



# Managing Mutual Mistrust:

## Understanding Chinese Perspectives on Sino-Indian Relations

JERKER HELLSTRÖM, KAN KORKMAZ



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FOI-R--3271--SE  
ISSN 1650-1942

Base data report  
September 2011

**Defence Analysis**

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# Managing Mutual Mistrust:

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Cover photo: Chinese Premier Wen Jiabao sits against the backdrop of the Indian flag before delivering a lecture in New Delhi, India, 16 December 2010. (AP Photo/Gurinder Osan)

Title	Managing Mutual Mistrust: Understanding Chinese Perspectives on Sino-Indian Relations
Titel	Att hantera ömsesidig misstro: kinesiska perspektiv på Kinas relation med Indien
Rapportnr/Report no	FOI-R--3271--SE
Rapporttyp /Report Type	Underlagsrapport/Base data report
Månad/Month	September
Utgivningsår/Year	2011
Antal sidor/Pages	61 p
ISSN	ISSN 1650-1942
Kund/Customer	Försvarsdepartementet/Swedish Ministry of Defence
Projektnr/Project no	A12004
Godkänd av/Approved by	Johannes Malminen
FOI, Totalförsvarets Forskningsinstitut	FOI, Swedish Defence Research Agency
Avdelningen för Försvarsanalys	Department of Defence Analysis
164 90 Stockholm	SE-164 90 Stockholm

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## **Programme manager's remarks**

The global balance of power is gradually shifting towards the western Pacific. As a result, there is a growing appreciation that China will have greater influence on regional as well as global dynamics in the foreseeable future. China's foreign policy behaviour is already affecting issues of high strategic importance, such as freedom of navigation on the high seas, energy security, cyber security and evolving global norms and values. These are key areas of interest from a European perspective. In this sense, Chinese policies have a direct impact on European security beyond the realm of trade and economy.

Considering China's increasingly influential role in the international community, it has become crucial to establish an understanding of Chinese perceptions, as these ultimately shape the country's foreign policy behaviour. Moreover, it is important to study Chinese views and policies towards India, which have been given limited attention despite the fact that the two Asian powers will be of key importance in tomorrow's world. This report deals primarily with perceptions among Chinese analysts and officials on the Sino-Indian relationship. The inability of both countries to resolve their contentious issues and put mutual suspicion aside stands out as an important conclusion. There is an obvious risk that the evolving bilateral dynamics can create ripple effects with a potential to affect Europe.

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Stockholm, September 2011

John Rydqvist

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## Abbreviations

CBM	confidence-building measure
CCP	Chinese Communist Party
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
IOR	Indian Ocean region
IT	information technology
JWG	China–India Joint Working Group
LAC	Line of Actual Control
MFA	Ministry of Foreign Affairs of the People’s Republic of China
NATO	North Atlantic Treaty Organization
NPT	Non-Proliferation Treaty
PLA	People’s Liberation Army
PRC	People’s Republic of China
SCO	Shanghai Cooperation Organization
SLOCs	Sea Lines of Communication
TAR	Tibet Autonomous Region
TGIE	Tibetan government-in-exile
TYC	Tibetan Youth Congress
UNSC	United Nations Security Council

## Sammanfattning

Kina och Indien utövar allt större inflytande på internationell politik. I vilken utsträckning de två staterna kan lösa sina gemensamma tvister och fördjupa sitt samarbete under kommande decennier kommer att ha konsekvenser på både regional och global nivå. Politiskt, ekonomiskt och militärt skulle Kina och Indien kunna dra nytta av ökat samarbete och koordinering i sakfrågor där intressen sammanfaller. Samtidigt hämmas en fördjupad relation av en sedan länge etablerad ömsesidig misstro och viljan och förmågan att förbättra relationen är begränsad.

Det finns en tydlig tendens inom såväl forskning som medierapportering att beskriva Kina-Indien-relationen från ett indiskt perspektiv. I syfte att öka förståelsen för kinesiska uppfattningar och i sin tur få en föräning om hur relationen kan komma att utvecklas fokuserar denna studie på ett antal problemområden som lyfts fram av kinesiska Indien-expert. Studien finner att Indien ännu spelar en begränsad roll i Kinas strategiska bedömningar.

Medan indiska bedömare ser Kinas framväxt som ett orosmoment tenderar kinesiska forskare att lägga vikt vid de positiva aspekterna i relationen och att marginalisera de friktioner som karakteriserar relationen. Studien visar att detta begränsar förutsättningarna för att Kina skall stödja institutionaliserade ansträngningar som bidrar till ökad ömsesidig tillit och i förlängningen löser tvistefrågor i relationen. Det framstår därför som osannolikt att relationen mellan Kina och Indien förbättras i en nära förestående framtid.

## **Abstract**

China and India, as two of the world's most rapidly growing economies, wield increasing influence on international politics. To what extent these two Asian powers will be able to manage their bilateral disputes and to deepen cooperation in the coming decades is likely to have regional and global implications. While both China and India could benefit from promoting their common interests, their relationship continues to a great extent to be characterised by mutual suspicion which has yet to be successfully addressed.

Both academic research and media reports have a strong tendency to portray the Sino-Indian relationship from India's horizon. In order to improve the understanding of Chinese perspectives and identify ways in which the relationship may develop, this study revolves around key areas of bilateral friction as highlighted by Chinese experts on India. The study finds that India still garners limited interest in China's strategic considerations. Chinese scholars generally emphasise the positive aspects of bilateral relations and tend to downplay tensions with India, while Indian analysts perceives China's rise with concern. The study argues that there is a general lack of Chinese support for institutionalised efforts to dispel the mutual mistrust and resolve disputes, and therefore that a normalisation of relations is unlikely in the near term.

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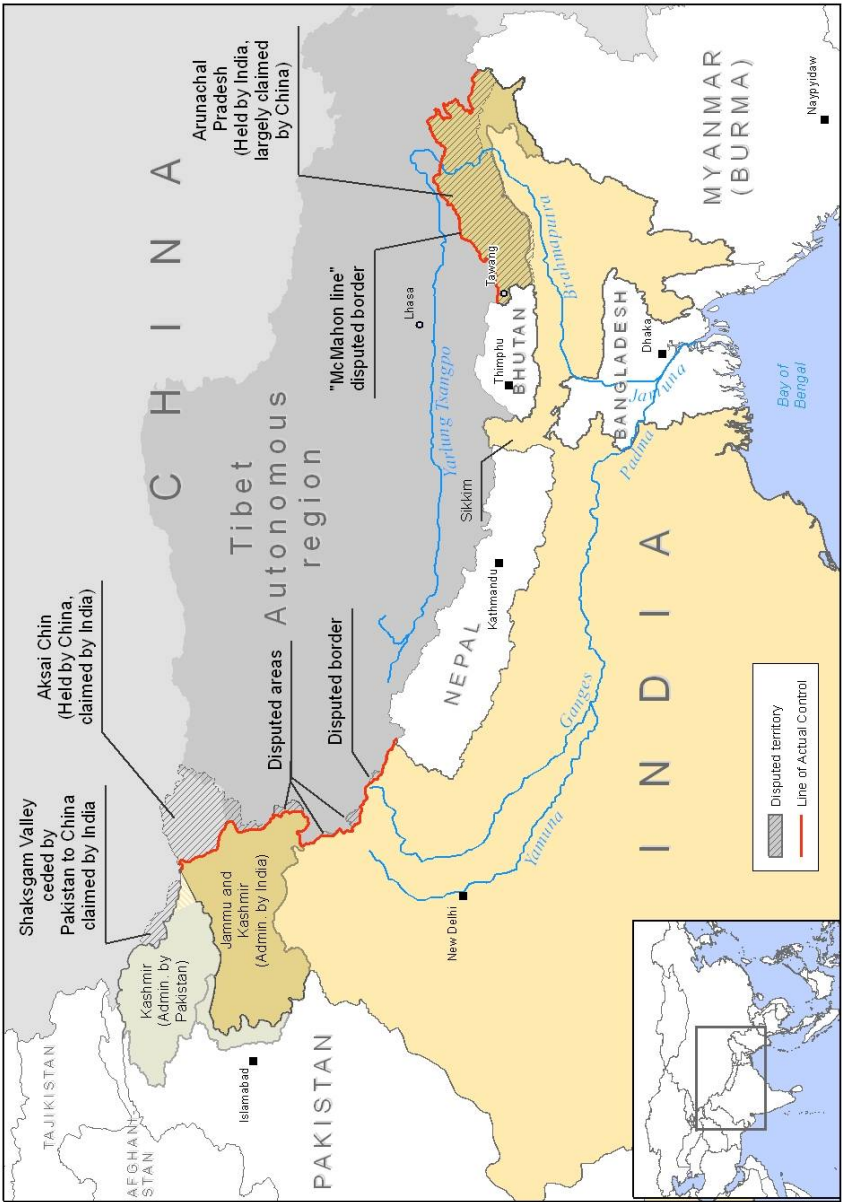


Map 1. China, India and regional countries



Sources: FOI/Natural Earth 2011, The Economist

Map 2. The Sino-Indian border



Sources: FOI/Natural Earth 2011, The Economist

*“I long for the real friendship between China and India based not on economics or politics but on irresistible attraction. Then will follow real brotherhood of man.”*

– Mahatma Gandhi, 1945<sup>1</sup>

*“...the time when China and India enjoyed friendly relations lasted 2,000 years, or 99.9% of total time of our interactions [...], the conflicts between our two countries only lasted two years.”*

– Wen Jiabao, 2004<sup>2</sup>

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<sup>1</sup> Gandhi (Mahatma), *Collected Works of Mahatma Gandhi*, (New Delhi: Icon Softec, 1999), p. 269.

<sup>2</sup> Chinese Government's Official Web Portal, 'Premier Wen Jiabao's press conference at the conclusion of the second session of the 10th National People's Congress (2004)', Published: March 14, 2004.

# 1 Introduction<sup>3</sup>

China and India are two of the world's most rapidly growing economies, wielding increasing influence on regional and global politics. The two states hold more than one-third of the global population and account for nearly 20 per cent of the world economy.<sup>4</sup> By 2050, China and India are expected to have become the world's largest economies, with more than one-third of global gross domestic product (GDP).<sup>5</sup>

The two Asian neighbours will also play a stronger role in international institutions and security frameworks. Their parallel rise is bound to have a tremendous impact on regional and global power dynamics, particularly if they are able to cooperate. In fact, their rise and the relationship between them may very well come to define the way in which international politics is conducted in the coming century. It is in the declared interest of both countries to enhance their bilateral engagement and cooperation. However, having a history of unresolved disputes and conflicts of interests such as rival territorial claims, their current relationship remains filled with uncertainties.

The ability of the two Asian neighbours to manage bilateral disputes and to deepen cooperation depends on how they decide to address the underlying issues which feed mutual mistrust. Both countries have agreed to establish a number of measures to tackle disagreements, such as economic/strategic dialogues and confidence-building measures (CBMs) regarding their unresolved border dispute. However, mutual suspicion also extends to their respective relations with global and regional powers. In particular, India remains sceptical of China's close relations with Pakistan, while there are concerns in China regarding the burgeoning Indo-US relationship.

China's and India's propensity to cooperate also holds implications for the European Union's ability to pursue its interests. These include, but are not limited to, securing trade flows and investment, maintaining access to natural resources, ensuring global peace and stability, promoting good governance and human rights, addressing climate change and projecting influence in international institutions.

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<sup>3</sup> The authors wish to express their gratitude to interviewees who shared their expertise and opinions on the Sino-Indian relationship. The authors would also like to thank our colleague Bengt-Göran Bergstrand, who contributed processed data used in the study. Finally, appreciation and thanks are extended to Eve Johansson, language editor, Johannes Malminen, Head of the Department for Security Policy and Strategic Studies at FOI, and John Rydqvist, Programme Manager of FOI Asia Security Studies, for reviewing this study.

<sup>4</sup> International Monetary Fund, 'World Economic Outlook', 2011; United Nations, Department of Economic and Social Affairs, 'World Population Prospects, the 2010 Revision', 2011.

<sup>5</sup> Elliot, Larry, 'GDP projections from PwC: how China, India and Brazil will overtake the West by 2050', The Guardian, Published: 7 Jan, 2011. Last Accessed: 17 Aug, 2011.

However, Western policymakers and scholars have shown only limited interest in the development of Sino-Indian relations. Europe, being preoccupied in recent years with a sharp economic downturn and armed conflicts on its immediate periphery, has its focus elsewhere. In terms of the changing regional dynamics in Asia, Europe is primarily concerned with China's strategic rivalry with the United States and the potential for a shift in the global balance of power. The European discourse on China and India, for its part, is predominantly focused on comparing their economic strengths and weaknesses. In the coming decades, the ability of the two Asian giants to cooperate will have an increasing impact on regional security. Yet, despite this fact, the development of Sino-Indian strategic relations continues to receive limited attention among European strategic thinkers.

In particular, Chinese perceptions of India seem to have garnered little interest in the West. In terms of both academic research and media reports, there is a strong tendency to portray the bilateral relationship from India's horizon. As a result of China's increasing military capabilities and uncertainties regarding its long-term ambitions, the debate is primarily influenced by Indian concerns about China's rise. Interestingly, it is even common for Chinese media reports and academic writing to focus on Indian threat perceptions of China when describing the bilateral relationship. However, in order to identify ways in which the relationship may evolve, it is vital to establish an understanding of Chinese perspectives. Considering China's increasing global influence, this study has chosen to focus on those issues identified by Chinese observers as the most important to address in order to gain mutual trust.

## **1.1 The aim of the study**

The primary purpose of this study is to identify and analyse Chinese perspectives on the Sino-Indian relationship. The relationship has for a long time been characterised by mutual mistrust and the key question is whether this relationship can improve in the future.

