

IN-DEPTH ANALYSIS

India and China: too close for comfort?

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ABSTRACT

India and China — two emerging Asian giants — have historically been polar opposites in many ways and relations between them have been tense. In recent years, however, their co-operation has been improving and they have signed numerous bilateral agreements. From the EU's perspective, it is crucial to monitor the relationship between these strategic partners. Not only do these two emerging countries have the two largest populations in the world, but projections suggest that they will together account for a significant share of the world economy by the middle of the century. The EU must be able to meet the regional and even global challenges presented by the rise of China and India.

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1 India and China as strategic partners

Relations between China and India have been notoriously difficult over the years but have improved since they established a strategic partnership in 2003.

China and India elected new leaders in 2013 and 2014 respectively. This has had a significant impact on their relations.

Chinese President Xi Jinping paid an official visit to India from 17 to 19 September 2014.

'There is enough space in the world for the development of both China and India,'¹ said Premier Wen Jiabao during an official visit to India in 2015. This bold statement remains to be proven. Relations between China and India have been notoriously difficult over the years but have improved since they established a strategic partnership in 2003. The statement issued on that occasion highlights clearly that the two countries have developed a shared common conception of their role on the global stage. As two large developing countries, China and India are aware of each other's role in the process of promoting the establishment of a new international political and economic order. The 2003 statement noted that the two sides were supportive of the 'democratisation of international relations and multilateralism, the support for the establishment of a new international political and economic order that is fair, rational, equal and mutually beneficial, and the promotion of North-South Dialogue and South-South Cooperation'². Both emerging countries agreed at the time that the United Nations (UN) should undergo comprehensive reform, with emphasis on increasing the representation of developing countries. The statement also reiterated Indian aspirations for permanent membership of the UN Security Council, alongside China, owing to India's increasingly strong influence in the international arena³.

China and India elected new leaders in 2013 and 2014 and this has had a significant impact on their relations.

Xi Jinping was elected president of the People's Republic of China (PRC) in March 2013. He has vowed to fight for the 'great renaissance of the Chinese nation'. He has championed a more assertive foreign policy and has turned China away from its traditional low profile within international affairs. From 17 to 19 September 2014, Xi Jinping paid an official visit to Indian Prime Minister Modi's home, the state of Gujarat. He received a very grand welcome.

The visit resulted in the further expansion of India and China's economic engagement. This was reflected by the fact that President Xi was accompanied by a large delegation of businessmen. It was agreed that China would set up two industrial parks in India, one in Gujarat and another in Maharashtra⁴. China committed to playing a role in the development of high speed railways in India. Border issues remained a painful subject, as during Xi's visit to India a Chinese incursion took place in Ladakh, with a

¹ Reuters, Wen says world big enough for India and China growth, 2015, <http://www.reuters.com/article/us-india-china-idUSTRE6BE1BM20101215>

² Chinese Embassy, China India agree on strategic partnership, 2016, <http://in.chineseembassy.org/eng/ssygd/zygx/t191496.htm>

³ idem

⁴ Society for the Study of Peace and Conflict, President Xi Jinping's India visit: Expectations and outcomes, 2014, http://www.sspconline.org/opinion/PresidentXiJinpingsIndiavisit_22092014

military face-off. Prime Minister Modi confronted President Xi about this incursion. Xi responded that the People's Liberation Army (PLA) troops had been asked to retreat⁵. However, 24 hours after this statement the PLA had not retreated⁶. Prime Minister Modi told President Xi that 'small incidents can impact the biggest of relationships'⁷.

Indian Prime Minister **Narendra Modi** has been in office since 26 May 2014. He belongs to the Bharatiya Janata Party (BJP). It has close ideological links to the Hindu nationalist right-wing organisation Rashtriya Swayamsevak Sangh (RSS), whose main aim is to uphold Indian culture and create a Hindu nation. Interestingly, Narendra Modi has already done more for the relations with China than his predecessor Prime Minister Manmohan Singh, although the later belonged to a party that did not pursue a nationalist agenda and is situated on the left of the political spectrum, the Indian Congress Party. Prime Minister Modi has departed from India's traditional foreign policy based on non-interference. His deep involvement in foreign affairs has surprised policy observers, as his electoral campaign concentrated on internal politics, particularly economy and trade. Modi is committed to making India a global power⁸. Modi developed the previous Indian government's 'Look East Policy' into the new 'Act East Policy'⁹.

To place India on the global map, PM Modi has identified the improvement of relations with neighbouring China as an asset. His first visit to the PRC as prime minister took place from 14 to 16 May 2015¹⁰. Narendra Modi was already familiar with China: in his former position as chief minister of Gujarat, he had visited the country four times. During these official visits, he was always eager to secure economic benefits. In 2015, he was welcomed in the city of Xi'an in Shaanxi province, allegedly President Xi Jinping's home province and the start of the ancient Silk Road. Hence a strong symbol. It was the first time that Xi Jinping travelled outside Beijing to receive a foreign guest.

The joint statement released on the occasion highlights the 'simultaneous re-emergence of India and China as two major powers in the region and the

Narendra Modi paid his first visit to China in his capacity as Prime Minister of India from 14 to 16 May 2015.

⁵ Society for the Study of Peace and Conflict, President Xi Jinping's India visit: Expectations and outcomes, 2014,

http://www.sspconline.org/opinion/PresidentXiJinpingsIndiavisit_22092014

⁶ Troops moved instead back by 100 km and sat in their vehicles until the next morning, when they resumed their original positions.

⁷ Society for the Study of Peace and Conflict, President Xi Jinping's India visit: Expectations and outcomes, 2014,

http://www.sspconline.org/opinion/PresidentXiJinpingsIndiavisit_22092014

⁸ European Parliament, EU-India relations: 'Time to shift into higher gear', 2015, Laurence Vandewalle

⁹ Indian Express, India's Act Easy Policy was created to improve relations with neighbours in Asia, 2015, <http://indianexpress.com/article/india/india-others/indias-act-east-policy-balancing-china-in-the-region-thinktank/>

¹⁰ The Hindu, China and India: Rivals and Friends, 2015,

<http://www.thehindu.com/opinion/op-ed/prime-minister-narendra-modis-china-visit/article7231248.ece>

world offers a momentous opportunity for realization of the Asian Century'¹¹.

The visit resulted in the signature of a record 24 agreements worth USD 10 billion. The agreements covered many areas of mutual interest from high-speed railways, the military and border issues, through to the establishment of a yoga college in the Chinese city of Kunming. China committed to support India in upgrading its infrastructure. An action plan on railway cooperation was signed by the China National Railway Administration and India's Ministry of Railways¹².

