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China’s South Asian Miscalculation

RAFFAELLO PANTUCCI

At a conference in China a few years ago, I watched as a Chinese expert gave a presentation laying out Beijing’s view of the military conflict that it faced in nearby seas. It was largely a story about the United States and East Asian competitors, and China’s aggressive assertions of ownership of islands in the South China Sea. At the end of the presentation, a former Indian officer raised his hand and indignantly asked why India had not been mentioned as a competitor.

In a moment of surprising candor, the Chinese expert responded that he did not include India because, from his perspective, it did not pose much of a threat to China. The answer riled the Indian participant, but it reflected a fundamental calculation that exists in Beijing about India. It is a calculation that could cause serious complications for China’s broader South Asian vision, and ultimately provoke a clash between the two Asian giants.

At stake is China’s Belt and Road Initiative (BRI), a much-discussed and puzzled-over concept. It has been variously described as a Chinese power grab; an attempt by China to promote its companies’ overseas interests and build infrastructure to suit its own interests; an effort by Beijing to claim leadership of the international order; or, by Beijing’s own account, a project to bind together a “community of common destiny.” But it is really best understood as an umbrella concept that acts as a central organizing principle for China’s foreign policy.

The core of this scheme—building trade and economic corridors that emanate from China in every direction—strengthens China’s position in the global order and across the Eurasian landmass. The aim of these corridors is not only to help Chinese firms go out into the world and increase Chi-

na’s trade connections. Most importantly, they will help China develop domestically.

Ostensibly, this is a benign concept. By improving trade and transportation links through investments in infrastructure, China is enhancing the global commons. Few would say that more economic connectivity and prosperity is a bad thing. But the reality is of course very different. China is advancing its own national interests, and is doing so by offering a one-size-fits-all policy—which means that it can appear to be proffering the same opportunity to European powers and Southeast Asian neighbors alike. While this is a perfectly understandable self-interested approach, Beijing has been blind to geopolitical problems that it is exacerbating and which may in the long term disrupt its entire strategy.

FEARS OF ENCIRCLEMENT

Nowhere is this more evident than in South Asia, where Beijing’s miscalculations regarding India have created conflict with a regional power that has the capability and desire to disrupt China’s outward push. Chinese strategists see South Asia as a region of great potential opportunity where China can expand its influence. It is a region full of poor countries with large and growing young populations and governments that want access to Chinese investment—an arena where Beijing can expect to reap great rewards. The Chinese see few strategic competitors on the immediate horizon and worry more about nontraditional security threats like terrorism, insurgent groups, and criminal networks than they do about state-based ones.

In stark contrast, Indian strategists see an increasingly assertive China steadily encircling their country. China has developed important strategic investment relationships with all the countries that share a land border with India, while a growing Chinese presence in the Maldives and Sri Lanka has given it a string of island harbors connect-

RAFFAELLO PANTUCCI is the director of international security studies at the Royal United Services Institute for Defence and Security Studies in London.

ed to footholds that China has established on the mainland through port investments in places like Gwadar in Pakistan and Kyaukpyu in Myanmar. India looks and feels surrounded by countries that are increasingly either in Beijing's economic thrall or hosting its bases.

For New Delhi this territorial encirclement is coupled with regular border disputes of varying substance with China, either directly on their still-contentious borders, or in proxy locations like Bhutan where both have interests—China in terms of territorial claims and India through long-standing treaty obligations. But the question is not simply a territorial one.

The same pattern can be found on the global stage, marked by persistent Chinese efforts to stymie India's advancement and interests. For example, Beijing has blocked India's bid for membership in the Nuclear Suppliers Group (comprising countries that seek to control the proliferation of nuclear weapons) and used its veto power in the United Nations Security Council to keep Masood Azhar, the leader of Pakistan-based Jaish-e-Muhammad, which is already designated by the UN as a terrorist organization, from being added to a UN sanctions list.

