

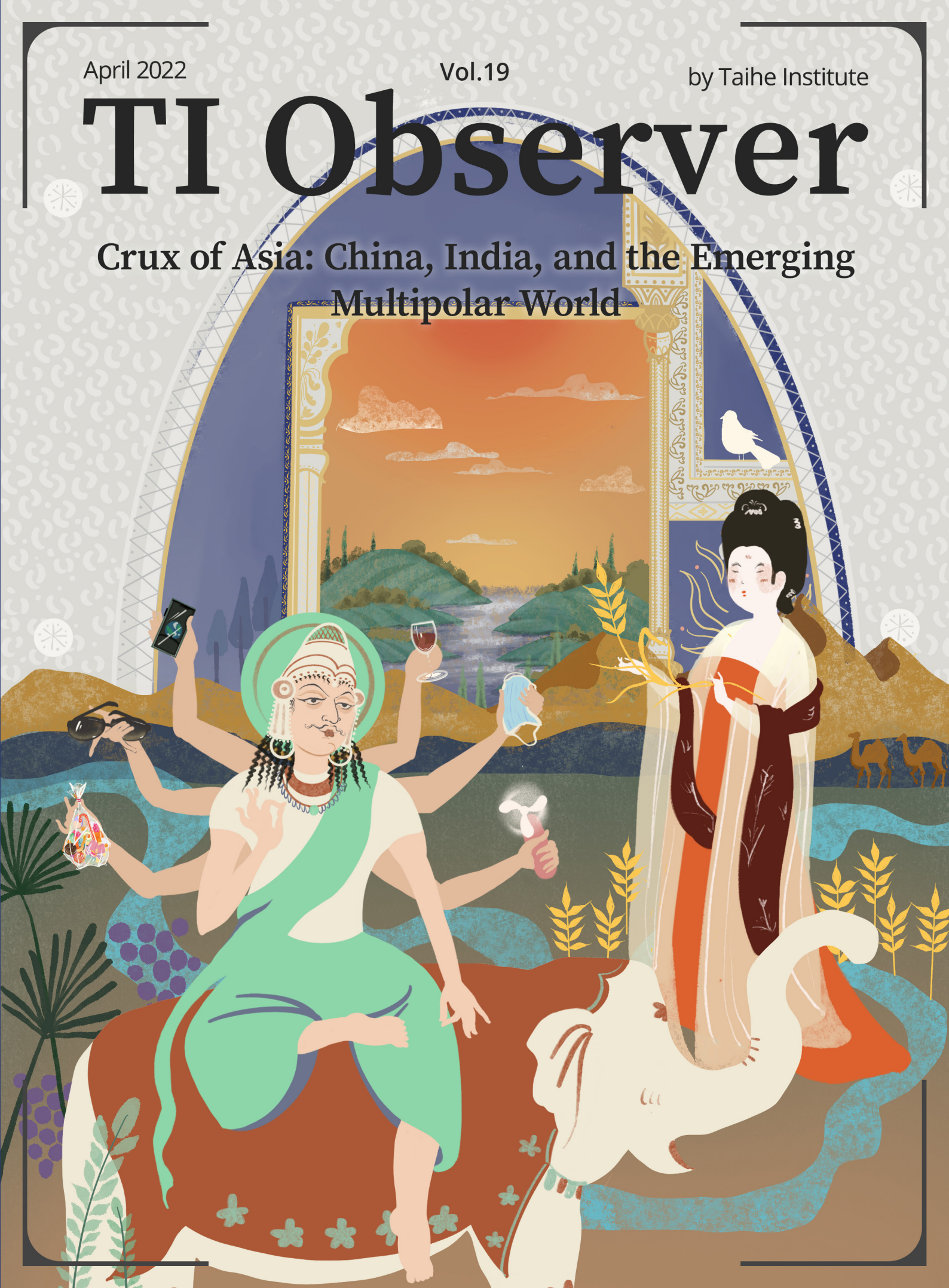
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Crux of Asia: China, India, and the Emerging Multipolar World



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A Win-Win Future

Strengthening China-India Economic and Trade Cooperation

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For more than two years, China-India relations have suffered considerable setbacks in the shadow of border tensions and conflict. The relationship has hovered in a lack of strategic momentum, mutual trust and high-level exchanges, and frustrated efforts to improve China-India ties. The current Russia-Ukraine war has coalesced the non-Western majority of the international community, brought forward a broader consensus and provided common enlightenment and an objective opportunity for the revival of China-India relations.

The Russia-Ukraine war has further divided the world into various camps. As the two major developing and emerging countries, China and India share many common interests in maintaining international peace and stability and have made similar policy choices according to the merits of the Russia-Ukraine crisis and their own interests. Their highly similar positions on Ukraine, calling for a ceasefire as soon as possible, advocating for peace talks, and not taking sides, demonstrates common interest. However, the frictions between China and India over the past two years have masked the consistency between the two countries in international cooperation.

It was widely noted that Chinese Foreign Minister Wang Yi visited India last month and held frank and in-depth talks with Indian leaders. This has been the highest level of visit to India by Chinese officials in the past two years since the outbreak of the border conflict. China's willingness to meet India halfway and implement the consensus of the two countries' leaders illustrates the importance placed by China on repairing bilateral relations.

No fundamental or irreconcilable contradiction exists between China and India. As developing countries with huge populations, peripheral "conflict" is detrimental to

their pursuit of economic development and improvement of people's livelihoods. In light of the current international situation, the two independent and emerging powers can build on their shared interests to develop a vision and pattern of engagement beyond specific frictions. The narrative amongst certain sectors of Indian society, that China opposes India's economic development and rise to great power status, does not stand up to scrutiny. In fact, China has historically recognized the special significance of "dragon and elephant dancing." In 2019, President Xi Jinping stressed that "China hopes itself will develop well and wishes India the same," and that China and India should be partners for mutual success and "illuminate" each other.

The economies of China and India possess huge market potential and are highly complementary. In 2021, bilateral trade reached US\$125.66 billion, up by 43% year-on-year, exceeding US\$100 billion for the first time. This demonstrates how economic and trade cooperation increasingly provides a win-win model that meets the actual needs of the two countries. Economic and trade cooperation has been particularly fruitful for India's development of infrastructure, automobile manufacturing, mobile communications, white goods, pharmaceutical, and biological industries. Direct benefits to India's economy include the creation of a large number of local jobs and the large-scale provision of cost-effective products for the Indian people.