Both countries have in common their intention to develop prosperity based on international trade. China is India's largest trading partner with two-way trade totalling about USD 65.5 billion in 2013. However their trade relations are characterised by India's soaring trade deficit vis à vis China. Indian consumers have indeed been consuming an increasing amount of Chinese products, but Indian exports to China have not grown in the same way. Additionally, Chinese foreign direct investments to India also remain at a low level. According to Indian government statistics, the country has received a total of around USD 400 million from China in investment in the last 14 years.

Both countries count on international trade to sustain their economic development.

2 Past tensions in Sino-Indian relations

India was the first non-socialist country to establish diplomatic relations with the People's Republic of China (PRC), on 1 April 1950.

Since China annexed Tibet in 1950, India and China have shared a border.

In 1959 the Dalai Lama fled to India. Indian leaders welcomed him and granted refugee status to tens of thousands of Tibetans.

The relations between India and China have had their ups and downs. On 1 April 1950 India, the largest democracy in the world, became the first non-socialist country to establish diplomatic relations with the People's Republic of China (PRC). Indian Prime Minister Jawaharlal Nehru paid an official visit to Beijing in October 1954.

Since China's annexation of Tibet in 1950, which led India and China to share a common border, Tibet has been one of the core irritants in the Sino-Indian relationship. Although India recognised China's sovereignty over Tibet, India's welcome to the Dalai Lama in 1959 was perceived as supporting Tibetan separatism. Despite substantial improvement over the years, it continues to affect relations. In 1959, when the Dalai Lama fled to India after the first Tibetan uprising, India promptly made its position on Tibet clear: 'The Indian government, while sympathetic to the case of the Dalai Lama, contends that Tibet legally is a part of China'. However, other sources reported¹³ later that repressive Chinese policies in Tibet had disappointed Indian policy-makers, public opinion and media. Indian leaders welcomed the Dalai Lama as a guest of New Delhi's government

¹¹ Joint Statement between the India and China during Prime Minister's visit to China, 2015, http://www.mea.gov.in/bilateral_documents.htm?dtl/25240/Joint_Statement_between_the_India_and_China_during_Prime_Ministers_visit_to_China

¹² CCTV America, India China Agreement, 2015, <http://www.cctv-america.com/2015/05/16/24-new-agreements-signed-following-premier-li-modi-meeting>

¹³ The New York Times, Between Tibet and China, India plays delicate balancing act, 2012, http://india.blogs.nytimes.com/2012/04/03/between-tibet-and-china-india-plays-delicate-balancing-act/?_r=0

The Tibetan government in exile is established in Dharamsala.

and granted refugee status to tens of thousands of Tibetans, who followed their spiritual leader. Today, India is home to about 100 000 Tibetans, who mostly live in refugee communities in Delhi, Dharamsala and other areas in northern India. They are granted healthcare and education, are protected from repatriation to China and are allowed to own land in specific areas, a privilege not extended to other foreigners.

The presence of both the Dalai Lama and of a strong exiled Tibetan community in India has resulted in China viewing India as the heart of Tibetan separatism. This is exacerbated by the fact that the Tibetan government in exile is established in Dharamsala. Beijing views this exiled government as a constant challenge to its rule in Tibet. In contrast, the Indian government considers it as a non-governmental organization (NGO), although it regulates its political activities.

High-level Chinese visits to India have been a source of tension for Chinese leaders and have provided opportunities for Tibetans to protest. In May 2013 during Chinese Premier Li Keqiang's visit, a Tibetan protester broke through the police barrier outside the Chinese Embassy after dousing himself in kerosene. He was arrested just before setting himself alight. In March 2012, during a visit by former Chinese president Hu Jintao, a Tibetan exile set himself on fire. He died from his injuries.

War broke out in 1962 between India and China over disputed territories on the Himalayan border between the two countries.

In 1960 the Sino-Soviet split contributed to the deterioration of relations between China and India, as India was perceived to be increasingly close to the Soviet Union. In 1962, tensions escalated to the point that a war broke out between India and China, over disputed territories at the Himalayan border, which separates the two countries. China won the war, which resulted in over 2 000 casualties. To this day China claims the Indian state of Arunachal Pradesh, which it calls South Tibet, while the government of New Delhi claims Chinese-controlled Aksai Chin.

Relations gradually improved after Indian Prime Minister Rajiv Gandhi paid an official visit in Beijing in 1988.

After 1962 relations between India and China remained strained for many years, until Prime Minister Rajiv Gandhi paid an official visit to Beijing in 1988. The visit signalled a period of improvement in bilateral relations with the signing of numerous agreements and the establishment of stable Sino-India relations in diverse fields such as bilateral trade, climate change, governance, military and anti-terrorism¹⁴. A slow positive trend has continued since then.

The concept of a strategic triangle between Moscow, Beijing and Delhi gave birth in 2002 to triangular meetings where international and regional issues are discussed.

The two countries' relations with Moscow have in the meantime improved as well. The concept of a strategic triangle between Moscow, Beijing and Delhi is not a new idea. The last leader of the Soviet Union, Mikhail Gorbachev, wanted to place the USSR squarely between India and China within a mutual cooperation framework. Gorbachev's idea did not work at that time. Since 2002 however, Russia, China and India have been holding meetings to discuss international and regional issues. The last meeting took place in April 2016. The agenda included global and regional issues, matters

¹⁴European Council on Foreign Relations, China's actions India's worries, 2015, http://www.ecfr.eu/article/commentary_chinas_actions_indias_worries3067

related to strengthening international law and the collective fight with regard to common challenges. This could provide a source of inspiration for the EU, and it is probably also interesting to monitor this process.

3 Competition and cooperation

China and India have a paradoxical and challenging relationship, where growing cooperation goes hand in hand with mounting rivalries.

China and India have a paradoxical and challenging relationship, where growing cooperation goes hand in hand with mounting rivalries. This is highlighted particularly in the fields of security and defense, infrastructure connectivity, cross-border water management and international financial institutions. These four fields are particularly emblematic of the direction in which the emerging countries' relationship is heading. The issue of nuclear proliferation, which deserves a study in its own right, is not covered in this briefing.

3.1 Security and defence

The two countries conduct an annual defence and security dialogue.

Mutual security and defence interaction between India and China has been steadily increasing since the 2005 bilateral **Strategic Partnership for Peace and Prosperity agreement**.

