

# China, India and the Future of South Asia

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By Tarique Niazi

China's growing presence in South Asia is riding on its accelerated economic and strategic influence in the region. This article gauges the interplay between economic, particularly resource factors, and strategic factors in China's advance in the region and its relations with South Asian nations. One measure of China's economic outreach is its current trade volume with all South Asian nations, which now approaches \$20 billion a year. [1] Its bilateral trade with India alone accounts for \$13.6 billion a year, a number that Prime Minister Wen Jiabao has projected to grow to \$30 billion by 2010. [2] Yet it constitutes just 1% of China's global trade as compared to 9% of India's. [3] These statistics pale in comparison with the trade between China and East Asian nations. China's trade with Japan, which was valued at \$213 billion in 2004, [4] is more than 15 times that between Beijing and Delhi. In 2004 China passed the United States as Japan's largest trading partner. What is remarkable about Sino-Indian trade, however, is its dramatic acceleration from \$338 million in 1992 to \$13.6 billion in 2004. [5] The projected \$30 billion trade between China and India by 2010 will likely surpass Indo-U.S. trade that is currently valued at \$20 billion a year.

Sino-Indian trade links are gathering strength from India's computer software industry. Prime

Minister Wen attested to this strength when he began his visit to India on April 9-12 with a stop in Bangalore, the Indian Silicon Valley. China, which excels in production of computer hardware but lags in computer software, is sending students to India for education and training in software engineering. Similarly, it has opened its doors to Indian software companies. Yet the software industry only accounts for a fraction of the two-way trade between Beijing and Delhi. Even Indian software giants such as Tata Consultancy Services that have opened branches in China are largely dependent on multinationals. [6] "Only a small proportion of its work there is for Chinese customers." [7] As a matter of fact, India's exports to China are predominantly raw and processed materials, especially steel. Many skeptics among Indians believe that India's inflated exports will drop when China's construction boom ends. On the other hand, some fear that cheaply-produced Chinese imports will eventually hurt India's domestic industrial base. [8]



China's Premier Wen Jiabao and Indian Prime Minister Manmohan Singh meet.

Except for Delhi, Beijing runs trade surpluses with all other partners in the region, including Bangladesh, Nepal, Pakistan, and Sri Lanka. But China makes up for its trading edge with massive investment in these countries' infrastructural development, socio-economic needs, and above all energy production projects. Of all these areas, investment in energy production has touched off the stiffest competition both inside and outside the region. A case in point is the recent U.S. offer of nuclear power plants to India. China quickly followed up with a competitive offer of its own nuclear power plants to Pakistan and Bangladesh to meet the latter's energy needs. Beijing also showers these nations with low-cost financial capital to help their struggling development sector. The largest beneficiaries of Chinese economic aid are Pakistan, Bangladesh, Sri Lanka, and Nepal - in that order - emblematic of China's growing scale and diversification of economic presence throughout the region.

## China's Growing Strategic Influence

China has simultaneously deepened its strategic influence in the region, notably with India's immediate neighbors - Bangladesh, Nepal, Pakistan, and Sri Lanka. Beijing has long had a close strategic partnership with Islamabad, but its overtures to the remaining countries were hobbled by the 1962 Sino-Indian war and its pariah status as the "communist other," which it endured until the early 1970s. China's entrée in South Asia gained momentum following its conversion to the market economy in the 1980s, as its coffers swelled with trade and investment dollars. This economic strength opened the path to South Asia, beyond its longtime ally, Pakistan. China skillfully deployed economic incentives to draw Bangladesh, Nepal, Pakistan, and Sri Lanka into its strategic orbit.

For China, Bangladesh is a doorway to India's turbulent northeastern region, including the Indian state of Arunachal Pradesh, to which China lays territorial claims. Although China has backed off its claim to Sikkim, a tiny kingdom that was incorporated into the Indian Union in 1975, its claim to Arunachal Pradesh remains unchanged even after the new-found bonhomie between Beijing and Delhi.



