

## Economics & Politics in China-India Relations: New Developments and Emerging Issues

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This paper traces the trajectory of a variety of complicated economic and political developments between China and India – the world’s most ancient civilizations connected by rich history. These recent developments, which are heavily acrimonious and include military clashes involving loss of lives, have greatly damaged bilateral relations. The paper examines the reasons behind the bilateral relations dipping to new lows. Aside from specific bilateral disputes like outstanding border problems, China-India relations have been affected by global and regional developments. The paper identifies rising tensions between the U.S. and China, the evolution of the Belt and Road Initiative, and the growth of the Indo-Pacific construct, as the reasons that have expanded distance and mistrust between the two countries. Both China and India are now part of country coalitions aiming to marginalize each other’s strategic influences. The paper argues that such efforts by them are going to impact countries in their neighbourhood – such as in Central Asia – by forcing them to make complex choices in the areas of trade engagement and technological development.

**Keywords:** India, China, China-India, BRI, IndoPacific

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## Introduction

Few bilateral relations have assumed as much complexity in modern times as China-India relations. As the world's two most populous countries,<sup>1</sup> and the two largest economies,<sup>2</sup> China and India – sharing more than 3,000 km of common border in the Himalayas – are deeply conscious of each other's presence from a geographic, as well as geopolitical and geo-economic perspectives. Their rapid economic growth and expanding strategic influence has made a deep impact upon the regional political and economic order in Asia. The weight of a rapid 'rise' of both countries, first by China, and then increasingly by India, in a condition of bilateral mistrust following the military conflict in 1962, and an unresolved border dispute, has led to Asia feeling the implications of what is metaphorically often referred to as the tussle between the 'dragon' (China) and 'elephant' (India). Almost all parts of Asia, particularly those that are in geographical proximity to both countries, including South Asia, Southeast Asia, and Central Asia, are experiencing the impacts, and would continue to do so in the foreseeable future.

China-India relations have also been influenced by other significant global developments. China's spectacular economic success, particularly its ability to maintain high economic growth and prominent presence in major global production networks, have enabled it to challenge the durability of a unipolar world order spearheaded by the U.S. China's goal of commanding a reshaped world order, determined by its ability to purposefully support growth and development in vast parts of economically backward, or commercially languishing, Asia and Europe, has manifested through the ambitious Belt and Road Initiative (BRI). The BRI is a clear challenge to the global economic order dominated by Western institutions. The project not only rattled the U.S. and its regional allies but also intimidated India, which occupies a prominent place in the BRI geography and was already wary of China's expanding military and economic presence in its immediate neighbourhood. Counterbalancing strategies, such as the Indo-Pacific construct pioneered by the U.S., and including Japan, India, and Australia, have contributed to further irritation in the China-India relationship. In the recent months, which have witnessed a significant erosion in bilateral relations following the latest military clashes in June 2020, China-India relations stand precariously poised.

This paper is an attempt to closely analyse the global and regional circumstances that are contributing to greater mistrust in China-India relations over the last few years.

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<sup>1</sup> China's population was 1.4 billion, while India's was 1.37 billion in 2019, according to the World Bank data on country population (World Bank a, n.d.).

<sup>2</sup> China's GDP measured by purchasing power parity (PPP) in current international \$ was 23,460,170 million in 2019 making it the largest economy in the world in PPP measure. India's GDP measured by PPP in the same year was 9,611,679.30 million in the same year. This made India the 4th largest economy in the world by the same measure, after the U.S. and European Union (World Bank b, n.d.).

These factors, as the paper argues, contribute to pushing already tenuous bilateral relations to greater estrangement. The paper further argues that the persistence of these factors, and increasing confrontational postures between China and India, would lead to significant pressures on neighbouring regions such as Central Asia, to make strategic choices between the two countries, as both countries would promise economic benefits from these choices as they establish competing economic frameworks. The pressures are likely to be felt most in global trade negotiations at the WTO and new-generation technology.

## **1. Historical Engagement and New Developments**

Both India and China are among the oldest civilizations in the world. Their ancient history of interface and engagement is centuries old. These are marked by trade and people to people exchanges. One of the earliest examples of the contact between the two civilizations can be traced back to the expeditions of the celebrated Chinese Admiral Zheng He, several centuries ago, during his naval voyages in the Indian Ocean.<sup>3</sup> Close economic engagement with India was also an aspiration for the Ming dynasty (Palit P.S. 2017).

