



## **China's Provinces and Foreign Policy: Lessons and Implications for India and its States**

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Even without their rising world profiles as a starting point, it has long been a common enough exercise to compare and contrast India and China at various stages since the end of the Second World War. While the two nations started out under their new leaderships as developing nations united against colonialism and attempted for a time to work together as beacons for Asian rejuvenation, the realities of geopolitics, differing viewpoints about history and civilization and the remnants of imperial legacies soon resulted in a short border conflict in 1962 that however has cast a long shadow on their relations.

During the Cold War, the contrast between the two countries was also political and ideological and for a time, especially in the wake of revelations about Chinese communist excesses of the Great Leap Forward and the Cultural Revolution, it was assumed that India with its regular elections was doing much better than China was. However, despite its problems, communist China also raised considerably the social and human development indicators of its people while India continued to remain mired in poverty, illiteracy and various forms of social backwardness. There was also the brief interregnum of Emergency, which also tarnished India's reputation as a paragon of democratic virtues in the developing world.

However, none of these developments and contrasts was nearly as consequential as those that would come following the beginning of China's economic reforms and opening up in the late 1970s. By the time India started its own economic liberalization programme in 1991, China had started opening up a gap with India on the economic front in addition to the lead in social indicators that it already held. At the turn of the millennium, China could genuinely claim the mantle of a rising world power in both political and economic terms, while India was struggling to shake off the international opprobrium that came in the wake of its 1998 nuclear tests and to get into the same high economic gear as the Chinese had. Both its growing economy and a combination of international circumstances involving worries about China's perceived challenge to the United States as well as its rapid military modernization combined to make India attractive again to the world at large before the 2008 financial crisis and government paralysis combined to put the brakes on India's economic growth again, if not quite its political importance. Nevertheless, the India story also now appears to have a momentum of its own with a young demographic, active state governments and an economy unburdened by the shackles of an earlier command economy and free to make the adjustments to domestic and global circumstances as necessary.

The purpose of this chapter is to examine in more detail the role of Chinese provinces in the country's growth story and to see how this experience can be a learning experience for Indian states. Indeed, some have already begun to both learn from and imitate the Chinese experience as well as to chart their own ways given the differing national and local conditions. It might seem a

strange exercise to be comparing two states – one, communist, authoritarian with an ostensibly centralized government structure and the other, democratic and federal in structure. But the reality shows that China has been far more open to decentralization than is commonly assumed while India has been far more unitary than its federal structure mandated. Further, as two large countries with similar development challenges including those of large territories, huge populations, wide regional differences, environmental stress, and despite India's democracy, issues of corruption and various forms of social conservatism, on the one hand and challenges of administration and management on the other, the two states – including Chinese provinces and Indian states – often have more in common than is usually acknowledged.

### **Chinese Provinces Deal with the World**

Today, China has a total of 31 administrative units directly below the central government in Beijing – 22 provinces, five autonomous regions and four provincial-level cities – all of ostensibly equal rank in the administrative hierarchy but in practice far from so. In addition, Hong Kong and Macao exist as separate Special Administrative Regions. A numerical comparison, at least, with India, is rather obvious – India has a total of 29 states and seven union territories. Chinese provinces do not have powers that inherently belong to them by law as in the American system. Instead, as in the Indian system, whatever powers that the provinces exercise are delegated from the centre. Further, in both Indian states and Chinese provinces have the ability to constantly lobby the centre for resources and particularly in the Chinese case, for greater flexibility in formulating and implementing policy. Chinese provinces today derive leverage from several sources, some of which are also true in the case of Indian states. By virtue of their size, provinces often require their political leaders to have considerable authority to coordinate the development of goods and services in their territories, while in India the rise of several regional parties and their importance to coalition governments at the centre have meant a concomitant rise in the influence of the states.

There are other features of the Chinese political system that give the provinces leverage. Since 1984, for example, each province has largely controlled the appointment of all but the highest officials and the provincial party system is a very important actor in the Chinese structure. All major construction projects and enterprises of the central government require active provincial cooperation in mobilizing and organizing resources and services with the post-Mao reforms in particular depending heavily on a cooperative relationship with the provinces. The fundamental policy approach has been to let every province do the most by itself to develop the local economy and fast enough to maintain political and social stability. This national strategy in turn, has made it necessary that provinces and lower level territorial units enjoy considerable room for initiative and also be able to enjoy the fruits of their success. The provincial authorities too, see themselves as acting rationally, given both the prevailing economic climate and the obligations to raise capital that the central government itself has imposed on them. Local revenue targets demanded by the central government for instance, together with the availability of investment capital from non-central government sources have increased the ability of provincial governments to develop a degree of autonomy.