Regular high-level exchanges have taken place since 2007. Navy vessels from both countries regularly make port calls. Additionally, the two countries hold an **annual defence and security dialogue** where cooperation between the two countries is discussed. The seventh annual defence and security dialogue was held in Beijing on 10 April 2015. Both countries recognized the maintenance of peace and tranquillity on the borders as an important guarantor for the development and growth of their bilateral relationship. They also exchanged views on regional and global security issues of mutual interest and agreed on the need to expand military cooperation and identify new avenues of engagement¹⁵. The 2016 annual defence and security dialogue has not yet taken place.

In May 2015, Narendra Modi and Xi Jinping agreed that enhanced military ties are conducive to mutual trust.

In May 2015, Narendra Modi and Xi Jinping¹⁶ agreed that enhanced military ties are conducive to mutual trust. The two armies held a fifth joint¹⁷ counter-terrorism exercise on 28 January 2016 in Kunming¹⁸. Both countries agreed to improve border co-operation with annual visits and exchanges between military headquarters.

¹⁵ Embassy of India, 7th Annual defence and security dialogue, 2016 <http://www.indianembassy.org.cn/newsDetails.aspx?NewsId=595>

¹⁶ IBTimes, Modi in China, 2015, <http://www.ibtimes.co.in/modi-china-live-chinese-president-give-indian-pm-highest-level-reception-xi-632382>

¹⁷ The first one was held in China in 2007 and the following ones alternated between locations in the two countries;

¹⁸ NDTV, Indian Chinese Army kick off anti-terrorism exercise, 2016, <http://www.ndtv.com/india-news/indian-chinese-army-kick-off-anti-terrorism-exercise-1271017>

Border security mechanisms and agreements are in place between the two countries but incidents still occur regularly.

President Xi Jinping's concept of Asian security reinforces the importance of the Asian regional security dialogue.

India and China have been rivals in their strategic relations with other countries, particularly the United States.

The two countries have also established **Border security** mechanisms and agreements, such as the Working Mechanism for Consultations and Coordination of India-China Border Affairs and the Border Defense Cooperation Agreement¹⁹. However, these measures have not resolved the issue and incidents on the ground regularly occur. Moreover, the border issue is used by both countries to justify significant military budget increases²⁰. India is the world's largest importer of military goods.²¹

Both countries are members of the **Asia Regional Forum** (ARF) and of the **East Asia Summit** (EAS). Prime Minister Modi has highlighted his country's desire for regional leadership in the EAS. To a certain extent, the two countries coordinate their policies in international fora. President Xi Jinping's concept of Asian security, which claims that Asian countries should decide Asian affairs first, reinforces the importance of all Asian regional security dialogue.

An example of China including India in regional security fora is the acceptance of India as a full member of the **Shanghai Cooperation Organisation**²² (SCO) in July 2015, along with Pakistan. PM Modi offered help to the SCO in combating terror and boosting trade.

India and China have been rivals in their strategic relations with other countries, in particular with the United States (US). India has been forging closer security ties with the US. In early 2016, the US and India discussed the possibility of jointly patrolling maritime areas such as the Indian Ocean and the **South China Sea** to ensure freedom of navigation. India not only sent vessels to visit the South China Sea but explicitly called for freedom of navigation and the peaceful resolution of territorial disputes as part of its above-mentioned Act East policy. The maritime border conflict between China and several South East Asian countries has been gaining in intensity in 2015 and 2016. The US has sent warships to patrol the area, while China has engaged in vast reclamation works in the Spratly and in the Paracel islands. The conflict has evolved into a balance of power between the US and China. The US decision to transfer 60 % of its navy to the Pacific may also be interpreted in this context as an attempt to contain China. When US defence secretary Ashton Carter visited India from 10 to 13 April 2016, India and the US signed a logistic support agreement.

Additionally both India and China are eager to establish safe trade routes through the **Indian Ocean**, heightening their strategic value. India imports

¹⁹ Embassy of India, India China bilateral defence cooperation,

<http://www.indianembassy.org.cn/DynamicContent.aspx?MenuId=5&SubMenuId=0>

²⁰ Annual Defence Budgets according to GFP intelligence reports: India USD 40 bn; China: USD 156 bn (2016 report).

²¹ SIPRI, The Top 20 Arms Importers, 2015,

https://www.sipri.org/googlemaps/2015_of_at_top_20_imp_map.html

²² The SCO is a Eurasian political, economic and military organisation founded in 2001 to jointly address the common threats of terrorism, separatism and extremism. Current members are China, Russia, Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan.

India has strengthened its presence in the Indian Ocean.

India takes part in annual multilateral naval exercises with the US, Australia and Japan.

nearly 80 %²³ of its energy, mostly oil, from the Middle East. Around 84 %²⁴ of China's imported energy resources passed through the Strait of Malacca from the Indian Ocean in 2012²⁵. As China has been increasingly active in South Asian countries, in particular Sri-Lanka²⁶, India has also strengthened its presence in the Indian Ocean, primarily by upgrading its navy, which has included anti-submarine warfare planes since 2015²⁷.

Prime Minister Modi has improved relations with India's neighbors and has taken strategic steps, such as the bilateral India-Australia exercises²⁸, and India's participation in annual multilateral naval exercises called Malabar²⁹ with the US, Australia, and Japan. In the 2016 exercise, US, Japanese and Indian vessels held a large-scale joint naval exercise in April 2016 close to the Diaoyu/Senkaku islands in the **East China Sea**. In 2015, the drill was held in the Bay of Bengal, without the participation of Japan³⁰. Little doubt exists that despite India's traditional principle of nonalignment, outreach to the US, Australia, Japan and even Indonesia are calculated moves to counterbalance China's assertiveness in Asia³¹.

²³ Business Standard, Can India halve oil dependence by 2030, 2015 http://www.business-standard.com/article/economy-policy/can-india-cut-down-its-oil-import-dependence-by-a-half-by-2030-115040800227_1.html

²⁴ US Department of Defence, Military and Security Developments, 2014 http://www.defense.gov/Portals/1/Documents/pubs/2014_DoD_China_Report.pdf

²⁵ Council on Foreign Relations, Competition in the Indian Ocean, 2015, <http://www.cfr.org/regional-security/competition-indian-ocean/p37201>

²⁶ Laurence Vandewalle, Policy Department, Sri Lanka after the elections

²⁷ The Diplomat, India Inducts First Squadron of Anti-Submarine Warfare Plane, 2015, <http://thediplomat.com/2015/11/india-inducts-first-squadron-of-anti-submarine-warfare-plane/>

²⁸ The Times of India, India-Australia naval exercise to begin tomorrow, 2015, <http://timesofindia.indiatimes.com/India/India-Australia-naval-exercise-AUSINDEX-15-to-begin-tomorrow/articleshow/48916443.cms>

²⁹ The Economic Times, India, US, Japan to take part in naval exercise in Bay of Bengal, 2015 <http://economictimes.indiatimes.com/news/defence/india-us-japan-to-take-part-in-naval-exercise-in-bay-of-bengal/articleshow/49261686.cms>

³⁰ Channel News Asia, US, Japan, India to hold major naval drill in Western Pacific, 2016, <http://www.channelnewsasia.com/news/asiapacific/us-japan-india-to-hold/2852498.html>

³¹ Council on Foreign Relations, Competition in the Indian Ocean, 2015, <http://www.cfr.org/regional-security/competition-indian-ocean/p37201>

3.2 Infrastructure connectivity and quest for regional influence

Figure 1:
One Belt One Road



Source: *The Economist*, One Belt One Road, 2015

Both India and China have developed initiatives to improve infrastructure and other connections in South Asia.

