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China, Vietnam, and the South China Sea

An Analysis of the “Three Nos” and the Hedging Strategy

*Ananta Swarup Bijendra De Gurung**

Abstract

The South China Sea is a disputed maritime feature claimed by the coastal states of Southeast Asia and China. As the disputants press their claims, there is increased political and diplomatic friction. This article examines Vietnam’s “three nos” and hedging strategy vis-à-vis China against the backdrop of recent developments in the South China Sea. The study argues that the “three nos” along with hedging is one of the comprehensive diplomatic strategies, which complement each other and collectively contribute toward managing Sino-Vietnamese bilateral disputes in the South China Sea.

Keywords: South China Sea, China-Vietnam Relations, “Three Nos”, Hedging Strategy, Comprehensive Diplomatic Strategy

Introduction

The South China Sea (also known as the Eastern Sea in Vietnam) is the lifeline of several countries extending from Asia to the Pacific Ocean. It is estimated that more than \$5 trillion worth of international trade passes through this sea route annually. Although economic growth and stability have characterized the Southeast Asian region after the Cold War, control over this strategic and economically important body of water and corresponding features is disputed by China, Vietnam, the Philippines, Malaysia, Brunei, and Taiwan. China’s tongue-shaped boundary or 9-dash line claims most of the South China Sea, which overlaps maritime territories claimed by the coastal states, namely Vietnam, the Philippines, Malaysia, and Brunei. As a consequence, the sovereignty dispute over the South China Sea has emerged as a critical flashpoint between the claimant countries.

In the case of Vietnam and China, the delimitation of the South China Sea has received increased attention. They successfully resolved the maritime dispute of the Tonkin Gulf (Chinese: Beibu Gulf; Vietnamese: Bac Bo Gulf) area in

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December 2000 by signing the Agreement on the Delimitation of the Territorial Seas, Exclusive Economic Zones and Continental Shelves in the Beibu Gulf, and the Agreement on Fishery Cooperation. In 2004, both countries ratified the two agreements and the treaty came into force. However, such an understanding has failed to replicate in the case of the South China Sea. As both countries and other disputants press their claims, there is an increased political and diplomatic friction. These escalations have the potential to undermine the fragile stability of the region at a time when Vietnam and China are engaged in modernizing their blue-water capabilities. They have also engaged in sporadic conflicts in the past over its ownership. Adding to the complex nature of the maritime dispute is the involvement of offshore powers like the United States and Japan, which have pushed the crisis a step further. The United States, on several occasions, has not shied away from declaring the maintenance of Freedom of Navigation in the disputed waters as its core national interest. These declarations have not been well received in China.

The strategic and economic viability driving the actions, compromises, reactions, and consequently, heightened tensions in Sino-Vietnamese bilateral relations have been extensively studied. However, the factors responsible for continued cordial relations in the midst of high drama at sea have not been equally addressed. The present article seeks to fill the gap by examining the diplomatic strategy of the “three nos” and hedging, which imparts flexibility to Vietnam’s South China Sea policy and Hanoi-Beijing bilateral relations. At the same time, the role of the United States and Japan as essential factors shaping Vietnam’s and China’s responses and choices will be incorporated wherever relevant to provide a comprehensive analysis. The article argues that the “three nos” policy and hedging strategy complement each other and collectively contribute toward de-escalating the maritime row between Vietnam and China.

The article is divided into three sections. The first section briefly reflects on Sino-Vietnamese bilateral relations amidst the South China Sea crisis. The next section examines the role of the “three nos” and hedging strategy of Vietnam vis-à-vis China as a Comprehensive Diplomatic Strategy (hereafter referred to as CDS) and analyzes its effects on their bilateral relations. The article concludes by emphasizing that as long as Vietnam adheres to the two diplomatic strategies in its foreign policy, war is unlikely, though periodic friction may be a common occurrence. Consequently, readjustment or deviation will not find favour with Beijing and the pacifying effects of the policy will fail, upsetting Sino-Vietnamese bilateral relations.

The South China Sea and Vietnam-China Relations: A Brief Appraisal

The Socialist Republic of Vietnam (SRV) and the People's Republic of China (PRC) formalized bilateral ties in 1991. The regional and international developments, for example, the defeat of the United States and the reunification of Vietnam, the withdrawal of Vietnam from Cambodia, and the disintegration of Vietnam's time-tested ally, the Union of Soviet Socialist Republics (USSR), shaped the political milieu in which Hanoi and Beijing recommenced official ties. However, the bilateral relationship has never been one among equals over a period of more than three millennia. Womack (2006) theorized that power asymmetry reigns supreme in their bilateral relations. China is thus the powerful northern neighbour, whose smallest gestures have immense ramifications for Vietnam. Surprisingly, it is Vietnam¹ and not China² that controls the largest number of islets in the Spratly (Vietnamese: Truong Sa; Chinese: Nansha) archipelago of the South China Sea, despite the economic and military asymmetry.

Interstate skirmishes in the form of sporadic land and maritime border wars are ubiquitous in the bilateral history of Vietnam and China. From warring kingdoms to warring nations, they have witnessed excellent relations as brothers and comrades, exemplified by the lips and teeth idiom. In spite of this, they fought fiercely over the control of land and maritime borders as recently as the latter half of the twentieth century due to a heightened sense of national interest and hyper-nationalism. Despite setbacks, both the states have resolved most of the long-standing land border issues and the Beibu Bay/Tonkin Gulf maritime dispute (1999–2000). However, the bone of contention is the Eastern Sea, internationally known as the South China Sea (hereafter referred to as SCS).

Hanoi has more than 3,400 km of coastline facing the SCS, which runs the entire length of the country. Such a feature has bestowed it with enormous economic opportunities. At the same time, however, the presence of such a long coastline has made it difficult for Vietnam to man the entire length and the related Exclusive Economic Zone (EEZ) effectively, particularly because of its relatively under-developed blue-water capability. The naval bases at Hai Pong (Northern Vietnam), Da Nang (Central Vietnam), Cam Ranh (South-central Vietnam), which were used by Russia till 2002, and Nhon Tranh and Phu Quoc (both in Southern Vietnam), fail to address the maritime vulnerabilities, especially in the face of a resurgent China. However, this does not, in any case, warrant the absence of Vietnam's maritime doctrine. In fact,

Vietnam Communist Party Politburo Resolution no. 03-NQ/TW titled “On a number of tasks for developing the marine economy in the forthcoming years” (May 1996) and Vietnam’s Maritime Strategy toward the Year 2020, adopted by the Vietnam Communist Party Central Committee in February 2007, and the Sea Law of Vietnam passed by Vietnam’s National Assembly (June 2012), bear testimony to the maritime interests and legal framework in the South China Sea.³ The recurring theme in all three resolutions is the development of marine economies and strategic utility, hinting at Hanoi’s counterclaim strategy in the disputed maritime domain.

As for China, its efforts to assess and appropriate the South China Sea started as early as in the 1930s.⁴ However, China made its first claim with a U-shaped dotted line in 1947 under the nationalist Republic of China (ROC). In 1956, the People’s Liberation Army of the People’s Republic of China (PRC) established a garrison on Woody Island (Chinese: Yongxing Dao; Vietnamese: Dao Phu Lam) in the Paracel. This event was preceded by a separate yet related incident, which occurred at about the same time. South Vietnam built a small barrack on Pattle Island (Chinese: Shan Hu Dao) of the Paracel island chain as a symbol of sovereignty over all of the Spratly and Paracel archipelagos. After two years, the PRC officially released a document titled Declaration of the Government of the People’s Republic of China on China’s Territorial Sea (1958), claiming the entire Nansha (English: Spratly; Vietnamese: Truong Sa) and Xisha (English: Paracel; Vietnamese: Hoang Sa) and adjacent islands and features in the South China Sea. During this period, China had already consolidated under Mao Zedong and Vietnam was still divided into the North and South at the 17th parallel. The Republic of Vietnam (South Vietnam) was later defeated by China in the naval Battle of the Paracel Islands on 19th January, 1974, which gave China de facto control over the entire Paracel archipelago. In such a confused state of affairs, the Philippines announced claims to the Kalayaan islands in 1971, and after seven years President Ferdinand Marcos used Decree 1596 to take over these islands in the Spratly as a sovereign maritime feature under the Philippines.

Unified Vietnam came into existence in 1975 after three separate Indochina Wars, with Hanoi as the capital. The united socialist republic upheld former South Vietnam’s position in the South China Sea and was searching for hydrocarbon deposits in the SCS from the latter half of the 1970s. However, it was only in 1986 that Vietnam successfully produced the first batch of crude oil with the help of foreign partners from Bach Ho field in the southern part of the SCS. In approximately two and a half decades, Vietnam and China were at

loggerheads over sovereignty and competition for control intensified in the SCS. Beijing increasingly felt the need to assert its position and, in 1992, it passed the Law on the Territorial Waters and their Contiguous Areas, laying a legal foundation for its maritime claims. These events set in motion a longstanding dispute over the islands and maritime disagreements between Hanoi and Beijing on the one hand and Beijing and other Southeast Asian coastal claimant states on the other.

In an effort to minimize the chances of conflict and to regulate the claimants' actions on the high seas, a major consensus in the form of the Declaration on the Conduct of Parties in the South China Sea (DoC) was reached between ASEAN and China in 2002. Although the consensus reached was consistent with international rules and practices, the accord lacked enforcement mechanisms and binding laws. Therefore, the commitment had no teeth. Yet ASEAN states preserve the institution of DoC with an intention to socialize China through its various principal commitments. In this connection, China continues to pay lip service to DoC because it exhibits Beijing's willingness to arrive at a negotiated solution and commitment towards peace and stability in the SCS. Through this China expects to present itself as a benign rising power and strengthen its regional influence. A more concrete set of binding rules is offered by the United Nations Convention on the Law of the Sea of 1982 (UNCLOS) to standardize the actions of states in the maritime domain. China signed UNCLOS in 1994 and ratified the convention in 1996 during the nineteenth session of the Eighth National People's Congress. However, Beijing has managed to exploit specific loopholes in UNCLOS to its advantage. China opted for an optional exception to applicability (Article 298) of the Compulsory Procedures Entailing Binding Decisions underscored in Section 2 of UNCLOS, which allows it to deny in writing procedures listed in Section 2, rendering dispute settlement mechanisms ineffective. For example, China made the use of this provision to denounce the UN Permanent Court of Arbitration's verdict of July 2016. The Republic of the Philippines instituted arbitral proceedings against the PRC's reclamation act in the SCS under Annexure VII of UNCLOS in 2013.

Sovereignty claims driven by the economic and strategic interests fueled tensions in the SCS. As a result, the military defense spending of the claimant countries increased exponentially. In 2016, China spent \$225.713 billion and Vietnam spent \$5.005 billion on defense.⁵ China and Vietnam have both increased allocations to their defense budgets, which is 167 percent more for the former and 170 percent more for the latter since 2005.⁶ This body of water

is not only important to China, Vietnam, and other Southeast Asian coastal states, but also for offshore powers like the United States, and countries of the Far East like Japan and South Korea. For example, more than half of Tokyo and Seoul's energy requirements and a substantial portion of their commerce flow through the SCS.

The United States also emphasizes the importance of maintaining the Freedom of Navigation (FON) in the disputed waters. The several rounds of FON by the US Navy in 2018 (USS Decatur), 2017 (USS Dewey), 2016 (USS Curtis Wilbur), 2015 (USS Lassen), in the disputed Spratly and Paracel archipelagoes are aimed to negate Beijing's maritime claims, the island building activities, and uphold the collective right of innocent passage in the SCS. Hanoi is also a partner country of the Southeast Asia Maritime Security Initiative (SAMSI) under the United States Foreign Military Financing (FMF) program designed to enhance maritime domain awareness, increase the presence of partner country in their territorial waters, and help them to maintain the rights and freedom specified under the international law of the sea.⁷ In a major defense boost Vietnam has procured a refurbished Coast Guard cutter in 2017 and first 12 of 24, 45ft Metal Shark fast patrol boats as of April 2018 from the US to enhance maritime operational capability.

Japan is another important partner of Vietnam in the SCS dispute. They have widened the scope of maritime engagement by entering "extensive strategic partnership" in 2014 against a backdrop of unilateral reclamation by China in the SCS. Since the agreement, Tokyo has delivered four of the six patrol vessels as of 2015 as a commitment to advance Hanoi's maritime capability. In 2017 they concluded the fifth Vietnam-Japan defense policy dialogue and agreed to continue cooperation in maritime security, defense industry and technology transfer. And in a historic visit Japanese Maritime Self Defense Force submarine, Kuroshio, docked in strategic Cam Ranh Port for the first time on September 2018. These practices are important for Vietnam to gain strategic leverage against China and insist on multilateral settlement of SCS dispute on the basis of 1982, UNCLOS to maintain free and open sea lanes in the region. Therefore, the Asia-Pacific countries closely monitor China's rise and its SCS policy despite their robust bilateral economic ties.

In 2009, China once again issued an official statement and maps displaying a nine-dash line encompassing the claimed waters to the UN Secretary-General, proclaiming uncontested sovereignty over the SCS and adjoining waters.⁸ The claim automatically amounted to asserting Beijing's total sovereignty over the

SCS. Indonesia, along with many Southeast Asian nations, protested against the declaration. Forwarded in the strongest possible words by China, on close scrutiny, this move was a reactionary step. What preceded the event was the deadline (May 31, 2009) set by the United Nations Commission for Limits of the Continental Shelf (UNCLCS) to submit claims to continental shelves beyond 200 nautical miles between contesting parties.

Some years ago, China enacted two blue water laws, namely the Law of Territorial Sea and the Contiguous Zone (1992) and the Law on the Exclusive Economic Zone and the Continental Shelf⁹ (1998), which later became the base on which China established its Exclusive Economic Zone claims, intensifying maritime disputes.¹⁰ A study by the UN secretariat titled *Judicial Regime of Historic Waters, Including Historic Bays* (1962) and its three most important provisions for historic claims to be interpreted as international laws—exercise of sovereignty, effective continuity of exercise of sovereignty (human habitation), and the reaction of foreign states—must have presented China with an additional sense of urgency. Beijing subsequently asserted its sovereignty and regained control over the claimed territories in the SCS. However, at that time, China possessed a weak navy and military, so it could not project its blue water capability and assert its claims against Vietnam and other claimant states the way it does in the international arena today.

Vietnam does not fare well in terms of bilateral trade with China, which is its largest trading partner. Sino-Vietnamese bilateral trade reached \$83.6 billion¹¹ (up by 28 percent) in 2014 and \$42.29 billion¹² in the first half of 2015. It scaled a staggering \$93.8 billion¹³ in 2017. However, Hanoi experiences a negative balance of trade, which runs into billions of dollars. Thus, the bilateral economic gain is only a fraction of the trade deficit. According to the Ministry of Industry and Trade (MoIT), Vietnam's trade deficit with China was \$3.2 billion in mid-December 2015 (Thong 2015), and it is estimated to be \$23.2 billion in 2017.¹⁴ If factors like the tyranny of geopolitics remain constant, Vietnam's response is at the mildest in tone with regard to the incursions in the SCS because Hanoi weighs the importance of commerce and infrastructural projects funded by China. Notably, Beijing is the third largest foreign direct investor after Japan and South Korea. At the same time, the communist party, due to party affinity promoted through the CDS, is an important determinant of Sino-Vietnamese relations.

Other than the asymmetric Sino-Vietnamese relations measured in terms of power and the economy, the fragmented nature of the Association of South

East Asian Nations (ASEAN) has benefitted China. The divisions within the organization are mainly because of the assertive actions of Beijing, which affect different states of Southeast Asia in different ways. While some states, like Vietnam, the Philippines, Malaysia, and Brunei, are immediately vulnerable to Chinese incursions in the South China Sea, Cambodia, Laos, Myanmar, Thailand, Indonesia, and Singapore remain relatively immune to such claims. In principle, ASEAN, which is a product of Cold War politics, is the only regional organization capable of negotiating as a bloc. However, the “ASEAN way” of deliberations and discussions has failed to present a united front, especially in the case of the South China Sea maritime dispute. Therefore, owing to institutional incompetence, all ten member states harbour differing attitudes toward rising Chinese military and economic might, which reflects not only in their bilateral relations with Beijing but is also echoed throughout ASEAN.

The ten states can be classified into different categories though they agree that the UNCLOS agreement of 1982 and Declaration of Conduct (DoC) of 2002 are the official guiding principles on the high seas. At the same time, it is a fact that no ASEAN country conforms to a collective mentality, giving rise to specific actions irrespective of common group affiliations presented in the article.

The complementary interests of claimant states in the South China Sea dispute do not guarantee collective actions. The categorization is as follows:

(a) Hyper-opinionated: This camp comprises highly affected claimant parties, namely the Philippines, Vietnam, and Malaysia. Their interests are diametrically opposed to those of China in the SCS dispute. They strongly believe in a multilateral negotiation process and reject the bilateral negotiation formula advocated by China to settle the SCS dispute.

(b) Un-opinionated: Thailand, Laos, and Myanmar can be clubbed under this category owing to their indifference. These countries do not show explicit interest and do not have definite opinions about the maritime dispute, which reveals that they are not in a position to antagonize China. They rather aspire to have cordial and stable bilateral relations with Beijing.

(c) Institutional conformist: This group comprises the largest (Indonesia) and the richest (Singapore) states of Southeast Asia. The two actors increasingly emphasize the need for rule-based institutions like UNCLOS and a Code of Conduct to socialize and curtail China’s aggressive

measures on the high seas. They are also aware of the consequences of providing overt support to the coastal claimant states, thus choosing to invoke international laws, rules, and norms to make their opinion heard in the case of the SCS maritime row.

(d) Appeaser: Cambodia, with its candid and strong support for Chinese claims in the SCS, fits into this category. Phnom Penh has officially backed China's maritime claims in many international fora. For example, ASEAN was unable to release a joint statement referring to the SCS at the 2012 ASEAN annual summit held in Cambodia and the ASEAN-China Foreign ministerial meet organized in July 2016 at Vientiane (Laos). This happened after the international tribunal for the settlement of disputes at The Hague had ruled on the SCS arbitration case in favor of the Republic of the Philippines owing to Cambodian objection.

On the other hand, the Nation of Brunei, the Abode of Peace, presents a special case. A claimant in the SCS, Bandar Seri Begawan opted for the bilateral negotiation process offered by China to settle the sovereignty dispute. The two states chose to rally behind and appease Beijing with the intention of safeguarding long-term economic and political interests.

The classifications presented above do not represent watertight compartments, as the case of Malaysia suggests. Kuala Lumpur continues to show signs of accommodation to preserve its maritime claims in the face of China's rise and the US presence in the region. *Ceteris paribus*, Beijing's diplomacy remains successful in dividing the claimant countries in the SCS irrespective of similar interests, and it has equally deterred ASEAN as an institution to engender a collective voice in the dispute. The diversity of opinions and institutional chasm is an ideal example of atomistic, egoist actors focusing on self-preservation in the international cosmos.

The above-mentioned discussion presents a concise history of the Sino-Vietnamese bilateral and institutional relations amidst the maritime dispute. At the same time, Hanoi and Beijing are not bellicose competitors. In fact, they have never locked horns in a major war since the normalization of 1991. The skirmish that comes closest to being seen as a major standoff was the 1988 Johnson reef incident. At the same time, the history of international relations suggests that while the Great Powers have potential resources at their disposal to cope with systemic changes and power relations, less powerful actors are vulnerable to asymmetric power relations. Therefore, the question arises as to how Vietnam manages bilateral relations in the face of asymmetric power

relations and serious competition on the high seas. The paper argues that the lesser power (read Vietnam) has used two diplomatic strategies, which work in tandem: (a) the “three nos” policy and (b) the hedging strategy. This has been done to de-escalate the spiralling effects of power politics to soft-bind China’s whimsical actions in the SCS, and to incentivize co-operation.

The “Three Nos” and Hedging Strategy in the Sino-Vietnamese South China Sea Dispute

China, which is acknowledged as a major land power in the region, now seems to be testing its maritime prowess. Beijing justifies its claims over the entire South China Sea based on historic rights of the third century Han Dynasty’s conquest of some features in the SCS. For instance, in 2009 China refuted the joint submission by Vietnam and Malaysia in *note verbale* (CLM/17/2009) presented to the Commission on the Limits of Continental Shelf on the same principle. The event triggered a series of official *note verbale* from most of the littoral states. In this regard, Vietnamese response in *note verbale* (no.86/HC-2009, 77/HC/2011) has an important bearing because Hanoi opposed the legality of Chinese historic claim while reaffirming sovereignty over the Parcel and Spratly in the SCS.