In addition, the loss of ideology as a tool to maintain government credibility, the quest to get rich and the consequent corruption have significantly affected the Chinese central government's ability to keep the provinces in line. While Beijing's powers and resources to control the provinces are not inconsiderable, provincial leaders have enough maneuverability to either ignore orders or prioritize them lower than the central government would. In the process, the central government has often been caught in a bind, and China, in fact, witnesses a constant cycle of centralization and recentralization of powers between the centre and provinces and this has been as true of the country under the Communist Party of China as it has been under imperial dynasties. An additional feature in modern China is of individual cities too gaining in power and influence as a result of their economic growth and prospects and beginning to contend with their host provincial government.

Doubts about the durability of the central state structure in China are however, overstated. In the economic realm for example, the state plan is still present, even if it only largely provides the framework for economic activity than takes the initiative. Many reform experiments down to the present have had their genesis at the provincial level before being accepted and adopted by central government authorities at the national level. Indeed, when one talks of China's recent rise in the international order based on its rapid economic growth, it must be remembered that this growth is actually contributed by the provinces, even if not all provinces have contributed equally. China, as a whole, still has vast areas of relative deprivation and underdevelopment, but individual provinces and cities can be highly developed with GDPs or per capita incomes and infrastructure equivalent to those in middle-income or even high-income countries.<sup>1</sup>

In so far as foreign linkages of Chinese provinces are concerned, ever since the first European maritime powers began arriving in China in the 17<sup>th</sup> century, the southeastern coastal provinces have been tied closely to foreign trade. Following, the Maoist era, the central government has actively encouraged China's participation in 'international economic and technological cooperation and competition' and opening to the world 'by both "bringing in" and "going out".'<sup>2</sup> Together with the centre's policies of decentralization, these have helped provinces increase their links with the global economy. In fact, the central government not only increased the powers of the provinces to engage in foreign trade, it also set quotas for foreign trade to be met by the provinces. Besides reducing its control over foreign trade in terms of commodities to be traded and in what volumes, Beijing also allowed provinces to retain a percentage of the foreign exchange earned. Provinces such as Guangdong, in fact, went still further, becoming among the first to further decentralize powers to the lower county governments to establish their production bases for export.<sup>3</sup>

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<sup>1</sup> *ChinaSmack*, 'Wealth of Chinese Provinces Rival Developed Countries', 10 January 2014, <http://www.chinasmack.com/?p=55489>

<sup>2</sup> Jiang Zemin, 'Build a Well-off Society in an All-Round Way and Create a New Situation in Building Socialism with Chinese Characteristics,' report delivered at the 16th National Congress of the Communist Party of China (CPC), 8 November, 2002, *Xinhuanet*, [http://news.xinhuanet.com/english/2002-11/18/content\\_633685.htm](http://news.xinhuanet.com/english/2002-11/18/content_633685.htm).

<sup>3</sup> Joseph Y S Cheng, 'Local Government's Role in a Transitional Economy: The Case of Guangdong,' in Xiaowei Zang (ed.), *China in the Reform Era* (Commack, New York: Nova Science Publishers, Inc., 1999), p. 16.

More sophisticated buyers' markets are assumed to exist in the urban centres and provinces with higher living standards.<sup>4</sup> Guangdong has gained by its association with the sophisticated markets in Hong Kong and is in turn perceived as a sophisticated market by other parts of China. This phenomenon has had its impact on other parts of China as well. China's northeast provinces with their relatively closer access to the South Korean and Japanese markets have intensified their ties with these countries to achieve the same status as Guangdong. Cities like Dalian in Liaoning province, for example, created special areas for relations with Taiwan, Japan and other countries within their export zones.<sup>5</sup>

Meanwhile, South Korean investment particularly targeted the nearby northeast Chinese provinces of Shandong and Liaoning. Indeed, it is no exaggeration to say that South Korea has played as big a role in Shandong's economic development as Hong Kong has in the case of Guangdong. By the end of 1992, the year that Sino-South Korean relations were normalized, some 85 per cent of South Korean investments had been targeted at the Bohai Rim and the northeast of China. In particular, the Koreans have focused on Yanbian Autonomous Prefecture, an ethnic Korean majority area in Jilin province on the border with North Korea.<sup>6</sup> It is believed that as early as 1987, Shandong was designated as a 'key province' for dealing with South Korea on an informal, economic basis. Some of the measures taken in this regard included the opening of ferry routes between Weihai in Shandong and Incheon in South Korea and the authorization given to the province to issue visas to South Korean businessmen upon arrival in China.<sup>7</sup> Also worth noting is that over 90 per cent of Chinese residents in South Korea are from Shandong and several of the province's leaders have made visits to that country.<sup>8</sup> Shandong's preferential treatment for South Korean investment has meant that by 1995, the latter ranked next only to Hong Kong as a source of foreign direct investment (FDI) to the province.<sup>9</sup> Some of these aspects have also been evident in Indian provinces such as Gujarat which has been particularly targeted by Japanese and Chinese

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<sup>4</sup> Hans Hendrichske, 'Provinces in Competition: Region, Identity and Cultural Construction,' Hans Hendrichske and Feng Chongyi (eds.) *The Political Economy of China's Provinces: Comparative and Competitive Advantage* (London and New York: Routledge, 1999), p. 10.