3.2.1 One Belt One Road - A Chinese vision

President Xi Jinping has launched the 'One Belt One Road' (OBOR) initiative to connect major Eurasian economies through Chinese-led infrastructure, trade and investment.

Beijing has envisioned the '**One Belt One Road**' (OBOR) initiative to connect major Eurasian economies through Chinese-led infrastructure, trade and investment. This initiative includes the China Pakistan Economic Corridor (CPEC), a project for a network of railways, roads and pipelines connecting Pakistan's port city of Gwadar on the Arabian Sea with the Chinese city of Kashgar. The maritime chapter of OBOR is called the **21st Century Maritime Silk Route Economic Belt (MSR)**. The MSR plans the development of maritime shipment routes through the Indian Ocean and the Persian Gulf alongside Chinese support to the building of harbours in Bangladesh, Sri Lanka, the Maldives, and Pakistan³². The recently built deep sea port of Gwadar is managed by a Chinese company, the China Overseas Ports Holding Company (COPHC). When completed, the harbor which China has both financed and constructed, could offer a direct access route to the Indian Ocean and the possibility to bypass the Malacca Straits³³. Pakistan is a long time ally of China and they seem increasingly close to each other. The Stockholm International Peace Institute's most recent report shows that China has sold Pakistan over half the arms it imported in the last five years³⁴.

³² CFR, James McBride: Building the New Silk Road, 25 May 2015 <http://www.cfr.org/asia-and-pacific/building-new-silk-road/p36573>.

³³ European Parliament, Pakistan and China, 2015, Laurence Vandewalle

³⁴ Stockholm International Peace Institute, World Nuclear Forces, 2015 <http://www.sipri.org/yearbook/2015/12/12A>

India in particular is concerned about OBOR's possible military impact, as well as the fact that it crosses Kashmir.

China is a close ally of Pakistan but has remained neutral on the Kashmir conflict.

China is eager to join the South Asian Association of Regional Cooperation — a move opposed by India.

China is increasingly involved in Afghanistan.

Chinese influence is growing in Nepal — India's Prime Minister Modi has made efforts to maintain close relations between India and Nepal.

India is concerned about OBOR's possible impact and in particular that of CPEC due to the military potential of the Gzadar harbour. From Delhi's perspective, CPEC could enable the PLA to gain a better access to the Indian Ocean. In recent years, Chinese submarines have indeed docked at the Pakistani port of Karachi³⁵.

Another major source of concern for India is that the CPEC crosses the disputed region of **Kashmir**. Prime Minister Modi made an official complaint on the CPEC route to China on 13 May 2015. The former princely state remains a disputed area between India, Pakistan and China. The majority of the state is administered by India, another part is de facto administered by Pakistan (Azad Kashmir and Northern Areas) while a third part, Aksai Chin, is held by China. It is the most militarised territorial dispute in the world. Despite the 2003 cease-fire between Pakistan and India, hostilities occur regularly. In this context, China's military support to Pakistan remains a matter of deep concern for India — even if China has avoided taking sides in the conflict in the past fifteen years.

The increased Chinese involvement in Pakistan signals greater Chinese involvement in South Asia. During the most recent **South Asian Association of Regional Cooperation (SAARC)** summit, held in November 2015, China's bid for full membership was supported by Nepal, Pakistan and Sri-Lanka, and strongly opposed by India. Given China's increasing involvement in South Asia, it is likely that it could succeed in joining the association in the long term. SAARC is currently being under used mainly because of the tensions between Pakistan and India. China could in the long run be a game changer due to its economic interest in securing trade routes in the region.

Chinese rivalry with India is visible in **Afghanistan** as well. President Ashraf Ghani's decision to pay his first official visit abroad to China in October 2014, when he asked for Chinese involvement in talks with the Taliban, highlights how Beijing has been gaining ground in Afghanistan. President Ghani paid a visit to Delhi on 27 April 2015. China has indeed joined the US; Pakistan and Afghanistan in the quadrilateral coordination group that negotiates with the Talibans. Some diplomats hold the opinion that China could be the next power to sink into Afghanistan.

A similar scenario is visible in **Nepal**, where Chinese influence has been soaring in recent years. In March 2016, Nepal's prime minister Khadga Prasad Oli paid a week-long visit to Beijing. He met with the top leadership of the country and attended China's major economic conference, the Boao Forum for Asia. He expressed hopes that his country's economy could integrate with China's. Nepal has also been high on the Indian agenda. Prime Minister Modi has made efforts to maintain close relations between Delhi and Kathmandu, amidst concerns that China's increasing investment in Nepal could prompt the country to move much closer to China and

³⁵ The Times of India, Chinese submarine in Karachi, 2015, <http://timesofindia.indiatimes.com/india/Chinese-submarine-in-Karachi-India-alarmed/articleshow/47845930.cms>

Pakistan than to India. Tibetan refugees in Nepal (approximately 20 000 in 2011, with an additional 1 500 Tibetans living in refugee-like situations) are on the frontline of tensions and high-stake battles for regional influence between the two Asian giants. Nepalese refugees are permitted safe passage from Tibet to India through Nepal, under the terms of an agreement with the UNHCR. The growing influence of China over the country in the last few years has allegedly led to violations of their basic rights, including restrictions on their freedom of assembly and expression, arbitrary arrests and detentions, and restrictions on their religious and cultural rights. Signs of increased cooperation between Nepal and China appear to ruffle Indian feathers. If they were to be completed, new road and rail links between Tibet and the Nepal-India border could facilitate a Chinese troop deployment to India.

Even the tiny Kingdom of Bhutan has more ties with China but remains closely linked to India.