Indian analysts see these moves as a matter of Beijing poking New Delhi in the eye while steadily encircling it. They also feel that the world is failing to lend India the support it deserves as the world's largest democracy, in contrast to China's one-party system. The story is one of growing confrontation, as hawkish national security establishments on both sides increasingly outflank economic pragmatists who want to take advantage of the potential benefits of a more cooperative relationship between the two Asian giants.

AUSPICIOUS BEGINNINGS

This was not how China meant for things to go. When Xi Jinping first ascended to power five years ago, Beijing was clearly focused on moving in a positive direction with New Delhi. Prime Minister Li Keqiang's maiden foreign visit in May 2013 was to India—the first stop on a tour that took him on to Pakistan and then to Europe (presaging in many ways one of the routes of the Belt and Road Initiative).

During his stop in New Delhi, Li reawakened a long-dormant plan for a Bangladesh-China-India-Myanmar Economic Corridor (BCIM-EC)—first

broached in 1999 when Jiang Zemin, China's president at the time, was pushing his own western development strategy within China—by establishing a joint working group to move the project forward. Moving on to Pakistan, Li signed a memorandum of understanding to get started on a China-Pakistan Economic Corridor (CPEC) project. Both corridors were the early paving stones for the Belt and Road Initiative, which Xi christened in Astana, Kazakhstan, in September 2013. The BRI went on to subsume both corridors and more under its vast reach.

The positive tone of Li's visit was reciprocated that October, when Indian Prime Minister Manmohan Singh paid a return visit to China. Since it was the first time in 60 years that Chinese and Indian premiers had exchanged visits in the same year, the event was marked with some fanfare, including a speech by Singh at the Central Party School in Beijing. While highlighting mutual interests and welcoming China's rise, Singh stated, "Our strategic partnerships with other countries

are defined by our own economic interests, needs, and aspirations. They are not directed against China or anyone else. We expect a similar approach from China." This call for reciprocity was a clear signal from New Delhi that the opening

would work only if Beijing treated India as a peer.

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as a threat, it is still keen
for Chinese investment.*

SIMMERING TENSIONS

In retrospect, Singh's visit seems to have marked the apex of recent relations between the two countries. He lost power in national elections in May 2014, leading to Narendra Modi's ascension to the premiership. By the time Xi finally paid his own visit to India that September, tensions had started to simmer. A standoff between Indian and Chinese troops in a disputed border region in Ladakh marred the visit, though that and other contemporaneous border confrontations were widely dismissed as routine skirmishes that received extra attention only because they occurred during visits by senior officials.

Tensions had already surfaced when Singh visited Beijing in 2013. One scathing opinion piece in the *New India Express* by former Indian government official and veteran China watcher Jayadeva Ranade declared that the visit had yielded "no tangibles" and cast doubt on the notion that the BCIM-EC was making "incremental progress" as China's

“Southern Silk Route.” But India would have to carefully study the plan in case it might disrupt its neighborhood, Ranade warned. Such voices are common in New Delhi; they reflect the view of a hawkish faction of the establishment that has gained growing power under Modi.

Xi set the tone for his September 2014 visit to India before he left Beijing with a declaration that he hoped Chinese investments in India would rise as high as \$100 billion. Xi began his visit in Modi’s home state of Gujarat. In between public walks together and other displays of bonhomie, the two leaders signed deals amounting to around \$20 billion in Chinese investments. They also presided over agreements to establish a Chinese-funded business park in Gujarat and a “twinning” relationship between Gujarat and the southern coastal Chinese province of Guangdong.

It seemed to be an auspicious start to a new era of friendly and lucrative ties between the Elephant and the Dragon. Soon afterward in Beijing, Xi hosted a foreign-policy work conference that focused on border diplomacy and relations with neighboring powers as a priority for his administration. But four years later the agreements struck during his visit seem empty. Chinese foreign direct investment in India has stalled at around \$4 billion, according to comments by Vice Minister for Finance Shi Yaobin in August 2016. Indian figures for the period from April 2000 to December 2016 show total Chinese inflows of only \$1.6 billion. (The discrepancy is likely a product of Chinese investments flowing through secondary locations like Hong Kong.) Neither is anywhere near the \$100 billion Xi had touted.