<sup>5</sup> Shaun Breslin, 'Decentralisation, Globalisation and the 'Creation' of Trans-National Economic Regions in the People's Republic of China,' *CSGR Working Paper*, No. 38/99, September 1999, <http://www2.warwick.ac.uk/fac/soc/csgr/research/workingpapers/1999/wp3899.pdf>.

<sup>6</sup> Chung-Tong Wu, 'Diaspora Investments and Their Regional Impacts in China,' in Leo van Grunsven, *Regional Change in Industrializing Asia: Regional and Local Responses to Changing Competitiveness* (Singapore: Ashgate, 1997), pp. 94-95.

<sup>7</sup> Jae Ho Chung, 'Shandong's Strategies of Reform in Foreign Economic Relations: Preferential Policies, Enterpereneurial Leadership, and External Linkages,' in Peter T Y Cheung, Jae Ho Chung and Zhimin Lin, *Provincial Strategies of Economic Reform in Post-Mao China: Leadership, Politics and Implementation* (Armonk, New York: M E Sharpe, 1998), p. 272.

<sup>8</sup> Jae Ho Chung, 'Shandong's Strategies of Reform in Foreign Economic Relations: Preferential Policies, Enterpereneurial Leadership, and External Linkages,' in Peter T Y Cheung, Jae Ho Chung and Zhimin Lin, *Provincial Strategies of Economic Reform in Post-Mao China: Leadership, Politics and Implementation* (Armonk, New York: M E Sharpe, 1998), p. 280.

<sup>9</sup> Jae Ho Chung, 'Shandong's Strategies of Reform in Foreign Economic Relations: Preferential Policies, Enterpereneurial Leadership, and External Linkages,' in Peter T Y Cheung, Jae Ho Chung and Zhimin Lin, *Provincial Strategies of Economic Reform in Post-Mao China: Leadership, Politics and Implementation* (Armonk, New York: M E Sharpe, 1998), p. 284.

investments, while Kerala has a Spice Route Initiative showcasing its historical links with as many as 31 countries as part of its tourism promotion programme.<sup>10</sup>

Coming into contact with economies across international frontiers could also better help integration of the national economy – at least in the immediate vicinity of the point of contact with the external economy – depending on the level of sophistication of either economy. For example, a more developed external economy, as in the case of Hong Kong, with its higher levels of consumption no doubt makes far more demands of the Guangdong economy across the border than it can handle alone, leading to supply chains that extend into other parts of the country – a possible cause for the rise of the Pearl River Delta economic region<sup>11</sup>. Some scholars have also pointed out that it is quite possible that Guangdong is more integrated with Hong Kong than it is with neighbouring Fujian province or the rest of China.<sup>12</sup> In the case of India, there are no such stronger economies bordering any of India's states, except perhaps the Bangladeshi economy with respect to the economies of the Northeast Indian states. But by and large, it is probably Indian border economies that probably have a greater role to play in pulling up the economies of their neighbouring countries such as Nepal or Pakistan.

Meanwhile, in the context of fears about centrifugal tendencies when the same ethnic groups are spread across borders, it is useful to recall what a prominent China watcher, Willem van Kemenade, has pointed out with respect to Guangdong's ties with Hong Kong. He has argued that the priority of provincial leaders in Guangdong is not South Chinese regionalism or autonomy but maintenance of their position as economic trendsetters for the whole country.<sup>13</sup> Indeed, it was discovered quite early that despite the key role of investment from Hong Kong, Macau and Taiwan in FDI in Guangdong, its proportion has decreased, as the province attracts more investment from other countries.<sup>14</sup>

There are also security issues that arise from close ties between border states or regions and their neighbouring countries. In the case of China's Yunnan and India's northeast there are issues such as narcotics trafficking and gun-running with Myanmar being a common meeting point for both regions and problems. In the case of China's restive Xinjiang province, sections of its Muslim Uyghur minority have been radicalized by extremism seeping across the borders with Pakistan<sup>15</sup>

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<sup>10</sup> Department of Tourism, Government of Kerala, Kerala Tourism to revive the ancient Spice Route, <https://www.keralatourism.org/news/kerala-tourism-spice-route/1675> and Department of Tourism, Government of Kerala, UNESCO Support for Kerala Tourism's Spice Route Project, <https://www.keralatourism.org/news/unesco-support-spice-route/1692>

<sup>11</sup> This is an industrial production and economic hub centred on the Guangdong capital Guangzhou and including Hong Kong and Macao.

