



## **CENTRE FOR LAND WARFARE STUDIES (CLAWS), NEW DELHI**

### **CHINA'S STRATEGIC AND ECONOMIC RISE: REVERBERATIONS IN ASIA**

**21 OCTOBER 2014**

#### **SEMINAR REPORT**

##### **Welcome Address and Opening Remarks**

The present century is often argued to being an Asian century. However, sometimes the lines get blurred and an Asian century finds itself at the crossroads with being a Chinese century—so profound is the presence, rise and status of the People's Republic of China. China has embarked on a process of reform and modernisation that has resulted in unprecedented economic growth. In the military sphere, China's leadership describes modernisation of the People's Liberation Army essential to preserving and sustaining what they view as a "period of strategic opportunity" to advance China's national development in the 21<sup>st</sup> century. Based on the country's enhanced regional positioning, China's strategic orientation has become increasingly assertive, as visible through a chain of events with reference to Japan, The Philippines, India and Vietnam. This only makes it imperative for the international community to read and deduce from China's strategic thinking and try forecasting how it might evolve based on Beijing's strategic and economic interests and the leadership's vision. China could either upend or facilitate the Asian Century in two crucial ways.

- The first is by rejecting the liberal regional order and seeking to replace it with one of its own—a move that most likely will be fiercely resisted by regional and global players.
- The second potential route for China to determine the destiny of an Asian Century would be the audit of its success or failure at economic rebalancing.

The primary objective of the Seminar is to decipher the path that China is expected to undertake, both politically and militarily, in order to restore the status that it enjoyed in the past centuries.

The prospects for competition are prevalent for every rising power and chiefly emanate from three different sources: economic, historic and strategic. China is a developing economy and in order to sustain its growth requires resources, raw materials as well as markets for manufactured goods. This brings it in direct competition with other developing economies like India which are also striving for a similar goal. With the rise of power the possibility of conflict increases, as was evident in case of the rise of Britain, Germany etc. In the present century, the rise of China like its predecessors is also perceived as a threat. And, strategic space is finite, with the dominant power occupying the space to the detriment of the other weaker power. Thus, the seeds of power and conflict are inherent. China has come a long way from the strategy of hiding and keeping a low profile to being a more assertive

power which now borders on aggressiveness, aiming at peripheral domination. This behaviour can chiefly be attributed to the rapid economic progress as well as military modernisation following it. In case of India, China is a subject of concern because of the China-Pakistan nexus and a possibility of a two front war with India; unresolved boundary issue; massive Chinese military budgeting expected to rise even further; and superior infrastructure in Tibet.

## **SESSION I: Strategic Reverberations of China's Rise**

### **China's Geographical Fulcrums and Perceptions**

Geography is an important and indispensable aspect of a nation and the resources available in a particular geographical setting are vital for sustaining nation's growth. Like other important aspects a nation's military strategy to a significant extent is contingent on its geography. In case of China, it is encircled by land on three sides and sea on fourth. The entire region is broadly consists of two parts; a strong core; and a fragile buffer/peripheral region. China has successfully managed to integrate the buffer zone with its core and so the correlation between the two continues to remain.

- Control of territory: The underlying philosophy states that the profound struggle of humanity will continue for control of territory. This struggle will surpass that for ideas and ideologies.
- Expand where resistance is low: This explains China's control over Tibet, Xinjiang and Inner Mongolia.
- Strategic boundary starts where land boundaries dominate: It is a new theme which has made the idea of 'Land boundary the limit of strategic boundary' redundant.

