

## CHINA – INDIA RELATIONS IN THE NEW MILLENNIUM

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### Vzťahy medzi Čínou a Indiou v novom tisícročí

**Abstract:** *The paper describes the relationship between the People's Republic of China and India, with an emphasis on economic cooperation and political rivalry. Its aim is to identify the main points of cooperation and conflict in their mutual relations. After a brief overview of the history of relations between both powers, the paper will analyze the current status of their relationship. Following a period of difficult relations during the cold war, there is a growing trend of cooperation between the two countries. Special attention will be paid to their activity in the BRICS group. The opportunities and obstacles of this relationship, as well as its effect on the surrounding region and on the developing countries in general, will be ascertained. Another emphasized issue will be the security rivalry between the two powers, as seen from the alleged Chinese "String of Pearls" project and India's reaction to it. The main methods used in the writing of this paper are historical analysis of the sources and description based on the current state of affairs.*

**Keywords:** *China, India, Sino-Indian Relations, BRICS, String of Pearls, Sino-Indian Bilateral Trade*

**JEL Classification:** F 50, F 51

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### 1 Introduction

The People's Republic of China (PRC, from here on also referred to as "China") and India are the two giants of the developing world, in terms of population, economic growth and potential. Together, they represent a formidable force to be reckoned with in the sphere of economic, financial,

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political and security relations, on a continental and even a global level. The question is whether the two nations can find common cause to cooperate in asserting a vision of the world that is mutually beneficial to both of them or whether their mutual conflicts will prevent them from forming a partnership that has broader relevance. Some observers claim that the potential for a synergic relationship is so great that they use the term “Chindia” for the two countries – a term that was first proposed by Indian MP Jairam Ramesh in his book *Making Sense of Chindia: Reflection on China and India* from 2005. In this spirit, it has been noted how the two nations complement each other, with China particularly strong in the manufacturing sector and India rather stronger in the sector of services and information technology [11, p. 97]. But what has also been noted is that both countries are attempting to round out their respective shortcomings by their own efforts rather than relying on one another. Some point out that the issues that divide the two nations are more numerous or more relevant than those that unite them. Their inherent rivalry has also called the new great game [7, p. 7]. Following the aim of this paper, it will look at these problems as well as the successes and opportunities that these two countries have encountered throughout the second half of the twentieth century, when both India and China became the states they are now. Emphasis will be on relations and challenges encountered in the new millennium.

## 2 Literature Review

Much of the scholarly literature on Sino-Indian relations is skeptical or pessimistic about the positive potential of the relationship. Nankervis and Chattergee [11] believe that predictions of a close partnership between the two countries – much less an alliance – are overly optimistic. This is not only due to the number and seriousness of the issues between them, but also because of political and social differences. They expect cooperation to stay limited to trade and investment and areas of global policy, where their interests are similar. Their view is shared by Panda [12], who admits the growing role of economic cooperation between the two powers, but considers any ideas of political cooperation as being of little consequence, with mutual competition being a more important determinant of the behavior of both states than mutual cooperation. He identifies the border dispute as the single largest stumbling block in their mutual relationship. More recently, Amorim and Lucena da Silva [1] claim that India is still wary of a rising China, and will prefer closer

ties with other powers, such as Japan and the US to balance China rather than bandwagon with the PRC. This is echoed by Singh [13], who in addition advocates for India to strengthen ties with other states wary of China to force a settlement of the boundary issue and thus take their relationship to a new level. In contrast, Egreteau [7] is somewhat more optimistic and less fatalistic. He claims that much of the negative perception of the Sino-Indian relationship is rooted in psychological causes, which can be overcome. To be sure, he does not deny the role of the border dispute and other objective causes on the endurance of the antagonism, but he does envision a plausible conclusion of their rivalry.