Four key areas have shaped the development of the bilateral relationship: (1) historical disputes, (2) economic interests, (3) China's and India's relations with regional and global powers, and (4) their respective military build-ups. The study assesses key perceptions among Chinese strategic thinkers and officials in these areas respectively. India's rise as an emerging regional and global actor makes this relationship fundamental for global strategic and economic developments with implications for both the European Union (EU) and Sweden.

## 1.2 Method and material

In order to assess Chinese perceptions of the Sino-Indian relationship, this study analyses opinions expressed by Chinese strategic thinkers and officials in interviews as well as Chinese official documents and academic papers. The material used in this report includes both primary and secondary Chinese and English language sources. The interviewees are affiliated with some of China's most respected and influential research institutions, offering valuable insight into the perceptions shaping the Chinese foreign policy process (see Appendix VI). The interviews, conducted in Beijing and Shanghai in April 2011, were semi-structured in nature, implying that the questions asked were to some extent dependent on the respondents' answers. The interviewees participated on the condition of anonymity.

It should also be noted that the academic papers used in the study are externally available and therefore subject to a certain degree of oversight by Chinese authorities. The same logic applies to Chinese news media sources.

## 1.3 Delimitations

This study primarily revolves around the issues which were brought up in interviews with some of China's leading India scholars. The authors postulate that the views expressed by interviewees and other sources represent dominant views within the Chinese policymaking establishment. In order to meet the purpose of this study, Indian perspectives have only been taken into account when considered relevant to understanding Chinese perceptions.

It should also be noted that, although this study presents a historical background to the Sino-Indian relationship, it is not aimed at studying the historical development *per se*. Instead it focuses on current perceptions on issues in the relationship. Hence, it does take into account how these perceptions have developed over time.

## 1.4 Outline of the study

This study consists of three chapters beyond this introduction. Chapter two provides an overview of Sino-Indian relations since the 1940s and describes China's evolving India policy as part of its overarching foreign policy. Chapter three describes some of the main issues shaping the relationship between China and India as highlighted by Chinese officials and scholars. It presents a thematic outline of Chinese perceptions of the Sino-Indian relationship, analysing implications for the development of bilateral relations. The fourth and final chapter sums up the main conclusions and discusses potential implications for the European Union.



## 2 Sino-Indian Relations: an Overview

This chapter first outlines the development of the relationship between China and India since the two states were established in their current form in the late 1940s, and then briefly describes China's current foreign policy, with an emphasis on its relations with India.

### 2.1 Historical background

The historical evolution of Sino-Indian relations after World War II can be divided into four different stages.<sup>6</sup> The first period is that between the late 1940s up to the Sino-Indian border war of 1962. The second includes the post-war era, ranging from the end of 1962 up to 1976, primarily characterised by political stalemate, bilateral non-engagement and Cold War tensions. The third ranges between 1976 and 1998, during which the bilateral relationship was characterised by rapprochement and the re-establishment of political relations. The fourth period, from 1998 up to the present date, has seen improving bilateral relations amid unresolved historical disputes and underlying areas of tension.

#### 1949–1962: Establishing relations

The two countries were formally established in the late 1940s, the Republic of India in 1947 and the People's Republic of China (PRC) in 1949. Diplomatic relations were set up between China and India on 1 April 1950, with the first state-to-state visits by the presidents of the two countries ensuing in 1954.<sup>7</sup> That was also the year in which China and India vowed to adhere to the Five Principles of Peaceful Coexistence, often referred to as the Panchsheel agreement, paving the way for deepened bilateral engagement.<sup>8</sup> Prior to this, in 1950, China had annexed Tibet and placed it under its legal control in 1951.<sup>9</sup> The annexation of Tibet had meant that China now shared borders with India, demarcated by the McMahon line which previously separated British India from Tibet.<sup>10</sup> More importantly, China had, as a result, become an integral part of the South Asian geopolitical and strategic environment. It is important to note that China has never acknowledged the legitimacy of the McMahon line, a colonial

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<sup>6</sup> Sidhu, Waheguru Pal Singh and Yuan, Jing-dong, *China and India: Cooperation or Conflict?*, (Boulder, Co: Lynne Rienner Publishers, 2003), p. 10.

<sup>7</sup> Ibid., p. 11.

<sup>8</sup> Ibid., p. 13.

<sup>9</sup> Ibid., p. 12.

<sup>10</sup> The McMahon line now separates the north-east Indian state of Arunachal Pradesh from China.



legacy, instead referring to its entire border with India as the Line of Actual Control (LAC).<sup>11</sup>

Sino-Indian relations witnessed a positive development in the early 1950s. However, China's annexation of Tibet prompted rising tensions between China and India as the two countries came to share a poorly demarcated border. Tensions grew further following the 1959 Tibetan rebellion when the Dalai Lama was granted asylum in India.<sup>12</sup> Contradicting claims around their shared borders ultimately led to the 1962 Sino-India border war, which started in October and ended a month later when India was defeated.<sup>13</sup> The war, however, did not resolve the border issue. China had ended the armed conflict by withdrawing its forces to its side of the LAC, which still separates the two countries. Beijing continues to claim sovereignty over large parts of the state of Arunachal Pradesh on the eastern sector of the Sino-Indian border (see Map 2). New Delhi, in turn, claims the Chinese-controlled region of Aksai Chin on the western sector of their shared border.

### **1962–1976: Political stalemate**

Sino-Indian relations entered a near-two-decade long political stalemate after the 1962 war. Although the two countries increased their conventional military capabilities around the border areas, the realities of the Cold War produced separate geopolitical agendas for China and India, prompting them to shift their attention away from each other.

During the late 1960s and early 1970s, China's relations with the Soviet Union had deteriorated into animosity, eventually leading to an armed conflict over a disputed border, the Ussuri river, in 1969. The Soviet Union had in turn developed strong relations with India, which were further underlined by the 1971 Friendship Treaty between Moscow and New Delhi. In addition, China developed a strategic relationship with Pakistan, providing it with diplomatic support and military equipment during Pakistan's subsequent wars with India in 1965 and 1971.<sup>14</sup>

This period of political stalemate between China and India also saw Beijing becoming a politically and militarily superior actor in comparison with New Delhi. China had successfully detonated its first nuclear bomb in 1964, effectively establishing itself as a Cold War nuclear power. Subsequently, in 1974, India conducted its first nuclear detonation. In 1971, the PRC replaced the seat held by the Republic of China (Taiwan) in the United Nations, also

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<sup>11</sup> Sidhu and Yuan, *China and India: Cooperation or Conflict?*, p. 11.

<sup>12</sup> Ibid., p. 14.

<sup>13</sup> Ibid., p. 15.

<sup>14</sup> Ibid., pp. 18-19.

becoming a permanent member of the United Nations Security Council (UNSC).<sup>15</sup>

### **1976–1998: Rapprochement**

Not until 1976 did Sino-Indian relations experience rapprochement. In that year, China and India re-established their ambassadorial contacts which had been severed due to the outbreak of the 1962 war. Bilateral relations started to improve significantly, underlined by the visit by India's foreign minister to Beijing in 1979. Importantly, this coincided with paramount leader Deng Xiaoping's launch of economic reforms, which identified a need to engage actively with other states. In 1981, the two countries commenced talks on the border issue. Seven more rounds of border talks ensued, followed by a visit to Beijing by Indian Prime Minister Rajiv Gandhi in 1988, the first visit at this level since 1954. His visit was eventually reciprocated by China's premier, Li Peng, in 1991.<sup>16</sup> The border dispute started to gain more attention from the two countries, which in 1989 institutionalised bilateral dialogues on the border issue by establishing the China–India Joint Working Group (JWG).

This surge in Sino-Indian engagement eventually resulted in a series of CBMs signed in the early and mid-1990s. The first such CBM, the Agreement on the Maintenance of Peace and Tranquillity along the Line of Actual Control, was signed by Indian Prime Minister P.V. Narasimha Rao and Li Peng in Beijing in 1993.<sup>17</sup> This was followed by the signing of an additional CBM in 1996, following a visit to New Delhi by PRC President Jiang Zemin. The CBM, known as the Agreement on Confidence Building Measures in the Military Field along the LAC, called for the reduction of troops along the LAC. These military-oriented CBMs were designed to offset the risk of a new border conflict but did not constitute an attempt to establish a formal treaty between China and India to settle the border dispute.

The years of rapprochement in Sino-Indian relations brought a further improvement to their relations. Bilateral trade reached \$1.9 billion in 1998, a 16-fold increase in just over a decade.<sup>18</sup> In addition, Beijing revised its stance on the dispute between India and Pakistan over Kashmir. While previously it had given unwavering diplomatic support to Pakistan's sovereign right in Kashmir, Beijing now took an increasingly neutral stance on the issue, referring to it as a strictly bilateral dispute between India and Pakistan.<sup>19</sup>

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<sup>15</sup> Garver, John W., *Protracted Contest: Sino-Indian Rivalry in the Twentieth Century*, (Seattle, Wa: University of Washington Press, 2001).

<sup>16</sup> Sidhu and Yuan, *China and India: Cooperation or Conflict?*, p. 24.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid., p. 25.

<sup>19</sup> Ibid., p. 26.

### **1998–2011: Improving relations amid unresolved disputes and tension**

The relations between the two countries seemed to be on a positive trajectory after the development of the early and mid-1990s described above. In 1998, however, relations took a negative turn. India had justified its five nuclear tests in May that year by referring to China's increasing nuclear capability. Beijing reacted strongly to India's portrayal of China as a major threat.<sup>20</sup> As a result, China cancelled a scheduled JWG meeting and insisted that New Delhi withdraw its rhetorical position of portraying China as a concern to its national security. India ultimately obliged and ministerial and state visits between the two countries quickly resumed as of 1999. The JWG meetings also resumed.<sup>21</sup>

Thanks to the measures taken by both sides to stabilise the bilateral relationship, these tensions were short-lived. Chinese Premier Zhu Rongji visited New Delhi in 2002, signing memorandums of understanding (MoUs) with his Indian counterpart A. B. Vajpayee. The agreements covered bilateral cooperation on areas including tourism, space, science and technology, and hydrological information on cross-border rivers.<sup>22</sup>

The reciprocal visit to Beijing in 2003 made by Prime Minister Vajpayee marked an important breakthrough in Sino-Indian relations. During the visit, India acknowledged China's sovereignty over the Tibet Autonomous Region (TAR), while China recognised India's sovereignty over the state of Sikkim. Moreover the two leaders agreed to set up the first Sino-Indian border trade route connecting the TAR with Sikkim, an area between Nepal and Bhutan bordering Tibet. The visit also resulted in the establishment of a special representative mechanism to address the boundary issues further. Subsequent visits to India by Premier Wen Jiabao and President Hu Jintao, in 2005 and 2006 respectively, resulted in several other agreements and joint statements designed to improve Sino-Indian relations, including the establishment in 2005 of a Sino-Indian strategic partnership.<sup>23</sup>

China and India have made some progress in their economic and military relations over the past decade. In 2008, China became India's largest trade partner, even though cross-border trade was relatively insignificant due to the unresolved border disputes. By 2010, the level of Sino-Indian trade had reached \$62 billion annually.<sup>24</sup> In addition, the two countries aim to increase bilateral

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<sup>20</sup> Ibid., p. 31.

<sup>21</sup> Ibid., pp. 32-33.

<sup>22</sup> India Ministry of External Affairs, 'India-China Relations', Last Accessed: 1 Aug 2011.

<sup>23</sup> Ibid.

<sup>24</sup> Ibid.

trade to \$100 billion by 2015.<sup>25</sup> In the area of defence, they established an annual defence dialogue in 2006 and held joint counter-terrorism exercises on the unit level in 2007 and 2008.<sup>26</sup>

However, despite marked increases in political engagement and bilateral trade over the past years, there are still factors which constrain further political improvements in the bilateral relationship. Chinese foreign direct investment (FDI) in India has been limited due to national security considerations on the part of New Delhi. China denied a visa to an Indian official of Arunachal Pradesh in 2007. The decision was underlined by China's claims to Arunachal Pradesh, implying that the official was a Chinese citizen and therefore did not need a visa to visit China. In addition, military-to-military exchanges were cancelled by India in 2010, following China's denial of a visa to an Indian general of Indian-controlled Kashmir, a disputed area claimed by Pakistan.<sup>27</sup>

In essence, unresolved issues, resulting in mutual suspicion which in turn provides additional challenges to improving relations, still limit Sino-Indian interaction.

## 2.2 China's foreign policy towards India

China is gradually becoming more attentive to India, but has yet to publish any official documents describing its foreign policy towards its rising neighbour.<sup>28</sup> India has generally received very limited attention in official documents such as the white book on China's national defence, underlining the fact that the primary focus of China's foreign and national security policy is directed elsewhere. Nevertheless, as Chinese analysts have noted, India's emergence as a rising power has growing implications for China's foreign and security policy interests and has caused Beijing to reassess its engagement with New Delhi.<sup>29</sup>

Overall, foreign policy decision making in China is highly centralised within a few key decision-making bodies.<sup>30</sup> Although the Politburo Standing Committee of the Chinese Communist Party (CCP) is the foremost decision-making group in

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<sup>25</sup> 'India and China set \$100bn trade target by 2015', *BBC News*, Published: 16 Dec, 2010. Last Accessed: 10 Aug, 2011.

<sup>26</sup> India Ministry of External Affairs, 'India-China Relations'.

<sup>27</sup> Bagchi, Indrani, 'China denies visa to top general in charge of J&K', *The Times of India*, Published: 27 Aug, 2010. Last Accessed: 4 Aug, 2011.

<sup>28</sup> The Chinese government has published official policy papers for the European Union (2003), Africa (2006) and Latin America and the Caribbean (2008). However it has no official policies in regards to China's relations with individual countries.

<sup>29</sup> Li, Zhang, 'China-India Relations, Strategic Engagement and Challenges' *Asie. Visions*, no. 34 (2010), p. 9.

