

II Notes and Comments

*China, the World and India**

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After more than three decades of stupendous growth, China is in the process of making the painful transition to a lower growth path. As it does so, the ruling CPC is increasingly turning to nationalism to provide legitimacy in the eyes of its own people. China now openly seeks to 'display its prowess' and 'assume its responsibilities' in the world. However, it still lacks the capability to impose a political or security order of its own in its immediate neighbourhood. There is, therefore, likely to be a period of instability in the Asia-Pacific region, and the environment in which India pursues its interests will get more complex. China and India today have a relationship with elements of both cooperation and competition. While both countries have a common interest in improving on the existing security and economic order, they compete in the periphery they share. A danger present in present-day India-China relations comes from the mutual gap between perception and reality. Nevertheless, this article argues that this is a moment of opportunity for India-China relations, and that each country could benefit its core interests by working with the other.

Keywords: China's rise, Chinese nationalism, Asia-Pacific, Sino-Indian relations

Let us consider first China, what it is and what it is becoming. Then we can look at how it fits into the world, and finally at the effects on India.

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CHINA

China is still called a dragon today because of the awe and disbelief aroused by China's economic achievements in the last three decades of 10 per cent plus GDP growth. The consequences are known to everyone—the accumulation of hard power in all its forms, China as the world's manufacturing workshop, the trillion dollar foreign exchange surpluses, the ability to determine commodity prices in world markets, the presence of China in most global value and production chains, and so on. In a little over 30 years China has made itself the largest economy in the world in purchasing power parity (PPP) terms, the world's largest trading nation and the engine of world economic growth. The world watches in awe at the speed and scale of this transformation.

The West sees China's rise as a challenge to its hegemony, just as it saw Japan's rise in the first half of the 20th century. For the Chinese, on the other hand, this is merely the restoration of the natural order of things, of China as the world's largest economy and the centre of the world, as it thought of itself for all the centuries before the industrial revolution in the 19th century. What arouses Western disquiet is the fact that while doing so China has shattered two misconceptions that drove US and Western efforts to facilitate China's rise and to integrate it into the Western world order since the Nixon visit in 1972. The two misconceptions were the idea that as China modernised it would increasingly become like the Western powers, and the belief that single party rule by the Communist Party of China (CPC) would inevitably give way to demands for Western-style democracy from a new Chinese middle class produced by economic development. As a result, China was expected to be integrated into the Western economic and political order as Japan was after WWII, to the point where Japanese were treated as 'honorary whites' in apartheid South Africa.

One must admire the skill of Chinese policy in getting the US and the West to support and encourage China's rise. It was relatively easy for China to convince the West and the US in particular of China's utility after 1971 when the Soviet Union existed as their common adversary. With the collapse of the Soviet Union in 1989, the Chinese leadership fully expected that the West would seek to change the nature of the regime in China, the sole remaining large Communist country. Instead, China got the US and the West to facilitate its rise in the decades after 1989!

Today, both Western hopes have been belied by developments in China. China's polity and society remain stubbornly Chinese—as any scholar of Chinese history could have predicted. If anything, the CPC's grip on power in China is stronger than it has ever been. And China has made it clear that while it (like India) is a major beneficiary of the US-led era of open markets and free trade and investment flows in the two decades before 2008, it is also determined to have an independent say in the economic, political and security order around it and in the world at large. Its goal is

the China Dream, defined as the ‘Two 100s’.¹ Its attempt to shape the environment on its periphery, and to use its economic strength to build connectivity and institutions consolidating the Eurasian landmass and tying its neighbours to itself, became more evident after the 2008 global economic crisis. China saw the crisis as a moment of opportunity, with the US and West were preoccupied with reviving their own economies and entangled in Iraq, Afghanistan and, later, in North Africa and Eastern Europe. Ten years ago all except one of China’s neighbours traded more with the US than with China. Today China is the largest trading partner of all its neighbours, including US allies like the Philippines and Japan. Faced with Western sanctions, Russia looks to China to buy the energy and commodity exports on which its economy depends for survival. Even the US, China’s main strategic competitor, is economically tied to China in deep and fundamental ways that were never true of its previous great rival, the Soviet Union.

