

India and China in the New Situation

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We live in an amazing, paradoxical age — an age of contrasts, an age of extremes, and an age of rapid change. Never before in history has such a large proportion of humanity lived longer, healthier, more prosperous or more comfortable lives. And yet, we have probably never had a stronger sense of standing on the brink of a precipice, of possible extinction and of the fragility of human life — by climate change or nuclear war or other violence. Global battle deaths are back up to the highest levels in the Cold War and the 65 million displaced persons around the globe in 2016 (UNHCR) are at the levels of 1945-46 (immediately after the Second World War and during the Chinese Civil War).

The Global Prospect

The world today is between orders. The so-called “rule-based liberal international order” — which was neither liberal nor particularly orderly for most of us — is no longer attractive to those who created and managed the order from WWII until the 2008 global economic crisis. At its height, that order brought unprecedented prosperity to a large segment of humanity while simultaneously exacerbating inequality, bringing identity, emotion and demagoguery to the fore in politics, and making possible technological revolutions (in energy, Information technology, digital manufacturing,

genetic engineering, artificial intelligence and other fields) which promise to upend our lives, economies and societies in fundamental ways in the near future.

Indeed, if the world seems out of joint there is an objective reality to support that conclusion. Today the world is effectively multipolar economically — relative shares of global GDP, the location of economic activity in the world, and the contribution of large emerging economies to global growth all show this to be so. At the same time, it remains unipolar militarily. The Royal Navy, at the height of Empire, had a two-navy standard that the Royal Navy should be at least as large as the next two biggest navies put together. The US Navy today is equivalent to the next thirteen navies put together (Holmes 2014a), and the US defence budget is equal to the next seven largest national defence budgets in the world (SIPRI 2018). Politically the world is confused, rather than orderly or structured. It is the imbalance between the distribution of economic, military and political power in the world that is the source of our sense of insecurity, of events being out of control, and that creates spaces that groups and local powers like the Islamic State and Pakistan exploit. In the past such imbalances were settled by conflict and war. Today nuclear deterrence prevents conflict at the highest level and pushes it down to lower levels of the spectrum of violence — into civil

wars, small wars, asymmetric violence and conflict and the non-state domain.

Since the 2008 crisis, we have seen a slow, weak and hesitant economic recovery in most of the world. We should probably get used to the post-miracle world since the global boom from WWII to 2008 was a blip in historical terms. The world, (but not India), now face depopulation, deleveraging and de-globalisation. Despite grim prospects for the world economy as a whole, the UN forecasts that if China grows at 3 per cent, India at 4 per cent and the US by 1.5 per cent, by 2050 China's per capita income will be 40 per cent of US levels, and India's at 26 per cent will be where China is today. China would be the world's largest economy (in PPP terms), India the second, and the US the third. By that time both India and China will be overwhelmingly urban (Menon 2018).

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This would be an unprecedented situation where the largest economies will be among the most powerful states but will not also be the richest.

Asia

Asia is no exception to the great transition at the global level, indeed it is where the transition is most marked as Asia returns to global centre stage, economically and politically speaking.

China's rise and the shifting balance of power

What we see in Asia today as a result of decades of globalisation and the rise of China, India and other powers is an unprecedented situation: the continental order in Asia is being consolidated under new auspices and the maritime order in the seas near China is contested. The balance of power in Asia and the

world has shifted. For the first time in history China is comfortable enough on land, with no real enemies now that the West has pushed Russia into her arms, to turn to the oceans on which she depends for her prosperity. China seeks primacy in the seas around her. This is a historic transition that she has never successfully managed before. Her only previous attempt in the early Ming failed (Pang-lo 1958). What is new for Asia is the attempt to centre both continental and maritime orders on one single power.

The response of existing power holders to this shift in the balance, like Japan and the US, has been to tighten the first island chain security (Holmes 2014b) and other ties that China sees as containing her, and to seek partners for a "Free and Open Indo-Pacific" (Swaine 2018), an ill-defined concept that implicitly concedes the continental order to China, and does not fully meet India's security needs since we are both a continental and a maritime power. Several voices in the present US administration also seek to limit China's rise by using the US' technological and other superiorities.