The four geographical fulcrums of China are as follows

- Coastal China: It is the economic and population hub of the country and also vital for projecting power in the South China Sea.
- Yunnan Province: It is one of the most developed non-Han provinces of China. It has become a land bridge and an important trade corridor between China and the ASEAN and some South Asian nations. Through the Yunnan-Kunming-Myanmar corridor, it has managed to achieve a second coastline in the Indian Ocean, which would serve as an alternative in case of a threat to the SLOC's through the South China Sea.
- Tibet and Xinjiang Province, New Silk Route: An unstable plateau, full of vulnerabilities and yet it has been converted into strength. Tibet is the water tower of Asia with many major rivers in the region originate in Tibet. China has successfully converted it into an energy and trade corridor by connecting it to Central and West Asia as well as Europe and Russia. This linkage helps do away with the need for a second coastline. However, the threat emanating from the radical Islamic extremism in Xinjiang and uprising in Tibet pose a serious threat to the region's security.
- Northern Borders: Balancing Negative geographic scenarios with positive scenarios. It was a source of existential threat during the Soviet era, however with the warming of relations between Russia and China this region has a newfound importance.

China has breached geographical fault-lines by developing military capabilities, communication, infrastructure, and integration of geography with economy and finally the relocation of demography.

The idea of resolution of the land border with most states is a bluff. This can be further explained by highlighting the fact that states which had a dispute have been forcefully merged with China e.g. Tibet, Xinjiang and Inner Mongolia. This was the first stage of the supposed resolution of the border. The second stage involves claiming new territories like Arunachal Pradesh, Ladakh as well as

territories in the South China Sea in order to create a buffer zone which can be extended outward. The advantage of this being that a reverse cultural invasion can be done in these areas because of identical ethnic tribes both in Arunachal Pradesh and Ladakh. Thirdly, China had a land border dispute with 14 countries of which 13 are non-Han states. Ten of them have borders only with a buffer state. Thus, Chinese geographical fault lines are still enclosed in the buffer states.

### **US-China Power Relations: A New Stage**

The power transition theory best describes Chinese assertiveness and foreign policy in the region. In the Asia-Pacific region, three important defining factors are as follows:

- Drive for economic development: Led by China, it has transformed the poor and under developed economies into power houses and at the same time has brought a geographic power shift from the Atlantic to the Pacific. It also has a great potential for continuation and hence sustaining development.
- Unsettled territorial disputes: Most of the territorial disputes among the nations in the region are with China.
- US-China power transition: The US-China relation is an overarching relationship having an impact on welfare and development in the Asia-Pacific region.

#### *Is there a Power Transition between US and China?*

Concerns of a China threat naturally arise keeping in mind the spectacular rise of China's economic and military power in the last 30 years and the government holding to the CCP, an authoritarian power at the helm of affairs. This rapid rise to prominence is perceived as a threat to US' interests in the region. The US has thus resorted to measures which pose questions to the Chinese intentions in the region and thus demonize Chinese rise as a threat to peace and stability in the region. China's demonization by the West made former President of China Hu Jintao to come up with the new call of "China's peaceful rise" which was later modified into "peaceful development".

Two prominent highlights of this policy were as follows:

- China will not challenge US supremacy.
- Will not resort to force to secure natural resources but will do so in a peaceful manner.

While the debate on the power transition continues, the US-China transition has already moved into the second stage. The first stage was from 1978-2008, when China launched its modernisation programme. These three decades were the early stage of the US China power transition. The second stage was during the 2008 Beijing Olympics, where the stage was set for China to display its glorious development at the world where it moved to the center stage of international politics. This is going to be a long stage given China's aspiration to be a great power measured not by its GDP but by Per Capita Income. China's rapid rise continues to reduce the gap between China and American national power. The US, being the sitting great power will obviously be nervous about this rise for the fear of being surpassed and hence will take measures to counter it. This gives rise to the rising power (China) to be more assertive and counter the dominant power (US) and aids in explaining Chinese behavior. The US has hinted at its intentions for a strategic rebalance and at the same time denies that it is designed as a move against China. However, keeping in mind the power transition theory, it can be gauged as a dominant power's response to the rising power.

The US strategic rebalancing seeks to reassert US dominance in the region, implicitly countering China's rise; increase engagement with the region through various trade avenues and agreements including the Trans-Pacific Partnership (TPP); reinvigorate alliances and restore faith among the allies in the region about American commitment to the region; and recruit new partners/allies.

