.

⁶⁵ B. Raman, "Why Indians Are Silent On Uighur Brutalities?" *South Asia Analysis Group Paper*, No. 3306, July 15, 2009.

⁶⁶ "Joint Communiqué of FMs of China, India and Russia at Bangalore Meeting," Oct. 28, 2009, <http://www.chinaembassy.org.in/eng/ssygd/FMvisitsindia/t623590.htm>.

and China) has come to be a theme of serious interest.⁶⁷ The idea of “Chindia”, advocated by the noted Indian economist and then-Minister of State for Commerce and Industry Jairam Ramesh, has gained growing popularity and received constructive responses among Chinese academics.⁶⁸ Beijing has also tried to find common ground with New Delhi in seeking a greater interest share for themselves within the prevailing global economic and development regimes. Another, more recent example is seen in the Copenhagen Conference on global climate change in December 2009. Instead of simply downplaying its merits, Chinese strategists have begun to develop a balanced perception of India’s pragmatism in dealing with major powers and optimizing its own national interests, which are believed to help calibrate China’s policy in South Asia. Equally interesting is the Indian-style democratic politics and socioeconomic transformation that are evoking Chinese intellectual interest in terms of comparing different development models and assessing advantages and disadvantages.⁶⁹

Beijing has held an ambiguous attitude towards India’s desire to enter the UNSC as a permanent member whereas, as a standard expression, China backs India’s expanding role in ongoing global affairs and within the UN. Beijing has also hinted at prioritizing India’s chance of acquiring such a role at the UN, especially in case of the expansion of the UNSC.⁷⁰ But this response is far from meeting New Delhi’s expectations. It is argued that Beijing is reluctant to offer India a definite and unequivocal endorsement. Beijing’s unconcealed reservations about the issue could be explained, at least partially, by its lack of reassurance and confidence in the bilateral relations, despite its understandable misgivings about the resultant diluting of the UNSC’s power. Most likely, in prospect, is that Beijing will calibrate its policy option, either supporting or boycotting India’s aspiration to seek the seat, on the basis of its assessment of the nature of its multidimensional engagements with India, as well as of the changing regional geopolitical alignments.

China has been among the major critics of India’s ambition to be a legitimate member of the global nuclear club in the aftermath of its nuclear tests in May 1998. Beijing’s stubborn opposition is grounded on some recognizable reasons, among which are its stated adherence to the principles of global non-proliferation, prolonging the status quo of Asian nuclear asymmetry, and the unconcealed resentment against New Delhi justifying its nuclear option by selling

⁶⁷ Tang Liang, “Prospects of the BRIC: India Ranks No. One,” *CCTV online*, Oct. 27, 2008.

⁶⁸ “Sino-Indian relation,” *China Daily*, Jan. 17, 2008.

⁶⁹ Wang Hongsheng, “How to Build a Harmonious Society: India’s Experience,” *China and World Observer* (Beijing), Issue 1, 2007.

⁷⁰ “China supports a larger Indian role in UN,” *The Indian Express*, Oct. 25, 2007; “Support for India’s UNSC aspiration serves China’s interest,” *International Herald Leader* (Beijing), Oct. 24, 2004.

the misleading idea of a “China threat”.⁷¹ Unlike Washington, Beijing has declined to dialogue with India on the nuclear issue. Despite tempering its discontent, Beijing has been concerned about Washington’s overture to India regarding the latter’s nuclear status, culminating in the signature of the Indo-US civilian nuclear deal, and has cautiously gauged the strategic consequences and implications.⁷²

Partially as part of its response to the US-India nuclear deal, Beijing has continued cooperating with Islamabad on civilian nuclear energy by providing additional reactors and related technologies. This is believed to substantially support Pakistan by both helping to mitigate its energy shortage problems and reducing discouragement resulting from Washington’s unequal treatment in nuclear cooperation. Nevertheless, there has been no broad-based China-Pakistan civilian nuclear deal signed so far, despite wide speculation.