<sup>30</sup> Jakobsson, Linda and Knox, Dean, *New Foreign Policy Actors in China*, Stockholm International Peace Research Institute (SIPRI), SIPRI Policy Paper no. 26, 2010, p. 4

China, China's foreign policy is designed by the Foreign Affairs Leading Small Group, the primary foreign policy organ of the PRC, currently led by State Councillor Dai Bingguo.<sup>31</sup> The decision-making process surrounding China's foreign policy includes other several actors as well, including the People's Liberation Army (PLA), the Ministry of Foreign Affairs (MFA), the Ministry of State Security, the Ministry of Defence and the Central Military Commission as well as various corporate actors and state-owned enterprises with interests of their own. The Chinese strategic think-tank community, being connected to various government departments, also plays an increasingly important role in policy formation.<sup>32</sup>

China's foreign policy formulation is to a great extent characterised by a consensus-driven process involving actors with separate and sometimes conflicting agendas.<sup>33</sup> The actors have various degrees of influence in the formation of China's foreign policy, depending on the context and their position in the system. For instance, the policies promoted by the PLA may not necessarily be similar to those advocated by the Foreign Affairs Leading Small Group. However, any conflicting interests are subordinate to the policy position of the Politburo Standing Committee.

China's foreign policy towards India can be understood as a reflection of its "national core interests", a term which has been increasingly applied during the Hu Jintao administration.<sup>34</sup> Although they have been made explicit primarily over the last decade, the now official core interests do not constitute a realignment of China's foreign policy *per se*. Rather, expressing them officially signals an increasingly rigid stance towards foreign activities which relate to these issues.<sup>35</sup> All the core interests are regarded by the PRC as non-negotiable cornerstones of its foreign policy. As one analysis concludes, China's foreign policy and strategic behaviour is aimed at securing and promoting its core interests.<sup>36</sup>

The core interests of the PRC are clustered into three categories. The first core interest, to preserve and safeguard the sovereignty and territorial integrity of China, has primarily referred to issues concerning Taiwan and Tibet. However, this also underlines China's unwillingness to make any substantial political

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<sup>31</sup> Cabestan, Jean-Pierre, 'China's Foreign- and Security-policy Decision-making Processes under Hu Jintao', *Journal of Current Chinese Affairs*, no. 3 (2009); Jakobsson and Knox, *New Foreign Policy Actors in China*.

<sup>32</sup> Jakobsson and Knox, *New Foreign Policy Actors in China*.

<sup>33</sup> Ibid.

<sup>34</sup> Swaine, Michael D., 'China's Assertive Behaviour -- Part One: On "Core Interests"', *China Leadership Monitor*, no. 34 (Winter 2011), p. 3.

<sup>35</sup> Ibid., pp. 2-3.

<sup>36</sup> United States Department of Defense, Office of the Secretary of Defense, *Military and Security Developments Involving the People's Republic of China 2010*, 2010, p. 15.

concessions to India in regard to the disputed border regions of Aksai Chin and Arunachal Pradesh. The second core interest of the PRC is to preserve its basic state system and its domestic political stability. This is essentially a reference to perpetuating the power and control of the CCP over all matters of the state. There is a direct bearing here on Sino-Indian relations. The India-based Tibetan government-in-exile (TGIE) is perceived by Beijing to be undermining CCP authority in Tibet, thus destabilising China domestically and, by extension, its relations with India. The third is the core interest of ensuring the continued stability of China's economic and social development.<sup>37</sup> Economic and political engagement with India, along with maintaining stability in their relations, becomes increasingly important considering China's profound interest in sustaining its current economic growth trajectory.

In addition, these core interests are often interrelated. China's economic and social development, for example, is seen as a fundamental requirement to ensure the legitimacy of the CCP.<sup>38</sup> China's core interests drive not only its overall foreign policy but also its policy towards India. Promoting regional stability through improving trade relations and implementing measures of crisis management towards India and South Asia are thus policies which are rooted in China's conception of its core interests.

India's rise signals an emerging redistribution of power and thus a changing regional dynamic in South Asia. This brings new challenges to regional security coupled with opportunities to promote cooperation that is deemed beneficial for both China and India. Both states stress the need to conduct an independent, non-aligned foreign policy – that is pursuing national interests without external influence – and not to interfere in the domestic affairs of other states. Both countries also have an interest in promoting a multipolar world conducive to their political and economic growth.<sup>39</sup> For Beijing, this convergence of principles and interests has facilitated its engagement with New Delhi, despite the underlying tensions between the two.

China sees a potential to cooperate with India on an international level, especially in terms of promoting global multi-polarisation and increased political influence for developing countries in the international system.<sup>40</sup> There are several examples of Sino-Indian cooperation in multilateral organisations. A standard illustration is their ability to cooperate successfully in climate change negotiations such as the Cancun conference in 2010, opposing legally binding

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<sup>37</sup> Swaine, 'China's Assertive Behaviour -- Part One: On "Core Interests"', p. 4.

<sup>38</sup> United States Department of Defense, *Military and Security Developments Involving the People's Republic of China 2010*, p. 15.

<sup>39</sup> Li, 'China-India Relations, Strategic Engagement and Challenges', p. 10.

<sup>40</sup> Ye, Hailin, 'China-Pakistan Relationship: All-Weathers, But Maybe Not All-Dimensional', in: Zetterlund, Kristina (Ed.), *Pakistan - Consequences of Deteriorating Security in Afghanistan*, (Stockholm: Swedish Defence Research Agency, 2009).

agreements which may place limits to their respective industrial sectors and by extension their economic growth.<sup>41</sup>

China's foreign policy is strictly shaped by its domestic needs, being inherently linked to the legitimacy of the regime.<sup>42</sup> Primarily for the benefit of its economic and trade interests, China has readjusted its foreign policy to focus more on India. Thus China's India policy is strongly influenced by the fact that both countries emphasise a need to ensure domestic economic and social development.<sup>43</sup> Officially, China now takes an increasingly neutral stance in regard to India's disputes with Pakistan, a major ally of China, based on the logic of establishing a security environment that will be conducive to its own growth.<sup>44</sup> As a further extension of China's economic interests and domestic policy, its foreign policy towards India, and indeed towards South Asia in general, is increasingly employing measures of conflict prevention and crisis management. Preventing conflict in its periphery is deemed essential in order to thwart potential disruption to its own economic development. To this end, Beijing has taken a number of measures to safeguard regional stability. With regard to India, China has advocated increased trade and economic interaction, seeking growing economic cooperation between the two countries. Beijing has also explored new areas of cooperation including joint unit-level counter-terrorism exercises.<sup>45</sup> Moreover, China has been willing to establish a number of CBMs and dialogue mechanisms to reduce border tensions.

However, China has at the same time taken measures in obstructing certain Indian policies which Beijing perceives may undermine its interests. As Indian China scholar Swaran Singh argues, it is unlikely that Beijing, despite increasing engagement with New Delhi, would create space for India to achieve parity with its own power and influence.<sup>46</sup> This is evident in China's opposition to India both being given membership status in the Shanghai Cooperation Organization (SCO) and its ambitions to become a permanent member, with the power of veto, in the UNSC.<sup>47</sup> As a further example, Beijing took diplomatic measures in response to India's nuclear tests in 1998, criticising New Delhi for labelling China as a threat and opposing India's ambitions to become a legitimate member of the Nuclear Suppliers Group (NSG).<sup>48</sup>

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<sup>41</sup> Singh, Swaran, 'Paradigm Shift in India-China Relations: From Bilateralism to Multilateralism', *Journal of International Affairs*, vol. 64, no. 2 (2011).

<sup>42</sup> Interview #7

<sup>43</sup> Li, 'China-India Relations, Strategic Engagement and Challenges', p. 10.

<sup>44</sup> Ibid.; People's Republic of China Information Office of the State Council, *China's National Defense in 2008*, (Beijing: Foreign Languages Press, 2009), Chapter II.

<sup>45</sup> People's Republic of China Information Office of the State Council, *China's National Defense in 2008*, Chapter XIII.

<sup>46</sup> Singh, 'Paradigm Shift in India-China Relations: From Bilateralism to Multilateralism'.

<sup>47</sup> Ibid.

<sup>48</sup> Li, 'China-India Relations, Strategic Engagement and Challenges', p. 24.

China's reassessment of its foreign policy towards India has its roots in the Chinese reform process which was initiated by former leader Deng Xiaoping in the early 1980s. Since then, China's overall foreign policy has shifted towards an emphasis on active engagement and cooperation with other countries. The reform process laid the groundwork for China's rapid economic growth and put the country's economic interests at the forefront of its foreign policy. While China's policy towards India has generally been a continuation of the policies promoted by Deng, it is further influenced by New Delhi's growing regional and global political influence. Although it is uncertain to what extent the rise of India will prompt a transformation of China's foreign policy, the relationship with India is likely to attract more attention in Beijing's strategic calculations.

## 2.3 Concluding remarks

This chapter has presented a basic historical overview of Sino-Indian relations and China's foreign policy towards India. Although the two states were established towards the end of the 1940s, enduring positive interaction in their bilateral relationship did not begin until the late 1970s. Prior to this, the two countries had waged a month-long war over their disputed borders in 1962. The border conflict was followed by a political stalemate underlined by the realities of the Cold War. As of the early 1980s, however, Sino-Indian relations took a new turn towards engagement, growing economic ties and increased multilateral cooperation.

Beijing is becoming more attentive to its rising neighbour and has come to pursue a two-sided strategy in its relationship with India. On the one hand, China aims to bring India closer through deepened economic ties and bilateral mechanisms aimed at preventing conflict. The most recent readjustment of Beijing's India policy has been driven primarily by its economic interests. A fundamental aspect of this policy is to promote a regional security environment that is conducive to growing economic interaction with India. On the other hand, China's India policy is characterised by efforts to prevent New Delhi from challenging Chinese interests, in particular in terms of its "national core interests." These interests involve factors which China will not compromise on, such as matters related to its territorial integrity. In essence, this two-sided strategy implies that Beijing's efforts to increase engagement with New Delhi run a constant risk of being disrupted by actions perceived as undermining China's national interests.

Although the bilateral relationship has improved significantly over the past 30 years, significant areas of friction remain. This limits the prospects for closer Sino-Indian relations. Large parts of the border are still disputed. At the same time, new uncertainties are emerging as both countries develop their military capabilities and establish closer relations with other states in the region. China's



economic interaction with India is also facing challenges. For example, there are concerns in India regarding its substantial trade deficit with China.

The next chapter focuses on these key areas of contention and identifies the perceptions among Chinese scholars and officials on these issues. Their views indicate the difficulties in decreasing the mutual mistrust and improving the relationship in the longer term.

### **3 Major Issues in the Sino-Indian Relationship**

There is a lot of potential in Chinese and Indian cooperation. From a political, economic and societal point of view, both states could benefit significantly from improving relations. Despite recent foreign policy adjustments, the underlying obstacle of mutual mistrust has yet to be successfully addressed. The most important factors when discussing this mutual mistrust are (1) historic disputes, (2) economic interests, (3) strategic and economic relations with regional and global powers, and (4) interpretations of the intentions behind the two countries' respective military build-ups.

This chapter describes how these four main factors shape the relationship between China and India, with an emphasis on Chinese perceptions. Each section provides a background to the issues, followed by an analysis of key judgements expressed by Chinese observers, in order to identify Chinese perspectives on Sino-Indian relations.

#### **3.1 Historical disputes**

China's relationship with India is burdened by two main historical disputes, which both relate to Tibet and adjacent areas and which limit the possibilities of improving bilateral relations. First, India is the only country with which China has an unresolved land border dispute. Second, the Indian city of Dharamsala is the base of the Tibetan government-in-exile (TGIE), which China claims is pursuing an agenda of separating Tibet from China. The general assessment of how to handle these two historical disputes, heard from both officials and scholars in China, is that they should continue to be managed outside of other dialogues. However, the views reflected below show that there is a divergence of opinion among China's India scholars in regard to the prospects for a resolution of the border dispute.

##### **The border dispute**

China and India have competing claims on territory in the border regions, where Tibet meets India's northern states. Large parts of the 3,500 km-long border remain disputed. India claims sovereignty over roughly 38,000 square kilometres in the Aksai Chin region as well as pockets south of this region, areas which are controlled by China and form parts of its autonomous regions of Xinjiang and

Tibet. Moreover, India maintains that Pakistan illegally ceded some 5,000 sq. km. of northern Kashmir to China in 1963.<sup>49</sup>

China, for its part, has claims on most of the Indian state of Arunachal Pradesh, which it asserts forms part of Tibet. Since 2007, Chinese officials and analysts have referred to the area as “South Tibet”.<sup>50</sup> These Chinese claims amount to 90,000 sq. km. of Indian territory east of Bhutan; the total land area of Arunachal Pradesh is 83,743 sq km<sup>51</sup> (see Map 2). While India in 2003 acknowledged Chinese sovereignty over Tibet, it has not changed its interpretation of the boundary which is based on the McMahon line, dating back to the Simla conference of 1913–1914. In 1962, the two countries fought a brief war over the border.

By 2010, the two countries had held 14 rounds of talks aimed at resolving the border dispute through the special representative mechanism, which has been in place since 2003. These discussions have yet to produce any tangible results. Instead, the focus has been on developing measures aimed at preventing misunderstandings which could lead to skirmishes across the border.

A resolution of the border dispute would probably provide ample space for improved relations. Threat perceptions in both countries would be diminished, offering new prospects for deepened cooperation. Such a development would serve to limit mutual suspicion; hence it is vital that both countries engage in constructive dialogue to a greater extent than is the case today.

### **Chinese perceptions**

*There is no political room for a resolution of the border dispute.<sup>52</sup> The main task in regard to the border issue is crisis management.<sup>53</sup>*

Chinese observers, echoing official statements, argue that the border issue will not be settled in the near term and should therefore be discussed separately, outside of other dialogues. The main obstacle is a combination of national pride, history, geography, and strategic considerations. One observer asserts that the Indian population lacks an understanding of what the border issue is about, which is blamed on disinformation from the Indian government. A common misperception in India, according to this observer, is that China has a large military presence close to the border.<sup>54</sup>

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<sup>49</sup> Indian Armed Forces website, ‘Security Environment - An Overview’, Last Accessed: 9 Aug, 2010.