The business park in Gujarat has failed to materialize. The financier on the Chinese side, the China Development Bank, has announced several times that the project will start soon, but the Gujarat Industrial Development Corporation’s website shows little evidence of progress. The two Chinese firms that set up shop in the state’s industrial parks (TBEA, a manufacturer of electrical transmission equipment, and Baosteel, an iron and steel company) were vastly outnumbered by the many international firms already present.

The pairing between Guangdong and Gujarat also seems to have taken a turn for the worse. In early 2017, the Gujarat Chamber of Commerce and Industry called for a boycott of Chinese prod-

ucts, citing dumping of ceramics, plastics, and other Chinese exports, China’s close ties with Pakistan, and other ways that China was “working against our interests.” By 2018, the chamber was actively courting other foreign investors specifically to crowd out Chinese investments.

These moves were coupled with a national push to investigate Chinese pharmaceutical suppliers in India over quality concerns. That industry is particularly important in Gujarat, and Chinese firms in the sector had been at the forefront of the businesses that took advantage of Xi’s visit to increase their presence in India.

PAKISTANI FRICTIONS

The exact reasons for this chill in India-China business ties are open to interpretation, but they are most likely linked to a deterioration in India’s relations with Pakistan. The trigger was an escalation in violence between India and Pakistan, particularly two attacks by non-state armed groups on Indian targets, launched from bases in Pakistan, that took place in 2016. Indian-Pakistani relations were already tense since Modi came to power, due to his nationalist political affiliations, but this set of events sent them into a downward spiral.

The first was a January 2016 strike on an Indian airbase at Pathankot in Punjab state, which led to the deaths of seven Indian servicemen and six attackers. A subsequent attack in September that year hit an Indian Army base in Uri, in the state of Jammu and Kashmir, resulting in the deaths of 19 soldiers. Both locations are situated close to the India-Pakistan border. That second attack led to retaliatory “surgical strikes” by India deep into Pakistani-controlled territory in Kashmir. Both attacks were allegedly linked to Jaish-e-Muhammad, the terrorist group led by Masood Azhar—the very man China has kept off the UN blacklist.

Despite these Pakistani provocations on Indian territory, China continued to push ahead with its China-Pakistan Economic Corridor. Reportedly making investments of over \$50 billion (a number that fluctuates depending on what is included), China has clearly thrown its economic weight behind Pakistan, and has shown no sign of slowing down. Some routes cut through disputed territory in Gilgit-Baltistan—the northernmost tip of Pakistani-controlled Kashmir, which

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is still claimed by India. China is disregarding Indian concerns and treating the situation as *de facto* resolved. The actual projects underway in Gilgit-Baltistan are very limited, but the broader corridor has provided Pakistan with a bulwark against Indian and other external pressure. This has weakened India's ability to respond, angering New Delhi and placing a strain on China-India relations.

It has also had an impact in other respects. The energy that had been injected into the BCIM corridor in the wake of Li and Xi's visits to India seemed to wane. When I talked to Chinese experts and officials in mid-2017, they placed the blame for the stalled corridor firmly in Modi's court. They said they had tried to engage with their Indian counterparts on projects under the auspices of the BCIM plan, but their efforts led nowhere. They saw little evidence that India was moving forward with its side of the corridor by doing feasibility studies or taking other steps necessary to bring the concept to fruition.

CHECKBOOK DIPLOMACY

While the Indian end of the corridor appeared to stall, China pushed ahead in forging closer ties with the two nations in between, Myanmar and Bangladesh. In Myanmar, China faced pushback over environmental concerns and other scandals surrounding the proposed Chinese-financed Myitsone Dam in 2011, which came to a head amid democratic reforms that seemed to push the country toward closer relations with the West. Since then, however, growing disillusionment in Western capitals about the ability of the new civilian leader, Aung San Suu Kyi, to rein in the military has pushed the country away from the West, and made it amenable once again to China's embrace.