Meanwhile, for China’s part, there have been some signs of adapting its countermeasures to the emerging nuclear reality in the subcontinent. Beijing seems likely to relax its previously tough position and take a more flexible and accommodative approach to this sensitive issue. Responding to New Delhi’s request, Beijing agreed to include this issue in the proceedings of the 2006 Sino-Indian strategic dialogue. As indicated in several recent bilateral documents, Beijing and New Delhi agree to explore the likelihood of cooperation on civilian nuclear energy while sticking to the recognized principles of global non-proliferation.⁷³ However, it should be admitted that a noticeable perception gap continues to exist as far as India’s nuclear status is concerned. This helps explain, to some extent, why Beijing hesitated in granting India a waiver at the Vienna NSG conference in September 2008.⁷⁴

⁷¹ A summarized review of China’s reaction toward India’s nuclear tests in 1998 is “China and the Nuclear Tests in South Asia” by the James Martin Center for Nonproliferation Studies at the Monterey Institute of International Studies available in <http://www.nti.org/db/china/nsascris.htm#China's%20Reaction%20to%20India's%20Nuclear>.

⁷² “China voices concern over US-Indo deal”, *Press TV*, Sept. 2, 2008, <http://www.presstv.ir/detail.aspx?id=68199§ionid=351020404>; and for Indian reading of China’s response to the Indo-US civilian nuclear cooperation, see D. S. Rajan “What China thinks about the N-deal progress,” July 24, 2008, <http://www.rediff.com/news/2008/jul/24guest1.htm>.

⁷³ “India, China pledge nuclear cooperation,” *The Hindu*, Jan. 14, 2008.

⁷⁴ Chris Buckley, “China state paper lashes India-U.S. nuclear deal,” *Reuters India News*, Sept. 1, 2008.

The Challenges to Be Met

While promising a healthy bilateral relationship and peaceful rise together on the global stage, enhancing engagements between China and India also face a number of strategic challenges. Given the chronic trust deficit and lingering suspicion of each other's intentions, the effects of any constructive endeavors from both sides might be regrettably discounted. More importantly, one has to wonder if various discords between the Asian giants reflect a certain strategic necessity in terms of the clashing of interests as they rise together. From Beijing's perspective, there are outstanding problems that China and India have to address before achieving a substantive and genuine partnership. Regardless of the nature of the bilateral relationship, the strategic discords between China and India do and will produce uncertain geopolitical consequences at both bilateral and regional levels.

The border issue

In spite of the written agreements, political guidelines, and multi-level border negotiations, Beijing and New Delhi have found it difficult to secure any substantial progress in settling their protracted border dispute.⁷⁵ Since an inspiring consensus reached in 2003, thirteen rounds of high-profile dialogue have been conducted by two special representatives on border issues, meeting on behalf of their top political authorities. The latest round of talks in August 2009 failed to declare a credible breakthrough as speculated by the media, and China's foreign affairs spokesman dismissed as groundless the report of some major concessions possibly being made by Beijing. The interaction on the issue proceeds at a glacial pace and tests reciprocal patience. There has been a huge gap of understanding in terms of conflicting interest settings and political constraints for both China and India, and this gap will not be easily bridged.

Many in China argue that India's emergence as a global power will make it more difficult to settle the boundary dispute, whereas some Indian strategists believe Beijing is not keen to resolve

⁷⁵ "Sino-Indian border talks need prolonged patience: Chinese experts," *China News*, August 7, 2009, http://news.southcn.com/international/gjkd/content/2009-08/07/content_5510260.htm.

the issue with India until and unless China enjoys an overwhelming strategic edge. To some extent, Beijing's inaction on pushing for an early settlement is attributed to New Delhi's inflexibility and intransigence in negotiations. A number of domestic political constraints also call into question New Delhi's ability to practice the "give-and-take" formula. Added to this, both Beijing and New Delhi may also become more assertive and take a tougher stance in future negotiations as a result of their military modernization and growing nationalistic sentiments. New Delhi's announcement of an additional deployment of troops and sophisticated SU-30KM combat aircraft along the Himalayan Line of Actual Control (LAC) in 2009, coupled with stern exchanges and heightened, hawkish rhetoric, continued to remind the public of the enduring tensions along the border and of the daunting obstacle in moving toward a credible partnership.⁷⁶

The Pakistan factor and the Indo-Pak equation

For India, China's long-standing cordial partnership with Pakistan has been and remains a major obstacle in the way of improving its ties with Beijing. Many Indians believe that it is Beijing's endorsement and support that has emboldened Islamabad to challenge its preeminence in South Asia, and that the core of the Sino-Pak strategic partnership is exclusively against India. Beijing repeatedly denies this allegation and is vocal about its interest in nurturing paralleled relationships with both Islamabad and New Delhi, despite the fact that the tangible substance in its partnership with India is somewhat limited. According to this shifting regional approach, a non-confrontational relationship between the South Asian neighbors can considerably enlarge China's diplomatic and security gains.⁷⁷ This thinking justifies Beijing's growing interest in endorsing the peace process in South Asia.