The Indian market benefits extensively from the import of Chinese goods. Its 50 percent of durable consumer parts, 80 to 85 percent of compressors, and 95 percent of washing machines are imported from China. India's nearly 750 million smartphone users is second only to the Chinese market. Nearly 70 percent of Indians can now access the Internet through their smartphones. This is largely attributed to the efforts of affordable Chinese brands like Xiaomi and Vivo, which continue to bring large numbers of new users to the smartphone ecosystem. These examples not only illustrate the high complementarity between the two economies, but also the achievements of China-India economic and trade cooperation over past decades.

Putting aside political interference, China-India economic and trade cooperation forms a positive cycle of win-win achievements rather than a "win or lose" knockout match or "zero-sum game" that benefits only one participant. Unfortunately, Indian political realities have trended to irrational suppression of economic cooperation. As such,

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the Indian government has taken a series of measures to suppress Chinese companies and related products in India, seriously damaging the legitimate rights and interests of Chinese companies, as well as those of Indian consumers.

The investments of Chinese companies in India not only assist New Delhi's policy of harnessing external investment to expand demand and supply, promote employment, and accelerate industrialization, but also provide Chinese companies with a profitable trade environment. However, India's current approach toward Chinese investment raises doubts that New Delhi seeks Chinese technology and capital to "lay its eggs" and is also reluctant to "feed the hens," thus making it difficult for Chinese entities to reach profitability.

India's importance as a leading emerging economy is manifested in its sustained and rapid growth since the beginning of the 21st century. In recent years, India's economic growth rate has ranked amongst the globe's best performing major economies, and its development prospects have attracted worldwide attention. Prime minister Narendra Modi has repeatedly claimed that the 21st century is the "Indian century" and promoted an ambitious goal for India to become a US\$5 trillion economy by 2025 and the world's third-largest economy by 2030. For an eager and ambitious India, maintaining stable external relations with other great powers is of paramount importance to ensure continuing domestic development. Accordingly, Indian policymakers need to maintain strategic clarity in their approaches to economic and trade cooperation with China, and carefully deal with domestic populism to avoid policy traps and negative economic impacts.

For many Indians, the Regional Comprehensive Economic Partnership (RCEP), which came into force on January 1st, 2022, provokes mixed feelings. The pact, which consists of the ten ASEAN countries plus China, Japan, South Korea, Australia, and New Zealand, creates the world's largest free trade area. India's last-minute withdrawal from negotiations in 2019 was New Delhi's considered choice and must be respected by external actors. Nevertheless, it should be understood that India's national strength lies not only in its ambition but also in its vision.

China and India's joint population of 2.8 billion people accounts for two-fifths of the world's population. As such, the development path of China and India represents a new development model different from that led by Europe and the United States since the 18th century. Despite the challenges of resolving bilateral historical issues in the short term, China and India can expand cooperation and create better conditions for strengthening the foundations of mutual trust and

facilitate the resolution of bilateral differences. Of particular importance are joint efforts to expand economic and trade cooperation that create an open, fair, and just business environment to support yet more bilateral cooperation. Together, China and India can harness their win-win economic partnership to ensure both visible and tangible benefits for the livelihoods of their vast respective populations.

Ukraine: India and China Cannot Escape Their Destiny in World Affairs

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India believes the war in Ukraine has disrupted supply chains. Every war changes the world in some way. However, the war in Ukraine would surely count as one of the cataclysmic events of the 21st century, not because of major disruptions in many parts of the world in food and energy supplies, but more because at work are fundamental disagreements in the way the world is run. The war in Ukraine is not an isolated event. It questions the very framework in which international relations exist today.

Three broad regions of the world are jostling for space to express themselves meaningfully, like tectonic plates. Their final configuration will determine what holds and what sinks to oblivion. They are the West, the East, and the Global South. As with any generalization, this is only a broad-brush picture but captures this instant in the state of world affairs. Each time a UN General Assembly vote is cobbled together on an issue related to the war in Ukraine, one can clearly see these three regions positioning themselves to find meaning.

In the case of India and China, long heralded as the fulcrum of Asia's future, this crisis is yet again an opportunity to realize the full potential of their relations. Whether they do or do not will depend on how well the two states recognize the importance of this moment, rise above the context of their immediate bilateral relations, and seize the opportunity for Asia to stabilize and bring order to the world. While the West makes the case for an unassailable position in the world, the opportunity exists for Asia to play a constructive role in giving peace a chance and

preventing the outbreak of World War III.

Let's take a closer look at what these fundamental disagreements might be, the framework they question today, and what might provide a meaningful space for these three broad regions of the world. Naturally, there will be socio-political, economic, and strategic implications. Given these developments, what are the opportunities that China and India have, and how best to seize them?

India's immediate concern is in the economic and strategic spheres. India wants an end to the war. It upholds dialogue as the only way forward. India condemns the violence and the humanitarian impact of the war. It calls for an independent investigation of all war crimes. India believes Russia has valid security concerns that the West needs to address. India does not wish to engage in a diatribe of condemnations. It seeks productive and result-oriented action to first end the war and help ease the suffering of the people of Ukraine and establish peace. China's position is remarkably the same. The difference is that China has been more assertive in its expression of support for Russia, be it in the UN Security Council or the UN General Assembly. China and Russia even had a joint statement prior to the war that described their "friendship" as one with "no limits," and conceived as "superior to political and military alliances of the Cold War era."¹ India, for its part, is a member of the Quad but is the only one not to be in any treaty alliance with its other members. However, this is not to say that either India or China approves of Russia's war in Ukraine.

Is the war in Ukraine likely to affect India's economy severely? The answer depends on who is asked the question. The Chief Economic Adviser of India, Anantha Nageswaran has said, the "spillover" implications are "likely to be more indirect than direct." He appeared more sanguine about the prospects of any long-term pain for India, suggesting only if the price of oil remains above \$100 a barrel "for quite [a] long time" that any revisions to growth estimates need to be made. His larger fear was about the Fed raising interest rates, which are likely to spook global financial markets. He even claimed that in the "[s]econd half of 2022 blue skies will appear, and we will witness the sustainable growth that we witnessed during 2001-2003."² Of course, it is his job as well to sound positive and reassuring. However, it is also a sign that the government seems confident of tiding over the crisis.