The reaction of other countries in the region such as India, Indonesia and Vietnam has been to balance and hedge against rising Chinese hard power by building military strength and by working together in defence, security and intelligence. This is a natural balancing phenomenon, that has resulted in the world and history's greatest arms race in Asia in the last three decades, fuelled and made possible by the wealth that globalisation brought to the hard Westphalian states east of India. To our west, new technologies empowered non-state actors, rogue regimes and radical movements. East and west we see a continuous belt of weapons of mass destruction — nuclear and chemical, don't even mention biological — from the Mediterranean (Israel) to the Pacific (North Korea).

Uncertainty and insecurity

If the rapid shift in the balance of power and uncertainty have led states to behave in ways that exhibit grave insecurity, this has been heightened by worry or disquiet about China's behaviour as a power. That China seeks primacy

has been clear since 2008, but whether she is able or willing to provide the global public goods that the world has got used to remains in doubt. Will China provide for the security of the commons — the high seas, cyber and outer space — or provide access to her own markets, or build coalitions and work with others to sustain a predictable international order? On present behaviour the answer must be no to all three questions. China's preference remains to deal with each country bilaterally. When the US imposes tariffs on Chinese exports she negotiates bilaterally and has not taken her complaints to the World Trade Organisation (WTO) or its dispute resolution mechanisms, even though she would be in the right in terms of the WTO's role and rules. The preferred pattern is what we saw on climate change before the Paris agreements when China and the US negotiated an understanding and brought it to the international community to accept. If they are able to resolve their trade issues bilaterally, which is unlikely, they might then see what they bring to the WTO, including how to reform it into their effective instrument. The WTO itself is irrelevant. This is about power, not trade.

Nor is the US willing or capable of enforcing an international order in Asia, as she did, to a great extent, from the seventies onwards. The Trump administration, like the one before it, has made it clear that partners and allies are expected to do much more themselves, and that "America First" amounts to a withdrawal to a much more transactional form of engagement with Asia.

For a short period in the past China sought "a new type of major power relations" with the US which could have amounted to a condominium. But the present state of China-US relations and their limited success in cooperating even on issues where their declared policy is the same, as on the North Korean nuclear weapons programme, suggests that a G-2, unlikely as it is, could no longer deal with the region's security issues.

China-US

Whether China succeeds in her internal reordering and her external quest for primacy depends to a considerable extent on how the US and China handle their relationship. Despite

their economic co-dependence on each other, we have seen how the US has imposed tariffs and demanded a series of fundamental structural changes in the way China grows and acts, whether in the "Make in China 2025" programme, in market access, in her IPR practices and forced technology transfers, and so on. These are reminiscent of US demands on Japan in the seventies and eighties but, as the Chinese have reminded the US, they are not Japan, a subordinate ally dependent on the US for their security, and are not willing to sign the equivalent of the Plaza Accords as Japan did. I believe that the causes of China-US contention today are structural and that therefore what we are seeing is a phase transformation in China-US relations where elements of contention will outweigh the elements of cooperation in their relationship for some time to come.

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China's Trajectory

China herself has little choice but to continue on the path that she has chosen. She has a moment of relative advantage in Asia and in the world economy today before her demography starts limiting her rise and her economic growth reverts to mean, as happened to all the other rapid industrialisers in Asia, and before natural strategic reactions by other powers to her rise in a crowded Asian geography begin to operate and limit her freedom of manoeuvre.

Internally she faces the task of continuing and stabilising one-party rule when reform itself has reduced the ability of the state to produce economic outcomes, direct society and control people's lives. Today she spends more on internal security than on national defence. And she faces a crisis of success. The reforms that she declared necessary in the 3rd plenum of the

18th CC in 2013 cut at the interests of the main supporters of the regime — SOEs, banks, party cadres and the PLA — which is why they have remained largely unimplemented.

Globalisation has made China more dependent on the outside world than ever before in her history. This Chinese leadership confronts a situation that no Chinese leadership has ever faced of a powerful China dependent on the outside world while being acutely conscious of China's internal brittleness. International primacy is now seen as necessary to secure China's rise or, to use the Chinese leadership's words, China's rejuvenation (Wang 2016). It is China's dependence on the world for energy, commodities, technology and markets, that drives her to consolidate Eurasia and attempt to transform into a maritime power. The resulting tensions between internal priorities, traditional mindsets of a continental Asian power, and the realities of China's situation are what make predicting China's trajectory difficult, and make bad choices likely.