According to China’s logic, the SCS is what the Atlantic is to the United States. The arbitrary reclamation has only escalated tensions among the claimant countries. In the recent renovation act, Beijing has installed military materiel on the Woody Island of the Parcel. In the meantime, the Sanya Naval Base in Hainan is believed to be well equipped with several nuclear-powered ballistic missile submarines. China commissioned more than 60 naval ships with different capabilities in 2014–2015.¹⁵ These actions have raised suspicion among the regional coastal countries like Vietnam and the Philippines, and offshore powers like the USA, Japan, and South Korea. The regional and global response to these vigorous acts of reclamation should be seen against the backdrop of the increased military, economic, and naval capabilities of China. Meanwhile, Hanoi is left with few options. Balancing and bandwagoning are only going to erode gains and increase payoffs. Therefore, Hanoi employs hedging along with the “three nos” strategy to tackle the contemporary security challenges.

Hedging is a multi-pronged policy employed to achieve long-term risk aversion agendas. In international relations (IR), hedging is understood as a complex strategic behavior.¹⁶ It safeguards against opportunism¹⁷ and

increases the collective bargaining power of states¹⁸ by combining soft institutional omni-enmeshment¹⁹, rational strategic decisions²⁰, indirect soft balancing²¹ and institutionalized double binding, characterized by regional interdependence²². Thus, hedging is proactive and is in a state of flux, striving to negotiate new security complexes arising in the region, for example, skirmishes on the high seas and international conflicts due to competition for primacy among the great powers. The “three Nos,” on the other hand, represents a static posture and signifies an inflexible policy stand by Vietnam.

While President Nguyen Van Thieu promulgated the “four nos” policy (no negotiation with communists, no surrender of territory, no coalition government, and no communist activity in South Vietnam)²³ keeping the communist North Vietnam and the spread of communism in the Asian theatre during the Cold War in mind, the “three nos” policy of contemporary Vietnam is ideologically neutral and omnidirectional. The approach is self-explanatory but should be understood in its simplest form and assessed against the backdrop of Vietnam’s SCS strategy. The policy is constitutive of the following procedures:

(a) No foreign troops on Vietnamese soil: Vietnam is opposed to the permanent or temporary establishment of military bases by foreign powers within its sovereign territory. Hanoi is against the idea of shared security arrangements, for example, like that of the United States and South Korea. The US has military personnel stationed in South Korea since the 1950s under the United States Forces Korea (USFK) command with its headquarters at Seoul, in the name of maintaining stability in the Korean peninsula.

(b) No external balancing: The second policy reflects Vietnam’s opposition to allying with foreign powers to balance off a particular country. No doubt, Vietnam will pursue multilateral engagements in the economic, strategic, political, and security spheres, but it will avoid ganging up against a country to contribute to peaceful co-existence in the region. Thus, Hanoi is opposed to the idea of military balancing (internal and external).

(c) No military alliance: Hanoi has adhered to the principle of No Favored Nations (NFNs) in terms of exclusive military coalitions. Every country carries equal importance for Vietnam in the economic and political realm. The above-mentioned policy has an important bearing, especially in the case of China and Vietnam’s policy in the SCS.

Vietnam acknowledges the fact that China is a rising power that acts

assertively at times. Therefore, Vietnam has to use all its diplomatic abilities to barter for compromises and appear to be unbiased in its foreign policy. Hanoi also has firsthand experience of living in a space which is dominated by its neighbour, thus, choosing a middle path and employing the CDS rather than appearing antagonistic.

Hanoi advocated economic diversification and synchronized distancing from military alignments in its foreign policy (the two central components of the hedging strategy) in the years immediately following reunification. During this phase, the policy was not designated as hedging *per se*, as many scholars state in the contemporary international relations literature. The “three nos” defense policy, on the other, originated in the policy circle after the end of the Cold War.²⁴ The two united to form the Comprehensive Diplomatic Strategy, which is Vietnam’s response to economic opportunities and external security complexes created after the end of the Third Indochina War (1975), the conclusion of the great ideological divide in the form of the Cold War (1989–91), and the subsequent US withdrawal from the Southeast Asian theatre after 1992.

In addition, Sino-Vietnamese relations are guided by the principle of four essential goods, which are good neighbours, good friends, good comrades, and good partners. The CDS serves as a crucial bridge to these four goods. Without the CDS, the management of the “four goods” in China-Vietnamese bilateral relations is not possible. For example, without the strategy, offshore partnerships and force modernization by Vietnam may be misinterpreted as a move toward balancing China. The two components of the CDS mirror each other, as argued in the preceding paragraphs. While hedging is a multidirectional economic enmeshment and defiance policy, the “three nos” is a strategic policy to signal neutrality and deference and to keep diplomatic channels open at the times of crisis. The CDS is also in accordance with a Sino-Vietnamese joint declaration issued in 1999 for stability, good neighborliness, all-round cooperation, and stability. Based on the above principles, Hanoi seeks dialogue with deference to minimize antagonism, maximize economic benefits, and build strategic trust, without upsetting existing relations with Beijing and other off-shore powers like Washington. The following paragraphs will now apply the CDS to test its applicability in the context of the Sino-Vietnamese SCS maritime row after the 1990s.

After the end of the Cold War, the first maritime confrontation between Vietnam and China took place in 1994. China obstructed and turned away

Vietnamese ships taking supplies to an oil rig set up by Hanoi in a joint venture with Mobil Oil Corporation at the Wan'an Bei (Vietnamese: Tu Chinh) block in the SCS, 250 miles off the coast of Southern Vietnam. China was quick to object and immediately ordered the termination of drilling activities in the area by Vietnam. Beijing actually awarded drilling rights to the Crestone Energy Corporation, an American oil company, in the contested area to the Mobil Oil Corporation block in 1992–93. In the midst of saber rattling, there was no armed conflict between Vietnam and China. Hanoi was conscious of the fact that the corporation to which China had leased the block for exploration belonged to the USA. And as Vietnam was in the process of developing a multidirectional economic and strategic foreign policy, taking punitive action against an American company could have jeopardized its bilateral relations with Washington. At the same time, there was a constant Sino-Vietnamese diplomatic dialogue to find a solution to the crisis. The breakthrough presented itself when President Jiang Zemin visited Vietnam in November 1994. During this visit, he met Vietnamese Communist Party Chief Du Muoi and both agreed at the highest level to put their differences in the Spratlys aside, to develop a working group to recommend a solution to the Wan'an Bei dispute, to renounce the use of force, and to concentrate on developing friendship.²⁵

The second test of Sino-Vietnamese relations took place in January 2005 at the Gulf of Tonkin near China's Hainan Island. In this particular incident, the Chinese maritime police shot and killed more than eight Vietnamese, accusing them of piracy. Vietnamese Foreign Ministry spokesman Le Dung immediately stated that the individuals killed were honest labourers and the shooting was a serious violation of international law. They had previously agreed to cooperate on joint fishing agreement and to abstain from using force against fishing boats in the gulf area as per the Beibu Bay Demarcation Agreement and the Agreement on Fishery Cooperation, which were in effect from June 30, 2004.²⁶ The provisions of the agreement were violated during the incident. However, apart from raising concerns, leveling allegations, and sinking fishing boats, Sino-Vietnamese relations were open to economic and diplomatic dialogues. Thus, they did not budge from their traditional stance on maintaining mutually beneficial cooperation along the border, which was conducive to peace and stability. By February in the same year, both the countries diverted their attention toward the land border settlement and the 11th Chairman-level Round on border demarcation. Marking was held in Hanoi from 25th February to 4th March²⁷ and they finished planting land border

markers by July 2005.²⁸ By then, Sino-Vietnamese relations were back on track and officials from both the countries affirmed improved bilateral relations based on the principle of the “four goods.”²⁹ They signed an agreement for the joint exploration for oil and gas in November 2005, and joint naval patrols for fishing resources in the following year.³⁰

China and Vietnam stood face-to-face 120 km (80 miles) off the south-central coast of Vietnam, more than 600 km south of the Hainan Island, in yet another high seas incident in 2011. Vietnam accused Chinese patrol boats of slashing the surveillance cable laid by the Binh Minh 02 seismic research vessel on two separate occasions in May 2011 and November 2012. June 2012 brought renewed confrontation, as the China National Offshore Oil Company (CNOOC) invited international bids from foreign oil exploration companies for nine oil and gas blocks in the disputed SCS. China had even proclaimed a unilateral fishing ban in the disputed waters, effective from May to August 2012. Beijing had enforced the same in 2009, 2010, and 2011, but it was rejected as it overlapped the Exclusive Economic Zone waters claimed by Vietnam.³¹ In July 2012, Beijing announced the establishment of Sansha City on Phu Lam island (Chinese: Yongxing Island; English: Woody Island) in the disputed Paracel archipelago. In the war of rhetoric, both sides exercised restraint, continuing high-level diplomatic exchanges and meetings in the background. Vietnam’s party Secretary Nguyen Phu Trong even extended a congratulatory note to Xi Jinping on the successful conclusion of the 18th National Congress of the Communist Party of China at the end of 2012. In both cases, the official Vietnamese response was limited to diplomatic/public protests and live-fire naval drills. Apart from this, calls were made from both sides to maintain restraint in order to avoid wrongful actions and preserve bilateral and regional stability. China also responded in kind and its official strategy was limited to shelving disputes and pursuing cooperation.³²

The most recent episode in the Sino-Vietnamese South China Sea row was the Oil Rig Hai Yang Shi You 981 incident of 2014, which lasted a little more than one and a half months. According to many international relations experts, the event that unfolded thereafter was one of the worst standoffs both countries had witnessed since the 1988 Johnson Reef maritime clash. The nationalists in Vietnam were quick to express their disapproval and a nationwide protest erupted. The immediate target of the protest was foreign firms that were believed to be owned by Chinese in Vietnam. The demonstration took a violent turn and some factory workers lost their lives. It is likely that more than two Chinese died during the violence. Some reports

even claim that a total of twenty-one individuals lost their lives.³³ This incident quickly attracted international condemnation. Washington, along with Tokyo, Seoul, and Manila, is well acquainted with the fact that China has the potential to disrupt freedom of navigation and overflights, especially in the wake of the military-backed reclamation by People's Liberation Army Navy in the SCS, and the establishment of the Air Defense Identification Zone (ADIZ) in the disputed East China Sea vis-à-vis Japan.

Vietnam began to develop stronger bilateral strategic ties with the USA, and the latter responded with numerous Freedom of Navigation Operations to challenge the Chinese claim, which soured relations between the two great powers. This shows that bilateral friction between Hanoi and Beijing can easily escalate and draw in international actors, broadening the scope of strategic rivalry and upsetting regional order. However, as the empirical evidence suggests, Sino-Vietnamese bilateral economic and political ties have remained stable.

During the 2014, 2011-12, 2005, and 1994 maritime crisis, Vietnam hedged its security bets by keeping the USA at arm's length whenever China asserted itself. At the same time, it signaled its neutrality via the "three nos" policy in the maritime domain to soft-balance Beijing. Hanoi is reluctant to initiate a legal challenge like the Philippines did at the international tribunal against Beijing. It seeks a diplomatic solution, yet resorts to protests, which is evidence of its use of the CDS to maintain the status-quo and to promote economic and political diversification. The constant reassurance and engagement strategy has, to a certain extent, defused political suspicions on numerous occasions, as outlined above. It has allowed Vietnam to secure economic, military, and strategic incentives vis-à-vis other powerful actors like the US while maintaining close relations with China. The most successful example is the complete rollback of the arms embargo on Vietnam in 2016.

In the present-day trilateral relationship between China, Vietnam, and the United States, the new administration under President Trump may seem inward-looking, as Washington focuses increased attention on Northeast Asia, particularly due to the nuclear missile crisis in the Korean peninsula. However, the fact is that the US is still and, for a long time in the foreseeable future, will remain the primary security guarantor in Southeast Asia. Washington's commitment to the Korean peninsula should also be viewed against the backdrop of the scaling back of the North Korean missile program by Kim Jong-un and the resumption of North and South Korean peace talks

since April 2018. At the same time, the Trump administration may have disassociated itself from the multi-billion dollar Trans-Pacific Partnership (TPP) comprising all the Southeast Asian states, but the US is willing to negotiate bilateral economic free trade agreements with individual countries in the region. Therefore, the policy approach of Vietnam toward China does not demonstrate any significant change in the midst of the transformed political milieu under the Trump administration and the SCS crisis.

From the above-mentioned facts, we can show that hedging and the “three nos” policy function together as the CDS to engage the great powers, mitigate security threats, and moderate their independent whimsical actions to manageable proportions. The fundamental aim of the strategy is to signal neutrality toward great power politics and to protect itself from the devastating effects of choosing sides to diversify economic, political, and strategic relations, which is otherwise perceived as sensitive in the regional and international arena. The economic rise of China accentuates Vietnamese dependence yet Beijing’s assertive actions in the contested SCS push Hanoi towards strategic and defense diversification. In this context CDS facilitates enmeshment of powerful international actors like the USA and Japan as extraterritorial economic and security guarantors. This multipronged Vietnamese approach moderates asymmetric power relations by strengthening multilateral economic-strategic-defense ties to counter rising dependence and indirectly soft-balance China in the context of regional politics. Thus, Vietnam never kowtows totally, nor balances in the context of regional politics in general and the SCS maritime crisis in particular. Vietnam hopes that the web of cooperative commitments and functional arrangements will result in an agreement that is too politically costly to undo³⁴, which will socialize the PRC into long-term non-confrontational dynamics.³⁵

The foreign policy engendered by the CDS is precisely aimed at achieving these two goals. This strategy is Vietnam’s best bet to maintain economic development/reformation and relative independence in policy formulation with regard to the SCS vis-à-vis China. This diplomatic strategy helps Hanoi to exert minimal diplomatic pressure to convince Beijing not to engage in provocative behaviour in the SCS by hedging its security and signaling an unbiased foreign policy by means of the “three nos,” creating a bigger and higher incentive for China to cooperate.

Conclusion

This part of Southeast Asia shows early signs of a power transition in the wake of China's rise. In the meantime, the Chinese give top priority to economic development. Beijing is aware that it lags behind the US in terms of military capability and economic might. Therefore, a structural transition in absolute terms at the international level is still in the making. However, the same does not hold true in terms of regional politics. As the *Primus inter pares*, China is bound to make use of its economic, political, and military might to extract advantageous concessions, for example, in the case of the South China Sea dispute.

Therefore, the countries of Southeast Asia are bound to face similar challenges in the future as China tries to consolidate its position. How small regional actors choose to mitigate such crises and how great power politics unfolds will determine the future of the international politics of Southeast Asia and the entire Asia-Pacific. The stability in Sino-Vietnamese bilateral relations highlights the success of Vietnam's Comprehensive Diplomatic Strategy in averting a major crisis, diversifying economic relations to push the reform process initiated since 1986, and maintaining equidistance from the great powers. This diplomatic strategy has intertwined the interests of the USA, China, Japan, South Korea, and Vietnam, making it difficult to pursue selfish interests at least at the current juncture. For the short and medium term, their interests are intertwined, which incentivizes cooperation.

However, if the actors in the region fail to maintain the delicate balance, having *carte blanche* will become a priority. This will set in motion a security-insecurity paradox, upsetting the status-quo of the entire region. Nevertheless, a positive trait of Southeast Asian countries like Vietnam is that they have continuously adjusted their foreign policies to meet the demands of the highly uncertain regional and international politics, contributing toward regional stability. Finally, the article does not suggest that the CDS by itself has the ability to maintain regional order. It is an established fact that order and stability are the outcomes of numerous regional and international co-constitutive factors.

Endnotes

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China's Economic Expansion in South Asia: Strengths, Challenges and Opportunities

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Abstract

China is rapidly penetrating the economic domain of the South Asian region. By providing financial assistance for infrastructure projects, launching the Belt and Road Initiative (BRI) and strengthening trade and investment linkages, China is attempting to alter the region's power equations vis-à-vis India that has traditionally wielded predominant influence in the region. Regardless of China's strategic accomplishments on this front, China has yet to prove that its economic involvement entails win-win outcomes, and this in itself is a challenge for China to overcome in its path to expansion in the region. Against this backdrop, this article critically examines the factors supporting as well as hindering China's ambition to gain a solid foothold in the region's economic landscape.

Keywords: China, BRI, India, South Asia, trade and investment

Introduction

Through its colossal Belt and Road Initiative (BRI) and the Asian Infrastructure Investment Bank (AIIB), coupled with its global trade and investment linkages, China has ambitiously set off on the path to building a China-centric economic order. In fact, its "reemergence" as a major economic power has shifted "the world economy's centre of gravity to East Asia."¹ In the 2005- 2018 period, China's worldwide investments and construction amounted to \$ 1.87 trillion, which constitutes a swift uptick when the figure was \$548.69 billion and \$1321.9 billion in 2005- 2011 and 2012- 2018, respectively.² Though China no longer enjoys a double-digit economic growth rate, which it did between 2001 and 2010, and has rather embraced the 'new normal' policy of sustainable growth, China's gross domestic product (GDP) – valued at US \$ 12.24 trillion in 2017 – accounts for approximately 20 percent of the world's economy. Moreover, GDP is not the sole metric of economic power. In the Asia Power Index that measures national power, including in economic, military, defence, and cultural domains, the United States ranks first among 25 countries in the Asia-Pacific region, followed by China. However, China stands first in *economic relationships* and second in *economic*

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resources that include economic size, international leverage, technology, and connectivity.³ *Economic relationships* measure the “ability to wield influence through economic outreach and interdependencies,” incorporating China’s trade and investment relations with and development assistance to the Asia-Pacific region. It may be noted that East Asia (inclusive of Southeast Asia) is already considered China-led, following the “first wave” of the Japan-centric region, inasmuch as the Chinese economy fuels East Asia’s growth engine and also because China has emerged as a regional ‘integrator’ through its global and regional production networks.⁴

South Asia with its geoeconomic and geopolitical significance is yet another region where China is deepening its economic footprint. With a population of 1.67 billion, accounting for 22 percent of the world’s population, South Asia is constituted of seven countries — Bangladesh, Bhutan, India, Nepal, Pakistan, Maldives and Sri Lanka[†]. Of them, Bhutan, India, Nepal and Pakistan share borders with China. In the world of international business, South Asia is “the epicenter of future middle-class growth,”⁵ while in international politics, the region has garnered attention for being a “nuclear flashpoint” and for its geostrategic location of sitting astride “the strategic sea lanes of communication between the Orient and the Occident through the Indian Ocean.”⁶ During the Cold War era, China’s linkages with the South Asian region were noticeable primarily in its “all-weather” relationship with Pakistan,[‡] specifically in terms of supplying military hardware and building Pakistan’s nuclear and missile capabilities, and in its shaky, though improving at times, relationship with India owing to the contentious border dispute. It was not until 2011 that China opened its embassy in Maldives, a littoral South Asian state, and has to date no diplomatic relations with Bhutan. But lately, especially during the Xi Jinping regime, China has expanded engagement with the region in multiple realms such as trade, investment, culture, and higher education, and is swiftly making inroads into the region by harnessing its seductive economic largesse. Furthermore, the SAARC Chamber of Commerce and Industry (SAARC CCI) and China Council for Promotion of International Trade (CCPIT) will jointly organize the 14th China South Asia Business Forum in Kunming, Yunnan, on June 12, 2019. It is intended to step up trade and economic cooperation between China and South Asian countries.

[†] Though Afghanistan is the eighth member of the South Asian Association for Regional Cooperation (SAARC), it is not a part of South Asia. Some scholars erroneously include Afghanistan in South Asia.

[‡] Pakistan became China’s close ally in the aftermath of the China-India War in 1962.

What are China's motivations other than the obvious factor of advancement of its trade and commercial interests? First, as an emerging world power, China is seeking to establish its economic dominance in the region and thus enlarge its economic crown, and simultaneously curtail India's influence in South Asia. Second, as part of economic diplomacy, China intends to strengthen bilateral relations with the region's individual countries. Third, it reinforces China's economic statecraft of capitalizing on the geoeconomic position, wielding leverage over trade-dependent countries. In fact, China has been adroitly employing economic tools of coercion and inducement in conducting its foreign policy.⁷ For instance, fuming over South Korea's refusal to terminate installation of the anti-missile system, known as the Terminal High Altitude Area Defence (THAAD), China retaliated with a flurry of punitive measures with repercussions for South Korea's tourism and cosmetics industries. Similarly, it can be conjectured that as South Asian economies intertwine with China's, China may resort to the carrot and sticks policy to in advancing its national interest.