1 "Joint Statement of the Russian Federation and the People's Republic of China on the International Relations Entering a New Era and the Global Sustainable Development," President of Russia, February 4, 2022, <http://en.kremlin.ru/supplement/5770>.

2 Rajat Mishra, "Spill over Due to Ukraine Crisis Is More Indirect than Direct: CEA Nageswaran," Business Today, April 12, 2022, https://www.businesstoday.in/latest/economy/story/spill-over-due-to-ukraine-crisis-is-more-indirect-than-direct-cea-nageswaran-329577-2022-04-12?utm_source=recengine&utm_medium=web&referral=yes&utm_content=footerstrip-4&utm_source=recengine&utm_medium=web&utm_content=footerstrip-4&utm_psl=False.

The figure of \$100 for a barrel of oil appears fairly frequently in Indian assessments. It is also a figure that India has seen before. Noted economic commentator, Swaminathan S. Anklesaria Aiyar, warns that a long war that pushes oil prices beyond \$130/barrel (it touched \$139/barrel when the war began) will upend India's calculations, as the budget of the government assumes a sharp fall in food subsidy with the return of rations to normal. Will that happen? In his opinion, if the war continues for six months, a recession is a distinct possibility. A recession, not led by a fall in commodity prices or central banks tightening money supply to check inflation. A recession, because "[t]he problem today is a supply shock."³ Supplies were hit by the pandemic and then by the war. Green investments, as opposed to those in fossil fuels, over a period of time, also make the world more "vulnerable to supply shocks."⁴ Russia may not produce more, but prices of oil, wheat, maize, nickel, and palladium may just go up, compensating for the effect of sanctions. Indeed, he urges India to keep buying Russian oil unless the West can match its discounts.⁵ He also suggests that India may use its vast stock of wheat and the prevailing uncertainty to make a "bonanza" of \$8 billion in wheat exports, assuming a 30% drop in Black Sea supplies, an average price of \$400 per tonne for 20 million tonnes.⁶

The net understanding is that India will manage the economic impact of the Ukraine war over the short to medium term, but with a cautious eye on long-term impacts. The larger worry for India, therefore, is clearly on the strategic side. How much does the war in Ukraine affect India's worldview? Has it affected the way India views its relations with China?

The Rashtriya Swayamsevak Sangh (RSS) is the ideological parent of the ruling party in India, the Bharatiya Janata Party (BJP). S. Gurumurthy is a member of the RSS, a chartered accountant, economic commentator, Hindu ideologue, and considered influential in the current administration. Writing in the Indian Express, he directly addresses these issues:

A telling message of the Ukraine war is that no country can trust even the global commons. It leaves behind a world of distrust. It will increasingly force each nation to be on its own—*atmanirbhar*...the very antithesis of globalization. An alternative to SWIFT [Society for Worldwide Interbank

3 Swaminathan S. Anklesaria Aiyar, "Russia-Ukraine Conflict: Is an Outright Recession Now Inevitable?," Swaminomics, April 4, 2022, <https://swaminomics.org/russia-ukraine-conflict-is-an-outright-recession-now-inevitable/>.

4 Ibid.

5 "India Should Keep Buying Russian Oil Unless West Can Match Discounts - Times of India," The Times of India, April 3, 2022, <https://timesofindia.indiatimes.com/india/india-should-keep-buying-russian-oil-unless-west-can-match-discounts/article-show/90613597.cms>.

6 Swaminathan S. Anklesaria Aiyar, "Sell Wheat, Not War: If India Acts Quickly, Ukraine War Could Hand It a \$8 Billion Bonanza," Swaminomics, March 21, 2022, <https://swaminomics.org/sell-wheat-not-war-if-india-acts-quickly-ukraine-war-could-hand-it-a-8-billion-bonanza/>.

Financial Telecommunication payments system] is already underway with some 63 central banks collaborating on a new payments system.⁷

This is a huge shift in India's thinking.

In a section dealing just with China-U.S. relations, including the virtual meeting between US President Joe Biden and Chinese President Xi Jinping, Gurumurthy says the U.S. was unable to "protect its protégé." Nor was Biden able to extract any commitments from Xi after a two-hour conversation. Instead, President Xi "snubbed" Biden, telling him, "one hand cannot clap" and "those who tied the bell to the tiger must untie it."⁸

On China-India relations, Gurumurthy credits India's "calculated geopolitical risk" of being neutral, despite being a member of the Quad, as the immediate motivation for China's foreign minister, Wang Yi's visit to New Delhi in March.⁹ This was a low-profile visit. Details were kept from the Indian press on China's request, as per the Indian media. It was a time when many Western leaders were visiting India to encourage it to back the West's stand. It is worth noting his exact words describing Wang Yi's visit:

...significant development. India's independent position on Ukraine is itself a message to China that India would withstand US pressure. If it can lead to some trust and understanding between China and India on the borders, that can pave the way for an informal Russia-China-India axis for future.¹⁰

Notice the open-ended wording of what might improve India-China relations, and how this might be the right time. Notice also the extent of his vision, imagining an axis of Russia-China-India. It is interesting that Gurumurthy talks of a world of distrust due to the Ukraine war but is willing to trust a growth in India-China-Russia relations now. This is not an aberration, but a reflection of traditional thinking in India on the role of the U.S. in international affairs.

The hypocrisy of the West is not lost on India.¹¹ Nor is it lost on China. However, taking this stand now on relations with China, despite being

7 S. Gurumurthy, "Ukraine Crisis: The War That Is Changing Relations, Rules," The New Indian Express, March 25, 2022, <https://www.newindianexpress.com/opinions/columns/s-gurumurthy/2022/mar/25/ukraine-crisis-the-war-that-is-changing-relations-rules-2434015.html>.