Meanwhile, a game of one-upmanship started to play out between China and India in Bangladesh. Modi extended a \$2 billion line of credit to Bangladesh in 2015—on top of a previous \$1 billion facility and a joint Indian effort with Japan to provide Bangladesh with a much-needed deep-sea port in Mataburi that beat out the Chinese-financed alternative 25 kilometers away in Sonadia. But this gambit was trumped in October 2016 when Xi visited Bangladesh and oversaw the signing of trade and investment deals worth around \$13.6 billion, as well as \$20 billion in loan agreements.

That, in turn, prompted a riposte from India in the form of \$10 billion in investment and \$5 billion

in loans (including \$500 million worth of defense assistance) after Bangladeshi Prime Minister Sheikh Hasina visited New Delhi in April 2017. The actual number was slimmed down in October when Indian Finance Minister Arun Jaitley paid a return visit and confirmed a \$4.5 billion loan facility. But India's show of economic might was a clear signal to Beijing that it, too, could play checkbook diplomacy.

To India's north, the encirclement appears to continue with a growing Chinese footprint in Nepal. A \$2.5 billion hydropower project that had previously been shelved was restarted when a new pro-China government took power after national elections in early 2018. An \$8 billion railway between Lhasa and Kathmandu has been proposed under the Belt and Road Initiative.

India's response has been more limited, with proposed investments totaling in the hundreds of millions of dollars. According to data from the Nepalese Department of Industry, China has been the country's leading source of foreign direct investment since 2015. While Nepal's principal foreign partner is still India, there has been a gradual shift over time toward Beijing. Attempts by New Delhi to assert its influence through a 2015–16 blockade in response to alleged mistreatment of minority communities have seemingly backfired and simply provided greater access to Beijing.

In nearby Bhutan, a small Himalayan kingdom that has historical treaty agreements with India but no formal relations with Beijing, the rivalry between its big neighbors came into sharp focus last year when China started to build roads and bases in disputed territory on the Doklam Plateau. The Bhutanese government complained and India sent in soldiers to back up its ally, confronting Chinese troops. The tense standoff lasted for weeks before both sides sought to diplomatically de-escalate.

With no claim over the territory but a strong alliance with Bhutan, India believed it held the upper hand. Chinese experts and officials I spoke to at the time rejected New Delhi's declarations of diplomatic victory. They asserted that the episode grew out of a ridiculous intervention over territory that had little to do with India. One senior Chinese security official went even further and dismissed India's capabilities to back up its position, asserting that once winter came the less hardy Indian forces would be forced to stand down.

The Chinese narrative made it clear that Beijing did not take India seriously, regarding it as a power that was unable to compete with China economi-

cally, militarily, or strategically. The de-escalation seemed to be a simple recognition that China had pushed India as far as it could in this particular context and had achieved what it wanted for now. Analysis of satellite imagery subsequently showed how little the Chinese position had actually changed. Indian strategists are already bracing for a repeat performance of the standoff later this year, once winter ends and the area becomes more accessible.

Finally, in the seas around South Asia, China has continued to develop a footprint and establish what appear to be strategic stakes in island nations including Sri Lanka, the Maldives, and Mauritius, peppering the Indian Ocean with its presence and heightening India's feeling of encirclement. China's navy has already established a military base at the other end of the Indian Ocean in Djibouti. It remains a matter of time before it links up the dots to complete what is often called the "string of pearls." Yet China refuses to acknowledge such aims. In China's portrayal, its relationship with each nation in the region is unique, with specific interests and dynamics. Only time will tell whether this is a coherent and cohesive strategy, as India fears, or a set of disparate bilateral relationships. In many ways, the entire distinction is moot; if they all come to fruition, China will have created a network of strategic alliances entirely encircling India.