One issue of tension in South Asia concerns a conflict between India and Bangladesh over

another northeastern state, Assam, where Indian leaders claim some 20 million Bangladeshis have moved. Bangladesh denies such claims. It is certain, however, that Assam has a significant Muslim minority that currently accounts for 30% of its population. Nevertheless, Indian officials, especially L.K. Advani, leader of the Bhartiya Janta Party (BJP), which promotes Hindutva, a version of hyper Hindu nationalism, fear that Assam will become India's second Muslim-majority state, after the state of Jammu and Kashmir. [9] Above all, China prizes Bangladesh for its immense natural gas reserves of 60 trillion cubic feet (TCF), which rival those of Indonesia. Bangladesh's geographic proximity to Myanmar makes these reserves accessible to China through pipelines. Also, Dhaka has granted China exploration rights for developing natural gasfields of its own [10], but large-scale development of gasfields will wait until the question of pipeline is settled. In the meanwhile, Bangladesh has opened to Chinese exploration "one of the world's largest reserves of best quality bituminous coal," which is ash-free and with little sulfur content. [11] Khalida Zia, Bangladesh's Prime Minister, during her visit to China on August 17-21, further agreed to Beijing's investment in developing her country's natural gasfields, targeting that source of cheap energy for manufacture of industrial and consumer goods for re-export to China. China will also assist Bangladesh in nuclear power production. [12] By contrast, India's access to Myanmar's gas reserves hinges on Dhaka's willingness to allow Delhi a passage for laying a gas pipeline.



### Oil Exploration

Sino-Bangladesh economic relations are not, however, without friction. The major irritant is the textile industry that accounts for 77% of Bangladesh's annual exports, which are valued at close to \$4.6 billion. [13] Around 1.8 million Bangladeshis are employed in this industry. With the dissolution of the Multifiber Agreement on January 1, 2005, which ended textile export quota for countries such as Bangladesh, and China's entry into the World Trade Organization (WTO), Dhaka's garment industry will now have to compete with the world's textile giant - China. Beijing is, however, calming such competitive tensions by outsourcing textile jobs to Dhaka that have comparative advantage of low-cost labor, which is half of China's. In addition, Prime Minister Wen, during his visit to Dhaka last April, pledged to consider zero tariffs on Bangladeshi exports to help bridge Dhaka's yawning trade gap. More importantly, it is the strategic relationship between the two that overrides their non-strategic concerns. [14] Bangladesh's Prime Minister Khalida Zia, during her visit to Beijing on December 23-27, 2002, signed the "Defense Cooperation Agreement," which was further reinforced by Prime Minister Wen's most recent visit to Dhaka.

Nepal's strategic location between China and India makes it important. Nepal's borders meet China's restive western province of Tibet on the one hand, and Indian states in which Naxalites [15] are active on the other. Nepal's Maoist insurgents, who control a vast swath of the countryside, have cross-border links with India's Naxalites, whose activities in many rural areas are the bane of the Indian government. [16] Nepalese Maoists and Indian Naxalites share a Maoist belief in the "village" as the pivot of revolution. It is widely believed in India that both Nepalese and Indian Maoists are sympathetic to China. Beijing, however, denies links with either and whatever sympathies Mao era revolutionaries may have had for the Naxalites, their program would seem to have little resonance among contemporary Chinese leaders. What is clear is that China and India vie for Katmandu's favor to advance their respective strategic goals. Since the replacement of Nepal's democratic government with an absolute monarchy in February of this year, India has cold-shouldered Nepal's King Gyanendra, while China has embraced him by describing the so-called royal coup as Nepal's "internal matter". [17] In return, China wants the Nepalese monarch to stay clear of any foreign (Indian or the U.S.) influence that could make trouble in Tibet. To strengthen the political status quo in Tibet, China is integrating Nepal into the Tibetan economy, laying a highway that will connect the two.

In the same way, Beijing cherishes friendly relations with Sri Lanka, which occupies a strategically important heft of the Indian Ocean stretching from the Middle East to Southeast Asia. After 9/11, the U.S. sought access to Sri Lankan ports, airfields and air space for its armed forces under the Acquisition and Cross Servicing Agreement (ACSA). The ACSA is the first such agreement between Sri Lanka and a Western power since its independence in 1948. (Though in the early 1980s, Colombo allowed a radio transmitter on its territory to beam Voice