Buddhism was a major engine for engagement between the two countries. Scholars have variously pointed to Buddhism being a common philosophy and source of spiritual and educational inspiration for large sections of the population in both countries.<sup>4</sup> In this regard, the role of Buddhism is probably highlighted best by Chinese scholar Tan Yun-Shan: “Buddhism was born in India, enriched in China, and then scattered over the world” (Chanda 2007, 183). Buddhism continues to remain a focal point of engagement between the two countries in the modern era too. This is evident from it resonating strongly during the bilateral engagements between Chinese President Xi Jinping and the Indian Prime Minister Narendra Modi,<sup>5</sup> after their assuming office, and during the last decade. China’s involvement in the multi-country efforts to revive the ancient Buddhist university of Nalanda — an idea proposed by the former Indian President APJ Abdul

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<sup>3</sup> Historical accounts indicate Zheng He’s tablet in Sri Lanka, depicted in three languages (i.e. Chinese, Persian and Tamil) advancing the cause of free trade and commerce (Tharoor 2012, 133).

<sup>4</sup> (Palit P.S. 2017) Noted economic historian and globalization scholar Nayan Chanda (2007, 183) draws attention to the significant role played by religious messengers and preachers of Buddhism played in connecting with various communities in the engagement between both countries.

<sup>5</sup> During Xi’s visit to Gujarat in 2014, Prime Minister Modi brought him to visit the Valabhi University, which was visited by noted Chinese Buddhist chronicler Hiuen Tsang in 629 AD. Hiuen Tsang was recalled by President XI too during Prime Minister Modi’s visit to X’ian in May 2015 (Palit P.S. 2017). Buddhism is likely to remain one of the few common areas of convergence, and key drivers of future engagement between China and India (Kieschnick 2003).

Kalam <sup>6</sup> — is another example of Buddhism acting as a common bond in facilitating contemporary engagement between the two countries.

Two individuals have been noticeably and historically prominent in expanding Sino-Indian engagement during the last century. These include the Indian Nobel-laureate philosopher-poet Rabindranath Tagore<sup>7</sup> and Mohandas Karamchand Gandhi, popularly referred to as the Father of the Indian nation.<sup>8</sup> But while individuals like Tagore and Gandhi, and the thread of Buddhism continue to contribute to the engaging historical and cultural communication discourse and engagement between China and India, the modern era has witnessed a significantly troubled relationship between the two countries. To an extent their respective modern histories – India being a British colony and its perception by China as an ‘imperial’ actor, and a concomitant view by India of China being a victim of colonialism – begun affecting their mutual understanding after the 2<sup>nd</sup> World War, which was further exacerbated by India’s perception of China as an expansionist due to development in Tibet (Pardesi 2017). The “Panchsheel Agreement” of 1954 – outlining the five principles of peaceful coexistence – was disrupted by the border conflict in 1962, bringing in a period of perpetual disengagement between the two countries, as the scars of the battle deepened mutual mistrust, and ideological divisions of the Cold War intensified polarisation.

Since the revival of diplomatic relations in 1978, Sino-Indian relations gradually returned to normalcy. For three decades, relations slowly advanced to encompass several spheres. These include engagement on global issues of common concern, notably climate change; a fast-growing trade and business relationship; and greater interface between people and agencies on both sides. All these progressions happened without major instances of conflicts between the two countries. Both countries stayed engaged in discussions on resolving national border disputes, which culminated in the signing of a border defence agreement between the two countries in October 2013, outlining the broad structure of an arrangement intended to retain peace through mutual cooperation on the borders (Singh 2013).

The later part of the previous decade has been marked by growing instances of skirmishes between the two countries, involving face-offs between armed forces on the disputed borders in the Himalayas. A more than two month long stand-off between troops at Doklam plateau, at the tri-junction of India, China, and Bhutan in

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<sup>6</sup> The former Indian President, APJ Abdul Kalam, proposed the idea during his address to the Joint Session of the Bihar Vidhan Mandal in 2006 (Palit P.S. 2017).

<sup>7</sup> Tagore, or Zhu Zhendan (*thunder of the Oriental dawn*), as he was christened in China, has been a 21<sup>st</sup> century icon promoting Sino-Indian intercultural communication. He has been a common cultural emblem with several of his writings having been translated into Chinese from Bengali (Palit P.S. 2017).

<sup>8</sup> Gandhi has been a widely respected and studied figure in China. The latest initiative to add to the scholarship on Gandhi in China is the Centre on Gandhian Studies established at Fudan University in Shanghai in 2015.