### 3 Brief History of Relations

The young Indian state was among the first countries to switch recognition from the nationalist Republic of China of Chiang Kai-Shek to the communist People's Republic of China of Mao Zedong in 1950, after Mao's victory in the Chinese Civil War. This was an unusual step for a noncommunist country, since most other countries continued to recognize the Republic of China until the 1970s. The first Prime Minister of India, Jawaharlal Nehru, hoped and worked for good relations between the two countries. He even had several high-profile summits with Chinese Premier Zhou Enlai in the 1950s [7, p. 8]. However, from the start, the relationship was plagued with problems. The most serious one was the border dispute in Arunachal Pradesh (in North East India / Southern Tibet) and Aksai Chin / Ladakh (in the disputed Jammu and Kashmir province) [11, p. 147].

Mutual relations in the 1950s initially seemed promising. Nehru envisioned a partnership of the two great countries, which would lead Asia forward and keep it from being dominated by wealthier nations and outside of the global Cold War competition. Although small-scale border skirmishes took place in 1955–56, the territorial conflict was articulated when, in 1957, China announced it was building a road in Aksai Chin [7, p. 11]. Another area of contention was Tibet. India was critical of China's reassertion of control over Tibet in 1950, with the Indian defense minister S. V. Patel publicly calling China a potential enemy for the first time. The mutual antagonism came to a head in October 1962, when the Sino-Indian War broke out. This was a short, month-long and localized war, but it was and still is seen as a disaster in India, but only as a small-scale border conflict by China. In any case, it ended with border gains for China, most notably pushing Indian forces out of

Aksai Chin. The new “border”, came to be referred to as the Line of Actual Control and has been the site of many border incidents. To resolve this, a plan was proposed according to which Aksai Chin would be exchanged for Arunachal Pradesh, and the border dispute would thus be eliminated, but this proposition fell through. Tensions flared once more in 1986–87 with major border skirmishes in Arunachal Pradesh, and again with the Indian nuclear tests in 1998, of which more will be written below. These tests were meant to move India into the same league as China, and preceding them was an anti-China campaign whose public face was defense minister George Fernandes [7, p. 8–10]. Luckily, this crisis had subsided by the time of the 1999 Kargil War between India and Pakistan.

#### 4 Contemporary Economic and Institutional Cooperation

While there are still hurdles to be overcome in the area of political relations and security, it is in the sphere of economics that relations have really taken off. Since 2007 India is among China’s ten main export destinations, moving from tenth place in 2007 and 2008 to the ninth place in 2009 and the seventh place in 2010–2012 [6, p. 112]. And in 2008, China became India’s largest trading partner, displacing the USA. The volume of Sino-Indian trade progressed from USD2.92 billion in 2000 to USD7.6 bn. in 2003, USD20 bn. in 2005, USD 41.85 bn. in 2008, USD51 bn. in 2009 and reaching either USD69.37 bn. (according to India’s Directorate General of Commercial Intelligence and Statistics) or USD73.92 bn. (according to UNCTAD) in 2011 [8]. The figure for 2003 represents a growth of 19.7% from the previous year [9, p. 121]. Mutual trade slowed down somewhat in the early 2010s as a result of the global economic downturn – it only reached USD66.75 billion in 2012 and fell further to USD65.9 bn in 2013. It picked up again in 2014, when it reached USD70.25 bn, and predictions for 2015 are around USD80 bn.

Table 1

##### Total trade between China and India, in billions of USD

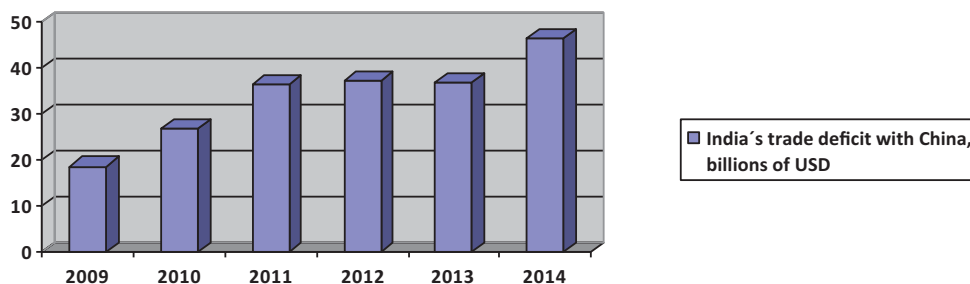
Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Sum	20.00	24.90	38.60	41.00	51.00	61.70	73.92	66.75	65.90	70.25