8 Ibid.

9 Ibid.

10 Ibid.

11 Swaminathan S. Anklesaria Aiyar, "Western Hypocrisy and the Impracticability of a Tribunal to Try Russia," Swaminomics, April 16, 2022, <https://swaminomics.org/western-hypocrisy-and-the-impracticability-of-a-tribunal-to-try-russia/>.

a member of the Quad, and having got into a close clinch with the U.S. owing to the Indo-U.S. Civil Nuclear Deal, is remarkable.

To understand how far India has traveled since Galwan, here is a striking example. Post-Galwan, in a vitriolic riposte to the border incidents, Gautam Bambawale, former Indian Ambassador to China and long-time desk hand on China affairs in India's foreign ministry, trashed India-China relations. "What is it that China wants?" he thundered. "What is this China Dream that they keep talking about? ...This dream is nothing else than to dominate the world, become the sole superpower in international politics, and create a Pax Sinica." Then he goes on to posit that India will be "very uncomfortable" with this "because our values are diametrically opposite..."¹² Having struck a popular chord with the media on this, he repeated it to The Hindu's Ananth Krishnan.¹³

Embarrassing, for a former ambassador to China to praise relations when in service and suddenly realize immanent "opposite values" of two Asian powers while out of it. However, while the view that ties won't entirely be back to normal till border issues are sorted still holds, there is no talk of "opposite values." Though India and China worked to lower temperatures, it is the common problem the two face, in terms of the war in Ukraine, that enabled this positive ferment. It reflects the weakness and the strength of India-China relations. It means that China and India HAVE to find a way to deal with the border stand-off while this goodwill lasts. China MUST recognize that regardless of who it blames for provocations on the border, India fundamentally wants good relations with China. This is independent of China's relations with the U.S., Russia, or Pakistan. Wang Yi's visit is an indication that this might be happening. And as the larger power, China should take the initiative. It is no coincidence that India has never mentioned China in Quad communications, unlike its other members. India too recognizes that despite China's many issues with the U.S., it also seeks good relations with the U.S. These ideas are not mutually exclusive. American domestic politics, however, is another animal altogether.

Two crucial votes at the UN General Assembly (UNGA) would clarify India's perspective of tectonic global shifts. India abstained in both the vote condemning Russia for its aggression on Ukraine (March 2nd, 2022) and the one on suspending it from the UN Human Rights Council (April 7th, 2022). China Abstained in the first and voted Against in the second.

12 Gautam Bambawale, "Leverage China's Vulnerabilities in Tibet, Taiwan and Xinjiang," The Economic Times, June 19, 2020, <https://economictimes.indiatimes.com/news/defence/leverage-chinas-vulnerabilities-in-tibet-taiwan-and-xinjiang/articleshow/76460135.cms?from=mdr>.

13 Ananth Krishnan, "For Minor Tactical Gains on the Ground, China Has Strategically Lost India, Says Former Indian Ambassador to China," Return to frontpage (The Hindu, June 21, 2020), <https://www.thehindu.com/opinion/interview/for-minor-tactical-gains-on-the-ground-china-has-strategically-lost-india-says-former-indian-ambassador-to-china/article31884054.ece>.

The first result was 141 YES, 5 NO, and 35 ABSTAIN. The second result was 93 YES, 24 NO, 58 ABSTAIN. The 35 who abstained the first time was not an insignificant number. It also included South Africa (a BRICS member), Namibia, Bangladesh, Sri Lanka, Pakistan, and some from Central Asia, Africa, and Southeast Asia. However, on the second vote, the world was clearly split. And on the question of human rights, no less. Vast swathes of Latin America, Africa, Southeast Asia, and South Asia had entirely swung over to abstain. Singapore, Indonesia, Malaysia, Mexico, Brazil, and states from the Caribbean, the Middle East, and West Asia, all were a full swing away from the first vote.

Member states of the UN are not fools. They realize that the UN system, with its permanent members of the Security Council wielding their veto, is fatally flawed. If today a new United Nations were to be set up, it is highly unlikely that the world will accept any veto rights.

Yet, if the world is not to collapse into chaos, the only order that one now has for conducting international relations is international law as developed by the UN system. There cannot be any other. The attempt of the U.S. to develop a parochial “rules-based international order” is as false as its attempts to appear holier than thou on human rights. This fact was only too embarrassingly brought out when the American UN Ambassador’s remarks condemning Russia’s use of cluster munitions in its war on Ukraine were withdrawn on the one hand, despite being a part of the

Voting Started		02-Mar-22		11:55:15	
Item 5 - Draft resolution A/ES-11/L.1					
Aggression against Ukraine					
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<input checked="" type="checkbox"/> ZIMBABWE					
<input checked="" type="checkbox"/> IN FAVOUR: 141		<input type="checkbox"/> AGAINST: 5		<input checked="" type="checkbox"/> ABSTENTION: 35	

Voting Started		07-Apr-22		12:48:43	
Item 5 - Draft resolution A/ES-11/L.4					
Suspension of the rights of membership of the Russian Federation in the Human Rights Council					
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speech she delivered at the UNGA on the other. The U.S., like India, is not a part of the convention banning cluster munitions.

The war in Ukraine has exposed the truth. States do not accept the way the world is run because it is an unfair and unequal world. Inequalities may persist, but the world needs to pull together to ensure justice. Racism is rampant, whether it is against colored people, Muslims, or the Chinese. Asia must retain its own identity and diversity. The days of Christian domination or Euro-Atlantic domination are numbered. At one level, Ukraine threatens to take the world back to the problems that led to the Second World War. The alternative is to reject the politics of domination and difference and work towards social justice and harmony. It is Asia's responsibility to work towards this. India and China cannot escape their destiny in world affairs.

TIO Spotlight Talk



Fathoming the Depth of China-India Relations

An Interview with Li Li

Li Li



Senior Research Professor and Deputy Director, Institute of International Relations, Tsinghua University
Non-Resident Senior Fellow, Institute of South Asian Studies, National University of Singapore

China and India constitute the two largest emerging economies in the world today whose rise will pose significant consequences for the future of the global international order. However, as the geopolitical environment has significantly deteriorated with numerous crises such as the COVID-19 pandemic and the Ukraine crisis, can the two countries ultimately put aside their differences, continue to develop, and usher in a transition to a multipolar world?