China has region-specific aims as well. First, China's motivation in constructing the China-Pakistan Economic Corridor (CPEC) is "to further advance the western development strategy, promote economic and social development in Western China..."⁸ Second, through energy diplomacy it aims to access the vast untapped natural gas reserves of Bangladesh. In addition, Bangladesh's significance for China lies in its 160 million-strong market; its supply of cheap labour and the resulting potential as an outsourcing destination for Chinese manufacturing industries; its ports that offer an alternative route to lessen China's dependence on the Straits of Malacca for energy supply; and its geographical proximity to China's Yunnan Province, which will easily facilitate the supply of energy resources.⁹ Third, India's population of 1.3 billion offers an enticing consumer market for Chinese companies. Fourth, writing about the Maldives's significance for China, Ramachandran writes that as an "archipelago of around 1,200 islands in the Indian Ocean, Maldives[']s strategic significance stems from its proximity to international sea lanes through which two-thirds of the world's oil and half its container shipments pass."¹⁰ Against the above backdrop, this article critically examines the factors supporting as well as hindering China's ambition to gain a solid foothold in the region's economic landscape.

Factors Supporting China's Economic Expansion

If we consider some regions outside of South Asia, we discern undercurrents of caution and circumspection in public and elite perceptions of China, amid the hope and desire to benefit from economic partnership with China, varying by the magnitude of their dealings with China.¹¹ The South China Sea dispute, involving what some scholars term as “China’s maritime insurgency,”¹² has produced confrontation between China and Vietnam (along with other parties to the dispute) as well as between China and the United States. Similarly, the European Union is wary of influx of Chinese investments in the region and is keen to devise solutions to curb them.¹³ However, no such collective counter-response is on the horizon in South Asia where smaller countries, despite the controversial BRI, have welcomed Chinese economic penetration for their own economic advancement as well as to balance off India, a neighbour which outflanks them by physical size, population, economy, and military. Except for the history of shaky (though normalizing at times) relationship with India over the border dispute, and the strong security relationship with Pakistan, China’s involvement in South Asia has only recently intensified. Thus, China’s advantage as a “relative newcomer” is that it is not carrying a baggage of acrimonious relations in dealing with most South Asian countries, which makes the win-win outcomes (from engagement with China) achievable in their perspective. Furthermore, the weak intra-regional economic integration has created the necessary space for China to occupy. According to the World Bank report, 2016, “On average, India, Pakistan, Sri Lanka and Bangladesh’s exports to each other amount to less than 2 percent of total exports.”¹⁴

On top of it, China’s prestige as an influential economic power has had a multiplier effect: its growing economic clout as the world’s second largest economy with mighty global firms and global investments and as the launcher of the mega project BRI has made economic cooperation with China alluring. Many South Asian countries perceive “economic gains” with China’s involvement in the region.¹⁵ For instance, Pakistan’s vision in relation to the China Pakistan Economic Corridor (CPEC) is to “to fully harness the demographic and natural endowment of the country by enhancing its industrial capacity through creation of new industrial clusters, while balancing the regional socioeconomic development, enhancing people's wellbeing, and promoting domestic peace and stability.”¹⁶ Importantly, China’s financial assistance to South Asian countries for infrastructure development has earned China goodwill. As noted on the Nepalese Ministry of Foreign Affairs

website: “The Chinese assistance to Nepal falls into three categories: Grants (aid gratis), interest free loans and concessional loans...Some of the major on-going projects under Chinese assistance include: Upper Trishuli Hydropower Project- Power station and Transmission Line Projects (Concessional loan); food/ material assistance (Grant) in 15 bordering districts of northern Nepal; Kathmandu Ring Road Improvement Project with Flyover Bridges -(Grant); and Pokhara International Regional Airport (Loan).”¹⁷ In the face of inability of or refusal by financial institutions like the World Bank and the Asian Development Bank to finance infrastructure projects because of environmental concerns or corruption issues in recipient countries, low-income countries like Bangladesh have found in China an important source to meet their critical needs. Amit Bhandari observes:

Like other low-income countries, it [Bangladesh] desperately needs infrastructure like roads, bridges and power-projects...As a lower income country with weak institutions and poor infrastructure, Bangladesh has trouble meeting standards for financial management set in the developed world. China has readily offered to build much needed power plants, bridges and roads with fewer strings attached, and the country has eagerly accepted.¹⁸

Further, B.M. Jain explains that “unlike India, Pakistan favours the strategic presence of China in South Asia with a clear intent to contain India. Further, small states of the region, such as Sri Lanka and Nepal, look upon India as a hegemonic power rather than a facilitator of peace and stability in the region. This perception is deeply embedded in the psyche of the national elites of most of the South Asian countries and more prominently in the Pakistani psyche.”¹⁹ As such, China is reaping the fruit of its “all-weather friendship” with Pakistan where with relative ease China’s investment projects and acquisition plans get regulatory approvals. According to the Pakistani government’s long-term plan for economic cooperation under the CPEC, the following key areas have been identified: construction of an integrated transport system and information network infrastructure; energy cooperation in oil and gas, “electricity and power grids, and focus on promoting the construction of major projects of thermal power, hydropower, coal gasification and renewable power generation;”²⁰ trade and industrial parks, agricultural development and poverty alleviation, tourism, and financial cooperation. In other words, there are massive hopes from the CPEC in the host country.

China’s Gains

China’s economic engagement with South Asia is noticeable in its growing

trade and investment activities in the region, making the following major gains.

Market Capture from India

Over more than a decade, “China has emerged as a top exporter of goods to the region, including to India, breaking into South Asian markets with its export-led growth strategy. Bangladesh provides the starkest example of this trend.”²¹ Mohan Malik, a professor at the Asia-Pacific Center for Security Studies in Honolulu, Hawaii, comments: “Indian officials see China pursuing a ‘beggar thy neighbor’ policy and undermining India’s manufacturing sector by dumping cheap, subsidized goods in the Indian market while importing raw materials from India.”²² According to Muttukrishna Sarvananthan, a Sri Lankan economist, China replaced India in being Sri Lanka’s biggest trading partner in 2016 with India being a second close.²³ Ramachandran comments, “Hitherto, Beijing’s projects were confined to the southern parts of the island. It is now making inroads into the Northern Province and the rubber, tea, and coconut plantations of the central highlands,”²⁴ the areas where New Delhi has traditionally wielded political influence, owing to the strong presence of Tamils of Indian origin.

In addition, China is swiftly expanding into the region’s financial domain, surpassing India in such deals as the purchase of shares in the Dhaka Stock Exchange.

Deepening Investment Linkages

China’s Belt and Road Initiative (BRI), a mega project of infrastructure connectivity covering Asia, Africa and Europe, extends to South Asia. China has launched the China Pakistan Economic Corridor (CPEC) project worth \$ 62 billion. As of December 2018, 22 early harvest projects have been completed or are under construction, involving a total investment of \$ 18.9 billion.²⁵ In Sri Lanka, China’s completed BRI projects include the Norocholai Power Station, contributing to about 40 percent of the nation’s electricity supply, the Colombo Airport Expressway, the Colombo International Container Terminals (CICT), and the Moragahakanda water reservoir project.²⁶ Besides, the Colombo Port City and the Hambantota Port are under construction. Among South Asian countries, India and Bhutan have not joined the BRI.

The table below provides facts on the amount of China’s investments and construction in the region. In 2016- 2018, Pakistan and Bangladesh were the largest recipients: in Bangladesh, China invested in such sectors as chemicals,

energy, finance, metals, transport and utilities, and in Pakistan its investment was primarily in energy, finance, real estate, technology, and transport.

China's Investments in South Asia

Country	Years: 2016-2018	Years: 2010-2015
Bangladesh	\$18.53 B	\$ 7.91 B
India	\$ 7.33B	\$ 8.76B
Maldives	\$ 970M	\$ 730M
Nepal	\$ 3.5B	\$ 1.42B
Pakistan	\$ 13.88B	\$ 34.23B
Sri Lanka	\$ 4.29B	\$ 8.82B

Notes

* Compiled by the author using China Global Investment Tracker²⁷

**In the case of Bhutan, the Tracker yielded "\$0M total."

Notably, China is expanding in the region's financial and e-commerce sectors. In February 2018, the Dhaka Stock Exchange (DSE) approved the bid of China's Shanghai and Shenzhen Stock Exchanges to acquire a 25 percent share in it. China outrivaled India's National Stock Exchange, the U.S. Nasdaq, and others in securing this deal. A commentator writes, "the stock exchange investment hints at a strategic purpose behind Chinese investment: by acquiring a substantial stake in the DSE, China will gain greater access to – and possibly control over – Bangladesh's financial infrastructure and hence the guts of its economy."²⁸ In March 2018, China's Ant Financial bought a 45 percent stake in Telenor Microfinance Bank, an affiliate of Telenor Group in Pakistan and launcher of Easypaisa, a popular mobile financial services platform. According to the World Bank, "more than 100 million Pakistanis are unbanked, accounting for 5 percent of the world's unbanked population."²⁹ As such, China's firm has a huge consumer base to serve and make a profit. Further, in May 2018, Alibaba acquired Daraz Group, Pakistan's e-retailer. Similarly, in the case of India, Alibaba, the biggest Chinese e-retailer, has invested in Ola and Paytm, while Tencent, an internet-based technology enterprise, has invested in the messaging application Hike.³⁰ Furthermore, in India approximately 800 Chinese companies are operating, including mobile

maker Vivo's manufacturing plant in Greater Noida with around 5,000 employees. Also, Chinese automobile manufacturer BYD Auto has plans to make India a base for its manufacturing and development in South Asia.³¹

Challenges

China's economic expansion in South Asia is not without challenges which stem, inter alia, from China's own functioning and investment approach. As noted earlier, an important advantage to China in South Asia is that it has been perceived as a counter-balancing force by the smaller countries that have had differences with India. Simultaneously, they tend to look upon China's financial muscle as a powerful winch to lift them up on the path to prosperity. An open question is: will China come up to their expectations? This section critically examines this question as well as the other key challenges.

Delivering Win-Win Outcomes

Dark Clouds over the BRI Project: Image Management

The case of Sri Lanka's handover of the Hambantota Port to China because of its inability to repay the debt has added to the controversy surrounding the BRI project, earning the epithet of "debt trap diplomacy."³² This diplomacy involves enticing poorer countries with reasonable loans for infrastructure development, and extracting concessions or gains "in exchange for debt relief."³³ Interestingly, China has conferred the Pakistani, Maldivian and Sri Lankan ambassadors with Silk Road Super Ambassador Awards, a diplomatic move arising from China's anxiety over the prospects of the BRI project in the wake of Pakistan's cancellation of a power project and the Maldives's ongoing review of the Chinese projects under the leadership of the Maldivian President Ibrahim Mohamed Solih. Similarly, Abdul Razak Dawood, Pakistan's cabinet minister in the government led by Prime Minister Imran Khan told the *Financial Times*: "The previous [Pakistani] government did a bad job negotiating with China on CPEC — they didn't do their homework correctly and didn't negotiate correctly so they gave away a lot...Chinese companies received tax breaks, many breaks and have an undue advantage in Pakistan; this is one of the things we're looking at because it's not fair that Pakistan companies should be disadvantaged."³⁴ However, given Pakistan's dependence on China for economic and military aid, especially in the face of Islamabad's estrangement with the United States, the Pakistani government might be hesitant in voicing its opposition. Furthermore, in psychological terms, the Pakistani response could be framed in reference to India's stance: because India has disapproved of the BRI, Pakistan may want to show its

solidarity with China by acquiescing in to the latter.

In the case of Nepal, it may be noted that a Nepalese finance ministry official told *the Kathmandu Post*, “Before negotiations, we have to make our position clear on the financing modality, that is, whether these projects should be developed under loan or grant.” Impliedly, the opacity of China's terms and conditions in implementing BRI projects is causing concern, injecting caution into Nepal's negotiation with the Chinese side.³⁵ We may recall that another setback to China came in September 2018 when the Nepalese government led by Prime Minister K.P. Sharma Oli announced cancellation of the Memorandum of Understanding (MoU) with China's Three Gorges International (CTGI) after the latter withdrew from the \$ 1.5 billion West Seti hydropower project in western Nepal. The CTGI found the project unfeasible due to the “high resettlement and rehabilitation costs”³⁶ even though the Nepalese government had agreed to the power purchase agreement in US dollars as well as to revise the project's installed capacity.³⁷ Overall, China needs to shore up the credibility or the image of its BRI programme.

Trade Deficit

On the front of trade, South Asian countries have experienced trade deficits with China. Bangladesh's garment exports are faced with competition from Myanmar and Vietnam in destination to China.³⁸ Likewise, China accounts for 46 percent of Pakistan's trade deficit,³⁹ which means that its free trade agreement (FTA) with Pakistan has not delivered the expected results for the latter. Similarly, China is India's largest trading partner, but the share of India's exports to China is minuscule. In the total bilateral trade of \$ 89.71 billion, China's import is worth \$ 13.33 billion and the rest constitutes China's exports to India. According to the Indian Trade Ministry, India's participation in the China International Import Expo (CIIE) was an effort toward reducing the trade deficit by finding market for its agricultural products, pharmaceuticals, information technology, tourism, and services. Although Indians did not return empty handed; especially India's black tea got entry into the Chinese market. But the question arises: will there be continuity in it? In the wake of the confrontation with the United States, China had imposed a 35 percent tax on tea imported from the US.

At the 5th China-South Asia Expo in Kunming, Yunnan, Chinese Vice-Premier Hu Chunhua stated that China was cognizant of South Asian countries' concerns about the trade deficit and that China would expand imports from

South Asia. He stated, “China will unswervingly deepen overall reform, expand opening-up, promote free trade and facilitate investment, providing important opportunities to all countries, including South and Southeast Asian nations.” He further said that China had stepped up its imports from South Asian countries by 30.7 percent in 2017 and that its trade volume with South Asia grew from \$91.3 billion in 2013 to \$126.8 billion in 2017.⁴⁰ Further, China cut tariffs on July 1, 2018, for imports originating from India, Bangladesh, and Sri Lanka, among other countries.

Importantly, one needs to remember that in the current trade tirade between China and the United States, China has turned its attention to non-American markets for its products. Therefore, we need to watch whether China’s import policy vis-à-vis South Asia is consistent or reactive to the exigencies of the situation. We may recall that in November 2018, China organized the Chinese International Import Expo (CIIE), the “first national expo in the world” which was centred on imports. The event was mostly intended to affirm China’s determination to relay the message of its unequivocal commitment to inclusive globalization in the wake of the growing perception about U.S. retrenchment from the liberal economic order under the Trump administration.

Security Risks

Where the CPEC is concerned, it is susceptible to security risks. Its fate hinges on the safety and security of the Chinese personnel who have borne the brunt of militants in the region. In May 2017, ten Pakistani labourers working on the project were reported to be gunned down in Quetta. Shi Zhiqin, the executive dean of One Belt, One Road Strategic Institute in Beijing admits, “The first of these risks is terrorism, which has long affected Pakistan’s internal security and stability. Indeed, there already have been numerous occasions when Chinese engineers working in Pakistan have been attacked or even lost their lives.”⁴¹

India’s Counter Response

Among the South Asian countries, India and Bhutan have not joined the BRI. India has disapproved of the project on the ground that it violates India’s territorial sovereignty since the China-Pakistan Economic Corridor (CPEC) project passes through the Gilgit-Baltistan which India claims as an integral part of its State of Jammu and Kashmir. Furthermore, the Indian leadership has awakened to the expanding outreach of China and is offering more aid to countries like Bhutan, Sri Lanka and the Maldives. The Committee on External Affairs, Indian External Affairs Ministry, made the following

observation in its September 2018 report:

It is time that India should accelerate its own connectivity projects under various initiatives such as 'Act East Policy', 'Neighbourhood First policy', 'Go West' Strategy, "Spice Route", etc. as a counter to the narrative of BRI which seems to have gained some currency in our neighbourhood and elsewhere. It is high time to showcase a more just, more equitable and more user friendly developmental assistance model to the countries who have fallen for the lure of BRI without realizing its far reaching deleterious consequences.⁴²

Anderson and Ayres observe, "With an eye on India's own regional position, Prime Minister Narendra Modi has doubled down on his outreach across South Asia, stressing infrastructure development, people-to-people connectivity, and a 'lift all boats' approach to help India's neighbours gain from its own rise."⁴³ However, for India it will be a hard nut to crack because it will need to inject trust into its bilateral relations with smaller countries. As a matter of fact, India is faced with a tightrope situation. While India is endeavouring to re-establish its predominance in regional development initiatives in order to stave off China's dominance, its proactive measures ironically fuel suspicion about its motives, whereas its passivity is perceived as apathy. Therefore, a mix of aid and a more considerate approach in interpersonal diplomatic parleys on the part of Indian diplomatic team will help to gradually rub out the disgruntlement on the part of ruling elites of those countries.

Cultural Distance

The Xinhua news agency notes that China is "planning to develop its cultural industry into a pillar of the national economy by 2020 by upgrading its industrial structure, fostering major brands and boosting consumption." Though China has opened Confucius Institutes in most South Asian countries in order to spread its culture, its cultural influence in terms of consumption is still fragile. Given that several South Asian countries share cultural affinity with India, their consumption of Indian products such as movies and food is integral to their lifestyle. It creates a challenge for China to promote its cultural industry. Bibek Bhandari (2017) observes in Sixth Tone:

China is taking its chances and investing heavily to make its mark on the entertainment landscape...China's soft power offensive is still dwarfed in many countries by competition from India and South Korea. Bollywood [India's film industry] enjoys enormous popularity in South Asian and Middle Eastern countries due to linguistic and cultural similarities, while South Korean pop music has been successful in captivating teens across Asia with its catchy tunes and flashy style.⁴⁴

Domestic Economic Woes

China will need to avoid getting caught up in the ‘middle income trap’⁴⁵ in order to stave off decline in its economic strength which has fueled its expansionism in South Asia and beyond. As such, China’s domestic economic woes, unless under control, could arrest its deepening economic influence in South Asia. Peter Guy sums up in the *South China Morning Post*:

Last year’s rejection of Chinese financing by Nepal and Pakistan after a last minute introduction of new guarantees and terms highlights the project’s key problem – after all the glorious banquets and toasts who is going to pay for the bridges, roads and dams?⁴⁶

Conclusion

China’s economic engagement with the South Asian region has intensified over the years. Its growing economic clout and the capability to finance infrastructure projects as well as the geopolitical factors such as the smaller countries’ hobnobbing with China to balance off India have paved the way for China’s economic penetration into the region. While there are no palpable threats to China in this domain other than security risks to the CPEC project, the challenges before China are to cleanse the tainting image of the BRI as being a “debt trap” programme, which could be a roadblock to its progress, as well as to demonstrate that partnership with China actually delivers win-win outcomes. While from the perspective of BRI partners, it will be crucial to ensure that there are no hidden costs, what is worrisome to India is that its national sovereignty and territorial integrity is at stake owing to the CPEC project. Clearly, China’s economic expansion in the region has strategic repercussions for India. From this angle, benefits from Chinese economic involvement are not inclusive. As far as the future of Chinese investments is concerned, China’s own economic stability and prosperity will be a crucial determining factor.

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Securing India's Economic and Security Interests in the Indo-Pacific

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Abstract

India has a stake in the long-term stability of the Indo-Pacific region that extends across the Western Pacific and Indian Ocean. The region is known for its economic and demographic dynamism as well as significance of its sea lanes for global trade and energy flows. This article explains the current level of India's economic, diplomatic and security engagement in the Indo-Pacific region in order to explain the steps required for India to be able to secure its objectives against the backdrop of China's relentless drive for dominance.

Keywords: Indo-Pacific, India, United States, China, ASEAN, Russia, Japan

Introduction

As the current United States administration led by President Donald Trump has earned an unparalleled notoriety for lacking any seriousness of purpose in communicating its policy priorities, China has taken a clear advantage of the ensuing geopolitical flux in international politics. Beijing's position on many important issues has caused strategic turbulence round the world because China's rise is not characterised by openness, respect for sovereignty, reciprocity and freedom of navigation. This makes emerging global scenario complicated for India which has a stake in the long-term stability in a region extending across the Western Pacific and Indian Ocean.

Focused on managing China's assertiveness, the 'Indo-Pacific' construct has recently occupied the front-stage in global strategic calculations. There is bound to be debates from all possible ideological perspectives on whether India and some like-minded countries can effectively promote liberal norms and structures such as free markets and rule of law in the Indo-Pacific region, which is known for its economic and demographic dynamism as well as significance of its sea lanes to global trade and energy flows. This article explains the current level of India's economic, diplomatic and security

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engagement in the Indo-Pacific region in order to explain the steps required for India to be able to secure its objectives against the backdrop of China's relentless drive for dominance.

Evolving Indo-Pacific Vision

Japanese Prime Minister Shinzo Abe's August 2007 speech delivered in the Indian Parliament gave birth to the concept, although he did not use the phrase 'Indo-Pacific.' When former US Secretary of State Hillary Clinton described the importance of the Indo-Pacific to global trade and commerce in October 2010, the term attracted the attention of strategic thinkers.¹ Former Indian Prime Minister Manmohan Singh referenced the Indo-Pacific in speech in Tokyo in 2013. In its 2017 National Security Strategy (NSS), the US described the Indo-Pacific as a priority region for the Trump administration. Now the Indo-Pacific has become firmly entrenched in the official foreign policy lexicon of India, the US, Japan and Australia, which have also formed the Quadrilateral Security Dialogue or Quad, revived in November 2017 after a 10-year hiatus.

