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India and China: Putting Economics First

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CHINESE President Hu Jintao's recent visit to New Delhi was an opportunity to build bridges to the future. But in the end both sides merely reiterated their desire to build a friendlier relationship, increase trade, and speed up border negotiations. Other than a mutual pledge to cooperate in civilian nuclear technology, which may indicate a tacit acknowledge of India's nuclear status by China (thus by no means insignificant), there were few tangible achievements to cheer about. In short, the meeting was set up with low expectations and ended in low achievements. So is the future between the two giants fated to slow and uncertain progress?

Economics the Key

China and India have a history of conflict, stemming from a war in 1962 over a long border that is still disputed. That conflict has left a legacy of competition and mistrust. Thus, for many analysts, the only meaningful way forward is the resolution of the border issue. But this is unlikely to happen soon. India has a coalition government that cannot afford to make compromises without risking accusations of selling out. Besides, both sides have learned to live with the dispute: border confrontations in 1986-87 and after have been handled diplomatically, and China acknowledged the accession of Sikkim to India, while India has long affirmed China's sovereignty over Tibet. In sum, the two countries have achieved a remarkable stabilization of their relationship.

We believe that economics is the key. After all, both countries desperately need sustained economic growth. Moreover, the power and prestige both want depend on growth. As Indian Commerce Minister Jairam Ramesh observed before President Hu's Visit: "We can use economics and trade to make more avenues of cooperation, while continuing to negotiate on problems which will remain intractable for some time." The two countries are already on the way: bilateral trade has grown rapidly from US\$5 billion in 2002 to \$18.8 billion in 2005, and their newest pledge to increase the volume to US\$40 billion by 2010 looks all set to be realised.

Yet the economics of the relationship has been bedevilled by lingering obstacles. China complains that its companies seeking investment in Indian infrastructure projects are discriminated against, whereas India worries about the adverse trade balance and Indian software companies grumble that they cannot penetrate the Chinese market, especially the state sector. So what more can be done when a breakthrough on the border issue is not forthcoming? Each side needs to address the other's concerns.

The Legacy of Conflict

There is a domestic constituency in India that harps on the legacy of conflict and argues that China's strategic orientation toward India is competitive and antagonistic. It points to China's "containment" of India through Pakistan and to its reluctance to accept India in the big league, as exemplified by Chinese opposition to India's nuclear status. But the world is changing fast, and old-fashioned security considerations, while not totally irrelevant, have to be adjusted. As economic interdependence develops, common interests grow, the costs of conflict rise, and each side of an interdependent relationship acquires a stake in the stability and growth of the other. True, some conflicts of interest will remain. India and China will continue to be competitors for global resources and markets and for influence in neighbouring countries, but this is a far cry from being arch-enemies. Even if some security concerns persist, the point is to push economics in such a way as to marginalize such concerns.

On this front, India can learn some lessons from China's relationships with the U.S. and Japan. Despite the persistence of significant sources of tension, the three have propelled their trade relationships to unprecedented levels, essentially separating economics from politics. Concurrently, they have been worked hard to avoid confrontations. While India can take China as a competitor or even a potential adversary, it should not continue to treat China as a major adversary any longer. Certainly, few in China see India in this light.

Business is Business?

At the practical level, there is little ground to worry about the security implications of Chinese investment in Indian ports and telecommunications. Indians, not Chinese, will oversee and eventually run these projects. China has used a significant amount of U.S. and Japanese capital for rapidly building its infrastructure in the past two decades or so without worrying too much about whether this will jeopardize its national security. More to the point, India badly requires a rapid upgrading of its infrastructure – in itself a vital security need. Besides, protectionism privileges inefficiency. Instead of worrying about Chinese goods flooding the Indian market, India should be looking for ways to make the Indian economy more competitive.

In terms of daily business, Indian and Chinese companies will have to adopt a long-term view. Neither country is an easy place to do business in. As such, companies from both countries must prepare for the long haul: a quick buck is unlikely to materialize. But this does not mean that the two governments are relieved of their responsibilities. Both countries are notorious for their bureaucratic red tape and corruption. In order to facilitate business, they must learn from developed countries to streamline their bureaucracies, cut red tape, and reduce corruption.

Of course, putting economics first does not mean that nothing can be done in politics. Here, China can take the lead. India worries about China's position in the Nuclear Suppliers Group (NSG) over the opening up of nuclear trade with India. Indians need some positive signals on this front. Chinese leaders should realise that while they have already arrived on the global stage, India is still knocking at the door and wants more than anything else to be recognized as one of the big players. Essential to this is the nuclear question. While Indians realise they cannot undo the NPT regime, they want some form of indirect recognition of India's status. The Indo-U.S. nuclear agreement and its follow-up in the NSG are thus vital for India's

recognition as an emergent power. Besides, India cannot be a threat to China merely by having more fissile material at its disposal, since China already has the means to deter an Indian nuclear attack. The issue is more a political one of paving the way for the smooth integration of an emerging major power into the changing structure of global politics.

Although there was nothing in their joint statement to suggest that China had decided to support the Indo-American nuclear deal or to back the changing of rules at the NSG, China's pledge to cooperate with India in civilian nuclear technology can be understood as a tacit acknowledgment of India's nuclear status. This can be built upon at the NSG.

In 2000, it was predicted that when bilateral trade between India and China reaches US\$ 10 billion, the two countries will have greater incentives for building a more constructive relationship. Today, we are witnessing some of the fruit of this hidden hand of economics. So when significant progress on the political front appears unlikely in the near future, let the axiom of business-is-business continue.

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