India's Northeast that begun from June 2017, was eventually resolved through extensive diplomatic conversations (Joseph 2018). The resolution of the standoff was followed by establishment of a mechanism of exclusive informal consultations between the Chinese President and the Indian Prime Minister. Two such summits, organized in April 2018 at Wuhan in China, and in October 2019 at Mamallapuram in India, had President Xi Jinping and Prime Minister Narendra Modi communicating extensively, one-on-one with each other, for several hours. While these summits did not achieve much progress on finding a mutually acceptable solution to the outstanding border dispute, they did, perhaps, contribute to the growth of better understanding in some other aspects of bilateral relations, such as on Kashmir (Joshi 2019).

Whatever little trust and confidence were achieved through these meetings, however, were lost in the catastrophic developments of June 2020. For the first time in more than four decades, border clashes led to the loss of several lives, for both China and India, when their troops clashed in Galwan Valley on the Sino-Indian border in the Eastern part of the Indian state of Ladakh. The severity of the conflict was far more than what had happened in Doklam three years ago, displaying the ineffectiveness of existing mechanisms between the two countries for ensuring peace on their borders (Panda 2020) and the importance of deep and serious engagement for solving historically outstanding issues.

The border clashes have been followed by extensive diplomatic and military consultations aiming to de-escalate the hostilities and tension. However, disengagement of troops on the borders is yet to be achieved. It is difficult to ascertain when full disengagement will happen. As of now, the prospects of Sino-Indian relations returning to 'business as usual' also look highly circumspect. While the countries have not snapped off diplomatic ties, the latter are clouded in an atmosphere of cynicism and mistrust.

While Sino-Indian relations do have their own problems, particularly in terms of the historical problems of unresolved border issues and the legacy of military conflict, the complications experienced by relations in recent years has also been contributed to by a series of notable developments in the world and the region that have directly, or indirectly, contributed to worsening of ties between the two countries. The next section looks closely at three major developments – U.S.-China relations, the Belt and Road Initiative (BRI), and the evolution of the Indo-Pacific – as factors that have contributed to growing complications in relations.

## **2. Global and Regional Factors Contributing to Strained Ties**

### *U.S.-China Relations*

The onset of the Trump Presidency in the U.S. has been accompanied by an accelerating

deterioration of ties between the U.S. and China. The most pronounced evidence of the hostilities has been in the sphere of their trade relations.

The U.S., under President Trump, has been judging the merits of bilateral trade relations with partner countries on the basis of whether they produce deficits or surpluses for the U.S. Those producing deficits for the U.S. are considered major imbalances, injurious for the American economy, and greater national interests.

The U.S. trade deficit with China has been a point of particular concern with the Trump Administration leading to the imposition of American tariffs on a large number of Chinese goods, inviting retaliation by China, and unleashing a trade war of sizeable proportions. After months of consultations, both countries agreed on a partial trade deal in January 2020 for ending the trade war (Bisio et al. 2020, 1-5). The deal emphasized China buying more from the U.S. for reducing the trade deficit. However, other U.S. demands, particularly those relating to discriminatory treatment of U.S. businesses in China, remained unaddressed in the deal. The outbreak of the COVID19 pandemic prevented progress on the resolution of more issues, as did the impending U.S. Presidential elections. Notwithstanding President Trump's exit and Joe Biden's entry in the White House, trade and investment are expected to remain bitter points of disagreement between the U.S. and China, contributing to deep mistrust and hostility between the world's two largest economies and major powers, as both try to snatch the top spot in the global economic order.

Hong Kong and Taiwan have also emerged as sensitive spots in U.S.-China relations leading to further deterioration in bilateral ties. Following the wide-spread protests in Hong Kong after the enactment of new security legislation on June 30, 2020 and its use by the Hong Kong government for curbing local protests (Barron 2020), the U.S. and several Western countries reacted sharply by describing the move as Beijing's attempt to crush democracy in Hong Kong with the help of a pro-China local government. Alongside Hong Kong, global attention has also focused on Taiwan with the Trump Administration rapidly expanding its engagement with the country. If in the years to come, the U.S. formally recognizes Taiwan as a formal rejection of China's 'One-China' policy, the move would have "unpredictable and dangerous consequences" (Stavridis 2020) and severely damage U.S.-China relations, leading to greater implications for regional relations, including Sino-Indian relations.<sup>9</sup> The possibility is reinforced by several U.S. lawmakers urging for a Free Trade Agreement (FTA) with Taiwan,<sup>10</sup> which would clearly mark U.S. intentions to formally acknowledge Taiwan and develop

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<sup>9</sup> China's unease over Taiwan, and the effect it might have on ties with India, is visible from the Chinese embassy in India issuing a press release to India media ahead of Taiwan's national day (October 10) asking Indian media to adhere to 'One China' policy in its reporting and refrain from referring to Taiwan as a 'country' distinct from China (Mohan 2020).