Chinese media, meanwhile, scoff at Indian capabilities. India's test of its Agni-V nuclear-capable intercontinental ballistic missile in April 2017 was mocked in a *Global Times* editorial that stated, "Chinese don't feel India's development has posed any big threat . . . And India wouldn't be considered as China's main rival in the long run."

HUBRIS

There is both arrogance and hubris in China's response to the challenges India poses—arrogance in the form of a belief that there is little chance that India can be a genuine competitor, and hubris based on the fact that India, like much of the world, is eager to get its share of the economic opportunity that China offers. The reality is that this is the paradox at the heart of India's engagement with China. While New Delhi sees China as a threat, it is still keen for Chinese investment. The economic relationship between the two pow-

ers has enormous potential, and expanding it is something that both can see as a long-term goal they would like to achieve.

New Delhi declined to send senior representatives to a May 2017 summit in Beijing for the Belt and Road Initiative, but it welcomed the opportunity to participate in the Asian Infrastructure Investment Bank (AIIB), a new multilateral development institution led by China. Indeed, India has become home to the new bank's largest projects. In 2017 alone, the AIIB approved \$1.5 billion in loans for projects in India, with another \$3 billion expected this year. Earlier, Modi actively sought Chinese investment when he was chief minister in his home state of Gujarat, visiting Beijing four times and ensuring that the state was the largest recipient of Chinese investment.

Currently the trade imbalance is grossly in China's favor and a source of some contention, but the potential for Chinese companies in India is also manifest. Smartphone maker Xiaomi reported in early 2017 that its sales revenue in

India had surpassed \$1 billion; by September, it had joined South Korea's Samsung as the top phone sellers in the country. At the start of 2018, a competing manufacturer, Huawei, highlighted the opportunity it saw in the Indian market, announcing

that it would use an "India first" policy to develop its presence in the market and achieve its goal of becoming the world's third-largest smartphone brand in the next five years. In the short term it sought to capture at least 10 percent of the Indian market by March 2018 and was producing an ever-increasing volume of its phones in India. More recently, the Chinese Internet giant Alibaba announced an investment of \$150 million in Zomato, an Indian online food-ordering service.

Chinese investors are deeply interested in the opportunities presented by India's mostly young population of 1.4 billion. This is just one of the many reasons why Beijing has to find a way to fix its troubled relationship with New Delhi. As Foreign Minister Wang Yi put it recently at a press conference, "The Chinese 'dragon' and the Indian 'elephant' must not fight each other, but dance with each other. In that case, one plus one will equal not only two, but also eleven."

Some similarities emerge when we compare China's relations with India and South Asia with

*China views South Asia
as a region of great
potential opportunity.*

China's relations with Russia and the tussle for influence between them that is playing out in parts of the former Soviet Union. The trend in Central Asia is a gradual expansion of Beijing's power and influence, to Moscow's detriment. This is something that Russia can do little about, in part because it lacks the means, but also because it needs Chinese investment and economic relations to offset tightening Western sanctions.

In contrast, India would like Chinese investment, but it is not shut out of the international system as Russia is, nor is it in nearly as desperate an economic situation. Rather, India is an ascendant power with growing wealth and influence and a keen desire to highlight its place on the international stage.

India can act as a competitor to China and an obstacle to the Belt and Road Initiative in South Asia. India's anger with Pakistan is shared elsewhere around the world (and in hushed voices, even in Beijing). Nepal and Bangladesh will always find themselves umbilically tied to India thanks to cultural, ethnic, and historical affinities. Sri Lanka may have accepted Chinese investment, but (along with the Maldives and Mauritius) it continues to see India as an important partner. In all of these contexts, China may be able to increase its influence, but the nations of South Asia, unlike their Central Asian counterparts, have a clear alternative on offer in India. This is the trump card that New Delhi could play against China. It is one that Beijing has failed to consider adequately. ■