**Source:** own work, based on information from the Embassy of India in Beijing, China, according to the Directorate General of Commercial Intelligence and Statistics of India [8] and the China Daily, based on the Ministry of Commerce of the PRC [5].

A constant concern for India is the growing trade deficit; it continually

racks up in its trade with China. This deficit jumped from 18.65 bn. USD in 2009 to 26.67 bn. USD in 2010, then again to 36.28 bn. USD in 2011, then creeping up only a billion USD to 37.01 bn. USD in 2012. It then fell slightly to 36.88 bn. USD in 2013, before leaping up again in 2014 to a provisional number of 46.28 bn. USD.

Table 2



**Source:** own work, based on information from the Embassy of India in Beijing, China, according to the Directorate General of Commercial Intelligence and Statistics of India [8].

A crucial avenue of cooperation is within various organizations and platforms. The most notable platform uniting China and India is the BRICS group, which also includes Russia, Brazil and the Republic of South Africa. This is a loose platform for cooperation in the areas of international economy and finance, development and reform of international financial institutions. The term BRIC to describe the four initial countries first appeared in 2001, coined by British economist Terence James O'Neill of Goldman Sachs, in his paper "Building Better Global Economic BRICs". More formal cooperation between them was not initiated until five years later in 2006, with the first of their annual summits taking place in Russia's Yekaterinburg in 2009 [10, p. 110]. A looser form of partnership has benefits for both partners in keeping a certain degree of flexibility and a broader consensus that can also appeal to other countries, which would otherwise be wary of committing themselves to a more tightly knit cooperation. The proclamation of more specific goals might alienate the other potential partners, and uncover the differences between China and India, whether on a global or regional scale, mainly in South and South East Asia.

In the case of China, with its ever-growing economic clout, which is slowly but surely being converted into political influence and military power (much to the consternation of China's neighbors), it is advantageous to present itself as a team player. BRICS enables it to put the point across

that it is able to cooperate within a coalition of equals on a regional or global level and find compromise solutions, instead of acting unilaterally and building up an alliance of “satellite states”. This cautious strategy is a heritage from the era of the leadership of Deng Xiaoping. It was adopted to calm states that would otherwise have reason to fear China’s growing might and ambition to change the regional or even global balance of power. Those in China that advocate this approach claim that China should not accept great-power obligations that it would not be able to fulfil, being only a rising power. They are also afraid that such actions would compromise China’s efforts to appear as a defender of developing nations. On the other hand, there is a growing opinion in China that it should be more assertive precisely because of its newfound power, as well as because of a more nationalistic and assertive public opinion [3, p. 619, 621–624]. India, on the other hand, sees membership more as a validation of its rising power status on the global stage. It may also see the grouping as an effective way to curb China’s ambitions by tying it to common goals beneficial to all members. India is aided in this by the presence of Russia, a long-time ally of India with regard to countering the influence of China. India has also used BRICS as an avenue to simplify the obtainment of business visas to increase trade and investment within the group [10, p. 116].

One of the most recent projects to come out of this platform is the creation of the New Development Bank (NDB), which is played up to be an alternative to the traditional international financial institutions like the IMF or the World Bank. It was launched in July 2015 and is meant to provide financing for developmental projects in the BRICS countries as well as outside of them. In contrast to the WB, which uses weighed votes based upon monetary contributions, and thereby gives an advantage to developed countries, every member of the NDB has one vote, with no member having veto rights. This is aimed at increasing the fairness in global financial and developmental architecture, according to the proclaimed ideals of China, India and the other BRICS members.