<sup>50</sup> Interview #6

<sup>51</sup> Goswami, Namrata, ‘China’s Territorial Claim on Arunachal Pradesh: Crafting an Indian Response’, IDSA Issue Brief, Published: 25 Oct, 2010. Last Accessed: 9 Aug, 2011.

<sup>52</sup> Interview #1

<sup>53</sup> Interview #7

<sup>54</sup> Interview #3

While several interviewees assert that the Chinese government under Hu Jintao/Wen Jiabao has made progress on the border dispute during the past decade, there is a consensus that there will be no resolution of the dispute under the next administration in Beijing, which will formally be in place during spring 2013.<sup>55</sup>

On the basis of the limited prospects for a near-term resolution of the issue, observers state that the main task for both countries is to keep peace and tranquillity along the border.<sup>56</sup> Crisis management is handled by the special representatives on the border issue. Accidental incursions from both sides happen occasionally but are managed effectively thanks to the hotline set up in 1997 to connect the special representatives, according to one observer.<sup>57</sup> According to Indian academic Brahma Chellaney, the Indian military in 2008 recorded 270 border violations and nearly 2,300 cases of “aggressive border patrolling” by Chinese soldiers.<sup>58</sup> While such data are difficult to corroborate, these numbers have been widely cited in reports on the PLA’s activities in the border regions.<sup>59</sup> It is argued that the main reason for the incursions is that China and India differ in their interpretation of the LAC. Indian incursions mainly happen in the western sectors (into Aksai Chin), whereas Chinese incursions happen in the eastern sector (into Arunachal Pradesh).<sup>60</sup>

*Friendly dialogue is the only way to resolve the border dispute*<sup>61</sup>

Chinese scholars note that the issue of the border dispute is often raised by Indian academics, military officers and diplomats as a concern. In response to Indian concerns, Chinese experts assert that the PLA’s decision to pull out of Arunachal Pradesh after winning the 1962 border war shows that China does not want continued conflict. One interviewee stated that Chinese scholars tend to be more careful and conservative than their Indian counterparts in their analyses, and that they emphasise the necessity of friendly dialogue and continued joint military exercises as a means to increase mutual understanding.<sup>62</sup>

Several analysts state that the key to resolving the border dispute, or at least preventing conflict, is that both sides have their troops under control. However, others correctly point out that the political mechanisms in place to maintain stability around the border are not designed to produce a resolution to the

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<sup>55</sup> Interview #10

<sup>56</sup> Interview #8

<sup>57</sup> Interview #2

<sup>58</sup> Chellaney, Brahma, ‘India’s Growing China Angst’, Far Eastern Economic Review, Published: Sept 2, 2009. Last Accessed: 11 Aug, 2011.

<sup>59</sup> See, for example United States Department of Defense Office of the Secretary of Defense, *Military and Security Developments Involving the People’s Republic of China 2010*.

<sup>60</sup> Interview #1

<sup>61</sup> Interview #8

<sup>62</sup> Interview #2

dispute.<sup>63</sup> Both Chinese and Indian military strategists are believed to have an interest in emphasising the threat from the other side of the border in order to get more funding, which further complicates matters.<sup>64</sup>

Chinese diplomats are concerned that Indian media reports tend to focus on the threat from the Chinese side of the border, and see it as their task to convince the Indian government that China has friendly intentions.<sup>65</sup>

*A grand bargain on Aksai Chin/Arunachal Pradesh*

While Chinese observers in general argue that China is satisfied with the status quo around the border, they recognise that the long-term status quo is in the interest of neither country. Eventually, both countries will want to resolve the dispute to their advantage.<sup>66</sup> One observer states that China should renegotiate with India and pull back from Aksai Chin, in spite of Aksai Chin's strategic location adjacent to Kashmir. Both territorial disputes should be settled at once: China should quit Aksai Chin, while Indian troops should pull out of Arunachal Pradesh.

Through such a trade-off, the symbolically and strategically important area of Tawang would come under Chinese control. Tawang, located in the north-western part of Arunachal Pradesh, is home to one of the most important monasteries of Tibetan Buddhism and the area in which the 6<sup>th</sup> Dalai Lama was born. China has long wanted to resolve the Tawang issue in a way that is favourable to itself, which is currently politically impossible.<sup>67</sup> Observers, however, differ in their accounts of why sovereignty over Tawang has become such an important issue for China. Some refer to the religious significance of the Tawang monastery to China's Tibetan community.<sup>68</sup> Meanwhile, others see the area as a potential key strategic position for the PLA, due to the fact that the only road to southern Tibet passes through Tawang.<sup>69</sup> However, merely controlling Tawang would not be sufficient to justify China giving up its claims to rest of the "South Tibet" region, according to more than one interviewee.

A trade-off such as that suggested above seems not to be feasible in the current circumstances. This is mainly due to the political sensitivity surrounding the border issue in both countries combined with the strategic location of Aksai Chin. Furthermore, it would not be acceptable in China to suggest such a trade-off. It is argued that no Indian government would agree to let go of Tawang.<sup>70</sup>

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<sup>63</sup> Interview #1

<sup>64</sup> Interview #5; Interview #7

<sup>65</sup> Interview #8

<sup>66</sup> Interview #3

<sup>67</sup> Ibid.

<sup>68</sup> Interview #2; Interview #7

<sup>69</sup> Interview #2; Interview #3

<sup>70</sup> Interview #3

As early as in 1960, China proposed a quid pro quo settlement recognising the status quo: Chinese control of Aksai Chin and Indian control of Arunachal Pradesh. It reiterated this proposal in 1981, but India rejected it both times.<sup>71</sup>

One analyst suggests that India should allow the descendants of the local population to hold a referendum on whether the region should be part of India or China. However, the most likely outcome is that the majority would support Arunachal Pradesh remaining as a part of Indian territory.<sup>72</sup>

### **The Tibetan government-in-exile**

The TGIE has been located in the Indian city of Dharamsala since 1959. India is also home to the absolute majority of Tibetans living outside China. According to the TGIE, more than 127,000 Tibetans live in exile,<sup>73</sup> which can be compared to the Tibetan population in China of 5.4 million people, according to China's 2000 census.<sup>74</sup>

The official position of the Chinese government is that the TGIE (which lacks international recognition), and Tibet's spiritual leader the Dalai Lama in particular, are pursuing an agenda aimed at separating the Tibet Autonomous Region (TAR) and adjacent Tibetan areas from China. China sees Indian support for the TGIE and the Dalai Lama as conflicting with India's One-China Policy, due to India's official acknowledgement in 2003 that the TAR forms part of China. Indeed, India is seen as protecting separatists challenging China's "core national interest" of sovereignty and territorial integrity.

However, despite calls for independence from many Tibetans, the Dalai Lama has for over 20 years instead demanded greater autonomy – within the PRC.<sup>75</sup> Yet China refuses to engage in any meaningful discussion with the Dalai Lama's envoys about the future of Tibet. The explanation for this, put forward by several Chinese observers, is that their government will not act on the Tibet issue until the current Dalai Lama passes away.

During the spring of 2011, however, the Dalai Lama stated that he would formally give up his political role. In August, 2011, Lobsang Sangay was sworn in as the first democratically-elected leader of the TGIE. Prior to the handover of political power, it had been unclear who would take on the Dalai Lama's role as

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<sup>71</sup> Hardgrave, Robert L. and Kochanek, Stanley A., *India: Government and Politics in a Developing Nation*, (Boston, Ma: Thomson Wadsworth, 2008), p. 504.

<sup>72</sup> Interview #10

<sup>73</sup> Press Trust of India, '127935 Tibetans living outside Tibet: Tibetan survey', Hindustan Times, Published: Dec 4, 2010. Last Accessed: 11 Aug, 2011.

<sup>74</sup> Xinhua, 'Report: Tibetan Population Grows Fast, Language Education Stressed', Published: April 1, 2009.

<sup>75</sup> The Economist/Banyan, 'The Indispensable Incarnation', Published: 6 Jan, 2011. Last Accessed: 12 Aug, 2011.

a political leader. It is still too early to tell if Sangay will be accepted by the Tibetan community, or by the Chinese government, as a spokesperson for the Tibetans.

### **Chinese perceptions**

*India should strive to limit the activities of the TGIE.*

India in 2003 formally recognised the Tibet Autonomous Region as a part of China, a decision which Chinese scholars see as the end to the Tibet issue on the political level.<sup>76</sup> Instead, the issue has since then been limited to the TGIE's activities in India. It is argued that any Chinese suspicion of India is mainly rooted in the fact that the TGIE maintains a presence in the country.<sup>77</sup> Many observers argue that India uses the TGIE as a bargaining chip to exert pressure on China and they are therefore concerned that India does not honour its promise to crack down on the activities of the TGIE, which it is still active on Indian soil.<sup>78</sup> The Indian government has made clear that it expects Tibetan refugees in India to "refrain from political activities and those activities that affect our relations with other friendly countries". However, this is what it also expects from "other guests" to the country.<sup>79</sup>

One observer sees the Nepalese government's crackdown on activities by exile Tibetans as a good example which India could learn from.<sup>80</sup> According to Human Rights Watch, Tibetan refugees have in recent years faced increased harassment by Nepali authorities in efforts to appease China. Several instances of arrests, criminalisation of entry, and detention and deportation of Tibetan refugees were reported in 2010.<sup>81</sup>

*The Tibet connection is likely to sour Sino-Indian relations in years ahead.*

While Chinese observers state that it is hard to predict what the Indian government's reaction to the current Dalai Lama's death will be, most argue that it is in India's strategic interest to continue to use the Tibet issue to justify its territorial claims.<sup>82</sup> Hence, it is likely that the issue of the TGIE will continue to complicate Sino-Indian relations in a post-Dalai Lama environment as well.<sup>83</sup> For example, the Tibetan Youth Congress (TYC) could potentially become a difficult issue in the relationship, according to one observer.<sup>84</sup> The TYC, which is based

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<sup>76</sup> Interview #4

<sup>77</sup> Interview #5

<sup>78</sup> Interview #4; Interview #10

<sup>79</sup> Bagchi, Indrani, 'India breaks silence, calls for talks on Tibet', The Times of India, Published: 16 March, 2008.

<sup>80</sup> Interview #4

<sup>81</sup> Human Rights Watch, *World Report 2011: Nepal*, (2011).

<sup>82</sup> Interview #1

<sup>83</sup> Interview #4

<sup>84</sup> Interview #3

in Dharamsala, was branded as a terrorist organisation by Chinese state media in the aftermath of the March 2008 unrest in Lhasa.<sup>85</sup>

As one observer points out, Chinese officials refrain from discussing the Tibet issue with their Indian counterparts. The issue is only brought up with the US and the EU, in the context of protesting against high-level meetings with the Dalai Lama which take place occasionally.<sup>86</sup>

It should be noted that the Dalai Lama has stated that it is not evident that he will be reincarnated. In any case, it is likely that the Chinese government will itself select the 15<sup>th</sup> Dalai Lama. Following the death of another senior lama, the 10<sup>th</sup> Panchen Lama, China recognised a child as his reincarnation. The “Tibetan” Panchen was arrested in China and his whereabouts remain unknown.<sup>87</sup> If the Chinese government is to recognise its own Dalai Lama, there is a possibility of rising tensions between Tibetans and Han Chinese. Whether or not this would, in turn, impact Sino-Indian relations depends on how the Indian government chooses to handle the issue.

## 3.2 Economic interests

The primary goal of both China and India is to safeguard domestic economic growth and stability. Both countries have an interest in boosting bilateral trade and investment. However, while trade is growing rapidly, a number of factors stand in the way of deepened trade ties. Indian concerns with the large trade deficit with China and the low level of bilateral investment reflect the poor state of political ties (see Appendix II, page 52).

Moreover, the two Asian neighbours have yet successfully to address the risk of intensified strategic and economic rivalry overseas, which could be detrimental to the development of their bilateral relations as well as their national interests. This is particularly obvious in regard to their efforts to gain access to natural resources.

India still lags behind China in terms of economic development and is mostly the weaker player in terms of the investment and trade rivalry. While both are expanding their footprint overseas, for example in Africa and in Latin America, India has been forced to play catch-up. The main reason for this is the fact that India launched economic reforms more than a decade after Deng Xiaoping began opening up China’s economy in the early 1980s.

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<sup>85</sup> Xinhua, “‘Tibetan Youth Congress’ Is Pure Terrorist Organization”, Published: April 10, 2008.

<sup>86</sup> Interview #3

<sup>87</sup> BBC News, ‘Tibet’s missing spiritual guide’.



## Natural resources

China and India have a rapidly growing demand for natural resources, in particular oil and natural gas, in order to keep up economic growth. China and the US are currently the leading consumers of primary energy and will be joined by India around 2035 as the world's top three energy consumers according to the projections of the International Energy Agency (IEA).<sup>88</sup> In both China and India, oil is mainly imported from Saudi Arabia, Iran and other Middle Eastern countries, where rivalry is intensifying. Sino-Indian energy competition has also become fierce in Central Asia, underlined by the rival bids for a major oil company in Kazakhstan in 2005. Competition between state-owned energy companies from the two countries has also intensified in African and Latin American countries, as well as in Russia and Burma.<sup>89</sup>

## Chinese perceptions

*China and India should cooperate more closely in the energy field.*

The two countries have competed in acquiring access to a dozen energy projects overseas since 2004. However, Beijing and New Delhi have realised that if they do not manage this rivalry in an appropriate manner, it will have adverse effects on their overall bilateral relations. According to one observer, the countries still lack mechanisms to keep the rivalry on a stable level.<sup>90</sup> On the other hand, it is argued that governments in both countries would intervene to stabilise the situation if economic disputes were to escalate.<sup>91</sup>

While China and India agreed in 2005 to jointly “engage in the survey and exploration of petroleum and natural gas resources in third countries”, meaningful cooperation agreements have yet to materialise.<sup>92</sup> Energy companies from both countries have agreed to cooperate in the realm of energy security, for example in Sudan and Kazakhstan, but these are rare cases.<sup>93</sup> A Chinese analyst notes that combining India's knowledge of legal systems and administration in Western countries with China's financial strength is bound to increase both countries' ability to compete with powerful companies in the West.<sup>94</sup>

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<sup>88</sup> International Energy Agency, *World Energy Outlook 2010*, (Paris: International Energy Agency, 2010).