<sup>12</sup> Shaun Breslin, 'Decentralisation, Globalisation and the 'Creation' of Trans-National Economic Regions in the People's Republic of China,' *CSGR Working Paper*, No. 38/99, September 1999, <http://www2.warwick.ac.uk/fac/soc/csgr/research/workingpapers/1999/wp3899.pdf>.

<sup>13</sup> Willem van Kemenade, *China, Hong Kong, Taiwan, Inc.: The Dynamics of a New Empire* (New York: Vintage, 1998), p. 290.

<sup>14</sup> Nirupam Bajpai, 'Foreign Direct Investment in China's Provinces: Lessons for the State of Gujarat,' *CGSD Working Paper*, No. 13, Center on Globalization and Sustainable Development, The Earth Institute at Columbia University, March 2004, [http://globalcenters.columbia.edu/mumbai/files/globalcenters\\_mumbai/bajpai\\_fdi\\_in\\_gujarat\\_2004\\_13.pdf](http://globalcenters.columbia.edu/mumbai/files/globalcenters_mumbai/bajpai_fdi_in_gujarat_2004_13.pdf).

<sup>15</sup> There has historically been a Uyghur minority of traders in Pakistan while in more recent years many went to train and fight in Afghanistan against the Soviets. For more on the linkages between Pakistan and Xinjiang, see Jabin T.

and Afghanistan just as India's Jammu and Kashmir and Punjab have been similarly affected in the past. Yet, the Chinese central government has not shied away from viewing Yunnan and other frontier provinces (including Xinjiang but not Tibet) as 'bridgeheads' building economic and development linkages to the outside world without compromising on border security and stability.<sup>16</sup> Today, under the new Silk Road Economic Belt announced by Xi Jinping in September 2013,<sup>17</sup> Xinjiang is seen as the focal point of a new outreach designed to further both central government politico-strategic and economic objectives in Central Asia as well as in the province itself.<sup>18</sup> That Xinjiang itself – and perhaps, Tibet in the future – appears to have little agency is more the exception than the rule and must not detract from the larger point of how the Chinese central government thinks of objectives and goals through the prism of sub-national units.

Given the relative backwardness of China's border provinces, the central government and provincial authorities have sought to use high technology to ramp up growth and manufacturing capacity in these regions. As a result, foreign visitors to these provinces are inevitably shown around high-tech parks, e-commerce centres, demonstration parks and greenhouses focused on improving agricultural productivity, and environment-friendly technology development centres – in other words, opportunities are developed to catch up with the rapid progress of other parts of China. A unique feature of China's border provinces in terms of economic outreach to their neighbouring countries is the annual organization of trade expos involving China and the neighbouring country/countries but which are also open to other countries further afield. These expos – for instance the China-Eurasia Expo in Urumqi, Xinjiang, the China-South Asia Expo in Kunming, Yunnan or the China-ASEAN Expo in Nanning, Guangxi – have resulted in the creation of new and modern infrastructure in the host cities and are excellent opportunities to strike commercial deals and to develop business partnerships both at the government-to-government level as well as between private individuals. These expos now involve other meetings such as academic seminars and think-tank forums which provide China an additional opportunity sell its ideas and views to the rest of the world. In addition, these events also help raise the profile and development of China's border cities and regions. Both the Indian central and state governments should think of taking a leaf out of the Chinese book in this regard.

There are several other factors that influence foreign investors in their choice of provinces to invest in China including the nature of economic reforms adopted, preferential policies available, labour cost, infrastructure, education, financial development, natural resources, urbanization, marketization, and industrialization.<sup>19</sup> Natural resource-oriented FDI has gone to the central Chinese provinces of Shanxi, Shaanxi and Inner Mongolia where for example, the major coal

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Jacob, 'Chinese Strategic Interests in Pakistan Occupied Kashmir', in P. Stobdan and D. Suba Chandran (eds), *The Last Colony: Muzaffarabad-Gilgit-Baltistan* (Jammu: Center for Strategic and Regional Studies (CSRS), University of Jammu, 2008), pp. 125-56.