However, BRICS is not the only avenue of Sino-Indian cooperation. India is an observer in the Shanghai Cooperation Organization, a much more formalized and security-oriented organization. In 2014, India applied to join the SCO and its application is currently being processed. On the other hand, China is an observer in the South Asian Association for Regional Cooperation, and while the other members are considering China’s full-time membership, India is hesitant.

## 5 Political Relations and Challenges

Relations outside the economic sphere are much more mixed. In accordance with the stated aim of this paper, attention will now focus on the spheres of politics and security. Relations have improved since the Kargil War of 1999 between India and Pakistan. Although China, voiced support for Pakistan in the spirit of their unofficial alliance, it also urged Pakistan to withdraw and not escalate the conflict. Thanks to various confidence measures, the border dispute between India and China is also becoming less of an issue, although it is by no means close to being solved. A small breakthrough came in 2003, when China recognized the small northern Indian state of Sikkim as Indian territory, as opposed to claiming it had been illegally annexed. While in reality being only a formality recognizing the status quo, it also paved the way to opening a trade route through the Nathu La pass in Sikkim. Another good sign of warming relations was the first ever joint military exercise between Indian and Chinese border troops in the south west of Tibet in 2004. But the boundary dispute took another turn for the worse in the middle of the 2000s, with Chinese border incursions (e.g. in 2004, 2009 and 2010) and Chinese officials, making strong comments on the intractableness of China's border claims. China has also denied visas to officials from Arunachal Pradesh, citing that since according to China Arunachal Pradesh / Southern Tibet is Chinese territory, its inhabitants are Chinese citizens who cannot apply for a visa to China. To non-officials, China has issued stapled visas, which are used to make a point that China considers the inhabitants of Arunachal Pradesh as Chinese citizens, not Indian. The problem was aggravated by the visit of Prime Minister Manmohan Singh in Arunachal Pradesh despite Chinese protests. The dispute over Arunachal Pradesh was also behind China's attempt to block a 2.9 bn. USD loan from the Asian Development Bank (ADB), which included water management projects in the disputed territory. In the end, China was outvoted and India received the loan, but China pushed through a vote which prevents the ADB from recognizing Arunachal Pradesh as Indian territory [13, p. 151]. The border dispute thus remains the most serious of the problems plaguing mutual relations, though closer economic ties significantly benefit the border regions.

However, there are other issues between the two rising powers apart from their border dispute. Chief among them is the close relationship between China and Pakistan, which dates back to 1950, and only got stronger as Sino-Indian and Indo-Pakistani antagonisms grew. China became Pakistan's



largest supplier of arms, and relations keep expanding on the economic front, as will be elaborated further below. Related to this is the nuclear rivalry between China and India, ongoing since 1998. The defeat in the 1962 border war with China was a major impetus for India to proceed with its nuclear weapons program, which resulted in a nuclear bomb test named “Smiling Buddha” on May 18<sup>th</sup> 1974, ten years after China’s own first nuclear test in 1964. India decided not to pursue a nuclear arms race with China since it had to overcome its internal economic and social crises, aggravated by international sanctions imposed upon India for its nuclear test. India only started developing its nuclear arsenal in earnest in 1998 with six nuclear tests, citing a deterioration of the global security environment. Specifically, India’s Prime Minister A. B. Vajpayee stated that the threat of China was behind the tests [13, p. 144].