TIO How does India see China in terms of short-, medium-, and long-term economic challenges and opportunities?

Li India's economic emergence originated from its economic liberalization in 1991. The country's economic achievements are demonstrated by its fast growth rate, the IT boom, a growing middle class, significant improvement in poverty alleviation, etc. The success of the economic growth of China and India, the dual leading emerging economies in the world, can be mainly attributed to three factors: a peaceful global and regional environment, economic globalization, and their respective domestic reforms. If the first factor has been a shared dividend, the latter two factors provide answers to economic bottlenecks facing India in recent years.

In terms of economic reforms and opening up to the outside world, India's pace has been more cautious and slower. Due to the difficulties of maintaining consistent policies in the face of changing governments and the necessity of responding to voter concerns, India's policies toward foreign products and investment are still characterized by protectionism. For example, foreign multi-brand retailers such as Walmart, Tesco, and Carrefour have

found a lot of difficulties in entering the Indian market. Although the central government of India has relaxed its restrictions on FDI (Foreign Direct Investment) in multi-brand retail sectors, the local governments still have the final say to adopt or reject this policy. India's refusal to sign the Regional Comprehensive Economic Partnership (RCEP) has much to do with such protectionism. Little substantial progress in land acquisition reforms has blocked infrastructure development and mega industrial projects, for example, POSCO's failed investment in a proposed steel plant, worth 12 billion US dollars, in Odisha. In addition, complex and strict labor regulations are another major constraint holding back potential foreign direct investment in India

In terms of the dividends of economic globalization, China concentrated on building its manufacturing capacity, while India advanced its service sector, especially in the IT field. It is against this backdrop that China has become "the world's factory" and India "the world's back office." However, India is a developing country with the second largest population in the world. The knowledge-intensive service sector is open only to educated people, and its contribution to employment is also very limited. Thus, the less educated or uneducated rural labor force, the majority of India's labor force, has been largely left out of "India Shining," a slogan used by the Vajpayee-led Bharatiya Janata Party (BJP) government in the 2004 general election. The failure of BJP in that election reflected the structural problem of India's growth model. After the BJP came back to power in 2014, Indian Prime Minister Narendra Modi put forward the initiative of "Made in India" and attached great significance to infrastructure development. Obviously, the Indian political elites believe that India can catch up, join the global value chain, and advance its manufacturing capacity.

Under the current circumstances, whether India can become another China in terms of economic growth will continue to depend on the three issues mentioned above. While there is still a long way for India to go in deepening its economic reforms and improving its domestic conditions, particularly in terms of the "ease of doing business," the first two factors have changed, due to the latest geopolitical dynamics.

The American shift of its strategic focus to great-power competition has created uncertainties in the world's political, economic, and security configurations and order. China and India have been incorporated into the American Indo-Pacific strategy, where China is the target and India the partner, in part exacerbated by the China-India border situation.

“The American shift of its strategic focus to great-power competition has created uncertainties in the world’s political, economic, and security configurations and order.”

The Ukraine crisis may mark the end of the post-Cold War era in which stability and predictability dominate major power relations. Even though India enjoys a privileged position, having good relations with both Western and non-Western countries, a divided world may not be able to ensure the peaceful international and regional environment that India's economic growth needs.

Furthermore, the COVID-19 pandemic and the Ukraine crisis have reinforced the trend of de-globalization that started back in the 2008 global financial crisis. A wave of economic nationalism, localization, or regionalism is replacing globalization. As major economies endeavor to shorten their own supply chains and pursue self-sufficiency in critical sectors, India's aspiration to become a global hub of the manufacturing industry is challenged by this de-globalization as well as peer competitors, such as Vietnam and Indonesia.

TIO Has the Russian-Ukraine crisis accelerated the process of transition from unipolarity to multipolarity?

Li I am not surprised at India's stand on the Ukraine crisis. If we carefully examine India's foreign policy in general, and its relations with Russia and the United States, in particular, we find that New Delhi has been hedging its relationship with both. From the last decade, we can find the logic and consistency of India's policy toward Russia. Back in 2014, India did not join the West in condemning Russia's annexation of Crimea and opposed the imposition of Western sanctions on Russia. More recently, India has defied the US threat of imposing sanctions under the CAATSA (Countering America's Adversaries Through Sanctions Act) and insisted on purchasing S-400 missile defense systems from Russia.

India's independent position on the current Ukraine crisis can be attributed to a number of factors.

First, India has traditional and close ties with Russia, dating back to the Cold War. India is still very much dependent on Russia for arms supply, even though it has dramatically increased defense imports from the U.S. recently. In many ways, India trusts Russia more than the U.S., which goes back to times when it was the U.S. and Pakistan versus India and Russia.

Second, India's hybrid identity requires it to pursue a policy of issue-based coalitions. Recently designated by the West as the largest democracy in the world, India has endeavored to take the opportunity to upgrade its international status and obtain political and defense support from the West, especially the U.S., using America's desire to compete with China in Asia. However, as an emerging economy, India shares more interests with Russia and China in terms of global governance. It is against this backdrop that while joining the Quad and attending the Summit for Democracy, India is still committed to the BRICS

“...even though India had picked the side of the United States on Indo-Pacific issues, its response to the Ukrainian situation has demonstrated the boundaries of its security cooperation with the U.S.”

cooperation and the RIC trilateral mechanism between Russia, India, and China.

Last but not least, aspiring to be a global power, India will maintain its strategic autonomy. It is impossible to imagine India has no desire to be a junior partner in any U.S.-led alliances. So, even though India had picked the side of the United States on Indo-Pacific issues, its response to the Ukrainian situation has demonstrated the boundaries of its security cooperation with the U.S.

As to the direction of international configuration and order, there have been plenty of discussions and debates. Up till now, the consensus is that the unipolarity is fading, and the debates are about whether it will be replaced by bipolarity or multipolarity. Major powers hold different expectations. The United States is committed to restoring its global leadership, safeguarding its global hegemony, and sustaining the “unipolar moment.” Others including the European Union (EU), Russia, India, and China seem to prefer a multipolar world. Bipolarity seems to be favored by nobody. However, in reality, bipolarity and multipolarity are the most possible two scenarios in the foreseeable future. Under either process of transition, middle powers, especially India and the EU can respectively, play a defining role.