Although the "Indo" in Indo-Pacific refers to the Indian Ocean, it is not possible to visualise the Indo-Pacific without taking into consideration the role of India. Given its geographical location, the size of its economy, its democratic spirit, its coastline and naval strength, India is the most important stakeholder in the success of the Indo-Pacific region. The US renamed the Hawaii-based US Pacific Command (PACOM) as the US Indo-Pacific Command (IPACOM) in 2018. This change in command nomenclature dovetailed with Indian Prime Minister Narendra Modi's emphasis on India's commitment to peace and security in the Indo-Pacific.

Modi explained India's stand on the Indo-Pacific region in his address at the Shangri La Dialogue in Singapore in June 2018 where his message was threefold: First, India has embraced the Indo-Pacific concept, including its attendant strategic opportunities and responsibilities. Second, India is committed to a "free, open, transparent, rules-based, peaceful, prosperous and inclusive Indo-Pacific, where sovereignty, territorial integrity and international law...freedom of navigation...are respected". Third, "India does not see the Indo-Pacific Region as a strategy or as a club of limited members" or "as a grouping that seeks to dominate" or "directed against any country."²

There has been speculation that nothing substantial has occurred on the Quad front: international observers have been left with myriad questions about the group's intentions and objectives. In particular, questions have been raised about the future sustainability of India's participation in the grouping due to fears of Chinese backlash.³ However, there are equally persuasive arguments for India to remain a member as New Delhi and Beijing continue to harbour serious misgivings about each other. The four Quad countries are continuing with their engagement, as reflected in their third meeting at the joint secretary-level in Singapore in November 2018. During the "JAI" (Japan, American and India) trilateral, when Modi met with Trump and Abe, he underlined India's commitment to make the Indo-Pacific a region for shared economic growth, prosperity and security.⁴

Maritime Connectivity and Security

Geopolitical competition in the Indo-Pacific region seems to be playing out mainly in the maritime domain. India occupies an important strategic position in the Indian Ocean which translates into more serious thinking about maritime trade, energy security, the blue economy and naval capabilities. Robert D. Kaplan, acknowledging the importance of the Indian Ocean, has argued that "the Greater Indian Ocean, stretching eastward from the Horn of Africa past the Arabian Peninsula, the Iranian Plateau and the Indian subcontinent, all the way to the Indonesian archipelago and beyond, may comprise a map as iconic to the new century as Europe was to the last one."⁵ Being largely a maritime nation, India stands to gain economically and commercially by promoting greater maritime connectivity in the Indo-Pacific. Given the economic potential of the region, several countries are investing huge financial, technological and human capital to develop maritime economies.

India should increasingly focus on improving maritime connectivity with IORA, ASEAN and EAS countries. With a focus on developing a 'Blue Economy', India announced in 2015 an ambitious plan called "Security And Growth for All in the Region" (SAGAR) which is aimed at enhancing maritime cooperation under the frameworks of security and foreign policy. New Delhi has been trying to boost infrastructure and capacity at all major ports under the Sagarmala project which is a port-led development program of the country to reduce logistics cost for both overseas and domestic trade.⁶ Greater partnership with ports located in Myanmar, Thailand,

Indonesia, Malaysia, Singapore and Vietnam is imperative to promote economic and commercial links between India and the ASEAN.

Strong relations with maritime countries will strengthen India's maritime connectivity with its neighbours and also promote greater trade while generating opportunities for employment. Indian ports need to build adequate interface with land, rail, water and pipelines. Greater regional trade in Indo-Pacific region can be the backbone of increased volume of global trade, provided big economic powers make significant contributions to build required infrastructure for integration. Regional cooperation in Indo-Pacific with a focus on the maritime domain is beneficial for all nations in both economic and maritime security domains.

China has been attempting to achieve a permanent presence in the Indian Ocean with its huge infrastructural investments in the region. Beijing has established an overseas military base in Djibouti as well. Increasing its strategic presence through frequent naval deployments, China's enhanced naval presence in the region is sure to put additional pressure on both Indian and the US navy.⁷ However, it is very unlikely that New Delhi will consider the operational deployment in the South China Sea to protect India's commercial interests there. Formal invitations by the US to join in joint patrols in the South China Sea are also likely to be rejected in foreseeable future.⁸

The energy traffic in the Indian Ocean region has become vulnerable to various choke points, and any disruption might create challenges for India's energy security. However, India is yet to make the Andaman and Nicobar Command to realise its Indo-Pacific objectives. Although India has been exploring bases abroad, there is an urgent need to upgrade the Andaman and Nicobar Command.⁹

ASEAN's Centrality in the Indo-Pacific

Relations with ASEAN are of particular significance to India, as 40% of its trade passes through the Strait of Malacca. India-ASEAN relations have acquired renewed momentum under the Modi government's 'Act East' Policy. In January 2018, India hosted the ASEAN-India Commemorative Summit to celebrate 25 years of dialogue partnership, 15 years of summit level interaction and five years of strategic partnership.

Many of China's neighbours are concerned over China's growing ability and

appetite to undermine the international status quo by threatening moves. However, there are very few takers in the ASEAN region when it comes to the Quad. The ASEAN's lack of enthusiasm stems from the fact that its member-countries are very small as compared to the US and China, and do not want to be caught in the US-China or India-China conflict. India is aware of this dilemma. That is why New Delhi has underlined the centrality of the ASEAN in its Indo-Pacific vision.

ASEAN analysts are largely positive in their assessment of India's stance on the Indo-Pacific. It is frequently mentioned that Modi's description of the Indo-Pacific made no mention of the Quad during his speech at the Shangri-La Dialogue. With China's assertive behaviour in the South China Sea, ASEAN unity has been undermined. The biggest problem lies in the fact that the ASEAN has been unable to create effective regional system to serve as a balancer because of inherent internal contradictions.¹⁰ China has used its economic leverage to create differences amongst ASEAN members. The ASEAN countries, though substantially integrated economically, have very limited levels of cooperation on security issues. As such, India's diplomacy with the ASEAN requires both deftness and imagination if New Delhi is serious in dealing with an assertive China.

The RCEP Debate

The Regional Comprehensive Economic Partnership (RCEP) is a grand pitch to bring in the three largest economies of Asia — India, China and Japan — into a regional trading bloc, along with ASEAN, Australia, South Korea and New Zealand. It promises to be the largest trading bloc in the world. However, there is a growing perception in the ASEAN that India's reluctance is causing undue delay in concluding the RCEP.¹¹ India's exclusion from RCEP is seen to be setback to its Act East Policy as well as Indo-Pacific vision. India has announced that the RCEP negotiations will extend into 2019 as agreement on several key issues remain unresolved.

The major reason of India's hesitant stance is the fear of competitiveness which seems to have led to a reversal of its trade liberalisation policy. For instance, the Union budget for 2018-19 witnessed an increase in import duties across a wide range of sectors. The increase has been justified on grounds of promoting 'Make in India' and local manufacturing. Local producers are fearful of further market opening — especially to China — which they feel will

handicap India's industrial growth.¹² But this move is likely to lead to the old policy of import substitution which is not healthy for balanced economic growth.¹³ Another issue that may have made India a bit wary of RCEP is the manner in which China employs institutions such as the Asian Infrastructure Investment Bank (AIIB), construction projects linked to the BRI to create a dependency-based network of physical and strategic infrastructure across the region.¹⁴

Regional economic integration is a crucial component of the Act East policy. India is not in a position to sustain a rising political and security profile in the Indo-Pacific with shrinking economic footprints. At present, India is not included in the Asia-Pacific Economic Cooperation (APEC), nor is it part of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. Remaining out of RCEP may not be a viable move.¹⁵ As generating a domestic consensus on RCEP has proved difficult, it is likely that harsh decisions on tariff reductions will be postponed till the next parliamentary elections.

Managing Indo-US Strategic Partnership

India is the central pillar of the US vision for the Indo-Pacific. India and the US have been building stronger ties after New Delhi virtually abandoned 'non-aligned' stance in its foreign policy pursuits. Many of America's principal foreign policy challenges such as terrorism, violent extremism, energy security, Afghanistan, and China are almost similar to those facing India. There seems to be consensus that many of these challenges can be effectively addressed through enhanced engagement and cooperation between the two countries.

In 2016, the Modi government signed the Logistics Exchange Memorandum of Agreement (LEMOA) with the US to deepen bilateral military cooperation. In September 2018, both countries signed another key defence agreement – Communications Compatibility and Security Agreement (COMCASA) – at the inaugural two-plus-two dialogue between their foreign and defence ministers. India has become only the third Asian country after Japan and South Korea to get the Strategic Trade Authorization-1 (STA-1) status by the US.¹⁶ Generally, this status is granted to those countries which are also members of the four export control regimes: the Missile Technology Control Regime (MTCR), Wassenaar Arrangement, Australia Group and the Nuclear Suppliers Group (NSG) regime. India is not a member of the NSG, due to opposition

from China.

New Delhi expects America to remain its principal backer both to enhance India's conventional defence capabilities and to draw support in global political institutions. However, there are several challenges to this burgeoning partnership as well. America's stringent visa policy for Indian students and professionals is a sticking point. Another challenge is going to be thrown by America's looming troops exit from Afghanistan which remains a conflict zone in India's periphery. Resignation of James Mattis as secretary of state, who was one of the very few stabilizing figures in a rather chaotic American administration as well as a staunch supporter of strong Indo-US ties, has added to the uncertainty regarding the direction of America's engagement with India.

However, the strategic imperative for a deeper cooperation between New Delhi and Washington is undeniable. India and the US need to evolve a common strategy that acknowledges the challenge China poses along with the need to preserve ASEAN's role in preserving regional security.¹⁷

'Reset' with China

The informal summit between Modi and President Xi Jinping at Wuhan in April 2018 was the first major attempt at thaw across the Himalayan divide following the Doklam stand-off in 2017. Although there has since been a perceptible normalization in India's relationship with China, this thaw cannot be deemed to be a permanent feature in their bilateral ties. From New Delhi's standpoint, China's continued patronage of Pakistan's security establishment, lack of seriousness in resolving the long-standing border dispute, and opposition to India's entry into the NSG are reflective of China's hostile intentions towards India. From Beijing's perspective, India's opposition to the China Pakistan Economic Corridor (CPEC) as a violation of its sovereignty and its steadfast position on the Belt and Road Initiative (BRI) are some of the major irritants.

China continues to demonstrate strategic motivation and technological capabilities to assist Pakistan in emerging as a militarily powerful country capable enough to upset India's prominence in South Asia and divert its attention from more serious challenges. The depth of China-Pakistan strategic partnership depends primarily on the ability of Pakistani state to execute projects and ventures beneficial for China, particularly regarding the

implementation of the CPEC. As there are voices in Pakistan which have questioned the wisdom of Pakistani state to implement the CPEC, India must step up its efforts to raise this issue at all possible global platforms.

India's ties with China are likely to be characterised by a blend of cooperation and competition, particularly in the Indian Ocean region. China's mood seems cool now due to a trade war and geostrategic divergences with the US, but there is no doubt that India remains a target of China's aggressive posturing on multiple fronts in the Indo-Pacific. India's response seems to lack any long-term strategic road map.

Strengthening Ties with Russia

Despite stiff resistance from the US, India has not ceased its vibrant security relationship with Russia. India has recently concluded a \$5 billion purchase of the S-400 long-range air-defence system from Russia. The Trump administration had publicly warned for months that this purchase could attract provisions under the Countering America's Adversaries Through Sanctions Act (CAATSA), which authorises the US government to impose sanctions on entities for significant defence transactions with Russia. However, both the US department of state and the Pentagon argued the case for a presidential waiver to India.¹⁸

New Delhi has asserted that it would continue to maintain its "time-tested relationship" with Moscow. As agreed during the recent meeting of 18th India-Russia Inter-Governmental Commission on Military Technical Cooperation (IRIGC-MTC) held in New Delhi between defence ministers, New Delhi and Moscow are likely to sign a logistic supply agreement allowing their military forces to share each other's facilities.¹⁹ India has similar agreements only with the US and Singapore.

India has not allowed the defence segment of the ties with Russia to suffer. However, the perception has gained currency that Indian and Russian perspectives differ vastly on several issues in India's neighbourhood – Pakistan, Afghanistan and China – and most importantly about India's vision on the Indo-Pacific. The two sides have often referred to the Indo-Pacific region in different terms as revealed in the official statements issued by both India and Russia after the 'informal talks' between the top leaders in Sochi as well as annual summit meeting. The Indo-Pacific concept is yet to be endorsed

by Russian establishment in the manner in which the Indian establishment has endorsed it.²⁰ India would do well to devote more diplomatic energy on correcting this perception.

Maintaining the Momentum with Japan

Tokyo has come to be viewed as a natural partner of New Delhi as the transformation in bilateral ties has contributed to a growing convergence in geopolitical and economic interests.²¹ Both India and Japan are facing almost similar challenges in their immediate peripheries, making cooperation between them both desirable and understandable. The South China Sea's militarisation by China has direct consequences for India, just as developments in the Indian Ocean have implications for Japan.

Neither country seeks tensions with China; if Modi attempted a fresh beginning with Xi Jinping at an 'informal summit' in Wuhan in April 2018, Abe made the first visit by a Japanese leader to China in more than a decade in October 2018. However, India and Japan are aware that an assertive China is totally unwilling to give them strategic manoeuvring space. They envisage the Asia-Africa Growth Corridor (AAGC) as a transparent, sustainable alternative to the BRI for integrating the economies of South, Southeast, and East Asia with Oceania and Africa while improving overall connectivity within the Indo-Pacific.²²

The trend towards growing bonhomie is set to continue. Many high-impact infrastructure projects in India are being undertaken with Japan's assistance. Apart from the financing of the Ahmedabad-Mumbai bullet train, Tokyo is going to assist New Delhi in the modernisation and expansion of India's conventional rail network. It is also promoting investment in transport corridors and smart cities in India. The Japan-India Act East Forum (JICA) has been set up whose primary aim is to spearhead development in India's north-eastern region, in particular Meghalaya and Manipur.²³ Connectivity projects to Bangladesh and Bhutan are being explored.

India and Japan have agreed to establish regular consultative instrument in the "2+2" format of their defence and foreign ministries, on the lines of the US. However, the trade engagements between the two partners have been below potential. Japan is a developed industrial power, while India is an emerging economy. On the list of countries that India exports to, Japan stands at 18th

place; on the list of countries importing into India, Japan ranks at 12th place.²⁴ This is despite the fact that they have signed a Comprehensive Economic Partnership Agreement (CEPA).

Stabilizing Afghanistan

Very few recognise the geostrategic centrality that Afghanistan occupies for security of the Western peripheries of Indo-Pacific. India wants more coordination with the US on the eastern portion of the region, Southeast and Northeast Asia, as well as to its west, which spans Pakistan, Afghanistan, the Gulf region and the islands of the Indian Ocean.²⁵ But Washington's renewed engagement with Islamabad on how to end the Afghan conflict is likely to come at the expense of the Indo-Pacific security.

The entire Afghan reconciliation process may be thrown into disarray by Trump's recent announcement to withdraw half the US troops from Afghanistan.²⁶ The fateful decision will have major repercussions for peace in Afghanistan and the neighbourhood. It was becoming clear that Trump was getting too impatient to stick to his own Afghan strategy which was announced in August 2017. Despite his instincts for withdrawal, he had decided to commit more resources to the Afghan war. But with no visible improvement in sight, Trump has felt increasingly frustrated.

Pakistan's leverage in Afghanistan is set to grow with the exit of American troops, and India will need to be prepared for this eventuality. Sensing the US abandonment, the Kabul regime may also collapse, reviving the possibility of another prolonged civil war. India's challenges are compounded by the fact that its views on Afghan issue are at variance with other regional powers such as Russia and Iran.

Safeguarding Ties with Iran

India's ties with Iran are very important. Iran's Chabahar port is the vital component in India's Indo-Pacific strategy which is also linked with Eurasia's connect with Indian Ocean.²⁷ Due to differing positions by India and the US in the western Indian Ocean, in particular on Iran, formation of a unified vision of the Indo-Pacific, which is shared by both, continues to remain thwarted.²⁸ The opening of the first office of Indian Ports Global Limited at Chabahar and the takeover of operations of the Shahid Beheshti port is welcome news as far as India's regional connectivity plans are concerned.²⁹

Given the problems associated with the direct trade route through Pakistan, the Chabahar port has opened up for India an alternative route to trade with Afghanistan and Central Asia. Although the Chabahar port has received a waiver from Washington, but due to internal turmoil within the Trump administration it is very risky to predict as to how long these concessions would be sustained. India must focus on cementing its presence in Chabahar and consolidate its reach in the Gulf region where around six million Indians reside, sending over \$40 billion annual remittances.

India also needs unhindered access to Chabahar for monitoring naval activities of both Pakistan and China in Gwadar. The Chabahar is often viewed as a rival warm water port to Gwadar. As the US and Russia engage Pakistan more and more with the endgame approaching in Afghanistan, Pakistan's potential to play spoiler in Chabahar has also increased. This requires deft diplomatic handling by New Delhi to navigate competing geopolitical interests.

Counter-terrorism Capabilities

Normalisation of relations with Pakistan is unlikely so long as it continues to support proxy non-state actors in Kashmir and refuses to dismantle terror infrastructure in its territory. A resurgent Kashmir insurgency also fuels India-Pakistan tensions. Despite beliefs of having achieved normalcy in the Kashmir valley, the last few years have witnessed a sharp increase in popular support for insurgency and political violence.

India has consistently raised the issue of Pakistan-supported terrorism at every conceivable global forum. This campaign has been moderately successful, and much needs to be done in this respect. India has not been able to build a credible deterrent against Pakistan-backed terrorist attacks in its territory. Despite having one of the largest militaries in the world, India is yet to achieve success in denying and deterring continued cross-border attacks due to multiple challenges. India lacks effective military options to deter terrorist attacks or to inflict punishment to Pakistan's security establishment after a cross-border attack in India. The 2016 surgical strikes have had a limited effect on terrorist activity in Kashmir valley. India has invested half-heartedly and haphazardly to improve its border and coastal security architecture.

Defence Diplomacy and Preparedness

India's defence diplomacy has become multi-dimensional as the country diversifies its military partnerships. In 2018 alone, India held military exercises with all major countries. The 'Cope India' exercise between the Indian and US air forces was held after a gap of eight years, with the last one having taken place in 2010. India's defence minister visited the US Indo-Pacific Command in Hawaii to review military-to-military relations and review preparations for the first ever India-US tri-service military exercise off in Bay of Bengal in May-June 2019.

The Japan Air Self Defense Force (JASDF) and Indian Air Force (IAF) conducted their first joint air exercise, 'Shinyu Maitri-1', focusing on joint mobility and humanitarian assistance & disaster relief operations in the first week of December 2018 in Uttar Pradesh. India and Japan also concluded their first land-based joint military exercise in Mizoram, which focused on counter-insurgency and counter-terrorist operations in urban and semi urban terrain. India and Russia conducted joint military exercise 'Indra 2018' in Madhya Pradesh. India also joined China for 'Hand-in-Hand 2018', which was aimed at strengthening the anti-terrorist operations. The drill began in China's Chengdu region on December 11 and concluded on December 23. These exercises were called off in 2017 due to dispute over Chinese road-building on the Doklam Plateau, located at the tri-junction border of India, China and Bhutan.

These multiple military partnerships have provided India with leverage in its diplomatic manoeuvrings. India's increasing military diplomacy is also important as it buttresses India's claim of being the 'net security provider' in the Indo-Pacific region. However, joint military drills do not necessarily mean strategic alliance. The real challenge will be to enhance military interoperability with countries that are likely to come to India's help in case of a military confrontation. Another big challenge in this regard is the existing defence procurement mechanism. Procurement funding in India is often disorganized with funds allocated to acquire weapons system on an arbitrary basis.³⁰ India's military is yet to learn operational agility and innovative use of technology. Given China's growing investments in cutting-edge military technology, the gap between Indian and Chinese militaries has been expanding.

Strengthening Democratic Institutions

Promotion of a democratic and rules-based international order is the mainstay of the Indo-Pacific strategic vision, shared by all Quad countries. Because of being the world's largest democracy, India has a particularly unique role to play in supporting democratic institutions in its immediate and extended neighbourhood. China's rise coupled with its creeping presence in India's strategic periphery gives New Delhi sufficient reasons to extend support to all regional democratization efforts. However, these efforts cannot be defensive in nature. Indian policymakers are advised to stress a constructive agenda for the country's South Asian neighbours, and expand the ambit of its efforts to include the strengthening of the rule of law and good governance practices. This will help enhance regional security, while mitigating violent conflicts in the short-term. It is likely to promote inclusive and sustainable development over the long term.

