Modi’s Opportunity in China

When Prime Minister Narendra Modi heads to Beijing in a few weeks, he will find the Chinese leadership basking in the warmth of a diplomatic coup. The Asian Infrastructure Investment Bank (AIIB) promoted by China has drawn the support of many more countries than Beijing could have envisaged, including key American allies. The United States (US) had been pressing its friends and allies to stay out of the AIIB, ostensibly on the ground that it would dilute international standards of lending for development. In fact, the American opposition stemmed from its concern that the Chinese initiative would compete with the World Bank and the Asian Development Bank (where Japan is a prime mover), so challenging the US’s hold over international financial institutions (IFIs). The United Kingdom (UK) was the first close ally to break ranks with Washington in applying to join the AIIB. Soon, Australia and Israel followed suit.

The Obama administration’s inept handling of the issue—including rare public criticism of close allies like the UK—has handed Beijing a significant and unanticipated political victory. Indeed, not since the late 19th century has infrastructure been so prominent an issue in great power relations. Owing to the manner in which America ended up with egg on its face, the AIIB episode has been portrayed as a marker of the inexorable rise of China. Kishore Mahbubani, to take but one respected commentator, presents it as an “epochal event”—one that heralds “the end of the American century and the arrival of the Asian century” (2015).

Such grandiose claims must be approached with more than a dose of scepticism. If the AIIB is to be anywhere as important as these commentators suggest, then it would require China not only to erode America’s dominance over the international economic order, but to supplant it and occupy a position of comparable hegemony. But the mere fact that China will become the world’s largest economy in the coming decade does not portend its inevitable displacement of the US. On the contrary, the manner in which America rose to its commanding position may not be replicable. It is worth recalling that America was the world’s largest economy by the early 1870s. Yet it was not until the mid-1940s that the US cemented its hegemony. Then, too, it was made possible largely by the two world wars.

World War I saw the arrival of the US as a global financial power. From 1917, government-to-government lending by the US to the advanced core European economies—especially Britain and France—upended the geometry of pre-war global finance which was patterned on private lending from the European core to government or private borrowers in the periphery. This was indeed an epochal transformation as brilliantly shown by Tooze (2014). The American political system, however, was not up to the demands of this unprecedented hegemony. It took the Depression, another world war and the complete exhaustion of its allies as well as enemies for the US to finally ascend to its dominant position. These extraordinary conditions are exceedingly unlikely to be available to China. So, while China will become increasingly important in the global order, there is no coming Chinese century.

As a prospective founding member of the AIIB, therefore, India should welcome the recent developments without being concerned about whether we are helping cement Chinese hegemony. Not only do we need infrastructure financing from China and Chinese-sponsored ventures, but the knock-on effect of institutions like AIIB for the existing IFIs will also be important. As the dust settles on the AIIB episode, it will force American leaders to consider anew their current approach to IFIs. More broadly, even a marginal diminution of American dominance will redound to the advantage of India too. Prime Minister Modi would do well to keep this in mind as he prepares to visit China; for it underscores areas
where India can usefully cooperate with China to enhance its own interests.

**China beyond the Border**

Given the dominance of security concerns in our dealings with China, issues such as these tend to be seen as peripheral. Working with China on “multilateral” issues is hardly accorded the importance that it deserves. In fact, this is the arena where rules of the game are made and imposed by the US and its allies—rules that delimit the opportunities and challenges for other players. Take the multilateral global trading system. Although the World Trade Organization (WTO) was its own brain-child, the US now feels that the prevailing rules are working to the advantage of competitors like China and that there are too many obstacles within the system to push it in a desirable direction. Hence the US has opted to negotiate mega-trade pacts such as the Transatlantic Trade and Investment Partnership (TTIP) with the European Union and the Trans-Pacific Partnership (TPP) with a dozen major economies in the Asia–Pacific region.

China has been deliberately kept out of the negotiations for TPP. And its provisions are explicitly aimed at cutting down China’s competitive advantages. The TPP aims at a regular free trade agreement with provisions for protecting intellectual property; at the creation of investor-friendly regulatory frameworks and policies; and at emerging issues, including measures to ensure that state-owned companies “compete fairly” with private companies and do not put the latter at a disadvantage. The introduction of such new standards and norms will in due course result in the erection of an array of non-tariff barriers against countries that do not (or cannot) measure up to them. Further, once the TPP and TTIP are concluded the US will seek to bring these standards on to the WTO’s agenda.

India too will stand to lose from the American attempt at rewriting the rules of the game to suit its interests. If anything, China’s ability to cope with such new standards is far better than that of India. Indeed, the implications of these developments for the Prime Minister’s cherished “Make in India” programme are grim—not least in terms of access to the markets of the advanced economies. In such a situation, it is very much in India’s interest to work with China (and other similarly positioned countries) to prevent a wholesale transformation of the multilateral trading system.

Climate change is another issue where working with China makes eminent sense from the perspective of Indian interests: if only to ensure that the US and China do not cut a deal between themselves that imposes unacceptable burdens on India. Issues like trade and climate change affect the developmental prospects of India in a manner that overshadows any threat from China. So, these must be placed front and centre in our engagement of China—and not treated as marginal areas of cooperation.

That said, the security dimension of our relationship with China cannot be wished away. The question is not whether India should upgrade its own military preparedness for any crisis: of course, it should. At the same time, though, New Delhi should make a determined effort to settle the boundary dispute with China. Hitherto, India’s attitude towards the negotiations has been shaped by domestic political constraints that have confronted successive coalition governments. After all, any agreement will require a constitutional amendment. Prime Minister Modi, however, is politically better placed than any of his predecessors since Rajiv Gandhi to reach for a settlement. The aura of strength and decisiveness that he projects could usefully be turned in this direction.

Although the talks between the Special Representatives have recently been resumed, the government seems keener on clarifying the Line of Actual Control (LAC) as a way of stabilising the situation on the frontiers. If the historical record is anything to go by, this is unlikely to succeed. At bottom, India and China have rather different notions of where the LAC runs in Ladakh and Arunachal Pradesh. The impulse for clarification arises from the fact both sides carry out patrolling up to their perception of the LAC. Further, both sides are almost continuously jockeying for better tactical positions and improved access to their perceived LAC. This is what leads to periodic “incursions” as well as stand-offs such as those that occurred during President Xi Jinping’s visit last year.

**Use Political Capital**

The previous National Democratic Alliance government under Atal Behari Vajpayee started out by pressing the Chinese to clarify the LAC. Initially, the Chinese were willing only to talk about specific points where the two sides’ perceptions were different. Although they later agreed to exchange maps clarifying both sides’ notion of the LAC, the Chinese quickly backed off from the negotiations. They were understandably concerned that any full-fledged clarification of the LAC would effectively decide where the final boundary would run. Hence, they insisted that working towards a boundary settlement would be better. The Vajpayee government agreed with this, leading to the appointment of Special Representatives.

There is little reason to believe that Beijing’s position on this issue has changed. Even if the Chinese assent to talks on LAC clarification, it will be protracted process that will suck out diplomatic and political oxygen from the boundary negotiations proper. The sensible course would be work towards a settlement of the boundary while upgrading the existing confidence-building measures along the LAC.

This is, of course, contingent on Beijing’s readiness to accord the boundary negotiations high priority. Prime Minister Modi would be best placed to ascertain this in his discussions with President Xi. This will be their sixth meeting in the year since Modi has taken office. The Prime Minister evidently understands the important role that China could play in his plans for the Indian economy. But to unlock the true economic potential of the relationship, he must demonstrate his willingness to tackle thorny political–security issues.

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**REFERENCES**