The process of New Delhi-Islamabad rapprochement has been disrupted in the wake of the Mumbai terror attack in November 2008, for which India believes Pakistan-based terrorist outfits to be responsible. The future of New Delhi-Islamabad ties and the stalemate in addressing the Kashmir problem are likely to be more challenging in terms of clashing perceptions of the regional security by India and Pakistan. China's role in extraditing reconciliation in South Asia continues to be visibly restricted as a result of New Delhi's skepticism about a China-Pakistan strategic nexus and India's opposition to the involvement of any third party in the removal of its imbroglio with Islamabad.

⁷⁶ Wang Qian, "India Enhances Military Deployment in Southern Tibet: Political Intentions and Strategy toward China," *Global Online*, July 26, 2009, <http://bbs.yahoo.cn/read.php?tid=199616>.

⁷⁷ Zhang Li, *To Manage Conflict in South Asia: China's Stakes, Perceptions and Inputs*, ISDP (Sweden), October 2009, pp. 72.

Moreover, China and India have been involved in a fierce contest for their relations with smaller countries in the region, such as Nepal, Bangladesh, Myanmar, and Sri Lanka. Some argue that this inevitable competition is ruthlessly dictated by the geopolitical reality and that an intense Sino-Indian rivalry will be fueled in South Asia and the immediate region because of their incompatible interests.⁷⁸ It is a known fact that Beijing has sought closer engagement with the regional actors who, in return, need links with China to balance pressure from India. Actually, Beijing's agenda of aligning with the smaller regional countries has also pressed New Delhi to improve its problematic ties with them by taking a more elastic policy. In the long run, most possibly, Sino-Indian strategic encounters in South Asia may produce uncertain consequences for regional security.

The US factor in Sino-Indian engagement

The United States has developed complex relationships with both Beijing and New Delhi. It is arguably believed that the strategic links of China and India with Washington create a zero-sum effect on their bilateral strategic interaction.⁷⁹ First of all, the US input has affected the trajectory of China's ties with India. The New Delhi-Washington nexus has undergone a dramatic transformation in the last decade. The formal signature of the civilian nuclear deal in 2008 was a milestone in an enhanced Indo-US partnership, convincingly marking the depth of the strategic engagement. That the Bush administration promised to help India to be a global power in the 21st century is explained as having a strategic allusion to China's rise.⁸⁰ As widely observed, moreover, Washington's rhetoric on the bond of the oldest democracy and the largest democracy and its initiative to forge an Asian alliance of democracies have made Beijing more vigilant about any undermining changes of its strategic environment.

Few Chinese analysts doubt that upgrading Indo-US strategic ties will produce geopolitical consequences disfavoring Beijing. For them there seems a visible uneasiness that New Delhi could act as a counterweight to Beijing and even bandwagon with the US in encircling China, although the opposite view holds that Indian policy-makers would prefer an independent diplomacy in terms of its policy towards China. Beijing is concerned about any US-driven strategic initiatives excluding China and involving India in Asia and the Pacific region. As an often-cited example, the Chinese media gave its strong

⁷⁸ B. Raman, "The danger of the India-China hysteria," *Rediff. News*, Sept. 8, 2009, <http://news.rediff.com/column/2009/sep/08/the-danger-of-the-india-china-hysteria.htm>

⁷⁹ Shi Hongyuan, "China-India-US Tripartite Ties: A Zero-Sum Game?" *Outlook Weekly* (Beijing), Nov. 2009.