<sup>16</sup> Liu Jinxin, 'China's Bridgehead Strategy and Yunnan Province', *East by Southeast*, 16 November 2013, <http://www.eastbysoutheast.com/chinas-bridgehead-strategy-yunnan-province/>

<sup>17</sup> Ministry of Foreign Affairs, the People's Republic of China, 'President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries', 7 September 2013, [http://www.fmprc.gov.cn/mfa\\_eng/topics\\_665678/xjpfwzysiesgjtffhshzzfh\\_665686/t1076334.shtml](http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtffhshzzfh_665686/t1076334.shtml)

<sup>18</sup> People's Daily, 'Experts: Central work conference to boost long-term stability in Xinjiang', 21 May 2010, <http://english.people.com.cn/90001/90776/90785/6994417.html>.

<sup>19</sup> Qiumei Yang, 'The Regional Distribution of Foreign Direct Investment in China: The Impact of Human Capital,' in Mary-Françoise Renard (ed.), *China and its Regions: Economic Growth and Reform in Chinese Provinces* (Cheltenham, UK and Northampton, MA, USA: Edward Elgar, 2002), pp. 198, 213-14.

mines are located and into oil-related projects along the south China coast. Joint ventures and hotels are mostly built in the major cities and tourist destinations while foreign investors seeking Chinese partners in large enterprises generally head to the industrial centres of Shanghai, Beijing, Tianjin, Wuhan and the cities of the northeast and of southern Jiangsu.<sup>20</sup> One might expect the same trends to play out in India, where FDI will target resources-rich states such as Chattisgarh or Jharkhand for their natural endowments or Tamil Nadu, Maharashtra and Gujarat for their strong industrial bases. Indeed, it is already evident that many Indian states are using a combination of these factors together with good governance to advertise themselves as attractive investment destinations.

It might also be noted that just as Guangdong has been a trendsetter in China's economic growth story, so too, has Gujarat been in the case of India, in so far as state government leadership and direction are involved in attracting foreign and domestic investments and innovations in governance structures. Also, as in the case of Guangdong, which has solicited investments from Hong Kong and Macao, historically parts of the province, using cultural, linguistic and family connections so too, has Gujarat used its overseas diaspora to solicit investment especially through forums such as the Vibrant Gujarat summits.<sup>21</sup>

### **India and the Chinese Provincial Experience**

The connection between Chinese provinces and India in the post-colonial and post-reforms period is the strongest in the case of China's southwestern Yunnan province. The Bangladesh-China-India-Myanmar Regional Economic Cooperation Forum (BCIM) idea which is the foundation of the new BCIM Economic Corridor (BCIM-EC) idea proposed by the Chinese in 2013, in fact, originated from Yunnan and was initially called the Kunming Initiative after the province's capital.<sup>22</sup> While it may appear that the central government has taken the lead in the BCIM-EC, it is still Yunnan province that has the most to gain from the construction and activation of the Economic Corridor.

Yunnan's cue to start developing transnational linkages came in the 1980s with the slogan of 'gateway into Southeast Asia'.<sup>23</sup> The Yunnan provincial government had resumed border trade in 1980, beginning with Myanmar and following the State Council's declaration in 1984 that border trade would be regulated and implemented by the respective provincial governments, the Yunnan government followed up by issuing its own provisions on border trade in 1985 to further relax controls on border trade. Trade along its southern border has continued to grow ever since. In a

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<sup>20</sup> Qiumei Yang, 'The Regional Distribution of Foreign Direct Investment in China: The Impact of Human Capital,' in Mary-Françoise Renard (ed.), *China and its Regions: Economic Growth and Reform in Chinese Provinces* (Cheltenham, UK and Northampton, MA, USA: Edward Elgar, 2002), p. 199.

<sup>21</sup> For more on these summits see, <http://www.vibrantgujarat.com/>

<sup>22</sup> For more on the BCIM Forum and its evolution and growth see, Kishan S. Rana and Patricia Uberoi, 'India's North East States, the BCIM Forum and Regional Integration', *ICS Monograph*, February 2013, <http://icsin.org/ICS/ICSMonographspdf/1.pdf>. See also Liu Jinxin, 'China's Bridgehead Strategy and Yunnan Province', *East by Southeast*, 16 November 2013, <http://www.eastbysoutheast.com/chinas-bridgehead-strategy-yunnan-province/>

<sup>23</sup> Grant Evans, 'The Southern Chinese Borders: Still a Frontier,' in Françoise Mengin and Jean-Louis Rocca (eds.), *Politics in China: Moving Frontiers* (New York: Palgrave Macmillan, 2002), p. 221.