<sup>89</sup> Zhang, Weijie, ‘当前中印关系中的能源因素 [The Energy Factor in Current Sino-Indian Relations]’, *现代国际关系 [Contemporary International Relations]*, vol. 12, 2010, pp. 53-57.

<sup>90</sup> Interview #1

<sup>91</sup> Interview #11

<sup>92</sup> Zhang, ‘The Energy Factor in Current Sino-Indian Relations’, pp. 55-56.

<sup>93</sup> Interview #11

<sup>94</sup> Zhang, ‘The Energy Factor in Current Sino-Indian Relations’, pp. 55-56.

## Bilateral trade and investment

Sino-Indian trade has been expanding rapidly in recent years, albeit from a low level. In 2010 alone, bilateral trade rose by over 40 per cent to \$62 billion, and it has now witnessed a 30-fold increase in since 2000. China is now India's biggest trade partner, while India ranks ninth among China's trade partners. By 2015, the two countries aim to reach \$100 billion in bilateral trade. As a result of this development, Chinese manufactured goods, technology and labour have become an integral part of the Indian economy.

Sino-Indian trade relations are, however, also characterised by a large Indian trade deficit. In 2010 alone, India's exports to China were \$20 billion lower than those of China to India. Its information technology (IT) services industry represents India's main competitive advantage, but several of India's other business sectors have come under pressure from Chinese imports. One Chinese observer notes that since 2009 India has strengthened control of imports in sensitive products and has adopted measures to limit imports of telecommunications equipment. Such measures are believed to be directly targeted at limiting imports from China.<sup>95</sup>

Though difficult to assess, the extent of bilateral investment is slowly increasing but continues to be modest. Even by official Chinese accounts, total Indian investment in China amounted to a mere \$300 million by March 2010 while China had invested \$260 million in India.<sup>96</sup> By 2009, China's aggregated FDI in India was valued at \$221 million. To offer a comparison, Pakistan had attracted \$1.5 billion of Chinese FDI, nearly seven times the amount of its FDI in India.<sup>97</sup> Chinese analysts mainly attribute the low level of investment to protectionist measures on India's part, driven by concerns with China's rising economic clout.

Several analysts see the deepening economic ties between China and India as a reflection of a generally stabilised relationship. Others, however, argue that trade is in fact the only area in which the bilateral relationship has been strengthened.<sup>98</sup>

## Chinese perceptions

*India is employing protectionism to address its trade deficit with China.*

Most Chinese analysts regard increasing trade and investment relations as crucial for the development of Sino-Indian relations. The deepening trade ties have

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<sup>95</sup> Wu, Cuihua and Zhao, Lili, '中印经贸竞合之道：龙象共舞 [The Way of Sino-Indian Trade Competition: Dance of the Dragon and the Elephant]', *中国商贸 [China Business & Trade]*, vol. 20 (2011).

<sup>96</sup> Nagdeote, Tripti, 'For better trade cooperation between China and India, we need to jointly oppose protectionism in all forms', *Business Economics*.

<sup>97</sup> Ministry of Commerce of People's Republic of China, '2009 Statistical Bulletin of China's Outward Foreign Direct Investment'.

<sup>98</sup> Interview #3

served as a symbol during the Hu Jintao/Wen Jiabao administration since the year 2000 for a positive development of the overall relationship.<sup>99</sup>

As noted above, India remains concerned with the large and growing trade deficit that it has with China, which is a result of India being an exporter of raw materials while China primarily exports manufactured goods. Moreover, Chinese companies are often accused of dumping products on the Indian market, that is, exporting products at lower prices than they charge in their home market. In fact, no other country has initiated more anti-dumping investigations with the World Trade Organization against China than India.<sup>100</sup> In this sense, bilateral trade also has negative implications for Sino-Indian relations, which some Chinese observers regard as an impediment to improving bilateral ties.<sup>101</sup>

One observer argues that India should realise that the trade imbalance is a normal result of the countries' competitive advantages – China being the “workshop of the world” and India being the “back office of the world”. The two countries simply have different models for their development: China's model is based on exports of manufactured goods, while India's development is driven by high levels of consumption and exports of IT services. At the same time, India is putting a great deal of effort into establishing production capabilities.<sup>102</sup> As one analyst points out, India's trade deficit will eventually disappear as a bilateral issue as a result of the country's efforts to industrialise.<sup>103</sup>

In the meantime, however, the Sino-Indian economic relationship will continue to be hampered by a lack of mutual understanding. Hence, analysts argue, companies in both countries need to deepen their understanding of the political system across the border. India's manufacturing industry has suffered from the global economic turmoil in recent years and has therefore become more aware of the need to protect its interests. As Chinese products dominate Indian imports, China has become the main target of India's protectionism.<sup>104</sup>

Chinese investments in India remain modest, a fact which some observers blame on Indian protectionist policies.<sup>105</sup> The bulk of Chinese investments are directed toward the manufacturing and telecoms sectors, which India has not opened fully to Chinese investment. This also applies to India's services sector, which dominates the Indian economy.<sup>106</sup> China's Ministry of Commerce asserts that

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<sup>99</sup> Ibid.

<sup>100</sup> Reuters, ‘Top issues in India, China ties: Factbox’, Published: 11 Dec, 2010. Last Accessed: 12 Aug, 2011.

<sup>101</sup> Interview #11

<sup>102</sup> Ibid.

<sup>103</sup> Interview #5

<sup>104</sup> Wu and Zhao, ‘The Way of Sino-Indian Trade Competition: Dance of the Dragon and the Elephant’, p. 173.

<sup>105</sup> Interview #1; Interview #11

<sup>106</sup> Interview #3

Chinese companies have suffered from Indian regulations in recent years. For example, India has adopted stricter visa regulations, hurting Chinese companies who favour employing workers from home. The ministry also notes that India has put restrictions on investments by Chinese companies in the telecoms sector, citing security reasons.<sup>107</sup> While analysts state that India maintains specific restrictions on investment from China, many assert that Indian investments do not undergo the same scrutiny in China.<sup>108</sup>

As noted by the Organisation for Economic Co-operation and Development (OECD), India does maintain heavy restrictions on FDI especially in the services and network sectors, and its regulations governing FDI are also relatively opaque. Partly due to this fact, FDI inflows to India remain low as a share of investment in international comparison.<sup>109</sup>

One observer argues that Chinese technology firms are also trying to become transparent in order to deflect Indian criticism of their intentions. As an example, Chinese telecoms equipment maker Huawei has reportedly offered to share its source codes in order to convince India that its investments do not constitute a security threat to the country.<sup>110</sup>

*China cannot afford a deterioration of relations with India.*

Chinese observers regard deepened economic interdependence as a guarantor for stable bilateral relations and a means to develop mutual trust.<sup>111</sup> Due to China's focus on sustained economic growth, it would be detrimental to China's interest if relations with India deteriorated. Moreover, improved trade relations will in turn facilitate the management of other bilateral issues, according to observers.<sup>112</sup> Nevertheless, it should be noted that mutual trust is in itself a requirement if economic cooperation is to develop.

### 3.3 Relations with regional and global powers

The relationship between China and India also affects, and is affected by, regional dynamics and relations with other countries. China and India maintain close relationships with each other's strategic rivals. China has a strong bond with Pakistan, with which India has fought three wars and which it still today

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<sup>107</sup> Ministry of Commerce of the People's Republic of China, '国别贸易投资环境报告2010 [Foreign Trade and Investment Environment Report 2010]'.

<sup>108</sup> Interview #3

<sup>109</sup> Organisation for Economic Co-operation and Development (OECD), *OECD Economic Surveys: India 2011* (Paris: OECD Publishing, 2011), p. 42.

<sup>110</sup> Interview #11; Reuters, 'China's Huawei offers to share source code – report', Published: 14 May, 2010. Last Accessed: 10 July, 2011.

<sup>111</sup> Interview #4

<sup>112</sup> Ibid.

perceives as a significant threat to its national security. An example of Chinese support to Pakistan is its assistance in the development of Pakistani nuclear capabilities. India, for its part, has developed a closer strategic relationship to the United States, which in 2006 agreed to provide support to its civilian nuclear programme despite India not being a signatory of the Non-Proliferation Treaty (NPT).<sup>113</sup>

In terms of its international relations, China is said to be focusing on three groups of countries: big powers (mainly the US, the EU, Russia and Japan), neighbouring countries and developing nations.<sup>114</sup> Among European nations, relations with France, Germany and the United Kingdom have the highest priority. Despite the fact that India fits into all of the three categories and perceives China as the main threat towards its national security, Beijing obviously considers India to be of less importance than its relationships with the countries mentioned above.<sup>115</sup>

### Chinese perceptions

*The US and the EU do not want China and India to improve their relations.*<sup>116</sup> Several Chinese analysts argue that the measures taken by the US and India to cooperate in the realm of security is highly pragmatic. They both strive to use each other as a counterweight to China, limiting Chinese influence.<sup>117</sup> The EU's efforts to establish a closer relationship with India are also believed to be partly motivated by concerns in member states about the rise of China. According to scholars, these concerns are based on Western theories of a Chinese threat within fields such as military power, access to natural resources and technology development. By supporting India, the EU is attempting to balance and control China's ascent.<sup>118</sup>

At the same time, it is also argued that Western powers have no interest in India and China developing a closer relationship. Instead, analysts state that the US and the EU are attempting to break the relationship between the two Asian powers.<sup>119</sup> Moreover, the notion that India shares many of Europe's fundamental values means that the EU is not capable of playing an impartial role in terms of the Sino-Indian relationship.<sup>120</sup>

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<sup>113</sup> VandeHei, Jim and Linzer, Dafna, 'U.S., India Reach Deal On Nuclear Cooperation', The Washington Post, Published: 3 March, 2006.

<sup>114</sup> Interview #2; Interview #4

<sup>115</sup> Interview #3

<sup>116</sup> Interview #1

<sup>117</sup> Ibid; Interview #3

<sup>118</sup> Geng, Feng and Qi, Lin, '欧盟对印关系初探 [An Initial Glance at Indo-EU Relations]',

*现代国际关系 [Contemporary International Relations]*, vol. 1, 2007, p. 138.

<sup>119</sup> Interview #1

<sup>120</sup> Ibid.

*India's strategic partnership with the United States is of no concern to China.* Some scholars in China see a risk that deepened engagement between the US and India will have an adverse impact on China's security environment. However, the mainstream view is that the development of Indo-US security cooperation is impeded by the fact that their fundamental interests differ on many accounts. Moreover, Chinese observers are convinced that India will stick firmly to its independent foreign policy.<sup>121</sup>

As international relations scholar Yuan Fang argues, there are three main impediments to the development of security cooperation between the US and India. The first issue is nuclear engagement, where the US in 2006 agreed to assist India in the development of its civilian nuclear energy programme. However, India has yet to sign the Comprehensive Test Ban Treaty (CTBT) or the NPT, despite pressure from the Obama administration to comply. Second, on the issue of counter-terrorism, the US has focused on building security relations with Pakistan. Due to the enmity between India and Pakistan, Washington has deliberately kept India at a distance in order not to raise concerns in Islamabad. Finally, on maritime cooperation, the US will not allow India to achieve hegemony in the Indian Ocean region. Given the US dependence on imported oil, the need to safeguard sea lines of communication (SLOCs) has prompted the country to establish a naval strategy in the Indian Ocean. Part of this strategy has been to develop stronger ties with India, which could alleviate the US burden in the Indian Ocean. However, as the US does not welcome an expansion of India's naval capabilities, it has taken steps to keep India from fully controlling the region. For example, the US Navy has conducted joint naval exercises with countries such as Pakistan and Bangladesh, with the ultimate goal of keeping India in check.<sup>122</sup>

Military cooperation between India and the US is likely to be limited to arms trade,<sup>123</sup> and in the current situation an intimate relationship with the US could jeopardise India's imports of military equipment from Russia.<sup>124</sup> Another Chinese observer states that Indian cooperation with the US would only be a potential problem if India wanted to exert control over China's trade flows in the Indian Ocean.<sup>125</sup>

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<sup>121</sup> Ibid; Interview #10

<sup>122</sup> Yuan, Fang, '积极发展中印双边关系 [Actively Developing Sino-Indian Bilateral Relations]', *传承 [Inheritance & Innovation]*, vol. 2 (2010), p. 138.

<sup>123</sup> Interview #6

<sup>124</sup> Ibid.