of America (VOA) broadcasts into China, Myanmar, and North Korea.) Both China and India would prefer Sri Lanka to stay out of Western alliances, as they jostle for advantage with Colombo. Sri Lanka's prolonged ethnic conflict between its Sinhalese majority and the Tamil minority has, however, strained its relations with Delhi. India, with a Tamil-majority state of its own, treads cautiously in mediating the conflict, which makes it suspect with Colombo. Tamils are not just India's "co-ethnics" but "co-religionists" as well. As Hindus resisting the domination of the Buddhist Sinhalese majority, the cause of Sri Lankan Tamils resonates with the Hindu majority in India. This groundswell of support influences India's policies towards the Tamil-Sinhalese conflict. In May 1991, a Tamil suicide bomber assassinated Rajiv Gandhi, a former prime minister of India, for sending in 20,000 Indian troops to keep peace in Sri Lanka. Although India was outraged by Rajiv's assassination, its official policy continues to seek justice for the Tamil minority. China, however, with no such concerns to balance, boldly vouches for Sri Lanka's territorial integrity with little regard for the national aspirations of the Tamil minority.

Of all these nations, Pakistan's strategic significance has long been preeminent for China. Although smaller, Pakistan rivals India in possession of nuclear weapons. It has long denied India access to western and Central Asian nations, while at the same time literally paving the highway of Karakoram for Beijing's direct access to Eurasia. Above all, it has tied down 500,000 to 700,000 Indian troops in the Kashmir Valley for the past 15 years, thereby indirectly easing India's challenge to China's defenses on their disputed border. Although both countries agreed to the status quo on the border, their troop deployment along it remains unaltered. More importantly, Pakistan emboldens the region's smaller economies to stand up to India and seek Chinese patronage, which hurts India's stature in the region.

Although India is a potential regional economic powerhouse, its economic clout is far from matching China's. Moreover, India is encumbered by border disputes with almost every neighboring nation, which make its neighbors more receptive to Beijing's economic and strategic outreach.

### **China's Diplomatic Triumph**

Besides strategic gains, China has benefited diplomatically from its growing influence with Bangladesh, Nepal, Pakistan, and Sri Lanka. Today, all of these nations affirm the "one-China" policy, stating that Taiwan is an "inalienable" part of the People's Republic of China (PRC). India also has affirmed a "One-China" policy but with a difference: while declaring Tibet an integral part of China, it continues to host the Dalai Lama. By contrast, all India's neighbors shun the Dalai Lama while proclaiming that Tibet is an integral part of China. With China eager to join the South Asia Association for Regional Cooperation (SAARC), which presently represents the seven nations of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka, all six of India's partners call for Beijing's entry into the SAARC - to the palpable annoyance of Delhi. Thus, at a time when China is making successful overtures to ASEAN and throughout the South China Sea, it is also extending its diplomatic and economic reach toward South Asia, SAARC and the Indian Ocean. [18]

India, as the resident power of South Asia, considers the region its "near abroad," and does not want Beijing to intrude on to its turf. What unnerves India most is China's eye on South Asia's biggest prize: the Indian Ocean. While India would like to prevent China's advance into its sphere of influence, it lacks the regional or international clout, diplomatically, militarily or economically, to stem Beijing's march on South Asia or the Indian Ocean.

China, however, has sought to calm Delhi.

Prime Minister Wen Jiabao's four-day visit to India on April 9-12 attests to growing efforts to woo Delhi. China's major goal is to keep India from forging military and strategic alliances with the U.S. that might undermine Beijing's goal of reunification of Taiwan. Well aware of India's historic concerns for its territorial integrity, China deftly plays on India's nationalist instincts and its visceral aversion to domination by foreign powers. China's deft diplomacy is facilitated by the current U.P.A. (United Progressive Alliance) government of India that rests on a liberal-left coalition, many of whose members are more suspicious of western powers than of Beijing.

Beijing's overtures to Delhi are strengthened by its failed effort to wean Tokyo away from the U.S. orbit and by growing China-Japan tensions over territorial and historical issues. Tokyo's stand on Taiwan, its decision to welcome the U.S. 1st Military Corps to Japan with important implications for aggressively redefining the US-Japan Security Treaty, and its view of Beijing as a threat to Japan's national security, all further distance the two. Against this background, Wen's ability to convince Delhi to agree to form the "India-China Strategic and Cooperative Partnership for Peace and Prosperity" is significant. The partnership has been touted in Beijing as "the most significant achievement" of Wen's four-nation tour (April 5-12), which took him to Bangladesh, India, Pakistan, and Sri Lanka. [19]