The kingdom of **Bhutan**, has also increased its relations with China, despite not having established full diplomatic relations with Beijing to date. Modi has reacted by making Bhutan the destination of his first foreign visit in June 2014.

3.2.2 Indian-led projects

India has also embarked on regional connectivity projects, mainly by supporting the Chabahar harbour in Iran.

India's concern that it is being marginalised in its own backyard have prompted it to support the **Chabahar harbour**, located in **Iran**. It is positioned on the Persian Gulf about a hundred kilometers from Gwadar. During his eagerly-awaited official visit to Iran in May 2016 Prime Minister Narendra Modi announced that India would invest approximately USD 500 million in building the port which could provide trade routes to Afghanistan, Central Asia and beyond. India, Iran and Afghanistan have signed a trilateral agreement to build a transit and transport corridor.³⁶ This strategy of regional connectivity could in the long run diminish Pakistan's strategic importance as a transit route. Some observers consider the Chabahar harbour a response to the development of the China–Pakistan Economic Corridor³⁷. Furthermore the strategic interest of the harbour can be reinforced by the International North–South Transport Corridor project, aimed at connecting the South, Central and West Asia with Russia and Europe, enabling India to compete with China.

Two other Indian initiatives to reclaim its position in the Indian Ocean are the 'Mausam project' and the 'Spice Route'.

Two other Indian initiatives to reclaim its position in the Indian Ocean are the **Mausam project**³⁸ launched in 2014 with the aim of reviving ancient maritime routes and cultural links with countries in South Asia. The second project is the **Spice Route**, aimed at reviving old links between India and 31 countries in Asia and Europe. In March 2015 ahead of the Annual Defence Dialogue, China expressed its readiness to work with India to link the MSR with the Mausam project.

³⁶ BBC News, India and Iran sign historic Chabahar port deal, 2016, <http://www.bbc.com/news/world-asia-india-36356163>

³⁷ East Asia Forum, Modi puts in the groundwork with Iran, 2016, <http://www.eastasiaforum.org/2016/06/08/modi-puts-in-the-groundwork-with-iran/>

³⁸ full name: Maritime Routes and Cultural Landscapes Across the Indian Ocean

Connectivity competition between India and China is also visible in South East Asia.

Competition for connectivity is also ongoing in **South East Asia**. Towards the South, OBOR reaches the **Bangladesh-China-India-Myanmar Economic Corridor** (BCIM-EC). For China, keeping Myanmar/Burma from joining what it considers as the US 'encirclement of China' policy is a top security concern. China is Myanmar/Burma's largest development partner, with assistance to strategic projects financed by Chinese state-run banks and carried out by Chinese construction companies³⁹. At the same time, the ongoing democratic transition has provided an opportunity for India to regain ground in the country, which it considers as its 'Gateway to the East'. This is strategically important for New Delhi. Indian Prime Minister Narendra Modi paid his first official visit to the country in November 2014. He unveiled the above-mentioned 'Act East' policy there.

This rivalry is also visible in **Vietnam**, where an Indian state company was chosen for oil and gas exploration in the South China Sea. China warned that no agreements should infringe on its territorial claims. Relations between Vietnam and China have been challenging in recent years mainly due to the conflict in the South China Sea.

3.3 Cross-border water resource management

The Tibetan Plateau is often referred to as 'Asia's water tower'.

Encircled by the Himalayas and with an average elevation of 4 500 metres above sea level, the Tibetan Plateau is often referred to as 'Asia's water tower'. As the largest repository of fresh water outside the North and South Poles, and the source of the earth's eight biggest river systems, it is indeed a critical resource for the world's 10 most densely populated nations surrounding the plateau. In recent years, climate change, economic development and population growth in the downstream countries have increased the Tibetan plateau's strategic importance. China and India could be engaging in a 'water grab'⁴⁰, as they seek additional sources of electricity to power their growing economies.

The Yarlung Tsangpo-Brahmaputra River is the main focus of competition for access to water resources.

The **Yarlung Tsangpo-Brahmaputra River** is the main concern as regards competition for access to water resources. The 2 880-km long river is one of Asia's longest rivers. It goes through Tibet as the Yarlung Zangbo, China as the Yarlung Tsangpo, India as the Brahmaputra River and finally through Bangladesh where it is known as the Jamuna River⁴¹. A resource-based conflict arose on 11 June 2000 after a natural dam burst in Tibet and killed around 30 people causing damage to infrastructure in Arunachal Pradesh⁴². Indian officials suspected that the flood could have been purposely caused

³⁹ European Parliament, Myanmar/Burma: The 8 November 2015 general election: an election does not a democracy make, 2015, Laurence Vandewalle

⁴⁰ Science, Threat from India's Himalaya Dams, 2015, <http://science.sciencemag.org/content/339/6115/36.summary>

⁴¹ The National Interest, China India and Water Across the Himalayas, 2015, <http://nationalinterest.org/blog/the-buzz/what-could-start-war-between-india-china-13447>

⁴² The National Interest, China India and Water Across the Himalayas, 2015, <http://nationalinterest.org/blog/the-buzz/what-could-start-war-between-india-china-13447>

by China, drawing the possible conclusion that China was trying to interrupt the water supply to India. This was contradicted by satellite images that confirmed a natural disaster. Two years later, as a result of that incident, China and India signed a first memorandum of understanding for the provision of hydrological information. Additionally, in 2008, the two countries signed a memorandum of understanding upon provision of hydrological information on the Yarlung Tsangpo-Brahmaputra river in flood season.

China announced plans to build a dam in the middle reaches of the Yarlung Tsangpo-Brahmaputra river.

In 2008, the Chinese government announced plans to begin the construction of the Zangmu hydroelectricity dam in the middle reaches of the Yarlung Tsangpo-Brahmaputra river. It has also announced its decision to construct three more plants on the same river at Dagu, Jiachu and Jiexu. The Chinese government did not reveal the details of the project, stating that it was an 'internal matter' but Indian observers warned of a water war⁴³. Confusion remains regarding the exact number of dams the Chinese authorities intend to build on the Yarlung Tsangpo-Brahmaputra river. Jana Jagriti, an Indian non-governmental organization (NGO), has claimed that China would construct twenty six hydro-electric projects in the upper reaches of the river. In addition to these dams, reports suggest the possible construction of a giant hydro-electric project at Edog near the Great Bend of the river. Although plans are not clear, if this dam was to be built, it could be twice as big as the Three Gorges dam⁴⁴.

China has always denied any intention of diverting the waters of the Yarlung Tsangpo-Brahmaputra river.