<sup>125</sup> Interview #1

*Sino-Pakistani security cooperation is beneficial for regional stability*<sup>126</sup>

Chinese observers argue that China's support of Pakistan is based on a long-term friendship and is not directed against India.<sup>127</sup> Moreover, they argue, security cooperation between China and Pakistan is a positive factor for maintaining stability in the region, not least in terms of Indo-Pakistani enmity.<sup>128</sup> If war were to break out between India and Pakistan, it would seriously hamper India's development.<sup>129</sup>

In response to Indian concerns over Chinese support to Pakistan's armed forces, one scholar asserts that China will not export military equipment that could constitute a threat to any third country. According to this scholar, concerns among Indians over the close relationship between China and Pakistan "constitute a reflection of their misunderstanding and flawed reasoning".<sup>130</sup> Due to the enmity between India and Pakistan, another observer states that there is a high risk that their rivalry could lead to conflict in Afghanistan.<sup>131</sup>

*Russia plays a minor role within the scope of Sino-Indian relations.*

Chinese observers do not see Russia as an active player in India and argue that Russia has been continuously losing its strategic influence.<sup>132</sup> Russia's role within the Sino-Indian relationship is strictly limited to arms trade, it being the main supplier of military equipment to both China and India.<sup>133</sup> In recent years, there has been a clear trend of falling Russian arms exports to China, as Beijing has been able to develop its defence industry. Another reason cited by observers for the decreasing arms transfers to China is Russia's concerns over selling military high technology to China. The main reason for this is believed to be China's capabilities for reverse engineering and redistributing this technology.<sup>134</sup>

At the same time, India has boosted its defence procurement from overseas, leading to an increase in Russia's exports to India.<sup>135</sup> Chinese analysts maintain that India's dependence on Russian arms should not be regarded as a problem.<sup>136</sup> Moreover, one observer argues that the importance of Russian arms exports to

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<sup>126</sup> Interview #6

<sup>127</sup> Interview #3

<sup>128</sup> Interview #6

<sup>129</sup> Interview #10

<sup>130</sup> Wang, Hongwei, 'Some Thoughts on Sino-Indian Relations', *China Tibetology*, no. 2 (September 2010).

<sup>131</sup> Interview #6

<sup>132</sup> Interview #7

<sup>133</sup> Grevatt, Jon, 'China and Russia agree to expand defence relations', *Jane's Defence Weekly*, Published: 9 Aug, 2011. Last Accessed: 10 Aug, 2011.

<sup>134</sup> Interview #1; Interview #3

<sup>135</sup> Interview #3

<sup>136</sup> Interview #7

India is likely to decrease substantially over the coming three to five years as India strives to diversify its supplier base.<sup>137</sup>

Observers also note that Russia could form part of a trilateral strategic partnership with China and India. The three countries have already established bilateral strategic partnerships and analysts state that they have good reasons to deepen their cooperation further. A trilateral engagement can, for example, serve as a platform to prevent conflict between China and India. Moreover, this could serve as an opportunity for collaboration in the fields of counter-terrorism and fighting transnational crime.<sup>138</sup> One example of such cooperation in the realm of security is the SCO, which is led by China and Russia with India holding a position as an observer. As noted by one observer, China is using the SCO as a platform for developing strategic partnerships with Russia.<sup>139</sup>

Energy demand in China and India is an important part of their respective relations with Russia. Considering India's dependence on imported oil and China's status as the world's biggest energy consumer, one scholar argues that there is room for trilateral cooperation in the energy field, as Russia is a major supplier. Regardless of the area of cooperation, observers note that a prerequisite for successful collaboration is that Sino-Indian and Sino-Russian relations develop smoothly.<sup>140</sup>

### 3.4 Military build-up

Indian concerns regarding China's military ambitions is not a new phenomenon. The 1962 border conflict mentioned above continues to influence Indian strategic perceptions of China and India's military build-up is in part a result of its experiences from this conflict. Meanwhile, Chinese observers tend to view the border war as a historical relic reflecting past enmity.

While India perceives China as the biggest threat to its national security, prompting it to modernise its military capabilities, China regards the United States as its main strategic rival. Indian strategists, calling for greater transparency on China's part regarding this modernisation, point out that some of China's capabilities can also be used to limit India's regional influence and power projection capabilities. Consequently, India has identified a need to maintain military parity with China by modernising its military.

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<sup>137</sup> Interview #6

<sup>138</sup> Hu, Zhiyong, '21世纪“中印俄”战略三角关系及其影响 [21st Century “China-India-Russia” Strategic Relations and Their Influence]', *当代亚太 [Journal of Contemporary Asia-Pacific Studies]*, vol. 8 (2006), p. 56.

<sup>139</sup> Interview #1

<sup>140</sup> Hu, '21st Century "China-India-Russia" Strategic Relations...', p. 58.



On the other hand, Chinese strategists view China's build-up and advancement of its military capabilities as a natural consequence of its growing economic might and refrain from portraying India as a strategic threat. However, improved Indian capabilities also create new uncertainties. As a result, Chinese scholars and officials are starting to take India more seriously.<sup>141</sup>

### **Military capabilities, force posture and deployment**

Changing regional security dynamics, a widening of the scope of the two countries' strategic interests and existing threat perceptions underline the advancement of China's and India's military capabilities. While their respective incentives for modernisation may differ, the end result is nevertheless an increasingly fragile security environment augmenting the already existing mutual suspicion.

Although the two countries are restricted by the established CBMs in the extent to which they can increase their force posture in the border areas, they have been upgrading existing capabilities and border area infrastructure. New Delhi has developed its force posture on its side of the Line of Actual Control, deploying units with improved operational capabilities. For instance, India upgraded its air combat capabilities in the eastern sector by phasing out its older MiG-21s there in favour of two new squadrons of Sukhoi-30 MKIs.<sup>142</sup> Furthermore, it recently deployed two new mountain warfare infantry divisions to its eastern border states, totalling an additional 36,000 troops. With the additional two divisions, India deploys a total of five army divisions in its eastern sector.<sup>143</sup> Observers on the Indian side have identified the need for India to develop its capabilities – both military and infrastructure – in the border areas adjacent to Tibet.<sup>144</sup>

China has, in turn, also developed its operational capabilities in the provinces bordering India. The Pentagon's 2010 report on China's armed forces suggests that the road developments in Tibet, running along the border with India and primarily aimed at furthering economic development in western China, would also be able to facilitate PLA border defence operations. For instance, the now 40,000-km long road network in Tibet would allow the PLA to mobilise and deploy combat forces on a large scale on its western periphery in a short period of time.<sup>145</sup> Moreover, the Pentagon report observes that the PLA has replaced

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<sup>141</sup> See, for example Saalman, Lora, "Divergence, similarity and symmetry in Sino-Indian threat perceptions", *Journal of International Affairs*, vol. 64, no. 2, (2011), p. 172.

<sup>142</sup> Pandit, Rajat, 'Sukhoi base in east to counter China', *The Times of India*, Published: 28 Sep. 2007. Last Accessed: 14 July 2011.

<sup>143</sup> Bhaumik, Subir, 'India to deploy 36,000 extra troops on Chinese border', *BBC News*, Published: 23 Nov, 2010. Last Accessed: 9 Aug 2011.

<sup>144</sup> Rajagopalan, Rajeswari Pillai and Prasad, Kailash, 'Sino-Indian Border Infrastructure: Issues and Challenges', *ORF Issue Brief*, no. 23 (2010).

<sup>145</sup> Ibid.

older liquid-fuelled, nuclear-capable CSS-3 intermediate-range ballistic missiles (IRBMs) with more advanced and survivable solid-fuelled CSS-5 medium-range ballistic missiles (MRBMs). It also identified that China may be developing contingency plans to move airborne troops into the region.<sup>146</sup>

The issue of naval capabilities and strategic rivalry in the Indian Ocean has yet to become a significant source of tension between India and China. However, as the two countries improve their capabilities to project power in each other's "nautical backyards", this matter is likely to move up on their strategic agendas. The necessity to protect vital SLOCs is primarily underlined by their economic interests, considering that most of their trade is seaborne. Both countries are heavily dependent on trade to sustain not only their economic growth trajectories but in extension also their social development, domestic stability and the legitimacy of their respective governments.

As noted in a report published by Australia's Lowy Institute, China's reliance on the Indian Ocean SLOCs for its access to energy resources makes an increased Chinese naval presence in the Indian Ocean region (IOR) highly likely in the long run.<sup>147</sup> Indeed, the PLA Navy already has an active deployment in the western IOR as a part of an international anti-piracy mission. China is also making substantial investments in ports in littoral states such as Pakistan, Sri Lanka and Bangladesh. Although these are primarily economic investments, observers in India fear they may be used as logistical forward operation bases for future Chinese naval operations in the Indian Ocean.<sup>148</sup>

India, in turn, has a growing stake in upholding maritime security in the South China Sea, given its trade links with East Asia. As a result, New Delhi has increased its naval activities in the South China Sea by conducting, for example, biannual naval exercises with Singapore in that region.<sup>149</sup> In essence, their increased naval presence in the Indian Ocean and the South China Sea will likely deepen existing mutual suspicion unless appropriate measures, such as maritime CBMs, are employed to supplant future tensions.<sup>150</sup>

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<sup>146</sup> United States Department of Defense, *Military and Security Developments Involving the People's Republic of China 2010*, p. 38.

<sup>147</sup> Medcalf, Rory, et al., *Crisis and confidence: major powers and maritime security in Indo-Pacific Asia*, Lowy Institute for International Policy, 2011, pp. 7-8.

<sup>148</sup> Bhaskar, C. Uday, 'China and India in the Indian Ocean Region: Neither Conflict nor Cooperation Preordained', *China Report*, vol. 46, no. 3 (2010).

<sup>149</sup> Medcalf, et al., *Crisis and confidence: major powers and maritime security in Indo-Pacific Asia*, p. 8.

<sup>150</sup> Ibid.

### Chinese perceptions

*China's relative strength serves as a foundation for India's national security concerns and by extension its military modernisation. However, conflict is unlikely.*

India's defence modernisation is aimed at levelling the playing field by achieving parity with China in terms of conventional military capabilities. According to a Chinese observer, India's military build-up reveals a sense of insecurity on its part.<sup>151</sup> China has no intention to participate or interest in participating in an arms race with India to maintain conventional military superiority. Such a development, it is argued, would impede Sino-Indian relations and diminish the prospects of resolving existing issues in the bilateral relationship.<sup>152</sup> Observers point to the fact that neither of the countries is interested in engaging in military conflict with the other. It is asserted that China and India could not realistically afford, in either political or economic terms, a direct military confrontation between them.<sup>153</sup> Although military capabilities are being increased, the eruption of conflict is thus considered unlikely.

*Long-term strategic calculations underline the increase in military capabilities.*

As the analysis above indicates, India's military build-up is primarily aimed at maintaining a military balance of power with China. As such, its increase in military capabilities is primarily underlined by strategic calculations aimed at safeguarding its long-term interests. India's increase of capabilities around its side of the LAC, observers argue, is not a reaction to China's increasing capabilities on the other side.<sup>154</sup> However, steady increases of military capabilities are likely to foster greater uncertainty regarding each other's intentions. Keeping the current action-reaction cycle, which fuels the two countries' military build-up, from spiralling out of control may be difficult if underlying issues are not properly addressed. One such issue is the lack of transparency. One Chinese observer argues that analysts in New Delhi incorrectly believe that China has a large presence of troops along the LAC. It is argued that the PLA only deploys three infantry regiments there, comparing to the additional two new divisions and two fighter squadrons deployed by the Indians.<sup>155</sup> However, due to the sensitive nature of the border dispute and hence a lack of information, it is difficult to determine the extent of China's military presence along the LAC. Regardless of its lack of transparency, China has not identified a need to re-evaluate its own military build-up and has so far failed to take substantial measures to address existing misperceptions. Observers argue that it is not viable for China to give up its own modernisation plans to ease

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<sup>151</sup> Interview #11

<sup>152</sup> Ibid.

<sup>153</sup> Interview #5

<sup>154</sup> Ibid.

<sup>155</sup> Interview #3

India's concerns.<sup>156</sup> Indeed, China's military modernisation is merely considered a consequence of its own economic growth.<sup>157</sup>

*India's military establishment is in need of resources and capital, and therefore portrays China as a threat.*

This view is often repeated by Chinese observers. The framing of China as a major concern to India's national security is primarily attributed to hawks in India's military establishment. India's government itself does not, at least officially, portray China as a threat, as that may be detrimental to improving bilateral relations. As one observer argues, it is the ambition of the military establishment in India to increase its domestic political influence and assert its own organisational interests.<sup>158</sup> Interestingly, this behaviour is also attributed to the PLA. Several non-military observers noted that the PLA's continued organisational influence on China's foreign policy depends on the existence of external threats to its survival, prompting it to exaggerate the challenges posed by India's military build-up.<sup>159</sup>

*India's military build-up is not a cause for concern.*

Most Chinese observers point out that there is no need for China to be concerned about the steady increases in India's military capabilities. As one observer noted, China does not take India very seriously in matters concerning its growing military posture.<sup>160</sup> In the end, despite growing capabilities to project military power and assert its interests, the probability of a conflict between India and China is considered to be too low to cause concern. The probable damage an armed conflict would cause, in economic, political and human terms, far outweighs the potential gains. Indeed, as a Chinese observer noted, a real threat to China's security and core interests would be the outbreak of an armed conflict between or with peripheral states.<sup>161</sup>

*The Indian Ocean region is becoming increasingly important for China.*

As outlined above, China has substantial interests in securing its trade and energy routes that traverse the Indian Ocean. Furthermore, the capabilities of the PLA Navy to do this and the capabilities of China to assert its interests in the region are growing. There is an underlying suspicion about the activities and long-term intentions of the United States Navy in the region. The US Navy is currently the

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<sup>156</sup> Ibid.

<sup>157</sup> Interview #5

<sup>158</sup> Ibid.

<sup>159</sup> Interview #1; Interview #3

<sup>160</sup> Interview #3; Interview #11

<sup>161</sup> Interview #11

dominant naval force in the area and holds the capability to control and disrupt China's trade flows.<sup>162</sup>

However, as a Chinese analyst noted, China's interest in projecting naval power and furthering its engagement in the IOR is not based on security considerations on its part. The intentions of the PRC are benign. In addition, the same analyst argues that China needs to become more transparent in this regard in order to avoid heightened tensions.<sup>163</sup> Yet the viability of this view is unclear, as China's stated ambitions in the region are those of securing and safeguarding its interests there. Officials and scholars in China usually dismiss India's suspicions about China by emphasising China's peaceful intentions towards other countries.