Seeing new possibilities for a breakthrough in its relations with India, Beijing recently made a number of bold concessions as a means to improve relations. Not only did China accept the long-disputed territory of Sikkim as part of the Indian Union, Prime Minister Wen even presented Indian Prime Minister Man Mohan Singh with cartographic evidence of his government's changed stance: an official map that shows Sikkim in India. In response, Delhi backed off its long-held stand on Tibet, accepting it as an integral part of the People's

Republic of China (PRC). For its part, Delhi agreed to accept the status quo in their border dispute until a mutually satisfying resolution is found. China wants to keep Aksai Chin, an area of 35,000 square miles in Ladakh, Kashmir, which it seized from India in 1962 while India wants to reclaim Aksai Chin through negotiations. Aksai Chin offers strategic access to China's restive western region of Xinjiang, which makes it difficult for China to let go of it.

Significantly, China agreed to support India's bid for a United Nations Security Council (UNSC) seat, albeit without specifying whether it would endorse the Indian call for veto power. This stands in sharp contrast to China's leading role in blocking Japan's effort to obtain a Security Council seat. China has also softened its longstanding commitment to Pakistan on Kashmir, perhaps in part because of the reported infiltration of Muslim fighters from Kashmir into the Chinese Muslim-majority autonomous region of Xinjiang.

China appears to be prepared to make these concessions to Delhi in order to forge a "strategic partnership." For its part, India is interested not only in defusing tensions with China. With China poised to overtake the U.S. as India's largest trade partner, India is also seeking to boost bilateral trade and ensure energy security. India's giant appetite for energy resources will soon rank it as the world's third largest consumer of fossil fuels after the U.S. and China. Delhi hopes its strategic partnership with Beijing will facilitate its energy drive.

However, the quest for energy is marked by both competition and cooperation between Beijing and Delhi. In South Asia, it is the competition that dominates. India is competing with China to woo energy-rich nations such as Bangladesh and Myanmar that are politically closer to China. Thus far, Delhi has been blocked in attempts to build a pipeline from Myanmar to India, which would run through

Bangladesh. The fact that Myanmar remains within the Chinese sphere of influence, makes it difficult to move ahead with the plan. [20] China, on the other hand, is building a 1250-kilometer pipeline from gas fields in Myanmar to its Yunnan province. China is also building a deep-sea port at Gwadar, Pakistan, along the Arabian Sea coast, which will help diversify its energy shipments from the Middle East to Central Asia. [21] For its part, India is building Chahbahar port in Iran to gain access to oil and gas reserves in central Asia through Afghanistan. Elsewhere, India and China are cooperating in energy development. For example, they have agreed to invest to develop Iran's giant oilfield of Yadavaran. Similar joint ventures between Beijing and Delhi have been made in oil and gas development in the Sudan.

While strengthening ties with India, China faces the challenge of keeping Pakistan on its side. Islamabad has a long history of military alliances with the U.S. from CENTO and SEATO in the past to its present status as the major non-NATO U.S. ally in the region and a nation whose importance to the U.S. grew with the war in Afghanistan. Unlike India, Pakistan always has been malleable to U.S. influence. Wen Jiabao, however, drew Pakistan into a "Treaty of Friendship, Cooperation, and Good Neighborly Relations [22]," which binds both signatories to desist from joining "any alliance or bloc which infringes upon the sovereignty, security, and territorial integrity of the other side." [23] Gen. Pervez Musharraf, Pakistan's military leader, has attempted to keep the contents of the Treaty under wraps by blocking the release of its full text, despite the fact that China's People's Daily published it. Nevertheless it is obvious which of the two will have to avoid unwanted alliances, and whose interests of "sovereignty, security, and territorial integrity" will be served.

## Conclusion

China has invested in South Asia's smaller

economies of Bangladesh, Nepal, Pakistan, and Sri Lanka to gain a strategic foothold and create a diplomatic profile in the region. This effort has transformed the region from India's "near abroad" into China's own backyard. India's economic power and military might in the region are counterbalanced by a growing Chinese presence. China has, for the most part, used its strengthened position in the region to make peace with Delhi in such longstanding conflicts as border disputes, and it has joined India in joint energy development projects, despite the latter's strategic partnership with the U.S. China's gains in reaching accommodation in both South Asia and Southeast Asia stand in sharp contrast to the deepening conflicts in China-Japan relations.