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The impact of US tariffs and the prospect of the US confronting China has added stresses to China's calculus. In the long run, China will work to ensure that she is not placed in this position in the future, not by decoupling from the US but by building her own leverage and by creating countervailing opportunities for herself in the world. For me the best analogy is the Chinese reaction to the 1996 Taiwan Straits crisis when she was humiliated in her own backyard (Barton 1998). Since then she has militarised the seas around Taiwan (the South China and East China seas), built up her naval forces, tightened Taiwan policy, and raised the costs of intervening in the enclosed seas near China which are now virtually a Chinese lake.

Asia's 3 Futures

At the systemic level, the Asia-Pacific faces at least three possible geopolitical futures: of a regional order centred on a single power, earlier the US and now China; of an open, inclusive multipolar concert of powers or collective security architecture; or, the pattern most familiar in history, of several powers of varying size and capability contending for primacy and influence and to maximise their individual interests. To me it seems that the last scenario is the most likely, the second the most desirable, and the first the least stable or likely.

India and China

China is and will be a significant factor in whether we are able to transform India. It is not the only one or the most important one. If we do not handle our internal affairs and economy better and keep treading water as we have for five years, what we do with China is unlikely to matter, and we will miss the bus anyway. But China, and the world that she shapes, will be increasingly important to us as we grow and develop.

India too, like China, is much more dependent on the outside world than before for energy, fertiliser, non-ferrous metals and other essential imports, for technology and capital, and for access to markets. Over half our GDP is accounted for by external trade in goods and services.

By 2014 India and China together accounted for about half of Asia's total GDP. In PPP terms they are the world's largest and third largest economies. Most of this is of course China. China and India's combined share of world GDP in 2016, of 17.67 per cent (in nominal terms) or 25.86 per cent (in PPP terms) is still well below their share of world population of 37.5 per cent, but represents a significant economic force today (OECD).

Between India and China, however, the gap has widened in the last thirty years. And that gap is widest in social indicators. China is about three decades ahead of India on most social indicators, one decade ahead on indicators of income, and about par on digital parameters. The gap in healthcare, measured in life expectancy (in

which India is 30 years behind China), is similar to literacy (72.23 per cent in India to 93.36 per cent in China in 2015) (World Bank). Both societies display growing inequality despite rapid economic growth.

While India and China have a common economic interest in the world economy, as the two greatest beneficiaries of globalisation and of the decades of open trade and investment, their political relations have become more fraught in the last few years. The signs of stress are known to you.

My prescription, for what it is worth, is to engage China bilaterally to see whether we can evolve a new *modus vivendi*, to replace the one that was formalised in the 1988 Rajiv Gandhi visit which successfully kept the peace and gave the relationship a strategic framework for almost thirty years. That framework is no longer working and the signs of stress in the relationship are everywhere from our NSG membership application, to Masood Azhar's listing by the UN, to Doklam (where Chinese behaviour differed from previous such instances but ours did not). The one factor above all others that has brought renewed stress into the India-China relationship is China's much stronger strategic commitment to Pakistan evident since President Xi Jinping's 2015 visit to Pakistan which announced the China-Pakistan Economic Corridor (CPEC). The more we rise, the more we must expect Chinese opposition and we will have to also work with other powers, and in the subcontinent, to ensure that our interests are protected in the neighbourhood, the region and the world. The balance will keep shifting between cooperation and competition with China, both of which characterise that relationship. The important thing, for me, is the need to rapidly accumulate usable and effective power, even while the macro balance will take time to right itself.

As for the effect of the present geopolitical situation on India-China relations, the prevailing uncertainty means that India and China must display more skill and caution in our dealings with the world and each other. But it also means that at a time of change, there are opportunities for the capable. Let me illustrate what I mean:

- **The return of power politics:** It makes life more predictable and there is an assumption of rationality. One should hope for the best but prepare for the worst. India and China have good and successful experience of confidence building measures (CBMs) and crisis management, which could have wider uses in Asia.
- **Consolidation of Eurasia:** Belt and Road Initiative will change the environment around us but it is hard to tell whether and how it will work. Its connectivity aspects could be useful and India should see where it can gain by using it.
- **Maritime contention:** Now that we are both so dependent on the outside world as a result of reform and opening up, India and China have a common interest in freedom of navigation and security in the seas that transport our trade and energy resources.
- **New security issues:** These include cyber security, the militarisation of outer space, and growing militarisation of technological capabilities. They present both challenges and opportunities. There is a clear common interest in acting on climate change.