### Defence industry and arms procurement

Both China and India have been rapidly developing their defence industry and arms acquisitions in order to develop their military capabilities. China has increased its self-reliance in military technology, largely owing to existing arms embargoes against it. In contrast, India has surpassed China to become the world's largest arms importer. Between 2006 and 2010, India received 9 per cent of the total volume of international arms transfers. During this period, Russia accounted for 82 per cent of Indian arms imports, making it the foremost arms supplier to India.<sup>164</sup> These imports, which underline India's reliance on foreign arms suppliers, are in large part driven by New Delhi's rivalries with Islamabad and Beijing.

In order to serve its long-term goal of developing a domestic high-tech defence industry, India increasingly requires access to technology in connection with the arms transfers.<sup>165</sup> For example, as a Chinese observer noted, India has established several joint-venture projects with Russia, including the production of cruise missiles and fighter aircraft.<sup>166</sup> Considering the current trajectory of India's arms procurements, it is predicted that India will stay on as one of the world's largest defence customers over the coming years.<sup>167</sup>

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<sup>162</sup> Liu, Xinhua, '论中印关系中的印度洋问题 [On the Issue of the Indian Ocean as Part of Sino-Indian Relations]', *太平洋学报 [Pacific Journal]*, vol. 18, no. 1 (2010).

<sup>163</sup> Interview #11

<sup>164</sup> Stockholm International Peace Research Institute (SIPRI), 'India world's largest arms importer according to new SIPRI data on international arms transfers', Published: 14 March, 2011. Last Accessed: 2 Aug, 2011.

<sup>165</sup> Ibid.

<sup>166</sup> Ma, Jiali, 'The Posture of India's Rise', *Contemporary International Relations*, vol. 16, no. 7 (2006).

<sup>167</sup> Lombardo, Nicholas R., 'India's Defense Spending and Military Modernization', *Center for Strategic & International Studies*, Published: 29 March, 2011. Last Accessed: 10 Aug, 2011.

### Chinese perceptions

*Military-industrial developments in India are not a cause of concern in China.*

Chinese observers recognise that India's annually growing defence appropriations and arms procurements are substantially speeding up its military modernisation.<sup>168</sup> Nevertheless, India's reliance on foreign suppliers to sustain its military build-up further enhances the lack of concern among Chinese observers about the implications of India's growing military power. It is considered to be strategically unreasonable to depend on other states for one's own military capabilities. As one observer argued, a state needs to modernise its military capabilities domestically.<sup>169</sup>

Another observer correctly points out that China's defence industry and defence research and development (R&D) have grown substantially over the years.<sup>170</sup> As a result, China's reliance on foreign military technologies has gradually diminished. Nevertheless, the Chinese defence industry's technological advances, and thus its capabilities to produce high-tech military equipment, is largely owing to the fact that it has been able to reverse engineer foreign military technologies.

## 3.5 Concluding remarks

This chapter has shown that Chinese scholars and officials demonstrate an awareness of the implications of India's rise. India is expected to play an increasingly influential role, both economically and strategically, on a regional and global level, and it is modernising its military with an eye on China as its key strategic adversary. However, while India is moving up on the agenda of Chinese policymakers, it continues to attract relatively limited attention in China's foreign policy considerations.

Many observers in China fail to recognise the need to address the issues which underlie the enmity in the bilateral relationship. Without more effective measures to dispel the mutual mistrust, existing areas of friction will persist. For India's part, these areas involve concerns over China's military ambitions and its strategic support to Pakistan. Meanwhile, Chinese observers are ambivalent towards the growing strategic ties between India and the US.

Chinese officials and analysts tend to dismiss Indian concerns by arguing that China is growing by peaceful means and that its intentions are benign. Their message is that China's military modernisation is not driven by perceptions of

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<sup>168</sup> Ma, 'The Posture of India's Rise'.

<sup>169</sup> Interview #7

<sup>170</sup> Interview #1

India as a threat, and therefore does not threaten Indian interests.<sup>171</sup> Nor should New Delhi be alarmed over the “all-weather” Sino-Pakistani friendship. In fact, observers assert that this relationship is indeed positive for regional stability and should hence be welcomed by India.<sup>172</sup>

In effect, rather than actively advocating an open discussion with India on sensitive topics, observers and policymakers in China tend to emphasise the need to shelve their differences, particularly regarding the border dispute. Chinese analysts in general have a tendency to stress the positive aspects of the relationship with India, including common interests and achievements made by top leaders in the last two decades. They refer to deepening trade ties, joint efforts to prevent the border dispute from escalating and high-level dialogues as major breakthroughs paving the way for improved relations. Moreover, it is argued that shared interests and a presumed economic interdependence between China and India will serve as sufficient stabilisers in the relationship. The two countries will only be able to achieve their economic growth targets if they are able to cooperate on safeguarding regional peace and stability. These factors are expected to generate bilateral confidence in the long run.<sup>173</sup>

While one cannot ignore the advances that have been made, major obstacles are likely to hamper the development of the relationship in the years ahead as well. Importantly, India and China have been largely unsuccessful in their efforts to establish stable military-to-military relations.<sup>174</sup> Bilateral trade and investment, while growing at a rapid pace, remain on a low level. Moreover, academic exchanges are infrequent at best.

Based on a critical assessment of the limited achievements thus far in Sino-Indian relations, a few of the scholars interviewed in China have also identified a need for China to become more transparent in terms of its intentions. In China’s relationship with India, increased transparency regarding its own military ambitions is considered to be of particular importance.<sup>175</sup> Moreover, it is argued that deeper Chinese understanding of India will at least help to prevent their relations from deteriorating further.<sup>176</sup> As one Chinese scholar noted, India studies in China’s international relations research remain limited, tend to be pragmatic and policy-oriented, and are often entirely confined to Chinese national self-interest and the *ad hoc* needs of the CCP.<sup>177</sup>

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<sup>171</sup> Interview #4

<sup>172</sup> Interview #6

<sup>173</sup> Interview #1

<sup>174</sup> For example, military exchanges between the two countries were put on hold for a year until June 2011. See further p. 20.

<sup>175</sup> Interview #5; Interview #11

<sup>176</sup> Liu, Qian, ‘China’s India Studies’, *Contemporary International Relations*, vol. 18, no. 3 (2008), pp. 81-82.

<sup>177</sup> *Ibid.*, p. 81.

The difficulties outlined above underscore the existing mutual mistrust, which, if it remains unaddressed, has a potential to set off new crises in the relationship. In recent years, even minor incidents have resulted in crises between China and India. On several occasions, such crises have prompted the two countries to cease military exchanges for lengthy periods of time.

Considering the current state of Sino-Indian relations, other actors with interests in the region, most notably the US, are likely to be affected by downturns in the relationship. While one should not overstate the risk of such incidents leading to major military clashes, China's frictions with India are likely to persist and intensify. To what extent any shared interests will have a positive effect on Sino-Indian relations is yet to be seen. Due to the two countries' inability to tackle their existing mutual mistrust, it will be difficult for them to expand economic and strategic cooperation to a level which corresponds with their roles as global actors.



## 4 Conclusions

China's relationship with India has been consolidated since the 1990s, but the two countries have not been able to keep frictions based on mutual mistrust from developing into political crises. Thus far, however, these crises have not prompted Beijing to address the underlying problem of conflicting interests. Instead, Beijing's strategy is to shelve differences and disputes in favour of maintaining stability and in its place focus on cooperation with New Delhi, mainly in terms of trade. The lack of efforts to resolve contentious issues limits the potential for closer Sino-Indian interaction and diminishes the prospects for a resolution of bilateral disputes.

When discussing Sino-Indian relations, Chinese observers prefer to raise issues which are related to China's "national core interests", all of which have domestic implications for China. By Chinese official accounts, these interests are divided into three categories: safeguarding China's (1) sovereignty and territorial integrity; (2) basic state system and domestic political stability; and (3) economic and social stability. As part of its bilateral relations, China stresses that its partners are not to interfere in issues concerning Taiwan, Tibet and Xinjiang. These matters, which China will not compromise on, are deemed to be linked to separatism and are hence highly sensitive in nature.

The areas in which India is considered to have the capability to challenge China from pursuing its interests can to some extent be linked to each of these core interests. For example, both the border dispute and the role of the TGIE are perceived as being inherently linked to China's core interest of sovereignty. Moreover, the TGIE is, at least in official rhetoric, seen as challenging China's political and social stability. India is widely believed to support the TGIE, with the purpose of using it as leverage towards China. The Chinese concerns regarding China's core interests show that mutual suspicion is still persistent and continues to characterise Sino-Indian relations.

For India's part, these areas of unease include China's military ambitions and its strategic support for Pakistan. There is an understanding among Chinese scholars and officials that India's concerns have a negative effect on the development of the bilateral relationship. Yet, without more effective measures to dispel the mutual mistrust, existing areas of friction will persist.

Thirty years have already passed since India and China began talking to each other about their shared border with the aim of eventually coming to an agreement on the disputed areas. Even though the establishment of confidence-building measures on the border issue has been one of the most positive achievements in recent years, such measures have not been sufficient to produce a normalisation of their relations. The border dispute is still a fundamental

obstacle in the development of Sino-Indian relations and is projected to remain unresolved for the foreseeable future.

The ability of the two countries to maintain long-term regional stability will depend on their capacity to manage competing strategic and economic interests. Meanwhile, economic interaction between China and India is likely to deepen and their cooperation in multilateral settings will continue whenever their interests coincide. However, unless there is a major doctrinal shift towards a Chinese policy of positive engagement and conflict resolution, China's relationship with India will remain volatile.

### **Implications for the European Union**

China and India will play an increasingly influential role in their own right. The strategic interests of the two Asian neighbours are expanding as they become stronger in terms of economic growth and military power. The development of China's relationship with India holds global and regional implications, affecting the European Union's ability to pursue its interests.

In terms of the EU's economic and trade interests in Asia, increasing naval activities by both countries could, for example, have an impact on maritime trade flows. While there is a possibility of closer Sino-Indian maritime cooperation, there is also a risk of naval tensions between the two Asian powers which could have destabilising effects on maritime security and, by extension, the regional trade routes. With regard to other issue areas, the Sino-Indian relationship could for example affect the EU in terms of access to scarce natural resources. Furthermore, growing demand for energy in China and India will also have a direct impact on both the EU and the rest of the world.

The Sino-Indian relationship may also come to play an important role in terms of peace support operations. For example, several EU member states, including Sweden, are engaged in stabilisation efforts in Afghanistan. The ability of the NATO-led forces to withdraw from Afghanistan after 2014 will in part depend on the willingness of regional powers, not least China and India, to engage in maintaining stability in the country. To what extent the two countries are able to set aside their differences, let alone dispel the mutual mistrust, will determine their propensity to cooperate in the realm of regional security.

Furthermore, EU member states have established closer links with India in the defence industry sector and may have to take Sino-Indian relations into account in terms of the procurement of military equipment and technology. India has become the world's top arms importer and its demand for military equipment and technology is bound to grow further. However, future arms transfers to India may be called into question if Beijing begins to perceive New Delhi as a serious military threat. So far, however, China has yet to express public opposition to

India's defence procurements from its main supplier, Russia, or from other countries, including Sweden.

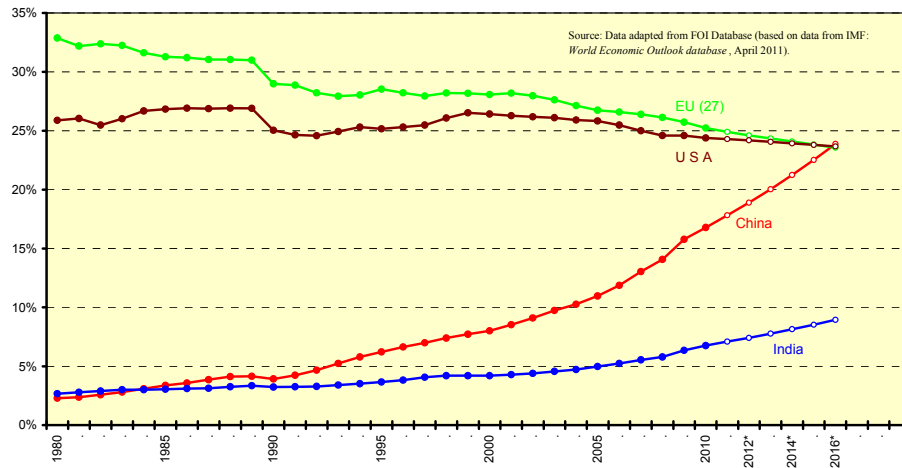
Human rights will also play a vital role in the EU's relationship with India and China. For example, issues regarding the situation in Tibet and China's approach to the Tibetan government-in-exile will be difficult for the EU to address. As this study has shown, Chinese officials and analysts voice concerns over what they perceive as India's support for the Tibetan exile movement. Although highly unlikely, there is a possibility that India would abide by China's demands and crack down on Tibetan political activities in order to improve its ties with Beijing. Such a development would challenge the EU's value-based approach and focus on human rights.

In recent years, China and India have shown that they are able to act jointly in multilateral settings whenever their interests coincide. Through such joint endeavours, they have become increasingly influential in the global arena, particularly in spheres such as global economic matters and climate change. This study, however, shows that Sino-Indian collaboration generally remains limited due to the lack of efforts to resolve underlying problems in the relationship. Regardless of what approach China and India pursues in order to improve their bilateral relations, the result is bound to have both regional and global implications. In its bilateral dialogues with China and India, it will be increasingly important for the EU to understand the Sino-Indian relationship and take the perceptions of both countries into account. If the EU is indeed interested in promoting a positive development of regional dynamics in Asia, it should strive to encourage the improvement of Sino-Indian relations.

