

INDIA'S CHINA RESET: AN ASSESSMENT



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*A framework to assess the benefits and
pitfalls of India engaging in a strategic
reset of relations with China*

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EXECUTIVE SUMMARY

What is the reset about?

Indian Prime Minister Narendra Modi is visiting Wuhan for a two-day informal meeting with Chinese President Xi Jinping on April 27 and 28 2018. The two leaders are expected to discuss “issues of overarching, long-term and strategic importance” along with changes in the global order.

This could potentially imply a fundamental shift in India’s approach towards China after deepening friction over the past three years.

This Slidedoc provides a cost-benefit analysis of a strategic reset, keeping in mind India’s national interests. Based on the analysis, it arrives at an assessment that the potential costs of such an approach by India outweigh the potential benefits.

CHINA RESET: Potential benefits for India



1. Increased economic gain

China's economic rise has led to its emergence as one of India's biggest trading partners. India-China bilateral trade hit a record \$84.4 billion in 2017, with a significant increase in Indian exports. Investments by Chinese companies in India have also grown steadily and are estimated at approximately \$8 billion.

There exist deep complementarities between the two economies. A strategic reset could, therefore, open avenues for greater business-to-business interaction, opening sectors, such as infrastructure, IT, finance and pharmaceuticals, for trade and investment. Further, increasing the availability of relatively inexpensive Chinese-made goods could yield a direct advantage to consumers in India.



2. Political benefits to the NDA government

A reset in the relationship with China could yield important political dividends to the ruling dispensation ahead of the general elections in India in 2019. Just as Modi had in 2014, ahead of the 2019 election, the opposition Indian National Congress has also seized the opportunity to attack the BJP-led government over Chinese border incursions. A strategic reset and consequent calm at the border leading up to the elections could potentially be beneficial to the government to blunt opposition attacks.

CHINA RESET: Potential benefits for India



3. Reduce the potential for conflict

From an Indian perspective, economic development, job creation and poverty reduction are critical to expanding its comprehensive national power and maintaining socio-political stability.

Moreover, the expansion of China's military-industrial complex along with its military reforms have exaggerated the hard power asymmetry between the two sides. Therefore, a reorientation of bilateral ties with China to reduce the risk of conflict and promote cooperation serves India's larger interest.



4. A step towards resolving the border dispute

India reported a steep rise in Chinese incursions along the Line of Actual Control in 2017, a product of the deteriorating bilateral relationship. Regular political interactions at the highest levels could, however, set the tone for limiting such incidents and containing their fallout from spilling over into the political and economic domains.

Such a framework could act as a precursor to a broader conversation on an eventual resolution of the festering Sino-Indian border dispute.

CHINA RESET: Potential benefits for India



5. Maritime power

India's defence modernisation program has been hamstrung by a range of factors. Moreover, regular border skirmishes and incursions at the western and eastern fronts have meant that the focus has been on buttressing the capacity of the Indian army and air force.

That has led to limited availability of resources for the development of India's naval power. An agreement that reduces frictions at the border with China could permit greater focus on maritime security.



6. Expansion of India's strategic autonomy in foreign policy

Over the past 20 years, successive Indian governments have worked towards deepening strategic ties with the United States. In contrast, despite expanding trade, India's relationship with China has remained fraught with strategic mistrust. This has resulted in a gradual drift of India within the US orbit, potentially impinging on India's strategic autonomy.

A realignment of Sino-Indian relations to rebuild trust at this stage would, therefore, expand the room for diplomatic maneuverability for New Delhi with Washington. Moreover, it would prevent India from developing into a frontline state in the Indo-Pacific Quad grouping, which China views as "politicised and exclusionary."

CHINA RESET: Potential benefits for India



7. Increased cooperation in shaping a multipolar world order

China and India share a common interest in promoting multilateralism while building a multipolar world order. Both sides are seeking a greater role in shaping global trade and governance rules, challenging the dominance of the West, particularly the United States.

Therefore, a realignment of the bilateral relationship towards greater cooperation could lead to increased coordination and cohesive action on such commonalities.



8. Limiting Pakistan's utility to China in containing India

Enhanced political and economic engagement between China and India could limit Pakistan's utility for the former in containing India. If Beijing views New Delhi as a strategic partner, it has greater incentive to leverage its relationship with Pakistan to crackdown on cross-border terrorism.

This would not just lead to a marked improvement in India's domestic security environment but also ensure stability for Chinese investments in the region.

CHINA RESET: Potential pitfalls for India



1. India's China reset does not imply a China's India reset

From an Indian perspective, the primary threat from engaging in a strategic reset is the lack of a guarantee of reciprocity from the Chinese side.

It is unlikely that such a policy will address the deepening power asymmetry between the two sides or alter China's approach with regard to disputed border and in the broader Indian Ocean Region, which are both driven by core national interests.

There is also a possibility that Beijing could perceive the Indian reset as an acknowledgement of its superiority and a sign of New Delhi's weakness.