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- **The dim global economic prospect:** As the greatest beneficiaries of globalisation, India and China have a common interest in keeping trade and investment flows open. Both countries have common interests in keeping energy flowing and cheap, in opposing protectionism and so on. However, domestic politics, the rise of authoritarians, ultranationalism, and strong mercantilist instincts in the leaderships, are pulling them in the opposite direction.
- **Heightened China-US contention:** Should lead both China and the US to ameliorate points of friction in other relationships, not picking new fights and postponing old ones to

concentrate on their primary preoccupation, each other. There are signs of this in China's behaviour towards India and Japan in the Wuhan summit and the Abe visit.

The real question is whether these could amount to anything more than a tactical response to an immediate situation. The fact is that these are not short but medium to long term factors operating on India-China relations. It is therefore in both sides interest to explore whether they create conditions for a new strategic framework for the relationship, or even to manage and solve core issues such as the boundary, our common periphery, both countries' use of outside balancers in their relationship with each other, and so on.

I am convinced that India and China must find a way forward that is better than our past that enhances the well-being of one-quarter of humanity. And that requires a degree of pragmatism and a new strategic framework for India-China relations.

A new modus vivendi:

What might a new framework consist of? It would include respect for each other's core interests; new areas of cooperation like counter-terrorism and maritime security and crisis management; a clearer understanding of each other's sensitivities; settling or at least managing differences; and, a strategic dialogue about actions on the international stage. The new security issues, like maritime security which is increasingly important to both India and China, can be positive sum issues, if not looked at territorially. Both have an interest in keeping the sea lanes open and secure for their trade and energy flows and should be discussing them and cooperating.

It would include a revised framework for economic cooperation in the periphery that we share. China has reportedly proposed extending the China-Pakistan Economic Corridor to India. If we are to solve the trade imbalance, we must broaden the economic relationships to manufacturing, investment etc. Should not the two countries connect trans-Himalayas, using transit through Nepal to improve such trade, and China begin to treat both sides of Jammu and Kashmir (J&K) equally in practice, while

reverting to her stated position in the nineties that J&K is disputed and to be settled by India and Pakistan between themselves. If so we might see a changed economic paradigm in the India-China relationship which would not appear so mercantile and exploitative to the average Indian. This would go beyond engaging China's financial and other capabilities to build Indian infrastructure, as the present Indian government has attempted.

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India too will need to adjust to new economic realities. For example, the rise of China and her economic strength make the extent of India's engagement in RCEP a matter of debate in India, at a time when trade in goods accounts for almost half of India's GDP. Equally, India now has an interest in freedom of navigation in the South China Sea, since \$66 billion worth of her exports and about 33 per cent of our trade passes through that waterway, but the nature and manner of safeguarding that interest are still an issue in India.

Conclusion

We thus face a double opportunity. Tactically, China-US contention — which I think is structural and therefore likely to continue for some time with a paradigm shift away from cooperation to increasing contention, despite temporary deals and “victories” declared by one or both — opens up opportunities and space for other powers. Both China and the US will look to put other conflicts and tensions on the back burner while they deal with their primary concern, the other. We have seen this effect already in the Wuhan meeting and the apparent truce and dialling back of rhetoric by both India and China, even though this does not extend to a new strategic framework or understanding or to a settlement of outstanding issues. Strategically speaking, there is opportunity

again for India's transformation in the emerging global situation if we take advantage of it.

Is this pie in the sky? We will never know unless we try. And we must try. Our grasp must exceed our reach. Lack of ambition is part of the problem in the relationship in the last few years, as it has been a problem in China studies in India.

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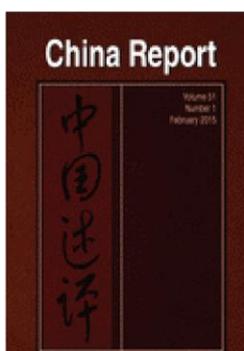


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