case that should offer plenty of lessons to India, in 1996, the central government stipulated quotas and license controls on border trade together with additional taxes and the provision that trade be carried out using US dollars. While the policy was an attempt to move border trade up to the level of normal international trade and to restructure Yunnanese enterprises, it failed to take into consideration the high fragmentation of border trade and the low level of economic development in the countries across the international border. By late 1998, the provincial and central governments had taken measures to improve the situation and trade has been on an upswing since.<sup>24</sup> Consider by contrast how India has gone about its own border trade – border states continue to be limited by restrictions on the number and types of goods they can trade in addition to being stymied by poor physical and financial infrastructure in the border areas. The desultory nature of official trade (as opposed to illegal trade) at Nathu La in Sikkim, Moreh in Manipur or Zokhawthar in Mizoram is a case in point. Even as Chinese border provinces such as Yunnan, which is practically next door to India, have notched up rapid rates of growth in border trade with all of its foreign neighbours, India's border states continue to languish under the yoke of an unimaginative central government-directed border trade regime.

While Yunnan's most active connections remain with its neighbours such as Myanmar and the Indochina countries, it also has for the time being almost exclusive access among Chinese provinces to South Asia through the BCIM Forum. To start only from the British colonial era in India, it is worth noting that in 1858, the Assam Association in a petition to the Secretary of State in London had suggested the opening up of a practicable route to southwest Yunnan 'for the purpose of making the industrious population of the latter available for work in Assam.'<sup>25</sup> It was not until World War II, that such a route was opened albeit for military exigencies and by the Americans rather than the British. The Stilwell Road was however, soon neglected owing to the new political formations that took shape in the region following the end of the War. However, calls for the renovation of the road link were frequently heard from local governments in India's northeast<sup>26</sup> joined also by demands from the Yunnan provincial government.<sup>27</sup> Indeed, several linkages have been built up between Kunming and Kolkata since the latter is the most economically developed of India's regions nearest to Kunming.<sup>28</sup> Yunnan's many universities and think-tanks also devote substantial research to Indian and South Asian issues and Kunming is the host of many China-South Asia forums involving businesses, think-tanks, and so on.

At the same time, there are other Chinese provinces that are competing for Indian attention as well as Chinese central government funding for research on and outreach to India. One such is Sichuan

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<sup>24</sup> Gan Chunkai and Chen Zhilong, 'Yunnan,' in Y M Yeung and Shen Jianfa (eds.), *Developing China's West: A Critical Path to Balanced National Development* (Hong Kong: The Chinese University Press, 2004), pp. 540-43.

<sup>25</sup> B G Verghese, *India's Northeast Resurgent: Ethnicity, Insurgency, Governance, Development*, 2<sup>nd</sup> ed. (New Delhi: Konark Publishers, 1997), p. 24.

<sup>26</sup> B G Verghese, *India's Northeast Resurgent: Ethnicity, Insurgency, Governance, Development*, 2<sup>nd</sup> ed. (New Delhi: Konark Publishers, 1997), pp. 379-80, 390-91.

<sup>27</sup> 'Historic highway to India gets facelift,' *People's Daily*, 11 April 2005, [http://english.peopledaily.com.cn/200504/11/eng20050411\\_180489.html](http://english.peopledaily.com.cn/200504/11/eng20050411_180489.html). See also Ren Jia, 'Strategies for Economic Reforms and Development of Western China,' *International Studies*, Vol. 43, No. 4, 2006, pp. 411-18 and Wu Qiang, Feature: New economic corridor between China, India slowly emerging on old 'Hump', *Xinhua*, 26 April 2014, [http://news.xinhuanet.com/english/china/2014-04/26/c\\_133291454.htm](http://news.xinhuanet.com/english/china/2014-04/26/c_133291454.htm)

<sup>28</sup> See also Wu Qiang, Feature: New economic corridor between China, India slowly emerging on old 'Hump', *English.news.cn* 2014-04-26, [http://news.xinhuanet.com/english/china/2014-04/26/c\\_133291454.htm](http://news.xinhuanet.com/english/china/2014-04/26/c_133291454.htm)

in central China, one of the country's largest provinces in terms of population and also a politically powerful constituent in the Chinese political system. Chengdu, the capital is home to the Institute of South Asian Studies under Sichuan University, one of the oldest research centres in China devoted to South Asia and one which perhaps because of this reason, also hews more closely to traditional more conservative Chinese formulations of India, Indo-Pak relations, and so on.

Moving to the larger picture, Chinese plans to increase investments in India, particularly, in the form of infrastructure financing, as a way of compensating for India's growing trade deficit with China – a major problem in bilateral ties – will be increasingly negotiated at the sub-national level. Given China's offer to finance up to 30 per cent of India's physical infrastructure investment requirements for 2012-2017, estimated at some US\$1 trillion,<sup>29</sup> will no doubt involve the state governments in India and involve not just Chinese central government state-owned enterprises (SOEs) but also provincial SOEs.