China has now taken the next steps, in the ‘one belt one road’ (OBOR) proposal and the creation of the Asian Infrastructure Investment Bank, the BRICS New Development Bank, the negotiation of the Regional Comprehensive Economic Partnership (RCEP) (as opposed to the US-sponsored Trans-Pacific Partnership (TPP) with 12 Asia-Pacific nations), promoting the use of the RMB as an international currency, along with other initiatives to build an economic order in the Asia-Pacific. These will have global impact. Increasingly the Asia-Pacific is the centre of gravity of the global economy and politics, the major source of global economic growth and activity, and the locus of political contention between the old Western order and the new one that is unfolding.

Internally, China’s rapid economic growth gave the CPC legitimacy—originally provided by its Maoist revolutionary ideology, since abandoned—and the means to maintain its social and political control. The only real challenge it has faced since reform began was in 1989 when the leadership was itself divided and reform had not yet delivered prosperity. That crisis culminated in the Tiananmen killings. But the subsequent success of Deng’s strategy of accelerated reform has made a repetition of such events unlikely, even when, like in 1989, there are clear divisions within the leadership as the Bo Xilai and Zhou Yongkang affairs have shown.

The CPC today is a victim of its own success. With a US\$11.21 trillion economy,² and per capita income over US\$ 8,000 (nominal)/US\$13,992 (PPP), China cannot sustain the high 10 per cent plus growth rates for ever. It also needs to readjust its economy from a reliance on exports and government-led investment, to internal demand and consumption-led growth. (Last year exports were a negative contributor

¹ China becoming a ‘moderately well off society’ by 2021, the 100th anniversary of the founding of the CPCPC and, China becoming a fully developed nation by 2049, the 100th anniversary of the founding of the People’s Republic of China.

² Nominal GDP, April 2015; 18.976 PPP April 2015; IMF says China is the second largest economy by nominal GDP and largest by PPP though China’s National Bureau of Statistics rejects this claim—India: US\$2.582 (nominal) or 8.427 (PPP) in April 2015; all figures from IMF.

to GDP.) Estimates of whether it would be able to make this adjustment without a major internal economic crisis or collapse vary widely. My own sense is that a command economy like China, where government has fiscal and others tools not available in market economies, should find it possible to transition relatively smoothly to a lower growth path of about 3–5 per cent GDP growth each year, even though this will not be easy and will cause social pain. But even 5 per cent growth in China's economy now means that it is adding India's GDP every couple of years or so.

The social consequences of the nature and speed of China's growth have also diminished the CPC's ability to control and manage the lives and thoughts of the ordinary Chinese citizen, as have the effects of the ICT revolution. The CPC has had to enter into uneasy cooption of religions like Buddhism, and now looks for new sources of ideological legitimacy while trying to use modern technology to buttress its exclusive hold on power.

THE WORLD

WHAT DOES CHINA'S RISE IN THIS FORM MEAN FOR THE WORLD?

As China faces the middle income trap and as economic growth slows, the CPC turns increasingly to nationalism to provide legitimacy in the eyes of its own people. Hence, some of the recent shrillness in Chinese responses to external events. In 1990, Deng Xiaoping had urged a 24-character strategy on China: 'observe calmly; secure our position; cope with affairs calmly; hide our capacities and bide our time; be good at maintaining a low profile; and never claim leadership'.³ In 2009, President Hu Jintao amended the last eight characters to 'firmly uphold (坚持 *jianchi*) keeping a low profile (韬光养晦 *tao guang yang hui*) and actively ((积极 *ji ji*) achieve something (有所作为 *you suo zuo wei*)'. Since 2012, China has dropped these modest and humble references and speaks of playing its role and assuming its responsibilities in the world. It also now officially describes itself in public as a great power, implicitly the equal of the US in seeking 'a new type of great power relationship' (新型大国关系 *xin xing da guo guan xi*) with the US. It is clear that Deng's humility (whether mock Confucian or not) is no longer the declared guiding principle for China's external behaviour. Instead, China now seeks to 'display its prowess' and 'assume its responsibilities'. We now have Chinese scholars like Yan Xuetong speaking of the need for China to start building a series of military alliances in its neighbourhood to countervail the US alliance system and its credibility.