⁸⁰ Zhang Yuyan & Zhang Jingchun, "China-India Relations in Asian Economic Integration," *Contemporary Asia-Pacific Studies* (Beijing), Issue 2, 2006.

reaction to the conceived formula of an “Asian NATO” in 2003 and lashed out at a quadrilateral joint navy exercise (that involved the US, India, Japan, Australia) in April 2007.⁸¹

Interestingly, on the other side of the coin of US involvement, New Delhi has repeatedly conveyed its uneasiness about Washington’s evolving strategic ties with Beijing. Following President Barack Obama’s visit to China in November 2009, New Delhi became emotionally discontent with the reference to, in a joint statement, US endorsement of China’s role in facilitating the South Asian peace process and defusing Indo-Pak conflict.⁸² New Delhi has shown a haunting fear of being marginalized by US diplomacy in Asia as a result of Washington’s thinking highly of Beijing’s positive importance. For both China and India, there is no doubt that the perceived zero-sum effect of US diplomacy and security strategy on them has to be moderated before these two rising powers can move toward a more stable relationship.

Security in the Indian Ocean

The Indian Ocean is of growing relevance to China’s security interests and Beijing has become more outspoken about its maritime rights and security concerns. Security in the Indian Ocean is a significant factor in calculating China’s interests because it involves securing China’s overseas energy and trade shipments, among others. More than 70% of China’s imported energy supplies are transported through shipping lanes in the Indian Ocean and some major strategic chokepoints including the Malacca Strait. But there is an urgent sense of insecurity among the Chinese strategic elite regarding the viability of undisrupted transport in case of an emergency. Thus for China, as convincingly argued, a successful maritime strategy will hinge upon Beijing’s ability to overcome, both physically and psychologically, the Indian Ocean challenge and the so-called “Malacca dilemma” in different ways.⁸³

India takes a key position in the Indian Ocean and traditionally perceives it as a guarded sphere of influence, if not a strategic preserve. It offers an important arena for Beijing and New Delhi to neutralize each other’s strategic clout and, perhaps, display their strategic muscle. Beijing is preoccupied with the possibility that security in the Indian Ocean could become a hostage to India’s maritime strategy. China is also concerned about New Delhi’s interest in accessing the South China Sea, where China has a suspended

⁸¹ Stephen Blank, “Inherent Dangers in an ‘Asian NATO’”, *Asia Times*, Sept. 19, 2003; “A ‘Goodwill’ Joint Naval Drill?” *People’s Daily*, April 21, 2007.

⁸² Shobori Ganguli, “To please China, US slights India,” *The Pioneer*, Nov. 19, 2009.

⁸³ Liang Hui & Tang Lu, “China’s Indian Ocean Strategy: A Debate among Chinese, US and Indian Experts,” *International Herald Leader* (Beijing), March 10, 2009.

dispute with some ASEAN nations. For India's part, there has been an increasing fear of the alleged "string of pearls" strategy, referring to China's devised attempt to encircle India by building strategically important ports along the Indian Ocean such as Gwadar (Pakistan), Chittagong (Bangladesh), Sittwe (Myanmar) and Hambantota (Sri Lanka).⁸⁴

As mentioned earlier, the Chinese and Indian navies have conducted several joint drills and exercises on a small scale and both sides express a willingness to expand maritime security coordination and cooperation. China and India discussed counter-piracy cooperation between their navies along the Gulf of Aden on the sidelines of the eighth Asian Security Summit (Singapore) in May 2009, agreeing to step up collaboration on maritime security in general and on anti-piracy in specific.⁸⁵ Despite the emerging opportunity to cooperate, however, any substantial maritime cooperation will likely be restricted in view of the lingering suspicion of each other's strategic intentions. In April 2010, the Indian navy unexpectedly suggested offering escort service for Chinese energy shipments through the Indian Ocean sea lanes. This is read (in Beijing) as a sign of asserting India's dominance and boycotting China's maritime presence in the region rather than as an offer of good-will.⁸⁶ Dictated by clashing geopolitical concerns and strategic distrust, each side most probably prefers a hedging strategy against the other in the foreseeable future, although an accommodative and cooperative maritime agenda between them is believed to be a tempting choice.