New Delhi and the Indian state capitals have in fact, been aware of the importance of the sub-national approach towards China for some time now. New Delhi has invited two Governors of Xinjiang as part of the MEA's Distinguished Visitor's Programme alongside hosting several other provincial delegations from China particularly from Yunnan and Sichuan. Indian state Chief Ministers from Gujarat, Assam, Bihar, Delhi and Karnataka among others have all either visited China and/or hosted Chinese central and provincial government delegations in recent years.<sup>30</sup> Thus it is not surprising that Xi Jinping and Yu Zhengsheng, of China's most powerful decision-making body, the Politburo Standing Committee of the Communist Party of China, have met with Indian political leaders during their terms as provincial Party secretaries,<sup>31</sup> just as Narendra Modi himself has met with several top Chinese leaders during his visits to China as Chief Minister.<sup>32</sup> The growing number of exchanges between Indian and Chinese sub-national actors is dominated by trade and commercial interests and Indian envoys in China today, are, in fact, savvy enough to court Chinese capital at both the central and provincial levels.<sup>33</sup>

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<sup>29</sup> Dilasha Seth and Yogima Seth Sharma, 'China offers to finance 30 per cent of India's infrastructure development plan', *Economic Times*, 20 February 2014, [http://articles.economictimes.indiatimes.com/2014-02-20/news/47527235\\_1\\_india-s-infrastructure-development-plan-infrastructure-sector](http://articles.economictimes.indiatimes.com/2014-02-20/news/47527235_1_india-s-infrastructure-development-plan-infrastructure-sector).

<sup>30</sup> For more on the interactions between India and China involving their respective state and provincial governments see, Jabin T. Jacob, 'Thinking East Asia, Acting Local: Constraints, Challenges, and Contradictions in Indian Public Diplomacy', paper presented at Workshop on *Public Diplomacy, Middle Powers and National Strategies in East Asia*, Seoul, South Korea, 14 June 2013.

<sup>31</sup> Xi Jinping visited New Delhi in his position as governor of Fujian Province in the early 1990s. Saibal Dasgupta, 'China's next president may skip India before his election', 28 February 2012, <http://timesofindia.indiatimes.com/world/china/Chinas-next-president-may-skip-India-before-his-election/articleshow/12074080.cms>. Yu Zhengsheng visited India in October 2008 as Shanghai Party Secretary and Member of the Politburo. This visit was part of the exchange programme institutionalized in 2004 between the MEA and the International Liaison Department of the Communist Party of China. MEA Annual Report, 2009-2010, p. 8

<sup>32</sup> Hu Zhiyong, 'Modi is leading India into the new era', Shanghai Academy of Social Sciences, 19 May 2014, <http://english.sass.org.cn:8001/commentary/1465.jhtml>

<sup>33</sup> For instance, see *Times of India*, 'India condoles loss of life in China terror attack', 3 March 2014, [http://www.business-standard.com/article/pti-stories/india-condoles-loss-of-life-in-china-terror-attack-114030301133\\_1.html](http://www.business-standard.com/article/pti-stories/india-condoles-loss-of-life-in-china-terror-attack-114030301133_1.html)

The implications for India are several. New Delhi will clearly not be able to regulate or manage such substantial inflows from China without greater cooperation with its own state governments. It will have to devolve a greater degree of authority in foreign economic policymaking and political interactions to the states than has hitherto been the case. For now even the sister city arrangements between Indian and Chinese cities are negotiated by the MEA but such arrangements, including between Indian states and Chinese provinces, will need to rise exponentially<sup>34</sup> if they are to have substantial economic impact and it is well beyond the abilities of the MEA as it is currently staffed and structured to facilitate this expansion.<sup>35</sup> That the MEA is cognizant of the challenges might perhaps be evident from the fact that even as the previous UPA government tenure was winding to a close, Foreign Secretary Sujatha Singh convened her Ministry's first-ever meeting of state chief secretaries in March 2014, to lay out the important connections between the domestic and the foreign.<sup>36</sup>

In this context, former Indian diplomat Kishan Rana's call for a revival of the idea of MEA offices in states is worth mentioning. To overcome the handicap of the MEA's personnel shortage, he suggests learning from China and establishing 'External Affairs Offices' as is the case in every Chinese province run in the Indian states by their own officials, trained by the MEA and reporting to it but essentially focused on promoting the economic interests of the individual Indian states abroad.<sup>37</sup>

Given that growth is gradually tapering off in China and that India is still a vast market with unexplored potential, there is also every likelihood different Chinese provincial enterprises and governments will compete for Indian contracts. If Indian central and state governments were take a leaf out of the Chinese playbook in the 1980s and 1990s, then, they can also force prices down and ensure technology transfers in addition to not repeating Chinese mistakes by ensuring strict legal and quality standards.