India's ability to engage with the developing world is unique regarding how to tackle social, economic and political challenges through non-violent methods. While the Western world has made remarkable contributions to share its best practices in democratic governance, India's experience is always found to be of greater value, particularly due to commonality of challenges the developing world faces. The shared commitment to democracy and the rule of law is increasingly acknowledged in India's growing ties with the US, Japan, Australia and the ASEAN countries.

India can and should facilitate greater democratic institutionalisation across the Indo-Pacific region by working with other well-established democracies at the regional and global level. These efforts can go a long way in countering unilateralism and authoritarianism by strengthening existing principles, norms and institutions to address emerging challenges such as migration, climate change, cyber security and upholding of the freedom of navigation.

Conclusion

As shown above, the Indo-Pacific is a highly dynamic region with a multitude of political, strategic, economic and social factors at play. It would be imperative for India to step forward and take a more proactive approach, when it comes to shaping the political, economic, social environment in the region.

However, the current geopolitical scenario is going to keep India fully occupied in foreseeable future, particularly given China's assertiveness, America's apparent retreat and Pakistan-sponsored terrorism. India's economic progress is going to be considerably dictated by the swiftness and imagination with which Indian policymakers respond to economic opportunities and challenges in Indo-Pacific. Clearly, if the Indian government proves unable to generate significant economic growth, the hopes of millions of Indians to see their country playing a credible regional security and global diplomatic role would come to naught.

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The US–China Trade War: A Political and Economic Analysis

Yuhan Zhang*

Abstract

This article attempts to examine the current US-China trade war. It argues that the trade war cannot achieve the outcomes that President Donald Trump desires and it could be avoided by resolving the structural trade imbalances and undertaking enduring and effective strategic communications. First, the trade war cannot significantly reduce or eliminate the current account deficit¹ of the US. The capital account² can drive the current account, and the US capital account surpluses persist due to the country's sublime capital markets and inflows of foreign excess savings. Second, it is almost impossible to impede China's technological advancement. Technology development can increase China's gross output, especially the wages of skilled labourers, which is essential for China's much-needed consumption-driven economy. This, in turn, is crucial for reducing China's excess savings. The Chinese government possesses an unyielding determination and capacity to advance technologies. It is worth noting that stifling China's technological advancement will likely to be detrimental to the aim of trade rebalancing. Pursuing the goals simultaneously – fixing the trade imbalances and halting China's technological advancement – will be challenging as they are counteractive. Surely, the trade war strikes the vulnerable Chinese economy.

In order to fix the trade imbalances as well as to end and avoid the war, China must step up economic reforms. In the immediate run, it needs to prevent the further devaluation of China's renminbi (RMB) and raise its interest rate. The US might need to reduce the capital account surpluses by allowing and encouraging foreign central banks to accumulate a synthetic currency instead of the US dollar. It is also imperative that both countries return to the negotiating table. Both countries need to accurately communicate their "bottom lines" and correctly interpret each other's signals.

Keywords: US-China trade war, trade imbalance, technological advancement, strategic communications

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Introduction

Since China's opening-up in 1978, the country's economic growth, measured by the gross domestic product (GDP), has skyrocketed and averaged 9.6 percent per annum between 1978 and 2017. China is the world's second largest economy³ with a noticeable growth in its political influence, military forces, and technological power. A number of academics, including Mearsheimer (2014),⁴ posit that China's rise will challenge the predominant power of the US and that the conflict between the great powers is unavoidable. Scholars such as Allison (2017),⁵ however, acknowledge that conflicts among great powers are not inevitable and advise the decision makers to closely study the lessons of the Cold War. Against this background, I intend to anatomize an empirical case – the current US-China trade war– which started in March 2018. A trade war, considered as an unconventional war, could have wide and profound impact on the monetary, financial, as well as political landscapes. It could result in perilous consequences such as shut-downs of companies, massive unemployment, currency crisis, deglobalization, and global great depression. I contend that, in a nutshell, the trade war cannot fulfill President Trump's goals and could be avoided by fixing the structural trade imbalances and by executing effective and enduring strategic communications.

In assessing the current eye-catching trade war, there are four major strands of literature. The first strand discusses the direct economic costs of tariffs. Zhao and Sheng (2018) estimate that Chinese machinery manufacturing companies will suffer a loss of approximately \$15 billion.⁶ Muro, Whiton and Maxim (2018) predict that 2.1 million US jobs in the 40 industries could be affected.⁷ The second category of literature analyzes the negative impacts of such wars on the international trading system. Lawrence (2018)⁸ and Rodrik (2018)⁹ argue that the bilateral trade war, especially protectionism, violates the rules of the World Trade Organization and poses risks for the global trading order. The third strand looks at the US-China trade imbalances. Stiglitz (2018) holds that the US deficits are caused by low savings; therefore, the solution is to increase American savings.¹⁰ The fourth strand discusses that the threats from the Trump administration will not work based on history. Carnegie (2018) demonstrates that since 1979 China has never conceded to the trade threats issued by the US.¹¹

However, there are considerably few works of literature that use quantitative methods to explain the current trade war's inability to fix the trade imbalances

and halt China's technological enhancement. If we could comprehend the root causes of the trade imbalances, the economic and political factors of China's behaviour and reactions, along with the importance of correct communication, it is likely that optimal solutions that help the two countries work their way out of the war in the least painful manner possible will be found. In so doing, such a war could be avoided in the future as well.

In the following section, I analyze the major economic and political motivations of President Trump and his administration hawks in dealing with China over trade issues. In Section 3, I explain the structural problems of the trade imbalances and the reason why the US cannot fix its current account deficits through the current trade war. In this regard, the Granger-causality analysis shows that the capital account is capable of driving the current account. In Section 4, I argue that it would be extremely difficult to impede China's technological advancement. I use my modified Cobb-Douglas function to demonstrate that technological enhancement will increase China's gross output, especially the wages of skilled labourers, which is essential for China's much-needed consumption-driven economy as well as crucial to reduce China's excess savings. This unfolds a significant reason why China has an unyielding determination to develop technologies. In addition, I allude to China's ability to develop technologies on its own. Furthermore, I argue that stifling China's technological advancement will likely to be detrimental to the goal of trade rebalancing. Pursuing the objectives simultaneously – fixing the trade imbalances and checking China's technological advancement – will be challenging as they are counteractive. Finally, I point out that to resolve the trade imbalances and to end and avoid the war, China's best bet is to accelerate reforms. In the immediate term, it needs to prevent further RMB devaluation and raise the interest rate. The US might need to reduce the capital account surpluses by means of, for example, allowing and encouraging foreign central banks to accumulate a synthetic currency instead of the US dollar. It is also indispensable for both the US and China to return to the negotiating table and establish an enduring and effective dialogue channel.

Trump's Motivations

After Donald Trump took office, the US-China relationship deteriorated sharply. On March 22, 2018 – the same day the US Trade Representative released its "Section 301" report – President Trump proposed a 25 percent tariff on certain products of China.¹² This move eventually resulted in China's tit-for-tat

measures, leading to the trade war. There are two major explanations behind Trump's trade war with China. On the economic front, the administration wants to reduce or reverse its trade deficit. Trump tweeted on April 4, 2018 that "[the United States has] a Trade Deficit of \$500 Billion a year, with Intellectual Property Theft of another \$300 Billion. We cannot let this continue!"¹³ Many US commentators think that the gargantuan imbalance translates into an incremental increase in US indebtedness to China, which they consider to be a huge vulnerability for the United States.¹⁴ Some of Trump's advisers contend that "reducing the 'trade deficit drag' would increase [US] GDP growth. These trade-related structural problems of the US economy have translated into slower growth, fewer jobs, and rising public debt."¹⁵

On the political front, considering China's rise, Trump and his administration hawks want to slow down China's progress toward emerging as a high-tech superpower.¹⁶ The main targeted sectors are machinery, electronics, and IT technology. This is tantamount to the US directly targeting the Chinese government's ten-year plan - Made in China 2025- which is inspired by the German government's Industry 4.0 development plan and which aims to promote China's manufacturing by rapidly advancing ten high-tech industries.¹⁷ It is worth mentioning that the underlying problems of the trade imbalances and the perceived threat from a rapidly rising China are perhaps among the few bipartisan concerns in the US.

But can Trump achieve the objectives he seeks from the trade war? The following points shed light on the response to this question.

Persistence of the US Current Account Deficit

The US cannot significantly drive down or stop the current account deficit for the foreseeable future. The trade balance is basically not determined by trade policies such as protectionist tariffs. The trade imbalance is a structural problem. China's problematic development model, in conjunction with the US capital account surpluses thanks to the country's sublime capital markets, has contributed to the US current account deficit.

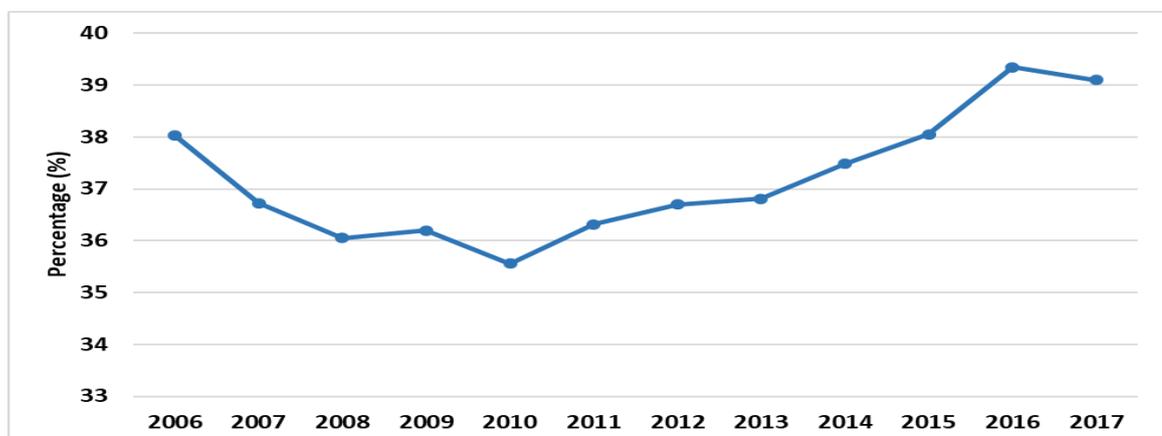
China's Problematic Development Model and Continued Excess Savings

China's economy has taken off since Deng Xiaoping's economic reforms in 1978. However, the prolonged investment on a massive scale has created

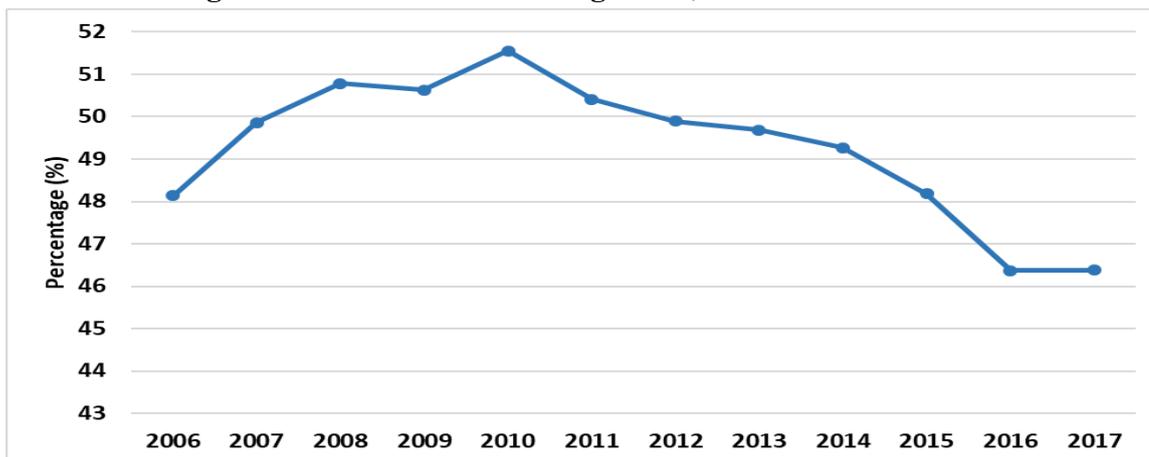
significant overcapacity in a range of sectors and has engendered non-performing loans (NPL). The Chinese government has thus established several state-run asset-management companies and injected large amounts of capital into the state banks, to ensure recapitalization. However, as Lin Shi and I explained in 2011 on the *East Asia Forum*, “it is Chinese households that are ultimately left to clean up the mess of NPLs. First, by transferring huge amounts of resources to pay for expected losses on NPLs, bank regulators have captured a significant portion of Chinese income that could have funded consumption. Second, regulators have mandated a wide spread between deposit and lending rates. The policy keeps both lending and deposit rates low; the first to slow the growth rate of NPLs and the second to ensure bank profitability.”¹⁸

It is worth noting that the Chinese government provides very limited investment channels and a weak social safety system. Chinese households, therefore, have little option but to deposit in the banks. Consequently, they are forced to accept brutally low returns on their savings, which constrains household consumption and pushes up household savings. The Chinese leadership has discerned the risk of the country’s unbalanced development since late 2000s. After years of work, China’s economic structural change is progressing, albeit slowly. China’s private consumption as a percentage of GDP has been increasing since 2010 but has not yet reached 40 percent,¹⁹ compared to a US average of 68 percent.²⁰ China’s gross savings rate is more than 46% of GDP²¹ against the US 17.3 percent²² (see Figure 1 and Figure 2).

Figure 1. China’s Household Consumption, % of GDP

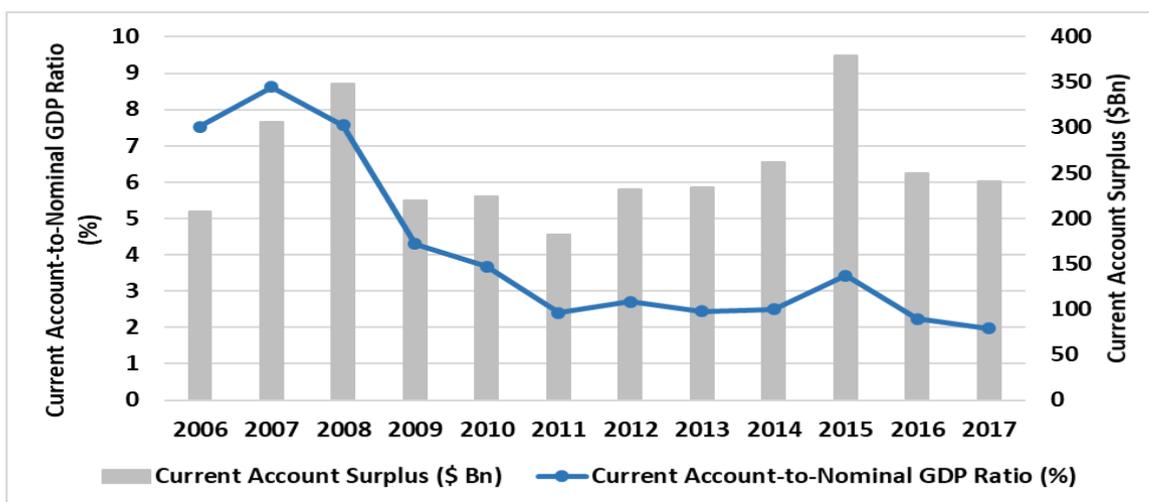


Source: CEIC

Figure 2. China's Gross Savings Rate, % of GDP

Source: CEIC

For sure, the rift between the gross savings rate and invest-to-nominal GDP ratio has narrowed. Nonetheless, savings glut remains, generating an overall current account surplus of \$241 billion in 2017 (see Figure 3).²³

Figure 3: China's Current Account Surplus and Current Account-to-Nominal GDP Ratio

Source: CEIC

In a closed economy, excess savings cause recessions, but an open economy has another alternative: domestic savers can invest abroad.²⁴ The recipient of these excess savings will have enormous capital inflows, and capital account

surpluses would occur in countries like the US. The over-savings contribute to the deep trade imbalances in today's interconnected world.

US Capital Account Surpluses and Current Account Deficits

One who is familiar with balance of payments accounting knows that the sum of the current account and the capital account must equal zero. The US has very open and liquid capital markets with highly credible governance, which lures countries with trade surpluses, such as China, to export a large part of their excess savings to the US. In 2017, the US total net financial inflows stood at more than \$375 billion, and the capital account deficit exceeded \$400 billion.²⁵ Further, in today's trade regime, the capital account can also drive the current account. A Granger-causality analysis of the US case indicates that changes in capital account balance Granger-cause the current account balance to change. Granger (1969) proposed a time series data-based approach in order to determine causality.²⁶ From the Granger perspective, X is a cause of Y if it is useful to forecast Y. In the case of the US, there are two equations:

$$(\Delta CA)_t = \alpha_t + \sum_{i=1}^m (\beta_i (\Delta CA)_{t-i}) + \sum_{j=1}^n (\tau_j (\Delta KA)_{t-j}) + u_t \quad (1)$$

$$(\Delta KA)_t = \theta_t + \sum_{i=1}^p (\phi_i (\Delta KA)_{t-i}) + \sum_{j=1}^q (\psi_j (\Delta CA)_{t-j}) + \eta_t \quad (2)$$

Where t represents time period, CA represents the US current account balance, ΔCA ($CA_t - CA_{t-1}$) represents the change of the US current account balance, KA represents the US capital account balance, and ΔKA ($KA_t - KA_{t-1}$) represents the change of the US capital account balance.

Based upon the estimated OLS coefficients for Equation (1) and Equation (2), four different hypotheses about the relations between ΔCA and ΔKA can be formulated:

1. Independence between ΔCA and ΔKA . In this case, there is no Granger-causality in any direction, thus $\sum_{j=1}^n \tau_j = 0$ and $\sum_{j=1}^q \psi_j = 0$.
2. Unidirectional Granger-causality from ΔKA to ΔCA . In this case, changes in the capital account balance help the prediction of changes in the

current account balance but not vice versa. Thus, $\sum_{j=1}^n \tau_j \neq 0$ and $\sum_{j=1}^q \psi_j = 0$.

3. Unidirectional Granger-causality from ΔCA to ΔKA . In this case, changes in the current account balance help the prediction of changes in the capital account balance but not vice versa. Thus, $\sum_{j=1}^n \tau_j = 0$ and $\sum_{j=1}^q \psi_j \neq 0$.

4. Bidirectional Granger-causality. In this case, changes in the capital account balance increase the prediction of changes in the current account balance and vice versa. Thus, $\sum_{j=1}^n \tau_j \neq 0$ and $\sum_{j=1}^q \psi_j \neq 0$.

Two time series data sets, obtained from the St. Louis Fed, are employed in this empirical analysis: change of US quarterly capital account net inflows (ΔKA) and change of US quarterly current account deficits (ΔCA) between Q1/1985 and Q1/2018. The ADF unit root test is applied to check the time series' stationarity. For ΔKA data series, the ADF statistic is -11.30, which is less than the quantile of 1% error, -3.48, and p-value is less than 0.005. For ΔCA data series, the ADF statistic is -3.36, which is between the quantile of 1% error (-3.49) and of 5% error (-2.89), and p-value is 0.01. Therefore, both series are stationary.

For the Granger-causality test, results are calculated for all lags up to 4 quarters. Results of Granger causality for equation (1) and (2) suggest a bidirectional/feedback causality: changes of net capital inflows Granger-cause changes of the current account deficits with 3 lags; changes of the current account deficits will also drive the net capital inflows to change with 1 lag (Figure 4).

Figure 4. Results of Granger-Causality Test

Results, Eq. (1)	Number of lags: 3	
SSR based F test	F=5.1765	P=0.0021
SSR based chi2 test	Chi2=16.4206	P=0.0009
Likelihood ratio test	Chi2=15.4565	P=0.0015
Parameter F test	F=5.1765	P=0.0021
Results, Eq. (2)	Number of lags: 1	
SSR based F test	F=18.1457	P=0.0000 ²⁷
SSR based chi2 test	Chi2=18.5710	P=0.0000

Likelihood ratio test	Chi2=17.3672	P=0.0000
Parameter F test	F=18.1457	P=0.0000

History has also proven that in many cases trade flows shifted in order to accommodate shifts in the capital account. In his qualitative research of 200-year financial history, Pettis (2017) wrote, “The relationship between the capital account and the current account is extremely complex and can work both ways...Trade flows are assumed to have primacy, and capital flows are assumed to adjust to balance the trade flows. While this may be true in some cases, and probably was true for much of modern human history, it is not necessarily true, and is almost not true today, at least for large economies like that of the United States.”²⁸

Unless the United States can flip around its large capital account surpluses, overall current account deficits will likely to remain huge.