Afghanistan, Central Asia and ASEAN

In a broader template, Afghanistan, Central Asia and ASEAN nations could possibly become the hotspots of triggering Beijing's contest with New Delhi, if not necessarily a strategic standoff. On one hand, both China and India are stakeholders of a stable Afghanistan, and are among the major donors of reconstruction and good governance. The incumbent government in Kabul keeps amicable working relations with Beijing and New Delhi and seeks their greater involvement in Afghan stability and development. Also, both China and India have voiced doubts over the validity of the US Af-Pak strategy while endorsing a step-up of anti-terror initiatives in this region. On the other hand, however, Beijing and New Delhi have diverging considerations of interests and mutually neutralizing influences. China's close ties with Pakistan further complicate this correlation.

⁸⁴ Ishaan Tharoor, "India's China Panic: Seeing a 'Red Peril' on Land and Sea," *Time*, Sept. 20, 2009 <http://www.time.com/time/world/article/0,8599,1924884,00.html>.

⁸⁵ P. S. Suryanarayana, "India, China discuss anti-piracy cooperation," *The Hindu*, May 31, 2009.

⁸⁶ Ma Xiaolin, "Indian Navy escort offer hints at China's exit: Beijing," *China Daily*, Feb. 23, 2010.

China's dealing with India in Central Asia involves some major dimensions, of which are the curbing of ethno-religious extremism, energy acquisition, and trans-border overland connectivity.⁸⁷ China has a relatively geographic advantage in accessing the landlocked area, boasting an edge in trade, infrastructural investments, and energy diplomacy, whereas India is believed to enjoy the soft power of cultural affinity and historical links. Projections of contending interests may limit the space of cooperation between both sides in tapping oil and natural gas in the energy-rich region.⁸⁸ And despite having shared concern, there has been no reliable mechanism for them to conduct meaningful cooperation on curbing regional extremism, especially in terms of linkages with Xinjiang and Kashmir. Therefore, it is still premature to anticipate any positive engagement between China and India in Central Asia or to rule out the possibility that they will act as contenders in a renewed "Great Game".

Southeast Asia has proven a meeting point of Chinese and Indian influences in both the cultural and political sense. Both Beijing and New Delhi have made initiatives to solidify engagements with the ASEAN nations and are among the active partners of the regional economic arrangements (ASEAN plus 3 and ASEAN plus 1) and security dialogues (ARF) over the recent years. Beijing has convinced the regional actors, with modest success, that it is a facilitator of regional development and security rather than a threatening factor. For this reason, Beijing even shelves its disputes with some of ASEAN members on the sovereignty of islands in the South China Sea. For its part, India's Look East policy is aimed at enhancing its diplomatic profile and economic weight; and various ASEAN nations may also look to India to balance pressure from China. This has presented mixed implications for Beijing's agenda in the region. New Delhi's initiative to engage the ASEAN and further extend to East Asia, as defined by its Look East approach, considerably broadens the room for interaction with China. As a calibrated reaction, Beijing has been vocal about an interest in launching a "healthy competition" with India in terms of the emerging opportunities in the region by participating in the ASEAN-plus mechanisms of free trade.⁸⁹ However, the two Asian powers might amplify their conflicts of interest if they fail to manage such a "healthy competition" on a reciprocal basis.

⁸⁷ M. K. Bhadrakumar, "India follows China's Central Asian steps," *Asia Times*, Nov. 29, 2004.

⁸⁸ Sanjay Dutta, "Raising bar: China poses threat to India's Central Asia gas plan," *The Times of India*, June 26, 2008; Zhang Guihong & Rong Tingrong, "From Contest to Win-win: China-India Contest and Cooperation in Central Asia," *South Asian Studies Quarterly* (Chengdu), Vol. 4, 2008.

⁸⁹ Kang Sheng, "India's Eastward to ASEAN: Implications for China," *Journal of Yunnan Government College* (Kunming), Issue 8, 2006; Zhuang Rui, "China and India join Regional Economic Cooperation: A Comparative Analysis," *Contemporary Asia-Pacific Studies* (Beijing), Issue 2, 2007.