China has always denied that it has any intention of diverting the waters of the Yarlung Tsangpo-Brahmaputra. In 2011, China's vice minister for water resources stated that that his country had no plans to do so. Four years later, in a press conference in March 2015, the same vice minister stated that priority would be given to water conservation and environmental protection⁴⁵.

India itself has plans to build dams on tributaries of the Yarlung Tsangpo-Brahmaputra river before it flows into the third riparian country of the river, Bangladesh.

India itself has plans to build dams on tributaries of the Yarlung Tsangpo-Brahmaputra river before it flows into the third riparian country of the river, Bangladesh. The Indian government recently sanctioned an 800 megawatt hydro-electric project on the Yarlung Tsangpo-Brahmaputra river in Arunachal Pradesh⁴⁶.

A similar suspicion exists on the other side of the Himalayan border. A Chinese state-run think tank accused India of pressuring China to prevent it from using water resources in Tibet by building dams on the Brahmaputra. An article in the state-run Global Times said 'the Chinese government acknowledges the water resource disputes, and predicts a potential intensified controversy which, however, will not trigger political and

⁴³ The European Council on Foreign Relations, China's actions, India's worries, 2015, http://www.ecfr.eu/article/commentary_chinas_actions_indias_worries3067

⁴⁴ Geopolitical Monitor, China and India: River wars in the Himalayas, 2015, <http://www.geopoliticalmonitor.com/china-and-india-river-wars-in-the-himalayas-4954/>

⁴⁵ The Diplomat, China-India: Revisiting the 'Water Wars' Narrative, 2015, <http://thediplomat.com/2015/06/china-india-revisiting-the-water-wars-narrative/>

⁴⁶ Geopolitical Monitor, China and India: River wars in the Himalayas, 2015, <http://www.geopoliticalmonitor.com/china-and-india-river-wars-in-the-himalayas-4954/>

military turbulence'. In an article titled 'Indian threat-mongering over water resource disputes dangerous fantasy', Li Zhefei of the National Institute of International Strategy, claimed that disputes over water management had become a contentious issue between the two countries.

Figure 2:
The flow of the Yarlung Tsangpo-Brahmaputra River



Source: <https://commons.wikimedia.org/w/index.php?curid=15068725> (Pfly, Own work, CC BY-SA 3.0)

The two countries have established mechanisms to deal with cross-border water management but have not signed a water-sharing treaty because of the continuation of border disputes.

As India and China are yet to sign any river water sharing treaty, the establishment of a legal framework would contribute to the development of trust-based relations. The two countries have gradually put in place mechanisms to deal with cross-border water management but the fact that border disputes continue in the area renders the elaboration of a water sharing agreement impossible at this stage. Hence cross-border water management remains a thorn in the relationship between India and China. On the contrary, if both governments improved their dialogue and relations regarding cross border water management, it could become an important field of cooperation between the two Asian giants.

3.4 International economic governance

According to the International Monetary Fund's World Economic Outlook in January 2016, India's economic growth had already caught up with China in 2014.

Growth projections show that by 2015 India could evolve into a global economic pole along with China, the US, and the EU⁴⁷. Both India and China are active members of the G20 which they prefer to the G8.

India's economic reforms began in 1991. According to the International Monetary Fund's World Economic Outlook in January 2016, India's economic growth had already caught up with China' in 2014. Growth projections for this year and 2017 confirm the trend⁴⁸. India is going to reap the benefits of the demographic dividend, as its population is also gradually catching up

⁴⁷ The Great Shift: Macroeconomic projections for the world economy at the 2050 horizon; Jean Fouré, Agnès Bénassy-Quéré & Lionel Fontagné February 2012 http://www.cepii.fr/PDF_PUB/wp/2012/wp2012-03.pdf

⁴⁸ European Parliamentary Research Service Blog, India's Economy- Figures and Perceptions, 2016, <http://eptthinktank.eu/2016/03/21/indias-economy-figures-and-perceptions/>

with the size of the Chinese population. This makes India a potential sizable market, provided its middle class grows in proportion to the country's economic growth.

China's economy is at a different stage. China **implemented market reforms in 1979**. Since the third plenary session of the Communist Party's 18th Central Committee in 2012, it has been transiting to a more sustainable model called 'the new normal'; designed to bring about measured growth. China's export-led growth, industrial production, manufacturing investment and fixed asset investment have all declined⁴⁹. The economic growth rate has fallen to its lowest level since 1990⁵⁰.

New Delhi is a major player in the BRICS grouping which it has chaired since 15 February 2016.

New Delhi is a major player in the BRICS⁵¹ grouping which it chairs since 15 February 2016. The next BRICS summit will be held in Goa on 15 and 16 October 2016. Themes include institution-building, People-to-People interactions, business, youth and sports.

Since the beginning of the 21st century BRICS countries led by China and India have been vocal in calling for reform of international institutions.

Since the beginning of the 21st century BRICS countries led by China and India have been vocal in calling for **reform of international institutions**. In particular they want to focus on financial institutions to give more weight to emerging economies. They claim that these institutions are outdated and reflect the post World War II economic power balance. Tired of waiting for reforms, China has embarked on the creation of its own institutions, with India's active participation and support even if India at times seems displeased with China's prominence in the grouping.

China has embarked on the creation of its own institutions, with India's active participation and support even if India at times seems displeased with China's prominence in the grouping.

The **New Development Bank** (NDB), formerly known as the BRICS Development Bank, started to operate in July 2015. Located in Shanghai, its first president is an Indian banker, Kundapur Vaman Kamath. So far, the NDB has already approved four green renewable energy projects from India, China, Brazil and South Africa entailing bank financing of USD 811 million. At the BRICS meeting held in April 2016, countries discussed the establishment of a bank institute which could be based in New Delhi, and of a rating agency.

The New Development Bank (NDB), began operations in July 2015.

India and China are founding members and the largest shareholders of the China-initiated **Asian Infrastructure Investment Bank** (AIIB) whose headquarters are in Beijing and have been operational since 16 January 2016. The president is Chinese Jin Liqun. On 17 January 2016, India, which is the second share holder of the AIIB after China, was elected to the 12-member board of directors. The AIIB is expected to loan India USD 500 million in solar power projects⁵². The AIIB, whose founding was announced

India and China are the largest shareholders of the China-initiated Asian Infrastructure Investment Bank (AIIB) whose

⁴⁹ The Telegraph, China's growth slows to lowest level since 1990, 2016, <http://www.telegraph.co.uk/finance/economics/12107169/Chinas-GDP-growth-slowest-in-25-years.html>

⁵⁰ The Telegraph, China's growth slows to lowest level since 1990, 2016, <http://www.telegraph.co.uk/finance/economics/12107169/Chinas-GDP-growth-slowest-in-25-years.html>

⁵¹ The BRICS is comprised of Brazil Russia India and China.