<sup>10</sup> U.S.-China Relations: Taiwan Trade Deal on Donald Trump's Radar, American Lawmaker Says 2020.

institutional relationships with it.

U.S.-China relations have sharply soured after the outbreak of the COVID19 pandemic and the rapid escalation in concerns around the technology provided by Chinese companies, such as Huawei, their links with the Chinese Communist Party (CCP), and fears over such links being used by Chinese tech firms for gathering information on citizens and agencies of countries where they operate. The concerns have led to the U.S. leading efforts to push Chinese firms out of several national domestic technology spaces and prohibiting Chinese digital content providers, including widely popular ones like TikTok and WeChat (Whalen et al. 2020). The fears over 'foreign' surveillance and its impact on national security have led to the U.S. and China shutting down specific consular offices in each other's territories.<sup>11</sup> The anti-China rhetoric in the U.S. is expected to heighten as the Trump administration heads into the U.S. Presidential elections. This is evident from President Trump holding China responsible for the outbreak of the COVID19 pandemic in his speech at the United Nations General Assembly, and China reacting strongly to the criticism by accusing the U.S. of 'spreading political virus'.<sup>12</sup>

The worsening of ties between the U.S. and China over the last few years, and particularly during President Trump's tenure in office, has been accompanied by India's growing strategic proximity to the U.S. Both countries have been wary of China's increasing economic and strategic influence. For the U.S., India remains the largest regional partner for counterbalancing China in South Asia, and increasingly more in the Indian Ocean. For India, on the other hand, dealing with an assertive, and often aggressive China, has led to shedding off historical hesitations arising from decades of practice of a non-aligned foreign policy, to engage with the U.S. more closely. As a result, the India-U.S. defence partnership has significantly expanded on many fronts (Pandit 2020). This clearly has implications for India-China relations, which, in turn, affect the relations both these countries have with others, including in Central Asia, as further discussed in the paper.

### *Belt and Road Initiative*

China's Belt and Road Initiative (BRI) has been a regional game-changer in several ways. Comprising land corridors, connecting China to the continents of Europe and Africa,

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<sup>11</sup> In an unprecedented escalation of bilateral tensions, U.S. ordered closure of the Chinese embassy in Houston in July 2020, accusing the embassy of being involved in economic espionage and theft of valuable scientific research information (Wong et al. 2020). China retaliated by asking the U.S. consulate in Chengdu to shut down for 'meddling in its internal affairs.' (U.S. Consulate: China Orders U.S. Consulate Closure in Tit-for-Tat Move 2020)

<sup>12</sup> (China: Trump 'Spreading Political Virus' at United Nations' 2020).

through the contiguous landmasses of Central Asia, Russia, West Asia, South Asia and Southeast Asia, the BRI envisions the modern Silk Road economic landscape. But it is not limited to land-based connectivity. The initiative includes the 21<sup>st</sup> century Maritime Silk Road, which connects China and the Far East, to Africa and Europe, through the maritime spaces of the South China Sea, South Pacific Ocean, Bay of Bengal, Indian Ocean, Arabian Sea, the Persian Gulf, and the Mediterranean Sea. The humongous multi-modal connectivity project also includes a digital arm, christened the 'Information Silk Road', which aims to link the BRI geographies being connected through land and sea, further through cyberspace, in form of advanced IT infrastructure, and technology services (Kadi 2019).

India has vociferously opposed the BRI. It has specific territorial concerns with the project. The China-Pakistan Economic Corridor (CPEC), an important part of the land arm of the BRI, passes through a part of the Northern Indian, Himalayan state of Kashmir, which India considers, as sovereign Indian territory, but illegally occupied by its North-Western neighbour Pakistan (Sharma 2017). In addition to this specific territorial concern, India criticized the BRI as a project that avoided meaningful dialogue among countries during its evolution, and as an initiative that is likely to impose unsustainable debt burdens upon countries (Government of India Ministry of External Affairs 2017). The references were clearly to China's unilateral approach in announcing the BRI without consulting other countries on its structure. The point on indebtedness was specifically with respect to countries, which might not be in a position to repay the financial debt that they get into, upon receiving Chinese support for building infrastructure and ending up compromising on their strategic autonomies as a result. This, from an Indian perspective, was imminently possible in an Asian region comprising countries hungry for obtaining funds for infrastructure development. India's concerns are that such funds would be provided by Beijing for expanding its own strategic influence in India's neighbourhoods (Palit A. 2017).