*Challenges to Rebalancing* Owing to the failure of other instruments of US foreign policy, it is more likely to resort to its military as a favoured tool to extend its national interest in the region. The US is dragged in and becomes a problem in the Asia Pacific region. America also faces economic constraints and is engaged heavily in West Asia and Afghanistan. One of the great concerns is the immediacy and effectiveness of the US intervention for the protection of interest of the peripheral powers. Considering the Chinese response in declaration of the ADIZ, the confidence of smaller powers was significantly shaken up as the US response fell way short of their expectations.

### **Maritime Disputes with Neighbours**

China continues to strongly believe that the territories (island chains) in the South China Sea as well as in the East China Sea belong to them since the time of the Middle Kingdom and have been stolen from them by foreign powers over a period of time. Hence the philosophy of 'Huifu' i.e., recover, is high on the Chinese agenda. The longer the territory remains under regional maritime powers, the more difficult it gets to recover them and hence China is behaving assertively in this region. This approach thus falls contrary to the stated Chinese aim of its peaceful rise. If it continues to adhere to its stance of peaceful development then the likelihood of losing those territories is highly likely. Holding this balance between peaceful development and maintaining territorial interest in contested waters with neighbors is very difficult for China to balance at the moment.

The anti-access/area denial (A2/AD) strategy adopted by China is largely a result of China's determination to keep Taiwan in the fold and this would require employing measures to deal with possible US intervention. Specific reference can be made to US intervention in 1995-96, when the US deployed two Aircraft Carrier strike groups near Taiwanese waters. To counter this threat, China developed the A2/AD strategy. The Dong-Feng 21D becomes a crucial component of this strategy designed specifically to deter the US.

### **PLA's Focus and Presence in Western China**

The shift in geopolitical situation in the Eurasian region has renewed focus on Western China. The Western province of Tibet and Xinjiang are recent inclusions in the Han civilisation. 1991 was a watershed year in PLA's modernisation as the policy changed drastically after the Gulf War I primarily involving the following:

- Reorganisation and restructuring
- Evolution of doctrine involving rapid force deployment and informationised operations
- Domination of cyber and outer space
- Rapid equipment upgradation
- Anti-access/area denial (A2/AD) strategy to deal with any kind of threat to counter China's sovereignty and territorial integrity.
- Strategic force upgradation
- Power projection, effectively moved more towards the Indian Ocean Region up to the Eastern coast of Africa.
- Modernisation programme has enabled cut down the number of men in arms yet it continues to be one of the largest in the world.
- Enhanced maritime capabilities

The borders between India and China are not demarcated and large swaths of territory form part of the disputed territory. China refuses to accept the McMahon Line. It was primarily an Imperial design used to create buffer states to safeguard the Indian Empire as in case of the Durand Line in the West. Similarly the McMahon Line was designed to have Tibet as a buffer with the high water ridge line thus forming the border. China has set up an unprecedented network of railway lines and roads, offering excellent connectivity to the region and which could prove decisive factor in case of a military emergency. Connectivity is important as it creates security, stability and prosperity.

### **Implications for India**

- Keeping in mind the topographical aspects, the pace of force modernisation as well as the current condition of border infrastructure, the likelihood of matching the Chinese is slim.
- A border settlement will certainly involve basic interests of the two countries and therefore, should be pursued as a strategic objective while being based on a fair, reasonable and mutually acceptable line.
- Keeping in mind the current circumstances, India and China do not necessarily have to go to war in order to resolve outstanding issues. China's modernisation becomes threatening when combined with strategic opportunity which has signs of assertiveness.

### **Discussion Hour**

Keeping in mind the current situation in Afghanistan and Iraq, China has no intention to play the role of a net security provider post ISAF withdrawal. Thus far China intends to pursue its economic interests in Afghanistan and other global hotspots like Iraq and leave the domain of providing security entirely for the US.

Protesters in Hong Kong do not enjoy popular support from the mainland as well as from within Hong Kong. Protests are losing steam. The issue still rests under the control of Hong Kong authorities and the central authorities in China seem to have held back from any kind of intervention.