## Appendices

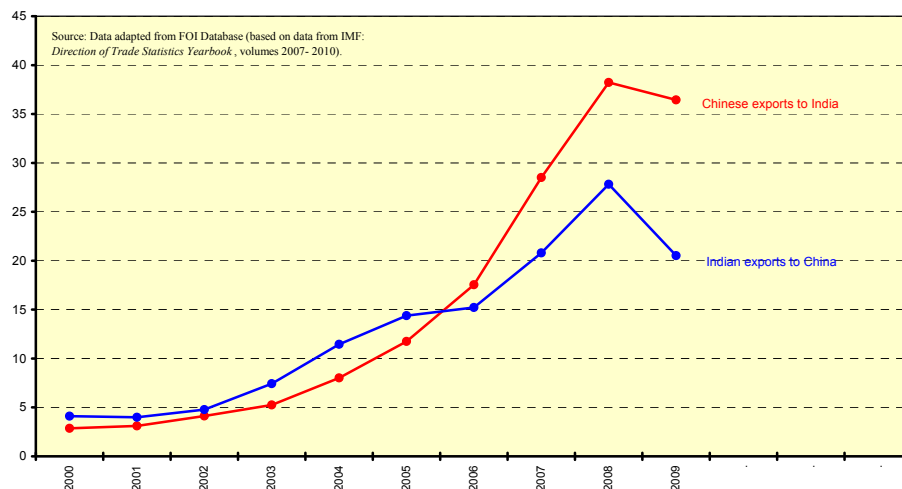
### I. China-India-EU (27)-USA: Share of world GDP

Share (%) of GDP in billions of international dollars (PPPs), current prices



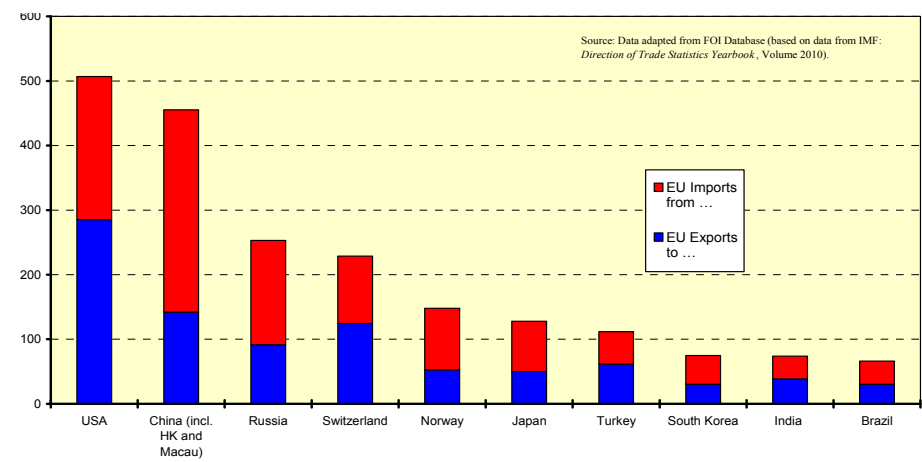
### II. China-India: Trade

Billions of US dollars, current prices

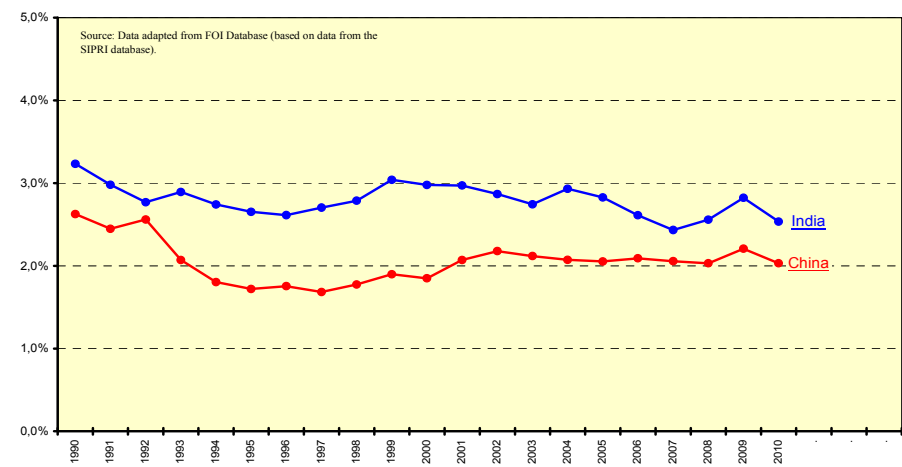


### III. EU external trade: Top-10 trade partners in 2009

Ranked by total trade (imports + exports) in billions of US dollars

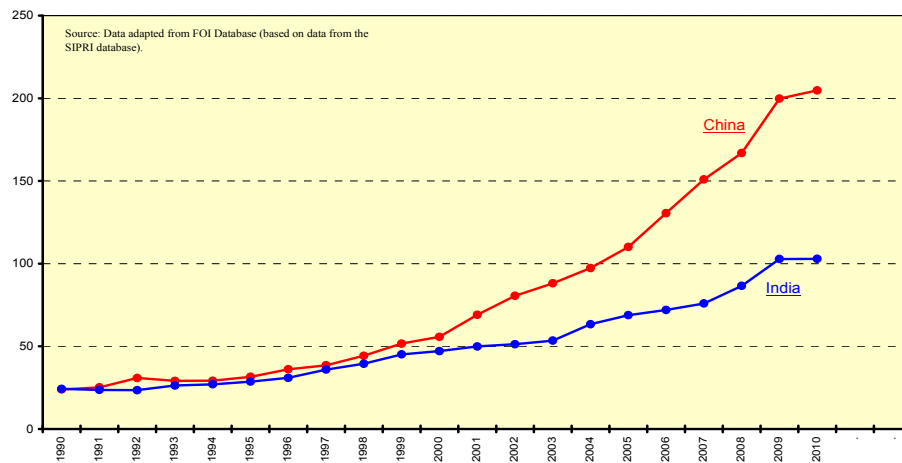


### IV. China-India: Military expenditures (% of GDP)



## V. China-India: Military expenditures (PPPs)

Billions of international dollars (PPPs), current prices



## VI. Note on organisations visited in China

The authors visited the organisations below during the period 11–15 April 2011. It should be noted that most of the research institutes are closely connected with China's civilian and military foreign policy actors. Research institutes and think tanks provide crucial strategic analyses for policymakers, thus influencing, to a varying degree, the foreign policy process within China.

### Academy of Military Science (AMS)

The AMS is one of the primary research institutions within the People's Liberation Army (PLA). Its activities are carried out under the auspices of the Central Military Commission (CMC), the primary military decision-making body in China. The activities of the AMS are limited to strategic and operational analysis, with the main recipients of AMS reports being the CMC and the General Staff Department (GSD) of the PLA.<sup>178</sup>

It should be noted that the AMS has substantial personal and organisational links to top PLA actors. For example, key figures in the PLA have been students at the AMS, including current PLA Chief of General Staff Chen Bingde, the highest-ranking military commander in China. The current president of the AMS, Liu

<sup>178</sup> Swaine, Michael D., 'The Role of the Chinese Military in National Security Policymaking', National Defense Research Institute, RAND, 1998, p. 66.

Chengjun, is also a member of the 17<sup>th</sup> Chinese Communist Party (CCP) Central Committee.<sup>179</sup>

India research at the AMS is conducted at several different departments, including the Department of World Military Studies and the Department of War Theory and Strategic Studies. According to the interviewees, the extent of the research on India is limited in comparison to strategic studies of the Americas, the European Union (EU) and Russia/Central Asia. Furthermore, India studies are conducted within the wider scope of South Asia studies.

### **China Institute of International Studies (CIIS)**

The CIIS is the oldest of China's foreign policy think tanks and an increasingly important research institute.<sup>180</sup> It is the main research institute under the Ministry of Foreign Affairs (MFA), providing the ministry with research and analysis on current foreign policy issues.<sup>181</sup> The research staff of CIIS often rotates between work at the institute and various assignments at the MFA, including tours at embassies abroad.<sup>182</sup> The interviewees themselves had also been assigned to various posts at embassies.

India-related research is conducted at different departments within the CIIS, including the Department of Developing Countries Studies and the Department of SCO Studies.

### **China Institutes of Contemporary International Relations (CICIR)**

The CICIR is one of the most important foreign policy research institutions in China. It is a civilian institute under the administrative and budgetary control of the Ministry of State Security (MSS), China's security agency whose activities include intelligence gathering and analysis.<sup>183</sup> According to a study published by the Stockholm International Peace Research Institute (SIPRI), the MSS is a powerful domestic actor in the foreign policy sphere in China. The former president of the CICIR, Geng Huichang, is currently minister of state security. Importantly, he is also a current member of the Foreign Affairs Leading Small Group (FALSG), the principal foreign policy organ in China.<sup>184</sup> The primary recipients of the CICIR's analyses are the MSS and the FALSG. It should also be noted that there is significant interaction between CICIR strategists and their military counterparts in the PLA General Staff Department's Second Department (i.e. the military intelligence department of the PLA).<sup>185</sup>

<sup>179</sup> ChinaVital.com. Last Accessed: 29 Aug. 2011.

<sup>180</sup> Shambaugh, David, 'China's International Relations Think Tanks: Evolving Structure and Process', *The China Quarterly*, no. 171 (2002), p. 8.; Interview #8

<sup>181</sup> Swaine, 'The Role of the Chinese Military in National Security Policymaking', p. 60.

<sup>182</sup> Shambaugh, 'China's International Relations Think Tanks: Evolving Structure and Process'.

<sup>183</sup> Swaine, 'The Role of the Chinese Military in National Security Policymaking', p. 61.

<sup>184</sup> Jakobsson and Knox, *New Foreign Policy Actors in China*, p. 12.

<sup>185</sup> Swaine, 'The Role of the Chinese Military in National Security Policymaking', p. 70.

Most research and analysis regarding India is conducted at the CICIR's Institute of South and Southeast Asian Studies.

### **Chinese Academy of Social Sciences (CASS)**

The CASS is a research institute under the State Council of the CCP. It is made up by over 30 institutes, concerned with a wide range of research, and organisationally functions like a ministry rather than a think tank. In further contrast to the think tanks mentioned above, its main purpose is not to conduct policy-relevant research or exercise influence over policymaking. In this sense, the CASS is not a foreign policy think tank similar to the CIIS or CICIR. Rather, as noted by observers, research at CASS is primarily academic. It should be noted, however, that this does not preclude its research from influencing foreign policy.<sup>186</sup>

At the CASS, research on India and South Asia is conducted within the Institute of Asia-Pacific Studies.

### **Ministry of Foreign Affairs of the People's Republic of China (MFA)**

The MFA is an important foreign policy actor and has significant influence in policy deliberations. However, it is less influential than other major actors such as the Politburo Standing Committee (PBSC) and the FALSG. Most individual policymakers in these groups outrank Foreign Minister Yang Jiechi, adding to the gap of influence between the MFA and other Party organisations.<sup>187</sup> It is also uncertain as to what degree the Ministry of Foreign Affairs conducts foreign policy research and analysis on its own. Rather, it seems that the MFA relies heavily on its think tanks for analysis and advice regarding issues of foreign policy.

Desk officers and officials working with India belong to the larger Asia Department at the ministry.

### **Shanghai Institutes for International Studies (SIIS)**

The SIIS is administered by the Shanghai City Government but is significantly affiliated with the Ministry of Foreign Affairs. Although this relationship reaches beyond personal contacts, it should be noted that the current president of the SIIS, Yang Jiemian, is the brother of Minister of Foreign Affairs Yang Jiechi. The ministry receives substantial input on various foreign policy issues, including India, from scholars at the CIIS, the SIIS and Fudan University.<sup>188</sup>

At the SIIS, research on India is primarily conducted at the Centre for South Asia Studies which in turn belongs to the larger Institute for International Strategic Studies. The Institute for Economic Comparative Studies at SIIS also conducts studies on India, although from an economic perspective.

<sup>186</sup> Shambaugh, 'China's International Relations Think Tanks: Evolving Structure and Process', p. 20.

<sup>187</sup> Jakobsson and Knox, *New Foreign Policy Actors in China*, p. 8.

<sup>188</sup> Interview #8



### **Shanghai Academy of Social Sciences (SASS)**

The SASS is in many ways similar to the CASS as regards the character of the research it does. The main purpose is academic research on a wide range of topics. The most fundamental difference between them is their organisational placements. The SASS is not directly related to the State Council, but is rather administered by the Municipal Government of Shanghai.

At the SASS, some of the India research is conducted at the Institute of South and Central Asia Studies and the Institute of Asia-Pacific Studies.

### **Fudan University, Peking University, Renmin University and Tsinghua University**

Interviews were also conducted at four prominent universities in China. These are Peking University, Renmin University and Tsinghua University in Beijing as well as Fudan University in Shanghai. India-related academic research is conducted at the School of International Studies within Peking and Renmin University, the Institute of International Studies at Tsinghua University and the Centre for South Asia Studies at Fudan University. It should be noted that it is extremely difficult to gauge the influence the researchers of these universities have over policy processes. The role of the universities is significantly different from the role of think tanks which are affiliated with different ministries or the PLA. The scholars and their research are academic in nature and do not, therefore, possess the channels to the top foreign policy actors that other state or military research institutions have.

Notwithstanding this fact, the most prominent scholars of these key universities often participate in closed-door sessions with foreign policy and Party officials at various levels.<sup>189</sup> For example, the Foreign Policy Advisory Council (FPAC), constituted in 2004 and consisting of both officials and researchers, includes scholars of Peking University's School of International Studies.<sup>190</sup> A researcher's personal relationship with officials often defines her or his ability to influence policy processes.

As noted by SIPRI, a significant advantage of academic institutions is that scholars at key universities are considered to have more independence of thought than analysts and scholars at official institutions.<sup>191</sup>

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<sup>189</sup> Jakobsson and Knox, *New Foreign Policy Actors in China*, p. 37.

<sup>190</sup> Ibid., p. 36.

<sup>191</sup> Ibid., p. 39.

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