India's criticism of the BRI and its decision to stay from the initiative was in contrast to the collaboration that it has displayed in working with China and other countries in the Asian Infrastructure Investment Bank (AIIB) for funding infrastructure development projects in Asia. As a founding member of the AIIB, India is the second-largest shareholder in the Bank after China. By working with China on the AIIB, but avoiding the BRI, India made clear its willingness to participate in connectivity initiatives that are multilateral and transparent, and not affecting its core concerns like sovereignty, such as the AIIB, as opposed to the BRI (Palit A. 2017).

From a Chinese perspective, however, the BRI is significant for a variety of reasons. Foremost among these is its description as an effort that would promote a world order different from the one created around alliances and dynamics between the U.S., Europe, and Russia after the 2<sup>nd</sup> World War. The new order is expected to enable

President Xi's China to carve out new major power relations through construction of new partnerships and alliances (Kondapalli 2017).

India's sharp criticism of the project was probably the first rebuttal to President Xi's vision of crafting a new regional and global order enabling China to command considerable geopolitical influence, obtained from its undisputed financial ability to support countries in funding infrastructure and public goods. By attacking the 'virtuous' aspect of the project, India damaged China's credibility to a considerable extent, as more and more countries, subsequently began questioning the credibility and objectives behind the BRI. China-funded major regional infrastructure projects, such as the Hambantota port in Sri Lanka, began attracting considerable scrutiny over Chinese recipients of infrastructure funds getting 'indebted' to China as a result and foregoing strategic autonomy. As more such criticism increased, the credibility of the BRI began getting questioned globally. Notwithstanding the global character of objections, from a Chinese perspective again, India remains 'responsible' for launching the damage on the credibility of the BRI.

The problems for the BRI are likely to increase, as U.S. sanctions on Huawei and major infrastructure-building Chinese firms like the China Communications Construction Co. (CCCC) and the China Shipbuilding Group, start taking effect (Blanchard 2020). With India also having pushed Huawei out of its 5G trials, and creating major barriers for Chinese investments in the country, India and the U.S., along with countries taking similar measures, have begun building large international pressure on the credibility of Chinese companies. Many of these are already engaged in infrastructure-building in BRI countries, including in Central Asia. At some stage, the latter countries might be forced to think deeper over the larger implications of close engagement with Chinese businesses that are sanctioned by U.S., India, and many Western countries. Of course, these sanctions might not necessarily result in Central Asian countries blocking Huawei. Decisions on staying engaged with the Huawei and Chinese technology providers, as well as BRI projects, depend to a very large extent on individual country circumstances and conditions of specific projects. Nevertheless, as the cleavage between China and India deepens, the ostensible implications for their other regional partners on economic issues are impossible to overlook.

### *Indo-Pacific Construct*

As a strategic regional construct, the Indo-Pacific has gained great prominence following its forceful articulation by the Trump Administration. Historically though, the idea of Indo-Pacific was first put forward by the former Japanese Prime Minister Shinzo Abe in his address to both Houses of the Indian Parliament on August 22, 2007. In his speech, Prime Minister Abe noted: "The Pacific and Indian Oceans are now bringing about a

dynamic coupling as seas of freedom and prosperity. A ‘broader Asia’ that broke away from geographical boundaries is now beginning to take on a distinct form” (Abe 2007).

The Indo-Pacific strategy, broadly visualised as the Free and Open Indo-Pacific (FOIP), is primarily aimed at containing a rising China. India is an important part of the Indo-Pacific strategy, which has grown out of the security-centric military alliance between the U.S., India, Japan, and Australia, popularly described as the Quad (Quadrilateral Security Dialogue). Born as a response mechanism to the Tsunami in the Indian Ocean in 2004, and shelved in 2007, the Quad was subsequently revived in November 2017, as a consultative dialogue framework between the four democracies of the Indo-Pacific. The initiative marks a key effort of the countries to balance China’s regional hegemony (Hanada 2019). China’s discomfort with the initiative is evident from its describing the latest meeting of the Quad country ministers in Tokyo as an ‘exclusive clique’ aiming to target ‘third parties’ (People’s Republic of China Ministry of Foreign Affairs 2020).