China’s Technological Advancement Cannot Be Stifled

Similarly, the US will struggle to blight China’s Made in China 2025 initiative, or more precisely, technological enhancement. Technology innovation and investment are being promoted by the Chinese government. Theoretically, at the current stage of Chinese development, technological advancement will increase the country’s gross output, and boost wages of skilled labourers, which would be crucial for China’s much needed consumption-driven economy. I use a modified Cobb-Douglas production function model, which is tailored to the case of China, to illustrate:²⁹

$$Q = \varepsilon(L_L + T_L M_L)^a (L_S + T_S M_S)^b (K)^{1-a-b} \quad (3)$$

Where Q is China’s total output, ε is total factor productivity apart from machinery efficiency, L_L stands for Chinese workers without bachelor’s degrees, M_L stands for machines in China that complete basic/routine tasks and can substitute L_L , T_L is the machinery efficiency of M_L , L_S represents Chinese workers with at least bachelor’s degrees, M_S represents machines in China that complete very sophisticated (certain human intelligence level) tasks, T_S is the machinery efficiency of M_S , K is capital, a and b are the percentages of total income that is distributed. All are positive real numbers.

In the near term, I assume T_S to be constant because China will prioritize and focus on the upgrade of M_L to catch up with the richer, industrialized West.³⁰ Since Cobb-Douglas functions have convex and monotonic contours that do not cross the axes, I can use the shortcut formula for interior solutions to the unconstrained producer optimization problem:

$$\frac{\partial Q}{\partial L_L} = W_L \quad (4)$$

$$\frac{\partial Q}{\partial L_S} = W_S \quad (5)$$

Where W_L represents wages of Chinese workers who do not possess bachelor's degrees, W_S represents wages of Chinese workers who possess bachelor's or more advanced degrees.

From Equation (3),

$$\frac{\partial Q}{\partial L_L} = \varepsilon a (L_L + T_L M_L)^{a-1} (L_S + T_S M_S)^b (K)^{1-a-b} \quad (6)$$

$$\frac{\partial Q}{\partial L_S} = \varepsilon b (L_L + T_L M_L)^a (L_S + T_S M_S)^{b-1} (K)^{1-a-b} \quad (7)$$

$$\frac{\partial Q}{\partial T_L} = \varepsilon a M_L (L_L + T_L M_L)^{a-1} (L_S + T_S M_S)^b (K)^{1-a-b} > 0 \quad (8)$$

Equating Equations (4) and (6) and Equations (5) and (7),

$$W_L = \varepsilon a (L_L + T_L M_L)^{a-1} (L_S + T_S M_S)^b (K)^{1-a-b} \quad (9)$$

$$W_S = \varepsilon b (L_L + T_L M_L)^a (L_S + T_S M_S)^{b-1} (K)^{1-a-b} \quad (10)$$

From Equations (10),

$$\frac{\partial W_S}{\partial T_L} = \varepsilon a b M_L (L_L + T_L M_L)^{a-1} (L_S + T_S M_S)^{b-1} (K)^{1-a-b} > 0 \quad (11)$$

Both $\frac{\partial Q}{\partial T_L}$ and $\frac{\partial W_S}{\partial T_L} > 0$, which means that a rise in machinery efficiency of M_L would lead China's output and wages of Chinese workers who possess at least bachelor's degrees to rise. Note that labourers who possess bachelor's or more advanced degrees are basically China's middle class and upper class. These labourers will account for over 90% of Chinese urban consumers in the next three to four years, and they are expected to contribute the most to Chinese domestic consumption.³¹ As such, a rise in their wages is of vital importance in propelling the country towards a domestic consumption-driven economy, away from the investment-driven one.

In practice, China has exhibited its determination to narrow down the gap between itself and the advanced countries. There are now 1775 Chinese venture capital firms.³² During 2000-2016, as OECD's most recent R&D intensity data shows, China's investment on R&D as a percentage of GDP increased from less than 1% to more than 2%, pulling ahead of the EU.³³ By the end of 2017, China claimed 1.36 million patents for invention, meaning on average 9.8 invention patents per 10,000 people.³⁴ In light of the ban by the Trump administration on exports of chips for use in electronic hardware, the Chinese government has proposed investing nearly \$50 billion to build a domestic chip industry, formulated a comprehensive strategic framework for its chip initiatives, and called for the best researchers domestically and from overseas (China's State Council, 2018).³⁵ Contemporary history has proven China is able to advance technologies at home. For instance, in 1950s and 1960s, without any external assistance, it committed itself to nuclear weapons to break "the superpowers' monopoly on nuclear weapons" and "within a thirty-two-month period, China successfully exploded its atomic bomb and detonated its hydrogen bomb in 1964 and 1967, respectively."³⁶

Moreover, the Chinese leadership's perceptions of the US are often coloured by the *realpolitik* philosophy. They suspect that the US may be using the trade war as a "stick" to check China's growth because they perceive in it a zero-sum outlook toward the rising China. Preventing China from advancing technologies could rather accelerate China's moves toward indigenous technological advancement. Therefore, a trade war aiming to prevent its technological enhancement will probably fail. Furthermore, as argued earlier in this section, technological advancement is essential for bringing about China's shift from the investment-driven economy to the consumption-driven one, which in turn is crucial to reduce China's excess savings. Hence, Trump's action will likely be

detrimental to the goal of trade rebalancing. Halting China's technological advancement will exacerbate the trade balance or at least slow down the process towards a consumption-driven economy in China, necessitating even greater efforts to address the trade imbalances.

China's Palpable Losses

It is irrefutable that China has been bashed by the trade war. Over the period of five months between March 2018 and August 2018, the Shanghai Composite Index — a barometer of the Chinese stock market — has plummeted by approximately 18%³⁷ and the RMB has depreciated nearly 8%.³⁸ Because China is still export dependent, the trade war might make Chinese manufacturing firms lose approximately \$15 billion and will cause unemployment, especially in China's east coast.³⁹

Amid China's internal issues caused by its socially and environmentally unsustainable economic development model, the trade war will only drive the RMB to depreciate further. If the trade war lingers on until 2019, market sell-off pressure on the RMB could increase. In addition, US economic indicators look good and the almost-inevitable interest rate raise will facilitate further RMB depreciation. The consequences of further RMB depreciation would be: the rise in the cost of all imports, decline in the real value of Chinese household income, the drop in private consumption, increase in the production of goods and services, and the surge in the country's already excessive savings, which will make China's economy vulnerable and deepen the existing trade imbalances. The worst-case scenario would be a persistent trade war coupled with the increased in the US interest rate. This would elicit very negative public sentiment and might cause large-scale capital flight from China.

Can the War be Ended and Avoided?

The bilateral trade war could be ended and avoided by resolving the structural trade imbalances and by undertaking effective, enduring strategic communications between the two countries.

China must accelerate reforms to encourage a new wave of consumers. For instance, China must establish a comprehensive and robust social safety system and liberalize its financial markets for ordinary citizens to invest in safe and liquid assets rather than deposit savings in the banks. Otherwise, there are still

significant costs, which are borne one way or another by the Chinese households. For sure, the transformation cannot be easy; as such reforms in China will turn the vested interest groups (e.g. puissant local governments and elites) into losers.

In the immediate term, China should defend its sliding currency and raise interest rates. China's RMB has depreciated sharply since the trade war. As argued earlier, the RMB depreciation will further arrest Chinese household consumption, boost excess domestic savings and, ultimately, expand the current account surpluses. To alleviate the situation and reverse the downtrend, the Chinese government may use the foreign exchange reserves to purchase the RMB and maintain capital controls simultaneously. At the time of this writing, China's foreign exchange reserves stand at \$3.1 trillion which remains above the "red line."⁴⁰ It still has some room for China's central bank to spend foreign exchange reserves to keep the RMB from depreciating.

History has taught us that the combination of using foreign exchange reserves to purchase RMB and strict capital controls could be effective in the short term to drive the RMB to appreciate against the US dollar. Most recently, from mid-2015 to 2016, China used nearly \$500 billion foreign exchange reserves and implemented tight capital controls, which contributed to the RMB appreciation in 2017.⁴¹ Higher interest rates can also help. On the one hand, if China must spend massive reserves to defend the RMB and the reserves decline below the "red line", raising domestic interest rates could help attract foreign capital and keep investors from leaving. On the other hand, higher interest rates can reduce domestic savings and stimulate consumption.

Theoretically, in a two-period model⁴², suppose a Chinese household lives for two periods: t and $t+1$. The household has an exogenous stream of gross income in the two periods: I_t and I_{t+1} , pays income tax, T_t and T_{t+1} , and consumes each period, C_t and C_{t+1} . The household saves in the first period, S_t ($S_t > 0$), and earns interest R_t . So S_t yields $S_t(1+R_t)$ in income in period $t+1$. The Chinese household faces two budget constraints, which hold with equality:

$$I_t - T_t = C_t + S_t \quad (12)$$

$$C_{t+1} = I_{t+1} - T_{t+1} + S_t(1 + R_t) \quad (13)$$

From Equations (12) and (13),

$$\frac{\partial C_{t+1}}{\partial R_t} = S_t > 0 \quad (14)$$

Thus, a rise in interest will result in a rise in consumption in the following period. An empirical research, which covers the period 1996-2009, finds that a 1% increase in the real interest rate could enhance Chinese consumption and lower the urban household saving rate by 0.6%.⁴³

To the US, economists such as Eichengreen (2006) and Stiglitz (2018) recommend reducing the current account deficit by raising US savings via monetary and fiscal policies.⁴⁴ Yet, raising US savings might not be sufficient to resolve the current account deficits. As analyzed earlier in this article, the US current account can be also driven by the capital account. The US must implement policies that alter its capital account surplus. More specifically, to significantly drive down or eliminate US current account deficit, the US needs to tremendously reduce or flip around its net capital inflows. It is worth noting that as a global currency, the dollar, at the micro level, facilitates international transactions; at the macro level, it serves as a global reserve currency. It is relatively safe and stable. Hence, many foreign central banks accumulate the US dollar in their reserves and foreign investors purchase US assets. In the globalized world, the role of the dollar has a strong bearing on its capital account surpluses/current account deficits. As long as foreign countries prefer the US dollar for transactions, the US will sustain its current account deficit. A global monetary unit independent of any national currency might be an alternative to the US dollar. However, the US policymakers must, first and foremost, agree upon this⁴⁵ and they might also create rules that prevent foreign central banks from accumulating the dollar.

It is also indispensable for decision-makers in both countries to ponder carefully at the strategic level by abandoning the tit-for-tat strategy. Even if the US and China have strongly diverging and at times competing interests, both sides must recognize that the trade war is not sustainable. Misperceptions and conflicts occur in the absence of communication.⁴⁶ It may be reiterated that China and the US need to set up an effective communication channel between

high-echelon officials who have mutual rapport and are willing to negotiate to find out a mutually satisfactory solution.

China's president might need to take the "first move" to show China's willingness. He needs to learn from his diplomatic visit to the US in February 2012. The visit successfully delivered the message that China was willing to engage in political communication and economic cooperation with the US. During meetings with current and former politicians, business people, and the media, he repeatedly stressed the importance of cooperation and friendship between the two countries. Exhibiting the willingness to adopt a cooperative stance helped reduce the possibility of strategic misunderstanding between his administration and the Obama administration. Surely, both countries should accurately communicate their "bottom lines" and correctly interpret each other's signals. Equally important, "do not impose on other countries constraints that you would not accept if faced with their circumstances."⁴⁷

Conclusion

This article discussed President Trump's motivations in dealing with China over the bilateral trade issues and explained the trade war's inability to resolve the US trade deficits and halt China's technological enhancement. It also pointed out that China also experienced losses from the trade war. Hence, the US-China trade war will benefit neither country. Below are some of the key findings:

China's continued excess savings, incurred by the country's problematic development model, and the US attractive capital markets contribute to the trade imbalance. The US possesses remarkably open and liquid capital markets with highly credible governance, which lures countries with trade surpluses such as China to export a large part of their over-savings to the US. The Granger-causality test demonstrates that the US capital account is also able to drive the current account. Unless the US can flip around its large capital account surpluses, overall current account deficit might remain huge. That said, imposing tariffs cannot fundamentally resolve the trade imbalance. Further, it would be nearly impossible to impede China's technological advancement, as the mathematical modeling in this article proves that it is crucial for China's

much-needed consumption-driven economy. This, in turn, would be essential to drive down China's excess savings. The trade war will drive the RMB to depreciate further, which will make China's economy even more vulnerable and deepen the trade imbalance. Also, the trade war could generate negative public sentiment and cause large-scale capital flight.

In order to fix the trade imbalance as well as to end and avoid the war, it is recommended that China speed up its economic reforms: a comprehensive social safety system and a liberal financial market are necessary. In the immediate run, China must prevent further RMB devaluation and raise its interest rate. The US might need to reduce capital account surpluses by allowing and encouraging foreign central banks to accumulate a synthetic currency instead of the US dollar. It is also necessary for both the US and China to establish an enduring and effective dialogue channel through which both countries could accurately communicate their "bottom lines" and correctly interpret each other's signals.

Many of the conclusions were derived from the statistical analysis and theoretical models. The future research could focus on a micro-level analysis of the political psychology of decision-makers which would aid in gaining a better understanding of the misperceptions and strategic mistrust between the two countries.

Endnotes

¹ In this article, we can ignore the difference between the current account deficits and the trade deficits.

² In the balance of payments accounts, as taught by economics textbooks, the term capital and financial account would be more precise. In this article, it is abbreviated as the capital account, for the sake of simplicity.

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Current account-to-nominal GDP ratio is gross savings rate minus invest-to-nominal GDP ratio. Current account surplus is GDP times current account-to-nominal GDP ratio.

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L_I is workers with intermediate skills, S is capital, a and b are the percentages of an economy's income that is spent. Sachs (2018) also assumes machines are not smart enough to fulfill complicated tasks which require at least intermediate skills. Jeffrey D. Sachs, "R&D, Structural Transformation, and the Distribution of Income", NBER Workshop on the Economics of Artificial Intelligence, January 2018.

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⁴⁵ In 2009, before the G20 Summit, France, China, and Russia questioned the dollar standard, and suggested IMF’s Special Drawing Right (SDR) as a candidate to a global monetary unit. Nobel Prize-winning economist Joseph Stiglitz in the same year also advanced the idea of an SDR-based global currency. However, the US then-President Obama remarked that he did not

think the world needed a global currency. Finally, the proposal and a vision of a “Bretton Woods 2” did not make onto the G20 agenda.

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Mapping Substance in India's Counter-strategies to China's Emergent Belt and Road Initiative

Narratives and Counter-Narratives

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Abstract

This article discusses the Belt and Road Initiative (BRI), the Chinese government's mega project, scheduled for completion by 2030. The project has been planned to be carried out in two parts: first, the Silk Road connecting China through Central Asia to the Middle East and Europe; and second, the Maritime Silk Route which includes maritime links through the Strait of Malacca to the Indian Ocean, Middle East and Africa. The BRI can have a huge impact on Asia, Europe and Africa strategically and economically. India's strategic location in the Indian Ocean and its vast economy make it a key player in the developments in South Asia. The article attempts to elaborate upon the fundamental idea of the BRI and the possible options for India.

Keywords: Belt and Road Initiative, China, India, Maritime Silk Route, Asia

Introduction

There has been immense speculation whether or not the 21st century will be an Asian century, given the prospect of emerging economies ending the Western economic dominance. China is striving to catapult itself to the position of the largest economy by launching the Belt and Road Initiative (BRI). The latter is President Xi Jinping's pet globalisation project, involving over 60 countries with a combined GDP of \$21 trillion.¹ It has also been seen in light of the Chinese version of the Marshall Plan. President Xi has planned, arguably, the most ambitious economic policy not just in terms of participation but also the investment and returns it promises. Its basic idea is to facilitate regional development, including in South Asia. However, India has expressed opposition to BRI due to its long term economic and security implications. Despite China's claiming that BRI will facilitate win-win growth and development, it could also be an instrument for China to expand its own

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economy and invest its surplus foreign reserves to its political and economic advantage. The geographical boundary of the initiative will be within the confinements of the ancient Silk Road and the maritime Silk Route. China looks to re-establish economic corridors which have historically been of high relevance to its trade and commerce. Certain aspects of BRI still remain unclear mostly due to the fact that it has not yet delivered its promised goals. Considering a huge amount of investment and historic participation, it is going to impact Asia, some parts of Europe and Africa in a significant manner. On the other hand, India is on its way to become the largest economy because of its humongous market. Moreover, India's firm denial to be a part of BRI and its counter measures to ensure its own prospective alternative open a new door of diplomatic, economic and security competition.

What is the Belt and Road Initiative (BRI)?

President Xi Jinping's vision to take China to the level of a global power has been put to practice by launching BRI. It has been evident that BRI is an ambitious attempt to unify and build a web of connectivity linked to China on a scale that has not been seen before.² China has released a network of infrastructure projects on the lines of reviving its ancient Silk Route and maritime Silk Route which stretch from Asia to Europe, covering parts of Africa. BRI has been designed to include infrastructure projects such as roadways, railways and ports for facilitating growth in terms of trade and development. President Xi states that BRI entails integration of participant countries not just economically but also culturally as well as through track two diplomatic engagements.³ China claims that BRI's sole purpose is to ensure economic growth and that it has no ulterior political motives.

In order to lay emphasis on the fact that BRI is completely free of political connotations, President Xi Jinping has proposed the five principles of peaceful co-existence or Panchsheel—the mantra for advancing BRI and as a vehicle for achieving sustainable globalisation.⁴ These include: mutual respect for territorial integrity and sovereignty, mutual non-aggression, non-interference in each others' internal affairs, equality and mutual benefit, and peaceful coexistence. Adoption of these principles has also come at a time when BRI is bracketed with the post-World War II Marshall Plan of the United States for Western Europe.⁵ But China argues that in economic terms, BRI is probably a close parallel to Japan's export of capital, manufacturing and technology in the eighties and early nineties. Much of the same economic phenomenon is likely to be with BRI, with China's relative attractiveness as a source of funding and export market resulting in production integration.⁶

The Belt and Road Financing

China derives its funding from various sources, including the Asian Infrastructure Investment Bank (AIIB), the BRICS New Development Bank (NDB), and the New Silk Road Fund⁷. If proven viable, these institutions could challenge the dominance of the World Bank and IMF, which were built on a top-down, North-South donor model with a governance structure centred on conditionality.⁸ China has established the AIIB as a multilateral financial institution to which members make their financial contributions and have voting shares in proportion to their share in the capital. As the highest contributor, China enjoys the maximum authority, with a voting share enabling it to exercise an effective veto over the bank's funding decisions.⁹ The AIIB is an example of constructive cooperation among emerging economies to widen the space available for infrastructure financing. In 2017, India emerged as a top borrower from the AIIB with USD 1.5 billion worth of loans and USD three billion more in the pipeline.¹⁰ The Shanghai-based NDB—with \$50 billion starting capital—is also a major financier of the initiative.¹¹ It has equal contributions from all the five BRICS members, which makes the decision-making process with regard to funding more democratic. China also pumps in money into the projects, which are a part of BRI, from the Silk Road Fund. Since its foundation, the Fund has persistently adhered to being a market-oriented, international and professional investment institution, actively seeking investment opportunities and exploring creative investment models to support the BRI.¹²

Policies and Projects- An Outline

BRI is comprised of two main components, the 21st century Silk Road and the Maritime Silk Route. The Silk Road Economic Belt is envisioned to have three routes connecting China to Europe (via Central Asia), the Persian Gulf, the Mediterranean (through West Asia), and the Indian Ocean (via South Asia)¹³. The Maritime Silk Road is planned to create connections among regional waterways. India is the only major country which has not yet officially aligned its policies in tune with BRI. China enjoys its position of being the umbrella of economic assistance, especially to the neighbouring countries in South Asia. The South Asian neighbours, including Pakistan, Sri Lanka, Nepal and Bangladesh, aspire to catapult their economies through BRI. The fundamental outline of BRI mainly involves different economic trade routes which include the Silk Route, China Mongolia Russian Corridor, Bangladesh-China-India-Myanmar Economic Corridor, China-Pakistan Economic Corridor, China-Indo-China Peninsula Economic Corridor, China-

Central Asia- West Asia Economic Corridor, the New Eurasia Land Bridge Economic Corridor.¹⁴

This also has another dimension of spreading soft power influence. Culture is one of the areas where China has not been able to assert their dominance due to their unique nature of tradition and ways of living, vastly different from the rest. That is perhaps the reason that the United States could exert influence in a more rapid way than Russia, for example, the English language has more takers. With the growing network between China and the rest of the countries, especially in South East Asia, Europe and parts of Africa, China has the option to now penetrate the cultural domain of these regions. In terms of policy outline, China is also undertaking several cultural initiatives such as exchange programs at post-secondary level and track two diplomacy.¹⁵ This gives China an easy access to societies of the collaborating regions, going beyond economic cooperation.