2. No guarantee that China will not seek to influence the 2019 elections

The deteriorating Sino-Indian relationship in 2017 was accompanied by a sharp increase in border incursions by the Chinese side. While the reset policy might result in momentary calm, it might not achieve the stated political objectives. A spike PLA activity along the border in the run up to the 2019 elections cannot be ruled out.. Moreover, even after the reset, China could still seek to exert indirect influence during the elections.

CHINA RESET: Potential pitfalls for India



3. A reset reveals the limited utility of the 'Tibet card'

One of the underlying implications of India's decision to engage in a strategic reset is that it reveals the inherent limitation of the Tibet issue. The presence of the Dalai Lama and the Central Tibetan Administration in India has traditionally been perceived as a source of leverage for India over China.

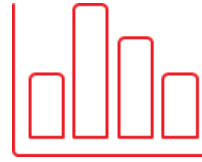
Over the years, however, Beijing, largely owing to its growing economic strength, has been successful in limiting the Dalai Lama's global appeal and influence. This has led to diminishing returns for India. In fact, the Dalai Lama has welcomed the Narendra Modi-Xi Jinping meeting in Wuhan, acquiescing in principle to the Beijing's control over Tibet.



4. China's opening up is driven by national interests

Despite expansion, the Sino-Indian trade relationship is deeply skewed in favor of China. For years, India has been seeking greater access to Chinese markets, without making much headway. So while a strategic reset might provide new opportunities, it is worth noting that the Chinese leadership's opening up policy is rooted in national interests as opposed to a value-based approach. In other words, China will expand market access only if it is deemed to be in national interests and not owing to an inherent ideological commitment to liberal economics. Thus, the entry barriers for Indian companies in key sectors like services, IT and pharmaceuticals are likely to remain high.

CHINA RESET: Potential pitfalls for India



5. Inflow of Chinese capital will be gradual and conditional

In the context of increasing the flow of Chinese capital in India, it is important to note that during his visit to India in 2014, Xi Jinping had promised an investment of \$20 billion into India over five years. However, presently, overall Chinese investment in India is well short of that figure. In addition, going forward, concerns remain over Chinese preference for loans over investments, which could impact India's debt portfolio.

Moreover, the experience of Belt and Road countries indicate Chinese lenders' preference for Chinese contractors and workers, particularly with regard to infrastructure projects. Also, while Chinese capital and expertise could help India expand low-end manufacturing growth, limiting negative externalities such as environmental costs would require stringent regulations. This, in turn, is likely to deter Chinese investors.



6. India could incur reputational costs to its status as a major power

India's strong and vocal opposition to the Belt and Road Initiative in May 2017 had indicated a desire to contest China's rising influence in the sub-continent. A reset that is perceived as diluting that proposition is likely to impose reputational costs. The inability to withstand competition in its neighbourhood will diminish India's status as a major power, shrinking its geopolitical role.

CHINA RESET: Potential pitfalls for India



7. A reset with China could lead to alienating the US

A strategic shift by India towards China will potentially undermine the Indo-US strategic partnership, which has developed over the past two decades. Consequently, Washington is likely to view New Delhi as a dithering and unreliable partner in the Indo-Pacific.

This could result in increased frictions over trade and have adverse implications for India's military modernisation program and the development of high-tech industries.

Emboldened by such a scenario, Beijing could even potentially seek to raise the cost of deepening cooperation by urging India to distance itself from the Indo-Pacific Quadrilateral grouping.



8. Direct security risks to India are likely to persist

Given that China's military modernisation program and efforts to strengthen capacities and capabilities along the border are components of its core interests, these are likely to continue despite an Indian reset. This would imply a continuing direct security threat for India.

Moreover, considering China's long-standing relationship with and deepening interests in Pakistan, a fundamental rethinking of the "all-weather alliance" between the two sides is highly unlikely. This coupled with India's shrinking influence in its neighbourhood could possibly lead to an increase in security threats, such as potential broader security cooperation between Pakistan and the Maldives.

Assessment based on the cost-benefit analysis

The above analysis provides a framework for understanding the benefits and pitfalls of a strategic reset in Sino-Indian ties. Based on this, we derive the following assessment:

- Such a policy shift is likely to accrue certain short-term political gains for the ruling dispensation. However, the certainty and sustainability of these is circumspect.
- Given Xi Jinping's reliance of aggressive nationalism and unyielding stance on territorial disputes, the chances of temporary peace along the Sino-Indian border leading to a final resolution appear low. The political costs of such a deal for both the Chinese and Indian establishments remain high.
- While rebuilding mutual trust would open up space for greater economic cooperation, key structural impediments imply that the scope of such cooperation would remain limited. Given the complementarities of the Indian and Chinese economies, economic cooperation can be pursued without indulging in a broad strategic reset.
- A fundamental reorientation of the China-Pakistan relationship is highly unlikely. With the need to ensure security for BRI projects, China has sufficient incentives to press Pakistan to act against terror outfits. An Indian tilt towards China for that is unnecessary.
- China's desire for a multipolar and multilateral world order are based on its immediate interests. Consequently, it is unlikely to lead a bloc of nations to seek broader reform of international institutions. India must, therefore, partner in specific instances where interests coincide, as opposed to coalescing together.



End.



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