Trade frictions and economic impediments

While keeping a steady increase, the bilateral trade and economic ties between the two nations have begun to experience some unaffordable challenges. With a broadening gap of trade in China's favor since 2007 (more than \$20 billion by 2008-2009), trade frictions and a concealed trade war have become more characteristic of the bilateral trading ties.⁹⁰ New Delhi complains that Beijing has become the real beneficiary of expanding two-way trade because the benefits mainly go to China rather than India.⁹¹ Even the trend of the bilateral trade indicates a continued broadening of this gap in the years to come. The mounting anxiety of trade imbalance urged the Indian government to officially present a demarche to China during the bilateral Joint Economic Group meeting in Beijing in the early 2010. The origins of widening disparity are multidimensional. According to Chinese analysts, the prevailing trading problem primarily results from an imbalanced composition of trade and comparative disadvantages of Indian commodities.⁹² On the other hand, New Delhi attributes the problem to restricted access to the Chinese domestic market and China's less liberal trade policy and non-tariff barriers.⁹³

India's exports to China are dominated by raw materials and semi-finished steel products, of which iron ore accounted for approximately 70% in 2008.⁹⁴ China secures an edge on India by exporting value-added merchandise such as electrical equipment, electronics, organic chemicals and a variety of consumer goods. To check the flooding of made-in-China goods, New Delhi tends to adopt a protectionist agenda. For instance, the Indian government has frequently invoked anti-dumping actions against Chinese exported items and China has become the biggest target of New Delhi's anti-dumping strategy.⁹⁵ There is also a raised voice from the Indian business community calling for substantially reduced exports of raw materials including iron ore and an expansion of IT product/service exports to China to rectify the ongoing import-export disequilibrium.⁹⁶

⁹⁰ Satyajit Mohanty, "Sino-Indian Trade Relations: An Uncertain Future," *IPCS Papers*, Feb. 2, 2010, <http://ipcs.org/article/china/sino-indian-trade-ties-an-uncertain-future-3053.html>.

⁹¹ B. Raman, "Sino-Indian trade: It's helping only China," *Rediff Papers*, Jan. 28, 2008, <http://www.rediff.com/money/2008/jan/28china.htm>.

⁹² Liu Xiaoxue, "60th Anniversary of China-India Relations: To Develop Closer Economic and Trade Cooperation," March 23, 2010, http://www.china.com.cn/international/txt/2010-03/23/content_19644956_2.htm.

⁹³ Amiti Sen, "Growing Trade Deficit: India keeping close watch on China, mulls steps," *The Economic Times*, Feb. 18, 2010.

⁹⁴ Yin Yonglin, "The Trend of Sino-Indian Bilateral Trade and Recommendations," *Southeast and South Asian Studies* (Kuming), Vol. 3, 2009.

⁹⁵ Anurag Agarwal, "India faces Chinese dumping," *The Statesman*, May 18, 2009.

⁹⁶ "Progress on India-China Regional trade agreement unlikely during SM Krishna's visit," *PTI*, April 4, 2010, http://www.dnaindia.com/india/report_progress-on-india-china-regional-trade-agreement-unlikely-during-sm-krishna-s-visit_1367286.

Added to the emerging trade frictions, the bilateral economic interaction has begun to be affected by new restrictions by India on Chinese companies to bid for construction projects in India and the visa-issuing bottleneck for skilled Chinese workers. Out of considerations for security, New Delhi has tried to close opportunities for Chinese bidders to access its “strategically sensitive” infrastructure projects such as the construction of ports and airports as well as telecommunications. The number of visas granted to Chinese employees for the agreed projects in India sharply dropped from roughly 20,000 in 2008 to less than 3,000 in 2009, evoking grievances from Chinese side. Beijing also criticizes India’s reluctance to implement the Regional Trade Arrangement (RTA) that has been proposed to expedite trade and economic cooperation.⁹⁷

⁹⁷ “China and India re-open talks on RTA: New Delhi’s misgivings,” Jan. 5, 2007, <http://news.sina.com.cn/c/2007-01-05/085911958873.shtml>.

Conclusion: Thoughts on Policy

In order to move the Sino-Indian partnership forward and make it more credible, major endeavors have to be made by both Beijing and New Delhi to produce tangible results.

First of all, given that the unsettled border dispute is an outstanding issue in the way of the bilateral relations, the political leadership of the two nations should seek an early settlement of the problem. At the operational level, there should be some key steps taken. To fulfill an early settlement, both governments have to preset calibrated policy directions/objectives for the ongoing special representative dialogue on border issues, design a reasonable timeframe and a clear-cut roadmap and, perhaps more immediately, secure irreversible progress through negotiations. The identifiable issues include a precise recognition of the present line of actual control of different sectors, basic points of difference (i.e. the status of Tawang), respective security concerns and interest sensitivities along the border, and implementation of the consensuses already reached (agreements, political parameters and guiding principles, and technical and operational formalities). All this is of central significance to nudging towards a final settlement of the protracted border issue. Otherwise, the enduring stalemate could likely cause a collapse of confidence on both sides to seek a mutually acceptable recipe.