Externally, China's economic growth has given it the means to support double digit increases in defence spending for over 25 years, building a military force which

³ 冷静观察，站稳脚跟，沉着应付，韬光养晦，善于守拙，绝不当头 (*lengjing guancha, zhan wen jiaogen, chenzhuo yingfu, tao guang yang hui, shanyu shou zhuo, jue bu dangtou*).

can give pause to the sole superpower in China's immediate vicinity, and can certainly ensure dominance against all but three of its largest neighbours—Russia, India and Japan. Since 2008, it has reignited its maritime disputes in the seas near China—the East China Sea with Japan and the South China Sea with Vietnam and other ASEAN members—and has begun a much more muscular defence of an expanded definition of its core interests.

What does this presage for China's future behaviour as a power? The world has been so fascinated by the rise of China that reactions, even from scholars, have been extreme, predicting China's imminent collapse or, at the other extreme, predicting a time 'When China Rules the World', as one recent book was called. Logic, China's history and geography, and its present condition tell us that the truth is somewhere in between and much more complex.

There is today an industry explaining China's behaviour by referring to China's history, to the so-called tributary system, to ancient Chinese barbarian-handling manuals, and so on. It is true that, like India, China has a well-developed tradition of statecraft, stretching back at least two and a half thousand years. But, unlike India, China's is essentially a history of statecraft within a closed system of ideologically and ethnically homogenous states or entities. Those who were not of the same ethnicity, or not Han, were regarded as cultural or civilisational inferiors, and were sought to be assimilated or sinicised through a process of acculturation, starting with the Chinese language and philosophy which acknowledged no equal. The Chinese saw no alternative or other manner of statecraft until the contact with India and Buddhism in the Tang. The shock of contact with the modern world, and of the military and economic superiority of the West in the 19th century, was thus much more for China than for Japan or India, for a proud people who had no real experience of coping with diversity or a world of equals (except under 'barbarian' dynasties like the Mongols and Manchus).

History has left China with a fear of barbarian encirclement, and a strong drive to acquire status/'face' and power after what they regard as 'a century of humiliation' and colonial degradation. The goals that China pursues in the international system today, of status/'face', of the China Dream, of military power and dominance, are a direct result of this narrative of Chinese history, which the CPC has appropriated to argue that only the Communist Party can realise and restore China's pride.

The effects of history and the trauma of the long 19th century are heightened by the effects of geography and China's present condition.

Unlike the US, which is protected by two of the world's largest oceans, China is in a crowded neighbourhood, has land boundaries with 13 countries, has only two allies—Pakistan and North Korea—and some of its neighbours with whom it has difficult relations have also been accumulating hard and soft power and working with each other, such as Japan, India and Vietnam. The rising nationalism in China has led to a steady worsening of its relations with most of its neighbours.

Despite the considerable strides that China has made in acquiring power, it still lacks the capability to manage, devise or impose a political or security order in its

immediate neighbourhood, the Asia–Pacific. This is a function not just of the balance of power and the presence of the US, but also of its inability to offer a normative framework, and of the nature of China’s relations with significant countries like India, Japan, Vietnam, Indonesia, Russia and others. If China cannot (and the US will not continue to) provide security in the commons through alliances and bases, we should expect continued instability in the Asia–Pacific. Optimists along with those who want to change the *status quo*, like China, call it multipolarity and welcome it, as instability offers space to pursue one’s interests and opens up the possibility of improving one’s position.