China's central concern always remains the US. It looks forward to competing with the US and not India. In the power transition perspective, China is different from India. The rise of India does not threaten the US because India like the US is a democracy, sharing similar fundamental values. India does not have any interest in upsetting the international system to change it or take over the leadership mantle from the US. In case of US-China power transition, it is not merely a change in the national power capabilities but also the future of international relations.

For China's peaceful development, it needs to avoid confrontation with its neighbours including India. India's options in terms of China's strategic rise are limited in the sense that a lot needs to be done in order to achieve self sufficiency and be prudent in terms of national security. Rapid infrastructure upgrades all along the Line of Actual Control with China are the need of the hour.

### **SESSION II: Economic Imperatives in Chinese Foreign Policy**

Chinese economy has been in the media not just for economic reasons but also for its social implications. The Chinese economy is the second largest economy in the world with the highest GDP. In the last 30 years with a 10 percent average growth, its manufacturing sector has surpassed that of the US.

### **The Sustainability Issue in India's Bilateral Trade Imbalance with China**

When Chinese President Xi Jinping visited India, there was a lot of hype in big investments from China. There were expectations on addressing the issue of trade imbalance, of growing imports from

China and declining exports from India. There was optimism towards investment flows from China. The second issue which was discussed was on sectoral cooperation particularly in manufacturing sector which is very small in India with the services sector which China is in search of. India's linkages with China in the manufacturing sector and services which India is comparatively in a better state could help in terms of improving its niche in the global market. India's arrangement with different trade agreements:

*Regional Comprehensive Economic Partnership (RCEP)* is a proposed free trade agreement (FTA) between the ten member states of the Association of Southeast Asian Nations (ASEAN) (Brunei, Myanmar, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, Vietnam) and the six states with which ASEAN has existing FTAs (Australia, China, India, Japan, Korea and New Zealand). Analysts and economists strongly feel that the future of India in trade and economy lies in the direction of bilateral cooperation, with the RCEP. India has a strong competitiveness in RCEP and stands to gain enormously in the long run. India and China should co-operate which will bring in more comprehensive integration in the region.

The *Trans-Pacific Partnership (TPP)* is a proposed regional free-trade agreement. As of 2014, twelve countries throughout the Asia-Pacific region have participated in negotiations on the TPP: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. There is anticipation amongst economists on China's move, as it has been opposing the trade agreement but has eventually also shown interest in joining it.

A significant concern is that of rising bilateral trade with widening bilateral trade deficit. India is amongst the top five countries with which China has huge trade deficit. Two-way trade has reached \$61.7 billion in 2013 with \$36.2 billion deficit. The trade target of \$100 by 2015 is easy to achieve provided there are good returns from China. India's export trade is dominated by primary and resource-based products—India's new mineral policy. High sectoral concentration in that three sectors share 79 percent of the total bilateral exports, mostly resource-based and labour intensive sectors. India's imports from China are mostly manufacturing products and are more diversified than exports. Alternatively, China has more ground to access markets in India whereas New Delhi lacks in this regard. India's export strategy should meet specific import requirements of China. In the early 1990s, India's trade deficit with China as well as its imports and exports was negligible. However, during the recession years from 2007, this trade deficit gap has expanded and recent figures put it at \$36.2 billion.

### **Relevance of Bilateral Trade Deficit**

If expanding bilateral trade deficit leads to reduction of overall trade deficit of a country, it is helpful. The competitiveness of Chinese imports to India needs to be examined at the product level. During its war with the LTTE, Sri Lanka had huge imports from Japan for war machineries, trucks and lorries. Later, the same purchases were made with India. By replacing Japan with India, Sri Lanka's overall trade imbalances with India largely declined. Bilateral trade deficits may not be particularly bad for India, its competitiveness should be analysed. China too is not competitive for India for several lines of products. It is a Middle Income Country and because of its growth, per capita income is increasing and the wage rates are also going higher. Until and unless they export and generate trade surplus they cannot sustain their manufacturing sector and this will result in the decline to some extent. There are several other sectors which are low intensity in character which cannot be sustainable in the long run and need to be discarded. If China wants to have strong trade linkages with India, it has to open up its market in several sectors to in order to compensate the huge trade deficit.