The worsening of ties between the U.S. and China has ensured the U.S. prioritizing efforts on advancing the FOIP. The initiative looks to be picking up momentum with China’s ties with all three other Quad members – India, Australia, and Japan – worsening in recent months. Among these, India-China relations have worsened the most, following the serious border clash involving the loss of several lives at the Galwan Valley in June 2020 mentioned earlier. The incident is likely to encourage India to play a more proactive role in promoting a regional architecture meant to counter an aggressive China with the help of other allies like the U.S. and Japan. This is clear from the recent reorganization within India’s Ministry of External Affairs for devoting greater attention and focus to the Indo-Pacific (Bagchi 2020).

As the Indo-Pacific gains more traction in the region by becoming more expansive, the pressure on China increases, as does its conviction about India being part of a greater geopolitical exercise to marginalize China. Over time, the Quad group of countries is likely to work together in expanding non-military cooperation within themselves, and across the Indian and Pacific Oceans, including in infrastructure-building, for providing alternatives to the region in accessing public goods in form of new infrastructure assets (Paik and Park 2020). Such efforts are likely to create further misgivings with China, and impact its relations with India.

### **3. Implications of Deteriorating Sino-Indian Ties on Central Asia**

There are obvious consequences of the current trajectory of Sino-Indian relations influencing those countries in their neighbourhood and close sphere of engagement. This section reflects on two distinct spheres of such influence, in trade engagement and technological choices, respectively.

### *Trade Engagement*

One of the major implications of lower cooperation is lesser convergence of India and China on global trade issues at the World Trade Organisation (WTO). India and China have had several occasions of bilateral disputes at the WTO.<sup>13</sup> Notwithstanding these occasions, which have increased in the recent past, both countries have a history of collaborating at the WTO. The collaborations can be traced back to their common interest in defending the interests of developing countries at the WTO.

At the Cancun Ministerial of the WTO in 2003, Sino-Indian collaboration was particularly noticeable in the efforts of both countries to highlight the unfavourable impact of agricultural subsidies on world trade, particularly the interests of developing country agricultural producers (Palit A. 2012, 104-105). Both countries, along with several other emerging market developing countries, combined to form the G20 group of WTO members, accounting for a sizeable share of the world's farmers and global population, to exert pressure on the U.S. and EU's agenda for reducing subsidies and domestic support (Palit A. 2012, 104-105). More instances of their collaborating at the WTO include repeatedly arguing in a common voice demanding flexibilities in reducing tariffs. Most significant, however, was the joint defence in the Ministerial Discussions at the WTO in July 2008 over the finalization of the special safeguard mechanism for developing countries, following surges in agricultural imports. A decision couldn't be reached and both countries were accused by the U.S. and the EU for the breakdown in talks.<sup>14</sup> Both China and India, over the years, have remained committed to the cause of the Doha Development Agenda (DDA)<sup>15</sup> at the WTO and have emphasized its effective implementation.

Over the last decade, instances of collaboration between China and India at the WTO have become much less. This is largely due to the growing difference in perspectives between the two countries on several trade issues and the increasing tendency of the WTO's members to move ahead on several new trade issues outside the ambit of the WTO in smaller groups. Developments around e-commerce are a pertinent example. On January 25, 2019, nearly half of the WTO's members decided to launch plurilateral talks on deciding global rules for trade in e-commerce (World

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<sup>13</sup> India has been a complainant, and China a respondent, in 68 disputes at the WTO. Similarly, there have been 53 cases, where China has been a complainant and India a respondent (World Trade Organization(a) n.d.).

<sup>14</sup> See Jonasse (2018) for more details on the breakdown in talks and the affront between the U.S. & EU on one hand, and India & China on the other.

<sup>15</sup> The Doha Development Agenda (DDA) refers to the trade programme launched at the Doha Ministerial of the WTO at Doha in Qatar in November 2001. The Ministerial placed the interests of developing countries and their greater participation in world trade at the core of the work programme (World Trade Organization (b) n.d.).