Can the world economy recover and prosper amidst such political and security instability, and the fragmentation that TPP and RCEP and other regional free trade agreements represent? My own sense is that it cannot. Furthermore, the natural reaction to prolonged insecurity and strategic competition between the powers in the region would be to form countervailing coalitions and alliances, formal or informal.

Just as its professed dedication to freedom or democracy has never been an accurate predictor of US behaviour, China’s professions of win–win diplomacy, Confucian benevolence and focus on economic development are unlikely to indicate the course of future Chinese behaviour. Instead, as I have said, the driver of Chinese foreign policy is likely to remain the quest for status and power—political, military and economic. The only consideration that might override this, in some hard to conceive and unlikely circumstances, is regime continuity in China. If rule by the CPC elite is threatened by the consequences of the drive for status and power, that push will be limited or modified. But for the present, one should expect more of the ‘assertive’ China. Its own ambitious goal of realising the China Dream points in this direction.

INDIA

WHAT DOES THIS MEAN FOR INDIA?

What this analysis suggests is that, in the absence of drastic modifications in Chinese or US behaviour, which I consider unlikely, the rise of China promises an extended period of political and security instability in Asia and the Pacific. There will be no quick recovery for the world economy and certainly no return to the pre-2008 good times of globalisation and open markets. Security competition between the US and China will remain the principal contradiction, as Mao would have said. The assertive China that we have seen since 2008 is here to stay for the foreseeable future. Security dilemmas between China and Japan, China and India, China and Vietnam and others will intensify.

In other words, the environment in which we in India pursue our interests will get more complex. And the very complexity of the situation in the Asia–Pacific gives India a choice of partners and collaborators to work within the pursuit of our interests.

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An assertive China is unlikely to seek an early settlement of the boundary issue no matter how reasonable we may be, even though the technical work has all been done. Fifty years of stability on the border suggests that give and take on the basis of the *status quo* is the logical way forward. However, China's other interests, its relationship with Pakistan, its suspicions about Tibet, and its desire to maintain levers in the relationship with India suggest that a boundary settlement is not a Chinese priority at present. (Nor, for that matter, does it seem to be a priority of the present government in New Delhi as the leaders' Special Representatives for the boundary issue have not met or discussed these issues in detail yet.)

China's other priorities have made Pakistan even more crucial to China's purposes—(religious extremism and terrorism in Xinjiang, overland access to the Indian Ocean, keeping India in check, a window on western arms technology, the Chinese commitment and presence in Pakistan Occupied Kashmir, etc.). Pakistan's game is to suck India into confrontation, thus establishing Pakistan's utility to those who feel the need to balance India's rise and acquisition of power and agency—including China, the US and others. Today Russia sells arms to Pakistan, the US is supplying arms to Pakistan and is discussing its nuclear weapons programme and Afghanistan's future with it, and China has committed US\$ 46 billion to an economic corridor and to building up the port of Gwadar in Pakistan. Each of these represents an increased commitment to Pakistan, which is of an order of magnitude bigger than ever before. In the last year we have chosen to equate ourselves with Pakistan and are asking the West to refrain from supporting Pakistan, but those powers follow their interests, not sentiment or logic. So long as Pakistani terrorism is not a threat to them (as when General Musharraf handed over Al Qaeda elements and they went after Osama bin Laden themselves), they will not expend blood or treasure eliminating Pakistan-origin terrorism on India's behalf.

Add to this China's dependence on the Indian Ocean, and its suspicions about India–US defence cooperation and strategic coordination.

Taken together these factors make it likely that China will keep the boundary issue alive as a lever in the relationship with India. Nor is it likely that a CPC leadership that increasingly relies on nationalism for its legitimacy will find it easy to make the compromises necessary for a boundary settlement. (This is also true of India.) That is one reason why public Chinese rhetoric on the boundary with India has become stronger in the last few years, even though their posture on the border has not changed.