*Constraints to India's Exports* India's constraint in trade with China centres around several restrictions where it is unable to have large trade market access. There are concerns relating to non-trade barriers and specific tariffs which are not very conducive for India's export to China. For example, customs procedures, regulations pertaining to standards, frequently changing rules and result in implementation difficulties. Moreover, there are regulations pertaining to certification—time consuming and a costly process to get certification tested at certain laboratories. These issues are very critical for India in terms of getting market access in China.

*Export Potential of India in China* is a major importer from the rest of the world. It either imports primary products like raw materials, minerals and chemicals or high-tech products like machineries, precision instruments, base metals which are essential for its industrialisation. India needs to analyse how it can fit in China's requirement in trade. According to conservative estimates, the bilateral export potential of India could be anywhere around \$20 billion per annum. In 2008, an export high of \$28.4 billion was registered in 2008. India has large products and sectors which are globally competitive in nature but have not been tried or explored to its full extent in China. The uncompetitive product lines are in several sectors including textiles and clothing, automotive, chemicals etc among others. The largest concentration is in the medium-technology products segment. Of the 5,000 products that India imports from the world, nearly one-third of product lines are uncompetitive at 6-digit HS from China. India can and must reduce trade imbalances with China.

India's stake in China lies in manufacturing sector, particularly in Global Value Chain system. Global trade has been growing faster than global production and Global Value Chain segment surging faster than rest of the trade sector. There is a high internal trade in ASEAN countries because China is importing parts and component segments hugely from these countries and has thus increased the trade amongst them. In certain sectors like chemicals, clothing, textiles, metals, machinery, electronics precision instruments, India is more competitive than ASEAN countries that are exporting to China and can compete for a larger share in the Chinese market.

### **How Liberal is China?**

Both India and China have worked towards reducing overall average tariff over a period of time. China's overall average tariff was 42.1 percent as against 56.3 percent in India in 1992. This has come down to 9.6 percent for China whereas for India it stands at 12.3 percent for India in 2008. India is protective in the agriculture sector as it involves 'livelihood security' for a large number of populations. This has been expressed clearly by India in its agreements with the World Trade Organisation and therefore maintains high protection. In manufacturing and mining sectors, India is relatively more liberalised than China. The simple average tariff in the manufacturing sector in India is lower than in China since 2008. Out of 16 manufacturing sectors, India has lower protection limits in more than 12 sectors. Besides, the average tariff rate remains lower for India than China in as many as 12 out of 16 manufacturing sectors. There is a discussion that the Yuan is undervalued, that its exchange rate is misaligned, which in turn has a lasting impact on its exports competitiveness, thus resulting in a huge trade surplus. Many studies reveal that the level of Yuan's undervaluation lies between 15-50 percent.

### **The China-India Economic and Trade Relationship**

Can India benefit from cooperation with China in the area of merchandise and services? If the market share of both India and China in export and import merchandise is compared, China is leading in both sectors whereas India has a limited edge in particular sub-sectors in services. In the merchandise sector, it is not possible for India to replace the Chinese but in the services sector both parties can collaborate wherein India can have a comparative edge over its Chinese counterparts. In IT-enabled,