## Notes

1. China's current trade with India (\$13.6 billion), Pakistan (\$3.06 billion), Bangladesh (\$1.14 billion), Sri Lanka (\$350 million), and Nepal (\$200 million) is rapidly growing. Although reliable trade figures are not known for the remaining two South Asian states of Bhutan and Maldives, the total volume of bilateral trade between China and South Asia is set to reach \$20 billion a year. See "Boost All-weather Partnership between China, Pakistan." *People's Daily*, April 5, 2005. Habib, Haroon (2005). "Bangladesh, China Sign Nine Agreements." *The Hindu*, April 9, 2005.
2. "Sino-Indian Trade to Reach \$30bn 2010." *Press Trust of India (PTI)*, April 11, 2005.
3. *The Economist* (2005). "Rivals and Partners." *The Economist*, March 3, 2005.
4. Blustein, Paul (2005). "China Passes U.S. in Trade with Japan: 2004 Figures Show Asian Giant's Muscle," *The Washington Post*, January 27, 2005.
5. *The Economist* (2005). "Rivals and Partners." *The Economist*, March 3, 2005.
6. *op. cit.*
7. *op. cit.*
8. *The Economist* (2005). "As China's prime minister goes to India, Indians should learn

that they have less to fear from their giant neighbor than they think." *The Economist*, March 3, 2005.

9. Prominent among them is Mr L.K. Advani, leader of the opposition, who accuses Bangladesh of infiltration into Assam and neighboring northeastern states. See Dutta, Sreeradha (2000). "Security of India's Northeast: External Linkage." *Strategic Analysis*, vol. xxiv(8), November 2000.
10. Bajpae, Chietigj (2005). "India, China Locked in Energy Game." *Asia Times*, March 16, 2005.
11. *op. cit.*
12. "Khalida, Jiabao hold official talks: Six deals signed: China to help peaceful use of nuclear energy." *The New Nation (Online Edition)*, August 18, 2005.
13. Zeitlin, Arnold (2005) "Bangladesh's Ambivalent Relations with the PRC." *China Brief*, volume V(5), March 1, 2005.
14. Kapila, Subhash (2005). "[Bangladesh-China Defense Cooperation Agreement's Strategic Implications: An analysis.](#)"
15. "Naxalism" is a village-based peasant movement that is fast spreading in southern and northeastern states of India, which include Andra Pradesh, Madhya Pradesh, Uttar Pradesh, Bihar, Jarkhand, Maharashtra, Orissa, and Tamil Nadu. The Naxalite movement adheres to Marxist and Maoist ideologies, which are believed to bind it with Maoists in Nepal, also.
16. "The Bothersome Little People Next Door." *The Economist*, November 4, 2004. *The Economist* estimates that at least some Naxalite activity can be discerned in as much as forty percent of India's 593 districts.
17. The Chinese Foreign Ministry's spokesman Kong Quan called King Gyanendra's dismissal of the Nepalese government "an internal matter of Nepal." see "China Hopes Nepal to Realize Social Security." *Xinhuanet*, February 1, 2005.
18. See David Rosenberg, *Dire Straits: Competing Security Priorities in the South China Sea*, [Japan Focus](#), [Japan Focus](#) posted

April 13, 2005.

19. See Mahmood, Afzaal 92005). "Sino-U.S. Rivalry and South Asia." *The Dawn*, Karachi (Pakistan), April 16, 2005.

20. Bajpae, Chietigj (2005). "India, China Locked in Energy Game." *Asia Times*, March 16, 2005.

21. Niazi, Tarique (2005). "Gwadar: China's Naval Outpost on the Indian Ocean." *China Brief*, vol. V (4), February 15, 2005.

22. The treaty was signed on April 5, 2005 by Chinese Prime Minister Wen Jiabao and Pakistani Prime Minister, Shaukat Aziz. For

reference, see "Pak, China Sign Treaty of Friendship; Beijing's Assurance to Defend Territorial Integrity, Sovereignty." *The Dawn*, Karachi (Pakistan), April 6, 2005.

23. See Mahmood, Afzaal 92005). "Sino-U.S. Rivalry and South Asia." *The Dawn*, Karachi (Pakistan), April 16, 2005.

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