India's Response

Despite China being able to attract almost over sixty countries in its globalisation project, India has refused to participate in BRI. However, it would be wrong to assume that India has no stakes in the Belt and Road policy. India is a founding member of the Asian Infrastructure Investment Bank which is responsible for financing projects under BRI.¹⁶ India is the second highest contributor, which entails proportionate voting rights within the institution.¹⁷ It is also a part of the Bangladesh-China-India-Myanmar Economic Corridor (BCIM-EC) — a project under the framework of Belt and Road. However, India is sceptical about the way BCIM has been designed to function. In terms of geographical outline, BCIM passes through the North Eastern part of India, which is not properly connected with the rest of the country. The North East part of India has been an area of dispute between India and China since the 1962 Sino-India War. The involvement of China in a project that passes through the North East belt naturally entails India's security concerns.

However, other than these two, India does not have any other direct involvement in the project. At the same time, the biggest issue of contention for India has been the China-Pakistan Economic Corridor (CPEC).¹⁸ CPEC is a flagship project under BRI, which is an initiative the Beijing and Islamabad have jointly undertaken. It stretches from Kashgar in China to Gwadar in Pakistan. CPEC has been designed for China to overcome the Malacca Dilemma and it provides an economic leverage to Pakistan.¹⁹ This project is

the only bilateral initiative under BRI as the rest of the projects involve three or more countries. China and Pakistan are aiming to develop an economic cooperation and a South Asian solidarity network at a much higher level. Since CPEC passes through the Pakistan-occupied Kashmir (PoK),²⁰ India perceives it as a potential breach of sovereignty, and has brought it to China's notice. As a matter of principle also, India argues that CPEC violates the doctrine of peaceful coexistence that China promised to uphold.²¹

There is a polarisation of opinion within the country regarding the prospects of joining BRI. There is a narrative among some sections in India that it might be a fatal mistake for it to ignore BRI's potential economic benefits, while a majority of Indian people do not support India's participation in BRI. It is important to first understand the political climate surrounding India and China in the domain of global politics. India is a massive economy which is expected to rise to the top in the near future. On the other hand, China is pushing to be an assertive global player when the US is withdrawing from its global engagements. At the same time, China and India continue to be the victim of border conflicts.²² The recent standoff in Doklam in the recent time is a manifestation of the deep-rooted rivalry between the two countries.²³ Also, China has consistently opposed India's membership to the Nuclear Suppliers Group.

Whether or not India will benefit from its association with BRI needs to be examined in the context of the dynamic nature of political programmes undertaken by both the stakeholders. Currently, China has not been able to achieve any of its desired goals with BRI concretely. On the contrary, the infrastructural developments carried out in Sri Lanka have no sufficient takers which led to a detrimental situation of debt trap for the former. Pakistan's economy is also abysmally low with its current account deficit at US\$12.09, which saw a massive 149% increase since the end of the fiscal year 2016.²⁴ Hence, it is not fair to assume that BRI will bring immense profits to India. Instead, India has chosen to develop its own network of economic engagements in different parts of the world.

India's Perspective

As regards India's potential loss incurred by not joining China's BRI, it is also relevant to look at the probable options for India. India is blessed with an extremely relevant geographic placement and a burgeoning economy. It has

one of the longest coastlines in the Indian Ocean region giving it a strategic upper-hand over China. Currently, India is engaged in various bilateral as well as multilateral commitments, which give it an enough leverage to function on its own without having to bother about China's policies.

The current leadership under Narendra Modi has reiterated that a major portion of India's foreign policy will function to develop strong ties with Southeast Asian region. India has undertaken various measures to strengthen its relations and facilitate a greater participation in ASEAN activities through a transition from the Look East Policy to the Act East Policy, which aims at expanding its economic, security and diplomatic ties with ASEAN, including its trade and investment ties with Japan and South Korea. For India, ASEAN is of vital importance both for strategic and economic considerations. New Delhi seeks to redefine the contours of its neighbourhood. Constraints and setbacks in South Asia and opportunities in Southeast Asia have led it to blur the traditional distinction between 'immediate neighbourhood' and 'extended neighbourhood'. Friendly South Asians and welcoming Southeast Asians now constitute our new neighbourhood, with an eastward tilt.²⁵ The Act East Policy has seen positive response from South Korea. Seoul, under President Moon Jae-in has strongly advocated for a free and open Indo-Pacific. He enunciated the 'New Southern Policy' during his visit to India in July 2018, which aims at strengthening bilateral ties with South and South East Asian countries, particularly with strategic giants like India. Its goal is to strengthen economic cooperation and build a prosperous people-centric community of peace.²⁶ Moreover, the new initiative jointly undertaken by Seoul and New Delhi has transcended the generic aspiration for economic ties, and has mapped shared prospects in people to people connectivity, defence sector through military exercise and training as well as connectivity. The Sahyog-Hyeoblyeog exercise jointly undertaken by the Korean Coast Guard and Indian Coast Guard is one such example. India's quest to build a strong and established network to resist Chinese influence in the geo-political architecture has seen partial development in the strategic convergence of Indo-Korean axis.

The year 2017 further marked the launch of the 'India Japan Act East Forum' during Prime Minister Abe's visit to India. The Indo-Japan Act East Forum aims to provide a platform for collaboration between New Delhi and Tokyo under the rubric of India's 'Act East Policy' and 'Japan's Free and Open Indo-Pacific Strategy'. The centrality of the arrangement lies in the economic

modernization in India's North Eastern region, which includes connectivity, developmental infrastructure and industrial linkages along with people to people contacts through tourism and culture.²⁷ The North East remains a central pivot in Indo-Japanese shared vision of prosperity in the IOR and the larger Indo-Pacific domain. Several flagship projects have found mention in the Act East Forum, which include road connectivity projects between Shillong and Dawki as well as Tura and Dalu in Meghalaya. The possibility of a corridor linking Gelephu and Dalu, in association with Asian Development Bank has also explored. India-Japan ties have a legitimate ground to prosper in light of the extensive interest that Shinzo Abe has shown in New Delhi. Infrastructure development and capacity development have also been recurrent in the joint action plan that is being pursued apart from extensive emphasis on people-to-people cultural connectivity.

India has launched Project Mausam, which could potentially be India's answer to China's Maritime Silk Route. India aims to restore its ancient maritime routes and cultural links with republics in the Indian Ocean Region. The 'Mausam' project envisages the re-establishment of India's ancient maritime routes with its traditional trade partners along the Indian Ocean.²⁸ The project emphasizes on the natural wind phenomenon, particularly monsoon winds used by Indian sailors in ancient times for maritime trade, which has formed relations among nations and groups linked by the Indian Ocean. The project proposes to determine the vast Indian Ocean world expanding from East Africa, the Arabian Peninsula, the Indian subcontinent and Sri Lanka to the South East Asian archipelago. This project is an attempt to counter balance China's Maritime Silk Route by leveraging India's ancient connections with the region.

India's plans to collaborate with Iran to establish strategic cooperation have been on the cards since 2003 when Iran's then President, Khatami visited India as a chief guest for the Republic Day celebrations.²⁹ The Chabahar Port links India and the whole of South Asian subcontinent with the Persian Gulf, Central Asia and Europe. The Chabahar Port is also a response to Pakistan's blockade on India's use of the land transit to access Afghanistan, as the port makes it easier for India to reach Central Asia. However, to make it economically viable India needs to integrate Chabahar with International North South Transport Corridor (INSTC), the larger connectivity project initiated by Russia, India and Iran in 2000, which is a multi-modal transport

route, linking Indian Ocean and the Persian Gulf to the Caspian sea via Iran, and onward to northern Europe via St Petersburg. INSTC could boost trade to a total of US\$ 170 billion from India to Eurasia.³⁰ Policies and programmes which establish a link between India and countries in the Central Asian region (CAR) are particularly important for India to give a boost to the Connect Central Asia policy. India understands the significance of the CAR and has shifted its geopolitical thinking to factor in the aspirations it has with regard to CAR, which it refers to as “near abroad.” India has been able to develop bilateral relations with all the five republics in that region in a quest for extending its influence beyond South Asia.

Also, India has been seeking to integrate geoeconomics with geopolitics by focusing on strengthening strategic and security cooperation between India and Central Asia with a strong emphasis on military training.³¹ This is further facilitated by India and Central Asia’s joint interest in eradicating terrorism and promoting political stability in the region. However, the relationship between India and Central Asia needs to be further developed to be able to match the standards of Chinese engagements in that region. China enjoys geographic proximity with Central Asia as it shares border with Kazakhstan, Kyrgyzstan and Tajikistan. China has taken over Russia as the largest trading partner of Central Asia, as opposed to Indian business in that region, which is still miniscule.

India’s cooperation with Oman to retrace the ancient Spice Route is also significant when it comes to New Delhi’s response to the Belt and Road Initiative. Oman is a key trading partner in the Gulf region with bilateral trade hovering around \$6 billion and a 7, 00,000-strong Indian expatriate community for India.³² The Spice Route not only gives access to India in the Gulf region, but incorporating participation from Afghanistan also ensures India’s strong footing in the CAR. The development of Spice Route will benefit India in its quest to establish a stronger presence in maritime trade and security dimensions.

In the present context where India and China’s development programmes are competing with each other in key economic, strategic, security and diplomatic areas not just in South Asia, but also in Central Asia and the greater Eurasia, Africa has emerged as another area of contention. There is a widespread speculation that the Asia Africa Growth Corridor (AAGC), proposed by the Indo-Japanese collaboration in 2016, could be an alternative model for India.

Prime Minister Modi and Japanese PM Shinzo Abe, who met in September 2017, have set a renewed impetus for AAGC. Starting out with India and Japan and then expanding to ASEAN and Africa, the AAGC is commonly portrayed as a response to BRI. The vision, however, can be traced to decades of cooperation between the two of Asia's largest democracies, both seeking an alignment of interests be it under democratic security cooperation or under Abe's 2006 notion of an Asian 'Arc of Freedom and Prosperity.'³³

India and Japan are committed to work for a free and open Indo-Pacific region. Abe reiterated his interest in maritime security cooperation with Australia and the US. While there are structural hurdles within Japan and India that need to be addressed, their vision of a multilateral Asian and African Growth Corridor has the potential to provide states with an attractive new framework that increases regional economic growth and protects state-sovereignty.³⁴ India's cooperation with Japan will also strengthen its economy given the latter's experience to handle mass projects. In terms of competing with China's BRI, India has an added leverage over China in the African region. Indian projects in Africa are employment prone, whereas China exports its own people to work in projects effectively cutting down on African employment, with protests from the local people there.³⁵ However, what India lacks at the moment with regard to competition with China on African soil is the 'cheque book diplomacy.'³⁶

Comparative Note

India is the sixth largest economy with capacity to grow further. The 2018 Global Economics Prospect (GEP), released by the World Bank, projects India's GDP growth to pick up to 7.3% in 2018-19 and to 7.5% for the next two years.³⁷ This estimated growth will take India's economy, which is already worth US\$ 2 trillion, ahead of UK and France and make it the 5th largest economy in the world.³⁸ The question of joining BRI is pretty significant with over half the world and, more importantly, most of South Asia being a participant in it. However, India's growing association with Southeast Asian countries, which are evident in India's diplomatic gestures such as inviting all ASEAN leaders to the Republic Day parade digressing from the given protocol, its bolstering ties with Israel, engagement with Japan not just in India but also towards a collective effort in Africa are all clear indications that despite certain shortcomings when compared to China, India is not

considering to be a part of BRI.³⁹ The official response from India has always been that if China agrees to proceed with the Belt and Road with a method that would involve greater level of consultation and dialogue, India would participate. But the structure of BRI is such that it inherently gives China the liberty to act unilaterally. The AIIB is an apt example. The way it has been designed to function categorizes the stakeholders on the basis of their investments in capital. As such, the kind of engagements India has initiated ever since China has tried to take a command over its proposed economic project shows India's proactive standpoint. The Chabahar port, for example, has a strategic placement which gives India a room to counter the Gwadar port.

India has been able to re-establish its relationship with Oman through the Spice Route, which has also incorporated Afghanistan.⁴⁰ India's attempt to create a network with the CAR is a constructive effort to facilitate collaboration towards economic development and political stability. Its independent collaboration with Central Asia could enable it to make the most out of the abundance of resources in the region. Prime Minister Modi and Japanese PM Shinzo Abe have collectively decided to initiate the Asia Africa Growth corridor which will involve all the African states. With regards to AAGC, the kind of economic support that Japan will be able to provide will take India's projects to a higher magnitude and, secondly, collaborating with Japan gives India a political upper hand. These initiatives have instilled a sense of self-adequacy that was apparently missing in front of a project like the Belt and Road.

BRI as a policy needs to be examined in terms of whether it has prospects to meet the goals it has set for itself. China has been pushing for the BRI policy since it perceives the project to be a game changer for its economy and political standing not only in Asia, but also in Europe and Africa. The main problem is that there is lack of tangible evidences that can substantiate the Chinese claims about BRI's success story. There is a growing discourse in global politics that the kind of promises BRI has made have largely been rhetoric without proper roadmap. China has not been able to achieve anything substantial, with BRI, apart from being able to attract a huge number of countries. In fact, as mentioned earlier, Pakistan's economy has performed abysmally low recently and Sri Lanka's failed infrastructural experiment is known to all.⁴¹ India, on the contrary, is not promising something historic or

extra-ordinary but has mapped a modest economic initiative that seems achievable.

Conclusion

BRI has received a positive response in South Asia, barring India and Bhutan. A proper understanding of the broader contextual discourse of China's dominance in the region makes the picture clear. Most of the nations in South Asia including Pakistan, Nepal and Bangladesh have less promising economies when compared to China. They feel stuck up in the rivalry between India and China which are both competing to command dominance in the region. India has sent a strong message across by not participating in BRI, especially against the backdrop of repeated border conflicts and diplomatic disagreements. There has been a prominent shift in India's foreign policy in the recent times which has shown more proactive engagement and association at the international level. India's engagements with China in the Shanghai Cooperation Organization (SCO), BRICS, and in the infrastructure connectivity initiative designed to run between India and China through Nepal are particularly important. The first instance could be India's Act East policy, which was aimed at strengthening bonds with ASEAN, which is of high strategic relevance. Over the course of time, India has built its own network of cooperation with countries in different regions to develop a counter model to China's BRI. It has been able to design developmental projects which will connect it with Central Asia, South East Asia and Africa. Major projects such as the Asia Africa Growth Corridor, Project Mausam, and Spice Route will enable a kind of strategic leverage that could uphold India as a catalyst of growth and cooperation in the domain of economic and politics.

India is on the verge to becoming one of the five largest economies. India's dialogue with China in Wuhan and at various shared international platforms indicates that New Delhi does not consider China necessarily as a nemesis. This balance in understanding the strategic discourse while securing its national interest is a step for India towards establishing itself as a major player in global politics.

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Research Note

Atrocities against the Rohingya Community of Myanmar

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The Rohingyas from the Rakhine state of Myanmar have been experiencing mass atrocities. The United Nations Rapporteur mentioned that “the Rohingyas are on the brink of genocide.”¹ This research note reveals how the atrocities against Rohingyas are explained by the role of the Myanmar government to superimpose historical conflict between Rohingyas and Theravada Buddhists of Rakhine. There are approximately 1.33 million Rohingyas in Myanmar. 1.08 million Rohingyas live in the northern part of Rakhine,² and approximately two million Rakhines reside in Rakhine’s southern part. I use the terms “Rakhines” in reference to Rakhine’s ethnic Theravada Buddhists and “ETBNs” in reference to Rakhine’s ethnic Theravada Buddhist nationalists.

Conflict Among the Myanmar Government, ETBNs, and Rohingyas

From Decolonization to January 1948

Myanmar was colonized by the British in 1886 when the country was characterized by a Burman Buddhist majority and various ethnic minorities. During the British colonial rule, the royal Buddhist patronage that Buddhists had received for thousands of years ended.³ The British filled many government positions with Indians who had migrated to Myanmar. A great influx of Indian migrants to Myanmar occurred, and Indian immigrants came to dominate major sectors of the economy, which caused tension between Burmese Buddhists and Indian immigrants.⁴ In January 1948, Burma became an independent republic. In 1989, the military government changed the country’s name from Burma to Myanmar.

From 1948 to 1961, all the civil and military governments of Myanmar failed to implement the decentralization of power and ethnic minorities’ control of

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the resources of their states. In 1962, the military government implemented a unitary state and imposed Burman Buddhist majority rule on all ethnic minority groups.⁵ As such, Rakhines are among the most marginalized ethnic groups in Myanmar.⁶ Rakhines want more control over Rakhine's resources, while ETBNs perceive Rohingyas as a burden on Rakhines. Rohingya Muslims' concentration in Rakhine made many Rakhines apprehensive that Rakhine will disintegrate from a Buddhist state into a non-Buddhist state.⁷

Historically, for decades Rohingyas demanded an autonomous state for themselves in northern Rakhine. During the Second World War, Rakhine was the frontline of the war, where the imperial Japanese forces confronted the British forces. The British forces were supported by Rohingyas, while Rakhines supported the Japanese forces. Armed conflicts between Rakhines and Rohingyas killed thousands of Rakhines and Rohingyas between 1942 and 1943.⁸ The Japanese were defeated. The inter-ethnic conflict continued after the British re-occupied Rakhine.⁹ Later, Rohingyas moved to the northern part of Rakhine, and Rakhines moved to the southern part.

From 1948 to 1981

After Myanmar's independence in 1948, Rohingya rebels demanded an Islamic state for Rohingyas in northern Rakhine.¹⁰ The military junta defeated the rebels in 1962. The 1948 citizenship law of Myanmar was discriminatory against Rohingyas who fled Myanmar during the Second World War because it did not allow them to return to Myanmar. Those who returned were considered illegal immigrants.¹¹ Many Rohingya armed rebel groups were formed, demanding autonomy for Rohingyas. In 1948, the rebel groups attacked Buddhist villages in northern Rakhine. The rebellion in Rakhine led to severe violence in Rakhine,¹² causing a further mistrust between Rakhines and Rohingyas. The Myanmar military took control of the violence in 1954. The insurgency temporarily ended in 1961 through ceasefires.¹³

Prime Minister U Nu granted Rohingyas citizenship in Myanmar in 1954.¹⁴ The military government introduced the National Security Act in 1964. All Rohingya organizations were banned. From 1966 to the 1980s, Rohingyas were denied citizenship. Atrocities forced more than 270,000 Rohingyas to flee to Bangladesh during this period. In 1974, several armed Rohingya rebel groups were involved in conflicts with the government. Conflicts affected Rakhine's civilians, which increased mistrust between Rakhines and

Rohingyas. The Buddhist nationalists and monks demanded that the government force Rohingyas out of Myanmar.¹⁵

From 1982 to 2017

The 1982 citizenship law allowed Rohingyas to apply for citizenship if they could speak one of Myanmar's official languages. They were required to provide evidence that their families had lived in Myanmar before the independence of Myanmar in 1948.¹⁶ The Rohingya language was not considered an official language. Rohingyas claimed that their predecessors had migrated to Myanmar during Arakan monarchy and during British rule. However, most Rohingyas failed to provide evidence. The British brought them to Myanmar as labourers when Myanmar was a part British of India.¹⁷ Rohingya migration was considered internal migration. Most of the Rohingyas who were unable to provide the aforementioned evidence lost their citizenship.¹⁸ All of the successive governments denied that Rohingyas were one of the country's 135 ethnic groups, which was required to claim citizenship. Tension between ETBNs and Rohingyas increased. Mass killing of Rohingyas by the military and ETBNs occurred in 1982.

In 1991, the government mobilized a significant number of military troops in northern Rakhine. Rohingyas were used as forced labourers by the troops.¹⁹ Atrocities forced 250,000 Rohingyas to cross the border into Bangladesh in 1992.²⁰ The government introduced the White Card in 1951. The White Card allowed card holders to stay in Myanmar temporarily if the cardholder was 18 years old. Before the election of 1990, the government issued a number of White Cards. The White Card holders were allowed to vote in the elections. Most of the White Card holders were Rohingyas.²¹ The issuance of the White Card was an electoral strategy of the political party, supported by the military, to obtain Rohingya votes in the elections of Rakhine state.²² The election results elevated tension in the state. Violent clashes between Rohingyas and Rakhines occurred in 1993, followed by the military crackdown. Massive human rights violations by the Myanmar security forces occurred. Approximately 250,000 Rohingyas fled to Bangladesh in the 1990s.²³

In 1998, the Arakan Rohingya National Organization was formed.²⁴ Various Rohingya rebel groups continued to be involved in conflict with the Myanmar government. Rebel groups planted bombs in a border town between Myanmar

and Bangladesh in April 1994, causing civilian injuries. Violence against Rohingyas followed. Approximately 70,000 Rohingyas fled to Bangladesh due to the alleged torture by Myanmar authorities and ETBNs.²⁵ They were not allowed to return to Myanmar, and those who returned were identified as illegal immigrants.²⁶ Intermittent violence between Rakhines and Rohingyas continued.