⁵² Reuters, China-led AIIB eyes first loans to India, 2016, <http://in.reuters.com/article/asia-aiib-india-idINKCNOWX0T3>

headquarters are in Beijing, and have been operational since 16 January 2016.

in Autumn 2013, provided a policy challenge for the EU. It was not possible to coordinate a reaction, leaving the EU Member States to decide individually. So far 14 EU Member States⁵³ have joined the AIIB. The US and Japan have considered it a possible rival to the World Bank (WB) and to the Asian Development Bank (ADB) and have not applied for membership⁵⁴.

In 2015, probably in the context of the establishment of the NDB and AIIB, the US Congress approved reforms of the IMF, granting increased power to BRICS countries in the international financial system. The BRICS' recent success does indeed suggest that close China-India cooperation is crucial for the grouping's leverage on global economic governance⁵⁵.

The BRICS behaviour in the **World Trade Organisation** (WTO) is rather different. China, which has benefited from trade liberalisation, has remained rather discreet in comparison to other BRICS members, in particular India and Brazil, that have been more vocal. China has however cooperated with India and contributed to the stalemate in the Doha Development Agenda negotiations. In 2013, the Chinese ambassador to the WTO, Yi Xiaozhun, was appointed deputy director general of the organisation. This was seen by observers as a sign of China's commitment⁵⁶. However, China's specific interest and its competitiveness seem to prevail over coordination. For example the waiver to facilitate exports from Pakistan, after it was hit by severe floods, was delayed due to intervention of India, in particular. This indicates the lack of cohesion and alliance amongst developing countries as soon as their national interests are at stake⁵⁷.

Finally, trade negotiations provide a strategic battlefield in Asia.

Finally, trade negotiations are providing a strategic battlefield in Asia. India was not invited to join the US-led **Trans-Pacific Partnership** (TPP) negotiations, but intends to be part of the **Chinese-led Regional Comprehensive Economic Partnership**⁵⁸ (RCEP). The 16-member RCEP, under negotiation since 2012, consists of the 10 ASEAN members (Brunei, Cambodia, Indonesia, Malaysia, Myanmar, Singapore, Thailand, the Philippines, Laos and Vietnam) and their six free-trade agreement partners: India, China, Japan, Korea, Australia and New Zealand. The agreement is

⁵³ Austria, Denmark, Finland, France, Germany, Italy, Luxembourg, Malta, the Netherlands, Poland, Portugal, Spain, Sweden and the United Kingdom
http://ec.europa.eu/epsc/publications/notes/sn1_en.htm and

⁵⁴ The Brics Post, AIIB board of governors to gather for 1st Annual meeting in Beijing, 2016, <http://thebricspost.com/aiib-board-of-governors-to-gather-for-1st-annual-meet-in-beijing/#.V2pc2E1f2Uk>

⁵⁵ Global Times, India should avoid division within BRICS, 2016, <http://www.globaltimes.cn/content/970265.shtml>

⁵⁶ Cairn, La Chine et les institutions économiques multilatérales, entre révisionnisme et statu quo, 2016, http://www.cairn.info/article.php?ID_ARTICLE=PE_143_0049
⁵⁷ ICTSD, EU Trade concessions to Pakistan, 2010 <http://www.ictsd.org/bridges-news/bridges/news/eu-trade-concessions-to-pakistan-fail-to-obtain-wto-waiver>

⁵⁸ The Economic Times: It is crucial for India to become part of RCEP, 2015, <http://economictimes.indiatimes.com/news/economy/foreign-trade/its-crucial-for-india-to-become-part-of-rcep-commerce-secretary-rita-teaotia/articleshow/48653860.cms>

rather controversial in India, where segments of the industry have expressed fears at the prospect of tariff reductions for goods imported from China⁵⁹. It is currently the largest free-trade agreement (FTA) negotiation in Asia and is also the biggest FTA negotiation in which India has ever participated. With RCEP, India hopes to improve its access to Asian markets and its share in world trade.

Additionally, India and China both belong to the group of countries that could enter into negotiations for a **Free Trade Area of the Asia-Pacific** (FTAAP), in the context of APEC⁶⁰. In 2014, APEC member countries validated a roadmap for the FTAAP.

The outcome of the trade negotiations in Asia is expected to have an impact on the trade flows of India and China, both major trade partners of the EU.

4 Outlook for the EU

China and India have been increasingly interested in contesting international norms and establishing new ones.

The European Union needs to monitor the relationship between these two Asian giants.

China and India — both set to become major global players in the 21st century — have been increasingly interested in contesting international norms and establishing new ones. They have gradually entered a new era of co-operation, in particular in the context of BRICS. As relations between China and India have traditionally been quite frosty, it is taking time and effort for them to warm up. Despite growing cooperation and economic, political and military ties, there remain challenges for India and China to overcome before embarking on a mature relationship.

For the European Union, it is important to monitor the relationship between these two Asian giants because:

- China and India together host 36 %⁶¹ of the world's population;
- they have fast-growing economies and are considered to be the world's growth engines;
- both are Strategic Partners of the EU. India is moreover a democracy. Controversially, despite its poor human rights record, China enjoys dynamic relations with the EU;
- the EU aims to accede to the East Asia Summit (EAS) and wants to become a security actor in Asia.

⁵⁹ Bruegel, India must push forward with RCEP trade deal, 2016,

<http://bruegel.org/2016/06/india-must-push-forward-with-rcep-trade-deal/>

⁶⁰ Asia Pacific Economic Cooperation members include: Australia, Brunei, Canada, Chile, The People's Republic of China, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, The Philippines, Russia, Singapore, Chinese Taipei, Thailand, The United States, and Vietnam. http://www.apec.org/meeting-papers/leaders-declarations/2014/2014_aelm/2014_aelm_annexa.aspx

⁶¹ Cleveland, Population of India and China, 2015,

http://www.cleveland.com/datacentral/index.ssf/2011/07/36_percent_of_worlds_population.html

EU-China relations are much more dynamic than EU-India relations. This could change following the 2016 13th EU-India summit.