Since the U.S. is determined to focus on great power competition and designate China as a major strategic rival, the room for China to improve its relations with the U.S. and influence the direction of the world order has dramatically shrunk. The current Ukraine crisis narrows the opportunities even more. Some American scholars have indicated that the U.S. is in two Cold Wars, one in Europe against Russia and the other in the Indo-Pacific against China. While the Biden administration has argued that “the Russian invasion of Ukraine would not divert the U.S. from its Indo-Pacific goals,” the U.S. will continue to isolate Russia even after the end of the crisis, so long as Putin is in power. Regardless of how one looks at it though, the reality is, as acknowledged by many US scholars, that the U.S. is pushing Russia and China to be closer together.

At the moment, if both the EU and India join the U.S. in the two theaters, in my opinion,

a bipolar confrontation will be inevitable. If the EU and India can uphold their respective autonomy, they will play a bigger role in international affairs, and the world will be highly likely to transform into a multipolar reality, as a result. Therefore, India's refusal to join the West in condemning Russia on the Ukraine crisis definitely contributes to this multipolarization, but it is not enough to ensure world peace. India can also play a constructive role in the Indo-Pacific and prevent the region from being divided into two confrontational blocs. Meanwhile, the EU, along with the U.S., can negotiate with Russia and construct a new European security architecture in favor of lasting peace and stability.

TIO International trade and diplomacy require some sense of predictability, but right now, what we have is a situation where predictability is in short supply. Do you think countries have a responsibility and the need, in terms of creating this kind of predictability to balance their needs with the needs of the global community, has it come down to "me and my country first"? And what do you think would create a stable basis for economic relations between India and China?

Li In an anarchic international system, national interest is always the starting point for a state to formulate its foreign policy. Countries cooperate when their interests are aligned, and compete, sometimes even confront, when their interests are in conflict. Since the end of the Cold War, and as globalization gained momentum, global challenges such as terrorism, the global financial crisis, climate change, and nuclear proliferation were prioritized by many countries as major threats to their own national interests. Major-power cooperation provided constructive and fruitful solutions. Unfortunately, as great power competition started to dominate world politics, coordinated efforts among major powers have become very difficult, even when countries are faced with global crises, such as the COVID-19 pandemic. The point here is that good policy derives from proper identification and prioritization of one's national interests. For example, it deserves to think whether focusing on great-power competition will better serve one's national interests. As far as the world order is concerned, the only certainty is uncertainty. This is, and will be, the major challenge facing the international community including China and India, in the foreseeable future.

Then comes the question: in such a world full of such uncertainties, how can China and India stabilize, and increase their economic ties?

In my opinion, the key to the answer is to find where their interests align with each other. First of all, as previously mentioned, the fast and sustained economic growth of either China or India depends on a peaceful periphery. As the two most populous countries in the world, both China and India are constrained by domestic issues and agendas. For example, each of them has to provide enough jobs for those roughly 12 million youth entering the workforce every year. Sustainable peace, both in their border areas and in their shared neighborhoods,

is a fundamental guarantee for each to have a predictable and promising economic future. Heavy military deployment just diverts each side's resources from investing in crucial economic areas. Instead, each side should continue to explore and take advantage of the economic dividends and opportunities provided by the other side.

Second, China-India economic engagement is a complementary win-win situation, despite the trade imbalance. Although India has imposed varied restrictions on Chinese investment and products since the 2020 border standoffs, the two-way trade in 2021 reached 125 billion US dollars, crossing the 100 billion US dollars mark for the first time. It demonstrates the economic interdependency of China and India. Apart from finished goods and raw materials, intermediate products are playing a bigger role in bilateral trade. For example, India's robust pharma industry heavily relies on imports of Active Pharmaceutical Ingredients (APIs) from China. Some may treat it as a concern about the resilience of India's supply chain, but China's decision not to engage in any tit-for-tat retaliation on the economic front reflects its appreciation of the potential of the Indian market. There are examples that point to more fruitful cooperation, like the Chinese investment, in recent years, which has made a significant contribution to turning India into the second largest smartphone manufacturing country in the world. On the regional level, the potential for a China-India plus cooperation is large, especially under the context of the de-globalization trend. The RCEP is still open to India as a founding member. Initiatives for regional and subregional economic integration, such as the Bangladesh-China-India-Myanmar Economic Corridor (BCIM-EC), have been explored for decades, but have been in stasis, due to geopolitical issues.

Third, as the dual leading emerging economies, China and India have shared interests in improving global governance. For example, both of them attach great significance to the BRICS cooperation. With other BRICS member states, they have made joint efforts to promote the reform of international financial institutions (in particular the IMF and the World Bank) to increase the representation of the emerging economies and developing countries. The BRICS also established two new multilateral financial mechanisms, the New Development Bank and the Contingent Reserve Arrangement. China and India are also cooperating in the Asian Infrastructure Investment Bank (AIIB). In the unfolding digital age, China and India have similar positions on issues such as transborder data flows and the protection of privacy. To shape a digital order in favor of emerging economies and developing countries, close cooperation between China and India—the two nations who enjoy natural privileges in data, which is the strategic assets in a digital age—is required.

Of course, the current border standoffs especially the bloody Galwan conflict have largely damaged mutual trust. The geopolitics in the Indo-Pacific region and the great-power competition are pressing China and India into a security dilemma. It is not easy for China-India relations to return to business as usual.

“No matter how hard it is, it is in their interests to break the deadlock, reset the bilateral relations, and strengthen cooperation in areas where their interests are aligned.”

Politics and geopolitics are the main obstacles to what should be a natural and mutually beneficial growth in China-India economic ties. It may be time for China and India to respectively re-evaluate the cost and gains of the current state of their bilateral relations. They should also re-examine their common grounds and interests in an era of great-power competition, as well as de-globalization. No matter how hard it is, it is in their interests to break the deadlock, reset the bilateral relations, and strengthen cooperation in areas where their interests are aligned.

This interview was conducted by Kang Yingyue, International Communications Officer of Taihe Institute.