Meanwhile, Indian national security interests involving Chinese provincial companies might also be substantially reduced if the commercial stakes are high – even SOEs have bottom-lines to worry about and their resistance to acting solely as representatives of their central government will be high if they see their business interests are being affected. It also follows then that the onus will be on New Delhi and the state capitals to see how incentives can be structured in a manner that national security can also be enhanced. Clearly, the old way of simply blocking Chinese

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<sup>34</sup> And there are signs that the Chinese are seeking just such an increase. See Maneesh Chhibber, 'Chinese President to arrive on Sept 17, bullet train, trade agreements on table', *The Indian Express*, 10 September 2014, <http://indianexpress.com/article/india/india-others/chinese-president-to-arrive-on-sept-17-bullet-train-trade-agreements-on-table/>.

<sup>35</sup> For more on this aspect see Kishan S. Rana, 'Inside the Indian Foreign Service,' *Foreign Service Journal*, October 2002, pp. 35-41 and Jabin T. Jacob, 'Rising India's Foreign Policy: A Partial Introduction', in D. Suba Chandran and Jabin T. Jacob (eds), *India's Foreign Policy: Old Problems, New Challenges* (New Delhi: Macmillan, 2011), pp. 1-22.

<sup>36</sup> Cited in Kishan S. Rana, 'For the foreign ministry, a task within the country's borders', *Business Standard*, 24 May 2014, [http://www.business-standard.com/article/opinion/kishan-s-rana-for-the-foreign-ministry-a-task-within-the-country-s-borders-114052401044\\_1.html](http://www.business-standard.com/article/opinion/kishan-s-rana-for-the-foreign-ministry-a-task-within-the-country-s-borders-114052401044_1.html).

<sup>37</sup> Kishan S. Rana, 'For the foreign ministry, a task within the country's borders', *Business Standard*, 24 May 2014, [http://www.business-standard.com/article/opinion/kishan-s-rana-for-the-foreign-ministry-a-task-within-the-country-s-borders-114052401044\\_1.html](http://www.business-standard.com/article/opinion/kishan-s-rana-for-the-foreign-ministry-a-task-within-the-country-s-borders-114052401044_1.html).

investments will not work anymore and both the Indian central government and the state governments need to be more organized and knowledgeable in their approaches towards China.

## **Conclusion**

Despite its federal structure India has always been a fairly unitary state until federalism got a fresh lease of life with the advent of coalition politics. With globalization and the proliferation of economic linkages at multiple levels between nations, Indian states will play an increasingly vocal role in the immediate term on issues such as foreign economic policymaking including trade agreements and investment policies that particularly affect state interests and on issues where overriding national security interests are not at stake. It is equally important to remember that not just problems, but solutions too, can be sub-national in origin and application.<sup>38</sup> National governments will, therefore, need to pay attention to such opportunities in order to have additional options in their foreign policies.

Economic exchanges at the sub-national level as well as sub-regional transnational groupings allow for experimentation in various methods of cooperation between India and China. With increasing central government concerns about access to food, energy and raw materials, the states/provinces perhaps provide the necessary level of flexibility and speed in addressing some of these issues. What has certainly happened in the case of China is the increasing willingness to let provinces innovate with respect to their closest international neighbours. India needs to follow suit. Transnational initiatives such as the Stilwell Road are likely to be espoused more strongly by provincial governments whether Yunnan on the Chinese side or the state governments in Northeast India as they are of much greater direct economic and development benefit to these local governments than to the central government of either country. China's central government-directed Silk Roads also have potential benefits at the provincial level that could extend to the smaller countries in South Asia as well as to Indian states such as Jammu and Kashmir or Punjab or those that border Nepal. This in turn throws up new dynamics of looking at centre-provincial relations as well transnational linkages of the sub-national units in either country.

There are strategic-military and political consideration here that will increasingly need to be reexamined in the light of such developments. The many transnational groupings rising along the borders of India and China could provide the opportunity to reintegrate sub-regions that were historically closely tied, whether politically, economically and/or culturally but were divided in the modern era by Western colonialism and by Westphalian notions of the nation-state. In addition, increasing economic and people-to-people exchanges between the state governments in India and the provinces in China have the potential to achieve a positive transformation of India-China relations.

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<sup>38</sup> See for instance, *Channel NewsAsia*, 'Tokyo governor to make 'city diplomacy' visit to Beijing', 15 April 2014, <http://www.channelnewsasia.com/news/asiapacific/tokyo-governor-to-make/1072354.html>.

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