Possible initiatives which the European Union and the European Parliament could take:

- the EU's relations with China are dynamic as could be evidenced during the 18th bilateral summit between the EU and China, on 12 and 13 July 2016. Relations with India have remained more timid. The 13th summit between the EU and India held on 30 March 2016 after a four-year break created momentum towards revitalising the EU's relations with India. The country is a fully-fledged parliamentary democracy and shares common values with the EU;
- also the European Parliament's cooperation with the Indian parliament, Lok Sabha, could be reinforced through deepening dialogue between members of both houses and through staff exchanges;
- the EU could monitor China's political influence on India;
- in the context of strategic partnerships, the EU could encourage dialogue between China and India and envisage the establishment of triangular discussions between the EU, China and India;
- the EU could devise a specific policy towards the NDB and the AIIB. The EU and its Member States could discuss the possibility of joining the AIIB and the NDB, which is to admit new members from July 2017 onwards. Previous cases exist where the European Commission⁶² and the European Investment Bank have participated in multilateral facilities such as the EBRD⁶³;
- the G20 Summit scheduled to take place in Hangzhou in September 2016 provides an opportunity for the EU to recall that it considers it a shared interest to jointly tackle the substantial negative impacts of global excess capacity in certain sectors, in particular on the global economy and workers;
- the EU is committed to effective multilateralism with the United Nations at its core. It could seek convergences with China and India on this matter as the two countries are also committed to multilateralism and support a larger role for BRICS at global level.

⁶² Balazs Ujvari, The European Union and the China-led transformation of global economic governance, Egmont papers, 1 June 2016
http://www.egmontinstitute.be/publication_article/eu-and-china-led-transformation-of-econ-governance/

⁶³ European Commission, The Asian Infrastructure Investment Bank, 2015,
http://ec.europa.eu/epsc/publications/notes/sn1_en.htm

5 Annexes

Figure 3: India's top trading partners , 2015

Origin of imports				Destination of exports				Trade partners			
#	Origin	€ million	%	#	Destination	€ million	%	#	Partner	€ million	balance
1	China	56 357	15.4	1	EU 28	40 463	16.9	1	EU 28	80 693	+233
2	EU 28	40 230	11.0	2	USA	36 413	15.2	2	China	65 091	-47 623
3	United Arab Emirates	19 931	5.5	3	United Arab Emirates	27 324	11.4	3	USA	55 168	+17 658
4	Saudi Arabia	19 742	5.4	4	Hong Kong	27 324	4.6	4	United Arab Emirates	47 255	+7 393
5	Switzerland	19 258	5.3	5	China	11 012	3.6	5	Saudi Arabia	26 001	-13 483
All imports:		365 177		All exports:		239 900		Balance of trade:		-125 277	

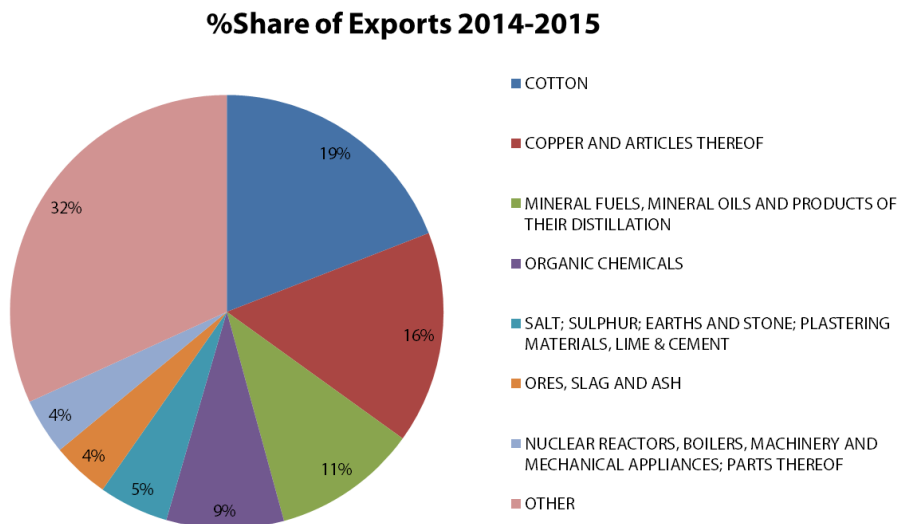
Source: European Commission, DG Trade

Figure 4: China's top trading partners, 2015

Origin of imports				Destination of exports				Trade partners			
#	Origin	€ million	%	#	Destination	€ million	%	#	Partner	€ million	balance
1	EU 28	188 383	13.0	1	USA	370 241	18.0	1	EU 28	509 784	+133 018
2	South Korea	157 088	10.9	2	EU 28	321 401	15.6	2	USA	500 811	+239 671
3	USA	130 570	9.0	3	Hong Kong	299 890	14.6	3	Hong Kong	307 246	+252 534
4	Taiwan	130 228	9.0	4	Japan	122 485	6.0	4	Japan	251 116	-6 146
5	Japan	128 631	8.9	5	South Korea	91 419	4.4	5	South Korea	248 506	-65 669
All imports:		1 443 678		All exports:		2 055 466		Balance of trade:		+611 788	

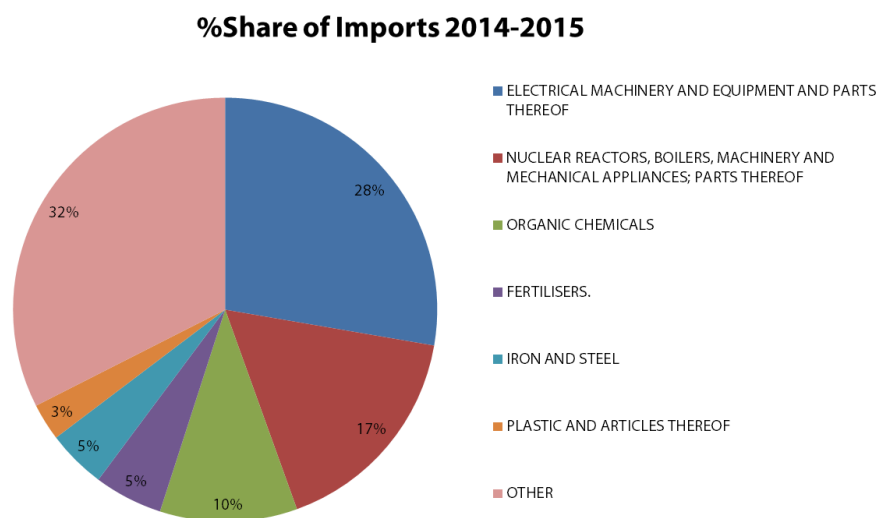
Source: European Commission, DG Trade

Figure 5:
% share of India's exports to
China



Source: Ministry of Commerce and Industry, Government of India

Figure 6:
% share India's imports from
China



Source: Ministry of Commerce and Industry, Government of India