China-India Cooperation: Vital for a Multipolar World

An Interview with Atul Aneja

Atul Aneja



Editor, India Narrative
Former China correspondent,
The Hindu

China and India are both touted as potential superpowers of the future. With over one billion people each, both countries boast enormous economic potential far beyond that of the West. However, both countries have been in each other's crosshairs as geopolitical tectonics have shifted, placing them at the frontline of the 21st century great power struggles with respect to situations regarding the United States and Russia. Is there a way forward for the China-India relationship? Can the two countries work together to transition to a multipolar world?

TIO How does India see China in terms of short-, medium-, and long-term economic challenges and opportunities?

Aneja India sees China as part of a new global system that is emerging. It is a country that is going to be one of the major drivers of this new international system that is in the making.

Now, I think the new international system would not only have China but others including India, Russia, Brazil, and South Africa—countries that are defining a multipolar world.

So that's roughly the big picture, which is very different from the international global system that emerged after the Second World War and was basically dominated by the Western powers, which were led by the United States and the Atlantic Alliance.

Then a unipolar moment happened in 1991 when the Soviet Union collapsed. Scholars like Francis Fukuyama said that the collapse of the Soviet Union marked the end of history,

“...the outcome of this crisis is going to be hugely important not only for the future of Russia but for whether a new world order based on multipolarity can emerge.”

which meant that an endless, Western-dominated era, led by the Western democracies, had begun. But contemporary history showed otherwise. New powers soon emerged, which meant that far from the concentration of power, global power had diffused.

As we enter the second decade of the 21st century, the unipolar world has completely collapsed, and a multipolar world has emerged. But new rules of global governance are yet to take shape to anchor this new stage in global history. So, we are experiencing a state of fluidity. And to write the new rules, you're going to have new players. I think the BRICS countries, the emerging powers like India, China, and Russia, can play a big role in stabilizing the multipolar world. But this can be achieved only if we learn to cooperate with each other to see that this huge opportunity is not missed.

In this context, countries such as India and China need to collaborate fully. And although there are hiccups in the India-China relationship, they should be addressed frontally. Otherwise, we would lose this opportunity. So, to come back to your question, China is exceptionally important. But India's rapid rise is also important to the overall emergence of a multipolar world.

TIO Has the Russia-Ukraine crisis accelerated the process of transition from unipolarity to multipolarity?

Aneja Yes, I think so. I think the Russia-Ukraine crisis is a point of inflection. It is essentially a crisis defined by the West's attempt to somehow resuscitate a unipolar world by starting a new Cold War, with the aim of spurring regime change in Russia—a process that began in the 1990s with regime change in former Yugoslavia. And the outcome of this crisis is going to be hugely important not only for the future of Russia but for whether a new world order based on multipolarity can emerge.

This is exceptionally important. In India, we see the crisis more as an opportunity. If you look at the broader geopolitical and geo-economic framework, then perhaps this is a time

when changes should be taking place, which can be good for non-Western countries and the developing world.

So that is number one. Number two, from a Russian perspective, the crisis is about a decisive pushback against NATO and carving out a parameter that will be central to Russian security and commerce, including access to the Black Sea and the Sea of Azov. NATO had gradually expanded in violation of the 1997 agreement with Russia. By 2008, this had become clear with the NATO meeting in Bucharest. In 2014 a legitimate government in Ukraine was toppled, posing a threat to Russia's access to the Black Sea via the port of Sevastopol. The West had crossed a Russian red line as NATO's influence had arrived at Moscow's doorstep.

So, in response to the 2014 event, Russia took over Crimea because otherwise, the West would have prevented Russian access to the Black Sea.

We all know that NATO activity in the Black Sea had been galvanized in the run-up to the current crisis. The Kremlin had to do something about it, and I do understand the logic behind the Russian moves is actually reactive. So, what has happened since the end of February in Ukraine follows a context. I do feel frustrated that the information war launched against Russia, deliberately ignores the context of Russia's invasion of Ukraine.

If you forget the context, you will then paint Russia as an aggressor, as an expansionist power, and build a mythology around it. In India, and I speak for myself, we understand the context and we want this to end quickly because otherwise we would be forced to choose sides between Russia and the West, and we have compelling interests in engaging with countries on either side of the aisle. So, the Indian position is to press for dialogue and push for a fair settlement of the issues where the concerns of each side are addressed through detailed and frank negotiations.

TIO In the U.S., there are, in fact, a number of scholars or practitioners who are well familiar with the context. People like George Kennan and John Mearsheimer, for example, said that the expansion of NATO into Central Europe was "the most fateful error of American policy in the entire post-Cold War era. Do you agree with that statement?

Aneja I completely agree that this was a huge fatal mistake because you see, in 1991, you had the collapse of the Soviet Union, which means the country fell apart from within. The whole idea of a unipolar world was to integrate Russia into a Western-dominated unipolar system.

Now, if you have any sense of history, you don't treat Russia as your puppet. As one would have imagined, Russia has revolted against the U.S.-led unipolarity. Russia has emerged

powerful, though may not be as powerful as the USSR used to be, but it is a strongly nationalistic and independent-minded country. But the current generation of US elites simply doesn't get it. And for scholars and practitioners such as George Kennan and others, they understand the red lines that you don't cross in dealing with Russia.

By artificially trying to foist a US monopoly of power and striving to reinforce their hegemony, the Americans are only laying the foundation of what scholars such as Samuel Huntington had feared—a clash of civilizations.

The world is not only multipolar, but it is also multi-cultural. There is no single system alone that is going to rule the entire world however valid that might be for certain geography. You have to accept that global power has diffused. And that includes soft power. It's not going to be the same world again. If all countries can recognize that, then we can probably have an opportunity to live in a peaceful and harmonious world where there is sustained economic and cultural development.

But if you do not, then you are inviting a second Cold War, which is likely to be worse than the first one because the Russians have learned from their experience. They came out from the first one in shambles and will go all-out to prevent such an outcome again. And then we have countries like India and China, and we have our own stakes in Eurasia. I hope that there are saner voices in the U.S. that recognize genuine Russian interests and come to a grand bargain with the Russians to deal with the crisis. Otherwise, all of us will be in mortal danger, because a conflict between Russia and the West can go thermonuclear.