Trade Organization 2019). While the group included China, India stayed out. This was a specific occasion marking the increasing difference between the two countries on emerging global trade issues. China's willingness to join multilateral talks was largely due to its eagerness in shaping global rules on digital trade, where it visualizes itself as a significant actor in league with the U.S., EU, and the rest of the developed world, in the days to come. India, on the other hand, is hesitant and reluctant to join the talks, describing them as premature, particularly for developing countries (United Nations Conference on Trade and Development 2019). The enlarging distance between the two countries on trade is also evident from India refusing to endorse the efforts of the majority of G20 members to collaborate on developing common data standards for facilitating digital trade, while China didn't object to the same.<sup>16</sup> It is clear that while not undermining the importance of emphasizing the overall interests of developing countries in global trade, China is keen on becoming a global rules-setter in new generation trade issues – a role that India is yet to be comfortable with. Indeed, in this regard, India is among those countries which are wary of 'China' standards becoming the benchmark in global trade. This, ostensibly, was one of the reasons responsible for India quitting the Regional Comprehensive Economic Partnership – a sixteen member free trade agreement (FTA) in the Asia-Pacific, intended to be the largest FTA in the world in market size and population.<sup>17</sup>

As India and China increasingly differ and diverge in their perspectives and positions on new global trade issues, the impact is going to be felt on future negotiations at the WTO, as well as further possible and prospective regional trade agreements. Central Asian countries would also feel the impact of the divergences. Members of the region have contrasting experiences of engaging with the WTO. While the Kyrgyz Republic has been a member of the WTO since 1998, Tajikistan and Kazakhstan joined the WTO much later, in 2013 and 2015 respectively. Uzbekistan and Turkmenistan do not belong to WTO. It is interesting to note that while the Kyrgyz Republic and Tajikistan have not joined e-commerce talks that include China, Kazakhstan, despite being the latest entrant to the WTO, and with a record of relatively less engagement in WTO negotiations, has nonetheless joined. The fact that two Central Asian members of the WTO have refrained from joining the talks, while another hasn't, shouldn't be attributed to India, which has refrained, and China, which hasn't, 'influencing' them. But it is possible that the Central Asian members of the WTO, like those in Africa and

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<sup>16</sup> India, Indonesia and South Africa were the three G20 members to refrain from endorsing the declaration (Group of Twenty 2019).

<sup>17</sup> The RCEP is a 16-member FTA comprising Australia, New Zealand, Japan, Korea, China and India with the ten ASEAN economies. After staying engaged in the trade deliberations for nearly seven years, in November 2019, at the regional meeting of the heads of states of negotiating countries, the Indian Prime Minister declared India's withdrawal from the agreement due to non-fulfilment of its core interests.

Asia, have become increasingly exposed to the dichotomous views and positions of the world's two largest developing economies - China and India - on trade. Earlier, when both countries had largely identical views on trade, it was easier for other developing countries to work with them on DDA and other common developing country agendas at the WTO. The situation now is markedly different. The possibility of Central Asian economies being persuaded by China and India, respectively, to align with the distinct views that they float at the WTO symbolizing their perspectives of developing country interests, is quite strong.

### *Technological Choices*

China and India's differences on new-generation trade issues, primarily those connected to digital trade and data standards, is also connected to the pressures Central Asian countries might experience in their long-term technological choices.

Like several other countries in the West, India has begun a pushback on Chinese technology and digital content in recent months. Huawei and ZTE – the Chinese telecom giants – are unlikely to feature in India's plans to advance to 5G telecommunication networks in the country. This is following the latest border clashes between China and India in June 2020, which led to India revising its foreign investment rules, emphasizing scrutiny of investment proposals from neighbouring countries with land borders, on national security grounds (Chaudhary et al. 2020). India also blocked more than one hundred Chinese mobile apps for engaging in “...activities which is prejudicial to sovereignty and integrity of India, defence of India, security of (the) state and public order” (Government of India Ministry of Electronics & IT 2020).

The recent accentuation in hostilities between India and China occurred at a time, when the building of country coalitions and strategic alliances are taking concrete shape around technology, particularly its source and impact on national security. India's pushback on Huawei cannot be disconnected from these impulses, manifesting in country alliances like the Clean Network programme, led by the U.S. (Pompeo 2020). The Clean Network aims to specifically guard the U.S. against “aggressive intrusions by malign actors – more specifically, the Chinese Communist Party (CCP)” - by adopting internationally accepted digital standards and passage of secure data into the U.S. through 5G networks (Pompeo 2020). Chinese telecom companies are excluded from the list of ‘clean’ telecom enterprises featured in the initiative, while India's Jio, owned by Reliance Industries, is part of the group along with several other telecom firms from Japan, Taiwan, Korea, Australia, and Europe (U.S. Department of State n.d.). India has also joined the 5G alliance of ten democracies working on building an alternative to the Huawei for moving forward on 5G, along with Australia, Canada, France, Germany, Italy, Japan, Korea, the UK, and the U.S. (Sherman 2020). Clearly, India's national efforts to distance from Chinese

technology firms, by identifying them as a source of threat to its national security, is not isolated, and is part of a larger pushback on Huawei and other Chinese tech companies, being orchestrated by several countries.