The 2001 riot in Sittway, the capital city of Rakhine, killed several Rakhines and Rohingyas.²⁷ Small scale conflicts continued until the end of 2009. In the 2010 multiparty election, White Card issuance caused tension between Rakhines and Rohingyas.²⁸ There were nearly 2.7 million eligible voters in Rakhine in the 2010 election. 750,000 of 2.7 million voters were Rohingya White Card holders. The Rakhine Nationalities Development Party (RNDP), represented by ETBNs, campaigned for the support of Rakhines, while the Union Solidarity and Development Party (USDP) campaigned for the support of White Card holders. The USDP was a military backed party. The RNDP won eighteen of forty-five seats in the Rakhine state parliament. The USDP also secured many seats in the election. Buddhist nationalists interpreted the USDP's campaign as a strategy to defeat RNDP by issuing White Cards and securing the Rohingya vote.²⁹ This belief led to further violence against Rohingyas.

In July 2012, President Thein Sein stated that the illegal Rohingyas threatened the stability of Rakhine state. He further stated that Rohingyas could be settled in UNHCR refugee camps or could be sent to a different country if that country was willing to take them.³⁰ The president's statement reinforced Myanmar's majority groups' belief that the Rohingyas do not belong in Myanmar.³¹ The president's comment justified violence against Rohingyas. Mass killing of Rohingyas occurred in 2012 following rumours that a Rakhine Buddhist woman was raped and murdered by Rohingya men. The rumour caused a massacre of Rohingyas by Rakhines and the military and security forces.³² The Buddhist nationalists had reportedly planned the attack for months before the rumour.³³

A military crackdown followed mass killing of Rohingya. The government and military ignited the riot and asked the Rakhines to evict Rohingyas from their homes.³⁴ The conflict displaced 140,000 people.³⁵ Serious violence against Rohingyas continued in 2013. The Buddhist nationalists lobbied for laws to protect Buddhist race and religion.³⁶ The security forces and military

were involved in armed conflict.³⁷ Mass graves were found in which Rohingya civilians were buried. Currently, twenty-five percent of Myanmar's population is affected by the conflict.³⁸ Although the president of Myanmar ensured that the perpetrators would be brought to trial, atrocities against Rohingyas continued.³⁹ Armed conflict in ethnic states of Myanmar led to the loss of land owned by farmers, leading to a deeper set of problems.⁴⁰

The next episode of killing occurred after the first census in 2014. Until 2014, Rohingyas were allowed to identify themselves as either Bengalis or Rohingyas. The use of the word "Rohingyas" became controversial in 2014. Initially, before the census, the government allowed Rohingyas to identify themselves as Rohingyas in the census. Buddhist nationalists across the country protested against the decision of the government. As a result, the government decided that Rohingyas could only register as Bengalis.⁴¹ Suu Kyi also did not use the term "Rohingyas" to refer to Rohingyas in her public speeches.⁴² The UN Secretary General used the word Rohingyas to refer to "Rohingyas" on November 29, 2014. This led to nationwide protest from Buddhist monks and citizens of Myanmar. Several mosques were closed as demanded by the Buddhist extremist nationalist movement, which used anti-Muslim rhetoric. Islamophobia was on the rise in Myanmar.⁴³

In 2014, a major document written by Rakhine administrators was revealed by the human rights organization. The document restricted Rohingyas' movement, their right to marry, their right to have children, and their human rights. The Myanmar government introduced a birth control law in 2015 that allowed states in Myanmar to request presidential order. It allowed the local authorities to organize campaigns so women must have a gap of thirty-six months between childbirth events. This law targeted non-Buddhist ethnic minorities, who Buddhist monks feared were growing too fast.⁴⁴ The Buddhist nationalists feared that the high population growth rates of Rohingyas and the migration of Rohingya immigrants from Bangladesh would transform Myanmar from a Buddhist country into a non-Buddhist country.⁴⁵

The next episode of massive military atrocities against Rohingyas occurred in 2015. Before the election of 2015, a majority of the members of Myanmar's parliament voted for a bill to amend the law barring White Card holders from voting in elections and forming political parties. The majority of citizens of Myanmar did not want White Card holders to vote in the election.⁴⁶ After the election of 2015, Suu Kyi came to power. Suu Kyi's National League for

Democratic (NLD) party was able to win the election because the NLD opposed decades of military rule.⁴⁷ Suu Kyi also opposed the Buddhist ultra-nationalist movement. Rohingyas campaigned for the NLD. Suu Kyi launched a government committee and international commission to address the Rohingya issue. From the mid-2016, the NLD government failed to oppose the ultra-nationalist movement's anti-Muslim rhetoric.

In 2016, Arakan Rohingya Salvation Army (ARSA) was formed. ARSA is not well equipped to combat Myanmar's military and security forces. ARSA attempts to mobilize the support of Rohingya villagers. ARSA does not seem to have more than 500 active combatants.⁴⁸ ARSA perceives the government's attempt to deny Rohingyas' citizenship and heavy concentration of military in northern Rakhine as human rights abuses.⁴⁹ ARSA claims that it does not have any relationship with international extremist Islamic groups, such as ISIS.⁵⁰ The demands of ARSA are resented by the Buddhist nationalists.

In August 2017, ARSA coordinated attacks on Myanmar police and border security. Twelve members of border security were killed. As a result, violence escalated against Rohingya civilians by the military, police, and Rakhines. According to the military, from August 25 to September 15, 2017, there were approximately ninety-three clashes with "extremist Bengalis". According to the military, the extremist Bengalis demanded to be recognized as Rohingyas.⁵¹ The government forced Rohingyas to move to internally displaced (IDP) concentration camps in the border areas of Myanmar and Bangladesh. Rohingyas are deprived of their human rights in the IDP camps.⁵² The military chief asked the citizens of Myanmar to unite against Rohingyas' demands that they should be recognized as one of Myanmar's ethnic groups.⁵³ Suu Kyi denied that the Muslims of northern Rakhine were experiencing "genocide" and stated that Buddhists were targets of violence by Muslims.⁵⁴ By September 2017, 400,000 Rohingya had fled to Bangladesh. The Myanmar government placed landmines in the border area between Myanmar and Bangladesh, which prevented displaced Rohingyas from returning to Myanmar.⁵⁵ The government declared ARSA as an Islamic terrorist organization. However, terrorism experts do not see any clear link between ARSA and Islamic terrorist organizations.⁵⁶

The government insists that the 2017 military violence against Rohingyas was a response to the attack on the border security guards by ARSA. However, satellite pictures of Rakhine demonstrate that atrocities were planned long

before the ARSA rebel attack on border posts on August 25, 2017.⁵⁷ The 2017 riots killed and displaced thousands of small landholders from Rakhine. The riot displaced more than 10,000 Rakhines also.⁵⁸ In November 2017, Pope Francis visited Myanmar. In his meeting with Suu Kyi, he urged Suu Kyi to stop violence against Rohingyas and to defend the rights of ethnic minority groups.⁵⁹ As of now, the mass killing and displacement of Rohingyas continue.

Conclusion

The Rohingya crisis demonstrates interplay of historical tensions among the government of Myanmar, the ETBNs and the Rohingyas. The Myanmar military government has superimposed socio-political inequality between Rakhines and Rohingyas, periodically accelerating Rohingya genocide. The conflicts have led to episodes of violence between Rohingyas and Rakhines. Although many forces have contributed to atrocities against Rohingyas, the Myanmar government's role in it requires attention.

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BOOK REVIEWS

Richard J. Chasdi, *Corporate Security Crossroads* (Santa Barbara, California: Praeger 2018), 242+ ix pp.

This timely volume discusses, dissects and prognosticates terrorists' threat to security of the corporate world- a soft target. The author systematically discusses the core factors that fuel terror, which include discriminatory trade regimes, economic protectionism, and unequal distribution of resources between the rich North and the poor South. In fact, they are symptomatic of atmospheric changes rather than the real cause of the proliferating terror. It must be noted that terrorists have neither the philosophy nor a specific objective to achieve except to create fear and strike terror in the hearts and minds of the corporate world, including innocent people.

Since the 9/11 tragedy, terrorists and jihadi elements have turned out to be the single potential threat to physical, economic and business interests across the globe. A humongous amount of literature is available on the subject that offers myriad explanations about the phenomenon of terrorism. Some scholars enumerate various reasons, including neglect of and disrespect to a specific religious community's beliefs and cultural values. Discourse on terrorism will loom large in the domain of social sciences' research so long as its invisible threat remains a fact of life.

The book under review contains seven chapters. The first chapter comprehensively deals with the conceptualization of risk. It clearly spells out how multinational corporations (MNCs) are vulnerable to a "broad range of cyber threats" (p.5). While tracing the roots of terror to the 9/11 tragic events, Chasdi rightly points out that hackers have become "more organized" in underground business in which criminals have used their computer skills to "exploit security lapses in software and hardware" (p.16). It implies that there is an imperative need to make software and hardware technology foolproof in order to discourage hackers from exploiting it for their nasty designs. Furthermore, he rightly argues that security packages for MNCs cannot exactly be the same because internal and external characteristics of each MNC vary in terms of structure, dynamics and locations of operations.

In Chapter 3, the author explores the threat of political terrorism to MNCs and other international enterprises. In Chapters 4 and 5, the author has taken up

complex case studies such as the Tigantourine Gas Plant Terrorist Assault in Algeria, and Mombasa Terrorist attack in Kenya, where business houses were attacked. These case studies are an eye opener to the intensity and scale of terror threat to the governments of Algeria and Kenya.

Chapter 6 focuses on the roots of radicalization and proliferating terrorism as well as spells out pragmatic models to deal with its negative fallout. In the concluding part, Chasdi rightly points out that “the business of multinational corporate security is at a cross roads where there are opportunities for new types of integrative and coordinated practices that stress soft-line counter terrorism and anti-crime efforts (p.164). He further recommends “partnerships” among MNCs, and government and intergovernmental organizations as an imperative need to collectively but effectively deal with the cancerous growth of terrorism.

Last but not least, Chasdi’s authoritative volume not only deserves kudos but also a rightful place among serious and committed researchers and academia engaged in counter-terrorism studies. This book must be on libraries’ shelves for the general and enlightened readership.

B.M. Jain

Editor-in-Chief

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Minxin Pei, *China’s Crony Capitalism: The Dynamics of Regime Decay* (Cambridge, Massachusetts: Harvard University Press, 2016), 365 pp.

The book under review makes a laudable effort to demonstrate a major transformation from Deng’s “socialism with Chinese characteristics” to the proliferation of crony capitalism under China’s one party rule. President Xi Jinping has publicly conceded that corruption is a writ-large phenomenon in China. In his endeavour to weed out the cancer of corruption, he launched a vigorous campaign against it. In that long arduous process, tens of thousands of his party and government officials were sent to jail. In contrast to Mao’s cultural revolution (1966-1976) aimed at purging communists at home, including top notch party leaders, even with an iota of doubtful commitment to the Communist ideology, Jinping’s purging of party men, officials, and his rivals is considered an attempt to free the country from corruption.

Xi Jinping highlighted the incorrigible corruption practices resulting from the “collusion between officials and businessmen and collusion between superiors and subordinates.” Minxin Pei has correctly unravelled the dynamics of the rise and “entrenchment” of crony capitalism in China’s one-party regime. He advances the concept of “collusion among elites” as a benchmark to study crony capitalism to spell out the “economic and sociological dynamics” of crony capitalism. The author believes that collusive corruption is more destructive than “individual corruption” as he argues that collusive corruption destroys the “organizational and normative fabric of the state” (p.9). It fuels not only the conflict between state and society but also poses a serious threat to the sustainability of China’s economic development and damages the party’s image internationally and internally.

The author has adopted a hybrid approach by undertaking investigation into as many as 260 cases. He is of the view that collusion between power and money is a universal phenomenon, albeit varying in manifestations and degrees. But corruption cannot be justified under an alibi of being a universal fact. It is true that collusive corruption is an offshoot of privatization of state-owned assets which are underpriced by officials to benefit crony capitalists because the latter oblige them by greasing their palms.

The book is divided into seven chapters, apart from conclusions. The author has made a painstaking research into tracing the roots of crony capitalism in China. He explains how institutional changes encourage corruption. Collusion corruption began as back as 1990s. But the author has not discussed the underlying factors behind the silence of the top leadership for so long. Why has there been an inordinate delay in dealing with corruption until President Xi Jinping began a massive campaign against corrupt elements? The real problem is with the monolithic political culture in China in which the party leadership failed to realize the imperative of reforming property rights. No intensive homework has been done so far to address the issue of property rights, fiscal management, and privatization of state units. Further, the author has missed the psychological component in crony capitalism, bearing upon the societal structure and cultural values.

Despite these lapses, the book under review is an excellent piece of empirical research. The author has made an intensive study of myriad factors that have gone into the proliferating crony capital culture in China, unknown to the fundamentally egalitarian society. The book is highly recommended for the course syllabi. It has contributed to the advancement of our understanding and

knowledge about how crony capitalism functions in China. The book fills the void in the literature on global corruption and makes a highly readable study.

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Paul S. Kapur, *Jihad as Grand Strategy: Islamist Militancy, National Security, and the Pakistani State* (New York: Oxford University Press, 2017), 177 pp.

Paul S. Kapur's *Jihad as Grand Strategy: Islamist Militancy, National Security, and the Pakistani State* is a persuasive and insightful analysis of Pakistan's use of Islamist militancy against India. Jihad or support for Islamist militants has constituted a central pillar of Pakistan's "grand strategy", not just "one among many tools of Pakistani statecraft" (p. 9). Since its emergence as a nation-state, Pakistan has exploited Islamist oriented non-state actors as geopolitical tools to confront India. This has been done deliberately to shape Pakistan's strategic environment without the risks of direct military confrontation with much stronger India.

In this well-articulated book, Kapur traces the roots of Pakistan's strategy in the use of Pashtun raiders in Kashmir immediately following the partition of British India into two political entities. Pakistan was materially deficient and there was no political unity in the country because of different ethnicities living there. As Pakistan lacked a unifying state-building narrative, Pakistani politicians decided to forge unity by becoming a Muslim state. This was a dangerous strategy because this ideology considered all Muslims living in South Asia as a single nation. This also included Muslims of Kashmir, which has become a major bone of contention between India and Pakistan. The author argues convincingly that Pakistan's creation was a revisionist project because it was against the territorial status quo.

He argues that Pakistan's 1971 defeat in the Bangladesh war sowed the seeds of Islamization project, began by Prime Minister Zulfikar Ali Bhutto and taken to new heights by General Zia-ul-Haq for using militant proxies and possessing nuclear weapons. Kapur asserts that Pakistan's revisionist agenda

via Islamist proxies could not have lasted longer “in a nonnuclear environment” (p. 70). Due to Pakistan’s jihad strategy, India has been forced to deploy about half a million security personnel in Kashmir to fight terrorism-backed insurgency.

The author has analyzed how Pakistan has used jihadist proxies in Afghanistan for setting up a puppet regime in Kabul. Pakistanis used “essentially the same strategy as they did in Kashmir, using Islamist militants to promote their interests without subjecting Pakistani forces to the costs and risks of direct conflict” (p. 96). Pakistan viewed the Afghan war not as a danger, but as an opportunity to realise its strategy. During anti-Soviet Afghan jihad, Pakistan monopolized the war effort and diverted considerable resources for its own benefit. Pakistan’s control over the assistance to the Mujahideen created severe headache for America later on. The Taliban could not have come to power in Afghanistan without Pakistan’s financial and military backing.

Pakistan’s policies in Afghanistan have successfully deceived the US as it has not only protected the Taliban but helped it receive huge amount from America until the current US President Donald Trump decided to stop aid. That Pakistan’s jihadist strategy has assumed monstrous proportions is clearly illustrated by various terrorist attacks on India, most importantly in Mumbai in November 2008 by Pakistan-based terrorists. In fact, due to Pakistan’s possession of nuclear weapons, India has felt constrained from retaliating, particularly after the Indian Parliament was attacked in 2001 and Mumbai came under siege in 2008. Due to continuation of jihadist strategy, Pakistan-based terrorists continue to target Indian locations, as illustrated by terror attacks in Dinanagar, Pathankot, Nagarota and Uri in 2016.

Kapur contends that Pakistan’s military leadership continued to remain satisfied for a long time because of the success of jihad strategy, but things have now got out of control. The jihadist groups are destabilizing Pakistan from within as the Tehrik-e-Taliban Pakistan has challenged the Pakistan army. As a blowback from terrorism, Pakistan is suffering internally due to the military’s nurturing of various Islamist militants. Kapur reminds his readers that these challenges have the potential to undermine regional stability and threaten the very survival of Pakistan as a nation-state.

Kapur argues that only “an existential national crisis” (p. 139) will force Pakistan to change a policy which is inherent in its foundational ideology of opposing India. Pakistan’s jihad riddle cannot be solved as long as Pakistan does not alter “the nature of its national narrative, ensuring that opposition to India is no longer a central purpose of the Pakistani state” (p. 138). However, he is pessimistic about Pakistan producing any fundamental reconsideration of its national narrative since “it would in effect require Pakistan to reverse the efforts of six decades of state building.”

Writing on such a complex issue in less than 180 pages including elaborate notes is an excellent achievement, and the author cannot be expected to include all aspects and developments relating to Indo-Pak relations. However, his omission of the Kargil conflict could have been avoided.

Although Kapur’s study has primarily focused on Pakistan’s strategic use of militancy, his observations are quite interesting as they have relevance beyond Pakistani case. The book adds vastly to our current understanding of Pakistani state’s political psychology and is a welcome addition to the growing literature on state-sponsored terrorism. This enriching book is a must-read for anyone seeking to make sense of Pakistan’s future direction, even if that direction is not clear to its own rulers.

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Alyssa Ayres, *Our Time Has Come: How India Is Making Its Place In The World* (New Delhi: Oxford University Press, 2018), 360 pp.

Alyssa Ayres explores India’s role in the world politics through a scholar-practitioner’s lens. The author narrates the journey of India’s emergence on the world stage from an inward-looking ‘closed economy’ to an ‘open yet sceptical economy’ to a ‘rising power.’ Ayres was perfectly positioned for witnessing the transformations unfold, as her career is closely associated with South Asia — as a scholar of cultural history, and policy practitioner for both the government (US State Department) and non-profit organizations.

The book under review presents a comprehensive and well-researched picture

of contemporary Indian history as well as a Western perspective of India's emergence as a global power, substantiated with a plethora of examples. The book, comprising eight chapters, is divided into three parts—'Looking Back', 'Transition', and 'Looking Ahead.' The Epilogue lays down guidelines for the US to establish constructive relations with India. While contemplating how Indian policy makers derive inspiration from their past thinkers such as Kautilya, Swami Vivekananda and Mahatma Gandhi, Ayres argues that their voices shape India's perception of the world politics.

The second part discusses various steps undertaken by an aspiring India, claiming a rightful place in world politics. Largely, the author has cautiously analysed India's policy decisions, for example, spearheading the Non-aligned Movement (NAM) and having reservations about foreign investment. However, at some point, the author's thoughts are slightly biased towards the American belief system. While her identification of pre-liberalization economic policies of India as shackles may not be entirely unwarranted, it is debatable whether a newly born India had the institutional political structure to experiment with the capitalist mode of development. Moreover, years of subjugation by an imperialist country and economic depression in America steered Indian policy makers towards socialism. Although the author pinpoints the challenges vis-à-vis India's rise, she somewhere misses the core reasons of India's reluctance to be a bold player in world politics.

Nevertheless, the author acknowledges the present Modi government's efforts towards overcoming past hindrances and revamping the civilizational connections with other parts of the world. In so doing, she mentions the U.N.'s adoption of the International Day of Yoga in 2014 as an indicator of India's recent rise. Ayres also quotes former Foreign Secretary S. Jayashankar's remarks on India as a "leading power" rather a "balancing power," which no longer responds to world events but rather proactively shapes the world events according to India's needs.

With an optimistic note in the final part, the author predicts where India is headed—the road to acquiring global power in spite of domestic adversaries. With reference to US-India relations, the author recommends that policy-makers in Washington need to have realistic expectations from India so that achievable targets on collaborations may be fulfilled. The suggestions include

acting tough on Pakistan on the issue of terrorism, and realizing that India will never be the US ally in a true sense of the Cold War matrix.

At some point, it seems that only one side of the argument is given preferential treatment to suit the narrative but overall the book provides an interesting Western view of India's emergence on the world stage with balanced arguments and palpable examples. This book can be useful for both researchers and students to gain a fresh perspective on the story of India's rise—historical and contemporary.

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