But there is more to India and China than the boundary. In fact, the overall salience of the boundary in the relationship has diminished considerably over time, now that the Border Peace and Tranquility Agreement of 1993 and subsequent CBMs have stabilised the *status quo*, which neither side has tried to change fundamentally in the last 30 years, while at the same time improving their own infrastructure, capabilities and position.

Bilaterally, China is now India's largest trading partner in goods, while we compete for global markets. Today, over 11,000 Indian students study in China, and we have

mechanisms to deal with issues like trans-border rivers, the trade deficit and so on. And on several global issues in multilateral forums India and China have worked together, each in pursuit of our own interests—with respect to the WTO, climate change negotiations and other matters. So the prospect is that even if we do not settle the boundary, there is much to be done and addressed bilaterally and by working together on the world stage.

Fundamentally, we have a relationship with elements of cooperation and competition at the same time. That duality is also true in terms of core national interests. Both countries have an interest in improving on the existing security and economic order. This is why India has been among the founders of the AIIB and NDB. But we compete in the periphery that we share, hence the hesitation on the OBOR and our sensitivity about Chinese military presence in the Indian Ocean littoral. And neither side thinks that the other has accepted its territorial integrity.

Maritime security is a good example of that duality. Both countries have a common interest in keeping sea lanes of communication open, but each will oppose any attempt by the other to control the seas and straits through which these sea lanes pass.

In this situation the rest of the world can only be a limited enabler in India–China relations. Other countries will use India–China competition for their own purposes to a lesser or greater degree, as we see most clearly with our smaller neighbours like Nepal. Ultimately, India–China is a critical relationship which will determine our future. We will have to deal with it ourselves. Foreign policy is not events, drama, visits or projection. It is hard work guided by a vision of India's interests, and no relationship is better proof of this than our relationship with China. Since the 1950s we have gone the gamut from failure to treading water to successfully managing differences in India–China relations. Today we seem to be entering a new phase in the relationship, and I hope we will be successful in smoothly attaining a new equilibrium.

As far as I can see the pattern of competition side by side with cooperation will continue to mark the relationship in the short term. One thing that could affect this prognosis is the fact that India and China (and Japan too) have seen the rise to power since 2012 of conservative, authoritarian, centralisers, conservative by the standards of their own parties and societies, with little experience of central government and foreign policy, and strong ideological predispositions to nationalist and even chauvinist rhetoric. While the leaders have been careful in their public utterances, the terms in which foreign and security policy are discussed in China, India (and Japan), have become much more shrill. Anti-foreign views, jingoistic slogans, intolerant ideas, and downright bad manners are common, and not just on the Internet. These would not matter in normal times but these are times when governments are under stress, and could seek external release from internal difficulties.

The other risk in India–China relations comes from the mutual gap between perception and reality. Quite frankly, the China that I see described in Indian commentary on China bears little relationship to the China that I have worked with, lived in and which I see on my visits. The same is true of Chinese perceptions of India, though to

a lesser degree. The problem has become more acute recently. Narratives of inevitable conflict and clashing interests can be self-fulfilling prophecies. Before 1962, both India and China operated on the basis of an idealised construct of the other which was quite distinct from reality. Besides, throughout the 1950s, the gap between scholarship and policy in both India and China grew wider and wider. The result was conflict.

It is not my point that we are in a similar situation today. Far from it. In fact, I am convinced that we are at a moment of opportunity for India–China relations as a result of the rapid development of both countries in the last 30 years, of what we have achieved bilaterally in this period, and of the evolution of the international situation. I would go to the extent of saying that each country could benefit its core interests by working with the other.

But to realise that potential it is essential that both countries understand each other and the reality and perceptions that guide their actions. Frankly, if we make policy thinking of China as a dragon, a mythical beast, that policy is guaranteed to fail.