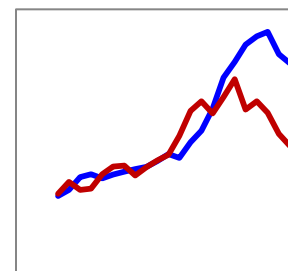


cultural, personnel and financial services, India is ahead of the Chinese. There is more faith on multilateral trade promotion by India up to 2003 and post Cancun Ministerial of WTO, but now there is a greater inclination for Regional Trade Agreement with recent focus on CECAs/CEPAs. The proposed bilateral trade and investment agreement with the European Union will be an ambitious project. In contrast, China was forced to follow a different policy. Till 2016, China will be considered a non-market economy making it easier for countries to initiate anti-dumping investigation against China to prove it through the non-market economic clause by using the 'surrogate country method'. China is dumping products since markets in China are not following market economy principles. China has opened market for ASEAN countries in return of a written commitment from these countries that China is a market economy. The comparable regional trade agreements, India-ASEAN FTA and China-ASEAN FTA show that China's agreement is more comprehensive. India started with an FTA with Sri Lanka and the ASEAN. It is however accepted across many product lines that India does not have competitiveness and it only makes sense for India to have comprehensive economic cooperation or partnership encompassing merchandise, services and investment. This way, any disadvantage India has in merchandise will be compensated with gains in services.

India position in China's trade basket is not more than 5 percent and therefore it is an important but not a major partner in China's trade. In India's trade basket, China is a big player with a higher share of 10 percent and above. The export composition between India and China reveal that India exports more of primary products. Essentially, India is a supplier of raw materials in China's value chain.

### Is China an Economic Threat?

Anti-dumping is a major problem in Sino-Indian export-import relationship. The Indian government has undertaken anti-dumping investigations against China. In several cases duty has been more than 100 percent but the government could not impose the because it was difficult to prove that the domestic market is getting For anti-dumping three conditions must occur:



reported  
duty  
affected.

- 1) Actual dumping of the product below the minimalist level
- 2) There should be tangible harm to the domestic industry
- 3) There has to be a linkage between the two

There are two players who can potentially get affected by this dumping policy of China. Firstly, competitors to the final import of Chinese products and secondly, those who are going to use the Chinese products as raw materials for the subsequent export. The first segment stands to lose their business because of the Chinese imports while the second segment welcomes the cheap Chinese imports as it gives them cost advantage while exporting their products to the rest of the world. The overall anti-dumping investigations of India, almost 23 percent is undertaken against the Chinese and around 25 percent final anti-dumping measures have been initiated against the Chinese imports.

### Can Economics prevail over Strategic Divergences in the China-India Case?

In 1978 China's foreign currency reserve was \$167 million and by April 2014 it stands at \$3.9 billion whereas India's foreign currency reserves as of October 2014 are \$311.4 billion. How did China amass such strong foreign exchange reserves? China is undertaking trade with a majority of its neighbouring countries and also moving beyond its immediate region. All of China's neighbours are benefitting while China maintains strategically and adversarial different relations with different countries. India is still procuring weapons which were made in 1960s to fight the modern war without



seriously considering its repercussions. On the contrary, China is trying to link its conventional warfare with cyber and space technology and is training its army in high end technology. What is India preparing for in a confrontation with China is a question that needs to be pondered upon and accordingly investments in defence technology need to be made. Any future conflict or dispute is not going to be a repetition of the past wars and events. India needs to explore the areas in which it is likely to have a strategic advantage, such as nuclear, cyber and space.

It is necessary for India to keep a tab on its defence spending, training of its forces, investment in cutting edge technology and move towards self-reliance. India will have to defend itself against the adversary. In the speech delivered by the Chinese President, he spoke of China's investment in South Asia and new concept of Security Council in Asia. A Joint study group was established between India and China initiated by both governments to study Free Trade Agreement with China. However, this was strongly objected to by certain trade groups like the FICCI in that it may not be conducive for India to go ahead with the FTA arrangement. If there is a comprehensive footing for India in China in all the sectors the way China has in India, in that case the FTA can be a good idea. Nonetheless, if it is lopsided focussing on sectors like agriculture, minerals and technology, this will not open wider markets for India. The sectors which are legitimately offered to India through the WTO are not offered from China. There are nearly 22 agricultural products (fruits and vegetables) that India can export to China but the Chinese try to avoid it and only four products are exported. It is a similar case with Small and Medium Enterprises (SMEs), the Chinese SMEs are not at par with India. They are bigger in scale and get numerous subsidies in electricity, water and taxation with which Indian SMEs cannot compete. Complete opening of India's economy for the Chinese may not prove to be advantageous for New Delhi.

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