While India is retreating from Chinese telecom companies, the presence of the latter in Central Asia – notably, in Uzbekistan, Kazakhstan, and Tajikistan – is far-reaching and deep-rooted with Huawei leading several 5G initiatives in the region and acting closely with regional governments (Hashimova 2020). Central Asia is an important part of China's BRI and the 'Information Silk Road'. Being a landlocked region, Central Asia's economic prospects and future connectivity to China and the rest of the world, depends much on its global digital links – an aspect that China is well aware of. China's IT infrastructure and 5G investments in the region are as significant as the various land connectivity projects (Hashimova 2020). As a prominent 'first mover,' China has had a clear advantage in establishing technological footprints in the region.

In so far as the region's engagement with India and China on technological choices are concerned, the absence of Huawei from India's next generation telecom advance, and the reliance on Huawei by several Central Asian countries, marks a clear wedge. Whether this will in any way influence India's relations with Central Asian countries, where Huawei is deeply entrenched, particularly in areas of economic and scientific collaboration, needs to be examined separately. What is clear, however, is that Central Asian countries would increasingly feel the impact of techno-diplomacy in determining their national choices on the technology providers and their digital standards. These are expected to be brought in by both China and India as the chasm between them widens further on technology and its security impacts. One of the eventual objectives of such diplomacy is aligning with new technology alliances and partnerships (Capri 2020, 5) – an effort, whose influence on Central Asia might become profound as China and India seek to deepen their engagement with the region through their distinct technology-based strategic packages.

Technological choices are a part of the broader economic choices that countries from Central Asia might have to make as the India-China rift widens, and the regional dynamics get reorganized around the competition between pro-China and anti-China alliances. The latter would primarily include the Quad group of countries, as mentioned earlier, who are working through the FOIP framework, to counter China's strategic influence in the region. The cooperation among Quad is widening to economics and business. The Resilient Supply Chain Initiative (RSCI) proposed by Japan, India, and Australia is a specific example (Government of Japan Ministry of Economics, Trade and Industry 2020). Though the initiative aims to work on making regional supply chains resilient following the disruptions in production caused after COVID19, the intention of moving production out of China and relocating among friendly countries is obvious. Another pertinent example is the collaboration between India and Japan

on developing 5G alternatives (Chaudhury 2020). These initiatives need to be looked at in the context of earlier initiatives by the U.S. with respect to the FOIP, notably the passage of the Better Utilization of Investment Leading to Development (BUILD) Act of 2018, enabling the establishment of the U.S. International Development Finance Corporation (USIDFC), which will aim to channel U.S. investments in strategic and developmental sectors in developing countries in the region. The initiative is clearly in response to China's rise and its efforts to fill in the infrastructure financing void in developing countries (Runde and Bandura 2018).

## **Conclusion**

The rich historical exchanges that connect the world's two most ancient civilizations – India and China – look forgotten in contemporary developments that have enhanced conflicts and hostility between them. The current trajectory of China-India relations is not only complex but also reflective of enormous mistrust and hostility.

As the main arguments in this paper note, current China-India relations have been shaped by two groups of factors. The first among these is the historical difficulties and disagreement that exist between them, particularly regarding the unresolved border issue. The second includes issues that are exogenous to the bilateral relations. The paper has mostly focused on the latter, and principally among these, on the respective impacts of deterioration in U.S.-China relations, the enunciation of the BRI, and the articulation of the Indo-Pacific. The cumulative effect of these factors accentuates the divisions among China and India on their approaches to various global and regional issues with notable impacts for other countries.

India and China are now increasingly saddling strategic spaces – along with friendly countries and partners – that aim to decisively balance each other's geopolitical influences. Such efforts have significant impacts for others with whom they engage, including countries in Central Asia, as they are 'approached' by both countries and their coalitions for locking on to strategic choices in infrastructure, trade, and technology. For countries being approached, the choices are going to be difficult, and would require considerable skills in staying neutral, or balancing the implications of taking sides. The choice to be on the Chinese side of such support and asset-building, as opposed to those offered by India and others, might be difficult, as they are likely to be accompanied by demands of geopolitical support too. Much depends on how Central Asian countries are able to reflect on their specific national development priorities for balancing between the competing pressures.

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