Second, given the fact that China and India have been engaging each other in South Asia, Central Asia, ASEAN, and the Indian Ocean, it is extremely important for both sides to reconcile their regional strategies in order to serve constructive purposes. For Beijing, a successful regional agenda should be based on positive interaction with India rather than the contrary. Thus, China has reasons to continue the balanced diplomacy initiated in the 1990s towards its South Asian neighbors, namely searching for a reliable partnership with India while maintaining its time-tested strategic partnership with Pakistan. Regardless of the caprices of the regional strategic climate, this balanced regional strategy will surely best serve China's national interest in the region. At the same time, Beijing needs to articulate its policy directives of enlarging a constructive role in enabling the Indo-Pak rapprochement and in managing any major conflict in the region. In the same vein, India is expected to recognize China's growing input and constructive clout in a positive way, as China sees its nexuses with other, smaller regional actors as an essential part of the broader strategy of upgrading its regional profile.

Third, there is an increasing need for China and India to devise an accommodative and non-confrontational regional agenda in their shared peripheries and in the broader neighborhood. As two rising global powers and possible geopolitical opponents, both nations may inevitably claim the same spheres of influence, which include Central Asia, the ASEAN region, and the Indian Ocean, in addition to the other South Asian neighbors. Hence, a proposed “healthy competition” rather than confrontation should be a welcome mandate and proper use of soft powers will be an acceptable means to enlarge their respective interests while refraining from entering a conflict. To work toward this aim rather than otherwise, each side has to envisage the other’s core interests and strategic sensitivities and make their respective strategies more transparent and more predictable.

Fourth, promoting CBMs in a reciprocal way has proven extremely helpful for Beijing and New Delhi in removing misperceptions and misreadings of each other’s strategic intentions. As obviously perceived, the strategic trust between China and India remains fragile or even nominal, especially in security and defense areas. Their strategic interactions with major powers, the US in particular, also should have created less undermining effects on each other in terms of the implications for their bilateral ties. As this reality shows, both Beijing and New Delhi are expected to clarify their differences of perception and clash of interests and pursue a highly pragmatic approach to the existing problems. It may prove unhelpful to disguise and downplay strategic divergences and trust deficiencies. In this sense, thus, an intensive dialogue in the strategic sense normally offers a reliable base for political policymakers to pursue their measured policy objectives while managing their sophisticated relationship.

Fifth, Beijing and New Delhi need to reinforce the bolstering effect of their vibrant trade and economic links in building a credible strategic partnership. To advance economic relevance, both sides are expected to address the emerging trade frictions and related problems, and overcome the identifiable bottlenecks of expanding bilateral trade and investment. Encouragingly, both sides have begun to be more serious about negotiating a proactive settlement. In the early months of 2010, trade imbalance has shown a sign of improvement in India’s favor. To ease New Delhi’s concern, China promises a more liberal import policy and increasing market access opportunities for Indian products. The Chinese government has launched several trade fairs exclusively for promoting the made-in-India label in Beijing and Kunming. The Chinese government sent its procurement delegations to India to tap opportunities for expanding Indian exports. Both governments have also agreed to negotiate a memorandum of understanding on relaxing the visa restrictions on Chinese employees in India. In the long run, dynamic trade and economic ties will continue to be indispensable for substantiating the Sino-Indian partnership at large.

Last but not least, there comes a pressing necessity to breathe more substance into the existing framework of Sino-Indian strategic partnership. So far, an institutionalized regime of strategic engagement and cooperation between China and India has yet to be credibly established. In such circumstances, it becomes highly necessary for both sides to activate their multilayered strategic consultation and to reciprocate political goodwill in order to deepen strategic engagement in a constructive, credible and sustainable way. It is such an institutionalized engagement that can secure a healthy, stable and constructive bilateral relationship between them. Achieving this goal requires and deserves a concerted endeavor.