But India feels that the Chinese threat comes not only from Chinese or Pakistani border. India is also apprehensive at China’s projects in the wider region. There is much talk of China building a so-called “string of pearls” stretching from the East China Sea into the India Ocean and the Middle East. This is supposed to enhance China’s geopolitical presence in key strategic points (the so-called “pearls”) on the maritime trade routes from the Middle Eastern countries from which China buys most of its oil. Among such “pearls” are the Pakistani port of Gwadar, which is being expanded as part of a joint Sino-Pakistani effort. While China values Gwadar as a port and petrochemical processing facility, Pakistan is counting on Gwadar (being much further from the border with India than its principal port of Karachi) to enhance its strategic depth in relation to India. Specifically, while the Indian Navy could easily blockade Karachi or mount a surprise attack on it, achieving this strategy against two ports that are far apart would be much more difficult. India of course realizes this, which is a reason for Indian skepticism towards China’s claims of the peaceful intent of its projects. Other significant pearls surrounding India are the rapidly developing ports (thanks in no small part to Chinese investment) of Marao in the Maledives, Hambantota in Sri Lanka, Chittagong in Bangladesh, or KyauKpyu in Myanmar (the terminus of the KyauKpyu-Kunming pipeline, delivering oil to China), all of which may have military as well as economic uses. However, China vigorously denies any attempt at spreading its power throughout the region, and claims that its initiative is purely one of economic cooperation. In any case, India’s political establishment has articulated a fear of being encircled by China



and its allies. India elites also believe that China's strategy is to keep India focusing on its border dispute with China and defensively countering Chinese influence in the region, to the detriment of India playing a major role on the continental or international stage. Whatever the case may be, Chinese president Xi Jinping unveiled his project called the Maritime Silk Road in 2013 in a speech to the parliament of Indonesia [4]. This plan is intended to strengthen maritime trade throughout Southern and Eastern Asia, what is claimed by its detractors to merely be the "string of pearls" strategy by another name.

For its part, India is working to counter this perceived penetration of China in the Indian Ocean with its own projects, including a military installation on Madagascar, and other facilities in the Seychelles as well as in Chabahar in Iran. Since 1997, it has also attempted to strengthen ties with several countries of the region in the Bangladesh–India–Myanmar–Sri Lanka–Thailand Economic Community, known by the acronym BIMST–EC [13, p. 144]. It has also undertaken an infrastructure development project in Sittwe (similar to China's actions in the region), in Myanmar, beginning with an agreement to develop the port in 2007 and continuing with a overland route from India to Sittwe in 2011. Similar infrastructure projects are planned in cooperation with Bangladesh.

In parallel with the situation in the Indian Ocean, both countries are rivals in the hydrocarbon-rich South China Sea. In 2012, Indian ships were conducting a survey of the area close to the Spratly Islands, which are disputed between China and five other nations of South East Asia. This was on behalf of the Oil and Natural Gas Corporation, India's national oil company, which owns a 45% stake in exploration of the region with Vietnam's national oil company PetroVietnam. China demanded of India to stop the mission and reiterated its claim to the archipelago. Admiral D. K. Joshi, the head of the Indian Navy, reacted strongly by stating that "India was prepared to send navy vessels to protect its energy interests in the South China Sea" [2, p. 27].

Another peculiar arena of competition for India and China has opened up in the Arctic. In May 2013, both countries were granted observer status in the Arctic Council. Both countries have carried out polar research in the Arctic, as much for the benefit of their Arctic ambitions as for science. But China has a head start, with mining and oil extraction deals with Scandinavian states, as well as already having two icebreakers, while as of writing, India is only just attempting to acquire or construct one.

## 6 Conclusion

The aim of this paper was to present the potential and problems of the Sino-Indian relationship. Sino-Indian relations are far from problem-free. The border dispute is still a periodic flashpoint with no resolution in sight, as is the issue of Tibet and the Dalai Lama. India remains disconcerted over China's growing influence in the region. But in spite of all the mentioned problems, mutual relations are better than ever before. Both countries have made great progress in alleviating the risk of another war breaking out, as well as ensuring that border regions can live up to their full economic potential. Their mutual trade has skyrocketed in this millennium, and it looks set to grow further. The organizations of which both countries are (or possibly soon will become) members seem poised to open up more avenues of cooperation. The mutual rivalry of both nations in the region does not necessarily have to be detrimental to one another or to the region at large, if it manages to remain in the limits of healthy competition that drives the whole region forward. We can hope that as both countries become wealthier; their ability to put the past behind them will also grow, to exploit the full potential of their relationship.

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