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Xi Jinping in India: A Breakthrough in Relations?

The Chinese president is in India hoping to manage a complex economic and security relationship.

By Saurav Jha

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Chinese President Xi Jinping is visiting an India that for the first time in 25 years has given a clear mandate to a single party. He is meeting with a prime minister, Narendra Modi, who is known both for his hardline nationalist stance on foreign policy issues and a geo-economic sagacity. Moreover Modi's government is also being actively courted by Shinzo Abe's Japan at a time when the new normal for Sino-Japanese ties involves dangerous maneuvers in disputed East Asian waters.

As such, the Chinese side is clearly keen to position itself as an alternative capital and economic partner for an India looking to boost industrial growth and employment. Modi's recent visit to Japan has created in China concern that an investment relationship between India and Japan might lead to a full-blown "democratic" alliance in the waters of the Indo-Pacific. India, though keen to develop its commercial partnerships in East Asia, will remain committed to freedom of navigation on the high seas and will adopt an increasingly reciprocal stance vis-à-vis China on economic and security issues. Indeed, while the visit will see much stress on economic complementarity and bonhomie with respect to institutions that promote a multi-polar world, the jostling for incremental advantage in the Asian panorama between India and China will continue.

India and China are expected to sign up to 20 agreements during this visit, many focused on cooperation in infrastructure, energy and water. The economic context was made somewhat explicit when Xi announced on the eve of the visit that China intended to invest \$100 billion in India over the next five years. This was clearly aimed at upstaging Japanese investment plans of some \$37 billion in India in the coming years. The Chinese are also stressing their ability to complete mega projects more cheaply and speedily than anybody else.

Indeed, China today seems more eager than before to address longstanding Indian concerns about the two-way economic relationship, with the first day of the visit also seeing a memorandum of understanding (MoU) being signed in the presence of Xi and Modi for the setting up of an industrial park in the latter's home state of Gujarat. This is to be followed by an MoU for a similar industrial park the neighboring state of Maharashtra focused on building power equipment and auto components for export to East Asia. Between April 2000 and June 2014, China invested just \$410 million dollars in India. Now, though, it is dangling the carrot of massive investments in manufacturing to support Modi's push to raise the share of industry in India's GDP from the current 14 to 25 percent by the early 2020s.

In fact, by agreeing to locate one of these large industrial parks in Gujarat, the Chinese side is obviously trying to signal that it is in conformity with Modi's stated economic goal of tying India to East Asian supply networks and that it recognizes his standing in India's political milieu. China is in a way conceding that Modi has the mandate to push Indian geostrategic policy much more decisively than any other Indian leader in the recent past. However, the Indians know that China is also looking to export capital and offshore certain manufacturing activities owing to environmental and cost considerations. Though keen to receive such capital given India's bulging youth population, Modi's government is not likely to be wholly satisfied with such investments unless broader issues related to the trade imbalance are rectified.

Just before leaving for India, Xi also wrote in an editorial that a combination of China as the world's factory and India as the world's back office will drive global economic growth. India is likely to take up this point and make another push for China to open up its IT and pharma markets, which continue to block Indian investments via a string of non-tariff barriers. Unless, there is substantial movement on this front, India may reciprocate with non-tariff barriers of its own and the optics of Chinese investment in India may well be blurred.

As it is, security considerations that have prevented greater Chinese investment in India's telecom and railways persist. In the case of the latter, though, India believes China does possess expertise that can be very useful for modernizing India's railway infrastructure, given that until the late 1990s both countries had fairly similar technology in this domain. But until China opens its economy to Indian services sector companies, forward movement on a range of economic issues will remain calibrated.

Even issues such as China's invitation to India to participate in the Asian Infrastructure Investment Bank (AIIB), being set up with a registered capital of \$100 billion, will be subject to movement on the trade relationship, which stood at \$65.85 billion in 2013-14 and which gave China a trade surplus of \$35 billion. AIIB is still not seen in the same light as BRICS by the

Indian side, which does not yet feel that it is a genuine framework to re-order the global financial system.

So although Xi started his three-day visit from Gujarat's state capital Ahmedabad, with Modi breaking protocol to receive him at the airport and giving the first ever public welcome to a visiting Chinese leader since 1962, there is still some ground to cover before India views Chinese investment in the same light as it does that from Japan, a country with which India has no territorial disputes. Though stressing that China was not India's "arch-enemy," Modi did make it a point to call it a "worthy competitor" on the sidelines of Xi's reception. Previously, during his visit to Japan, Modi also spoke of how some countries need to set their "expansionist" mindset in today's world.

A chief reason for that is of course perceived Chinese pressure on India's security environment via the former's military alliance with Pakistan, as well as the ongoing frontier dispute along the line of actual control (LAC) separating the Indian and Chinese armies. During his visit to Beijing in the run-up to Xi's visit to India, National Security Adviser Ajit Doval is known to have expressed his concerns about Chinese activities in Pakistan-administered Kashmir. Even as Xi is received by Modi, India troops seemed locked in another minor face-off with their Chinese counterparts that has echoes of the 2013 Depsang incident. And this developing event is now apparently figuring in official talks between Modi and Xi.

It is clear that push and pull at the unit level will continue along the LAC until such time there is an overall resolution of the border dispute. Chinese spokespersons are talking of an "equitable and reasonable" solution to the dispute, and India is moving to appoint a special envoy for this purpose. There is a sense that both Modi and Xi are strong enough domestically to make progress on this issue.

Still, the fact that the timing of these incidents often coincides with high level visits from Beijing to New Delhi suggests that they are part of China's broader signalling towards India. Through its infrastructure buildup in Tibet and aggressive patrolling, China wishes to show India that it rather than Japan is New Delhi's immediate neighbor. China's land-based military posture vis-à-vis India also forces the latter to invest in matching this posture, which means there are fewer resources left for India's naval buildup that would add to the concert of democracies underway in the Indo-Pacific.

As high economic growth returns to India, Modi is expected to complete India's long delayed counter-buildup along the LAC. Meanwhile, faster capital acquisitions for the Indian Navy, including nuclear attack boats, are being prioritized. These latter have assumed special importance ever since sonar contacts were made with Chinese Shang-class nuclear attack submarines in the Indian Ocean. India is now also not re-affirming any "One China" policy in joint statements or official documents and will not ease visa restrictions until the Chinese stop issuing stapled visas to Indian citizens from the state of Arunachal Pradesh. China knows that its "land-sea" strategy to keep India from moving closer to Japan has run its course and it is therefore also pushing the Maritime Silk Road initiative, which aims to create an interlocking commercial web in the Indian Ocean Region that can keep India occupied in its own maritime neighborhood. This is reflected in Xi's visit to Colombo. His non-visit to Pakistan, however,

shows that the Chinese are now wary of Pakistani cooperation in subduing Islamist activities in Xingjiang and cannot continue to rely on it to keep India engaged in the Himalayan regions without ramifications for its own security.

India is cognizant of this new Chinese strategy and is rolling out India-Pacific wide littoral initiatives of its own, such as “Project Mausam,” besides engaging with the South China Sea littoral directly. Just before Xi left for India, Indian President Pranab Mukherjee was in Vietnam firming up a defense agreement that may see the sales of offensive maritime strike systems like the Brahmos to Vietnam. So while India and China talk of Asian solidarity and the latter even supports India’s entry into the Shanghai Cooperation Organization with a view to sharing intelligence on Islamic extremism in Eurasian borderlands, both sides remain wary of each other in the waters of the emergent Indo-Pacific.