I wish to add one more point. There are lobbies and interest groups within the United States and the West, including the powerful military-industrial complex. Former US President Dwight D. Eisenhower had spoken about the rise of the military-industrial complex and how dangerous this is for the future of American democracy.

Now, a war is something that satisfies the needs of these kinds of forces. So, it's not necessarily politicians, but very powerful forces within who are benefiting from this. If you want a solution to this crisis, the U.S. will have to address these questions of internal pressure groups as well.

“I hope that there are saner voices in the U.S. that recognize genuine Russian interests and come to a grand bargain with the Russians to deal with the crisis. Otherwise, all of us will be in mortal danger...”

TIO International trade and diplomacy require some sense of predictability, but right now, what we have is a situation

where predictability is in short supply. Do you think countries have a responsibility and the need in terms of creating this kind of predictability to balance their needs with those of the global community, has it come down to “me and my country first”? And what do you think would create a stable basis for economic relations between India and China?

Aneja There’s a lot of synergy on the economic track between India and China—and complementarity, as China goes ahead towards Industry 4.0, while India aspires to be a global manufacturing hub based on domestic and overseas talent and investment and relatively cheap labor.

But to realize the full potential of this world-changing partnership, we have to deal honestly, and with mutual goodwill, with the border issue now. I think we are fortunate that we had Foreign Minister and State Councilor Wang Yi visiting India. What I heard from the Indian side is that the meeting was positive and fruitful. And if everything works well, it is even possible that we have a meeting between President Xi and Prime Minister Modi for the BRICS summit, which is going to be hosted by China this year.

So, there is a window that is opening, but I think we need to have a very honest and constructive dialogue, which addresses each other’s concerns in a clear and delicate manner, to add an element of predictability on the border. I think we no longer can de-link the border tensions from smooth economic interaction. We need a huge number of confidence-building measures. Again, active dialogues among the leadership are important.

And when I say border issue, I don’t mean resolving the entire border. But there are friction points on the border that need to be addressed, and we have to go back to where we were before May 2020. Simultaneously, we need to be sensitive about each other’s core concerns, including Chinese concerns in Tibet and Xinjiang, and Indian concerns in Jammu and Kashmir. We may also have to simultaneously work on the India-Pakistan track as well. A track-two dialogue on this issue is a crying necessity.

Progress and predictability along the borders will have a meaningful impact on our partnership within BRICS and the Shanghai Cooperation Organization (SCO). We are members of the New Development Bank of the BRICS and of the Asian Infrastructure Investment Bank (AIIB). So, we have the institutions. There has been a lot of effort. And considerable progress has already been made. Now, we have to fully leverage that and expand and strengthen this capacity by building political trust among member states and addressing tensions, so that we can take our partnership to a higher level. I think both in India and in China, we have to recognize that we have been great civilizations with a long history and a deep sense of national pride, which demands that we should treat each other with respect and equality. This is essential and must be ingrained in the collective psyche of

“When India and China strike the right notes, the center of gravity of the world changes. It’s not rocket science. We know it.”

each country.

When India and China strike the right notes, the center of gravity of the world changes. It’s not rocket science. We know it.

Finally, I would like to draw your attention to the cultural side. India and China have a shared history of art, a shared history of Buddhism, to name a few. Buddhism comes from India. It was brought to China, and China preserved it. The religious texts that were brought by monks such as Xuan Zang and others were eventually translated into the Chinese language and preserved. So, we have the legacy of great interdependence and deep linkages between the two civilizations, which now need to flower in our digital age.

This interview was conducted by Kang Yingyue, International Communications Officer of Taihe Institute.

Youth

Voices



China-India Ties: A Relationship Brimming with Substantial Opportunities



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China and India are the world's two most populous countries. Whilst historical tensions and territorial skirmishes have sometimes found Beijing and New Delhi at loggerheads, increasing economic and socio-cultural interactions over the past two decades indicate a need for systemic recalibration of the relationship. As global politics enter an age of multi-polarization, China and India could serve as strategic partners and allies to confront common challenges and expand cooperation where national interests converge.

Two core opportunities present distinct benefits for Sino-Indian relations:

1. The shift in international geopolitics from a U.S.-led unipolar order towards one of relative multipolarity.
2. India's continuous search for a position of strategic autonomy relative to the U.S., Russia, and China.

The first core opportunity presented by the shift in international geopolitics from a U.S.-led unipolar order towards one of relative multipolarity implies that both China and India no longer need align systemically with the orthodox order that previously dominated international politics. The Ukraine crisis offers a pertinent example: while China continues to expand economic collaboration with Russia, and India maintains close military ties, both states have sought to project, at least externally, stances of relative neutrality. However, discourse variations remain.

Beijing frames discourse concerning Russia through criticism of NATO and the United States. India, in light of the emergence of the Quad and other economic-commercial ties with America, has adopted a safer hedging position. New Delhi has used targeted criticisms of Russian army actions in Ukraine while preserving an overarching military-strategic alignment with Moscow. For both China and India, the establishment of a mutually agreed set of options and potential shared positions on international tensions, may constitute a *neo-G2* arrangement, in which they could provide viable alternatives to the Western-led order for the Global South.

Secondly, the Sino-Indian economic partnership is of crucial value to both parties. Whilst the U.S. remained India's top trading partner in 2021 with total trade value amounting to 112.3 billion USD, the volume of trade between India and China was only 2 billion USD less, amounting to 110.4 billion USD. The path to further deepening Sino-Indian relations is via the expansion and diversification of the range of goods and products that enjoy tariff-free or low-tariff entry and improved access to each other's markets—opening-up and liberalization. Harmonization and alignment in regulatory standards for corporate activities and investment, people to people interactions, and tech transfers and exchanges could also transform what is often seen as a zero-sum relationship into a mutually beneficial sphere of cooperation and collaboration.

China and India possess enormous synergetic potential to tackle many of the globe's most pressing challenges. The Kindleberger Trap theorizes the potential dangers of a world where states are not willing to produce the global public goods required by the international community. In a 2017 commentary, Professor Joseph Nye articulated his concerns that China may not be capable of or willing to produce the global public goods "demanded by its rising power." However, Nye's concerns have been partially precluded by China's five-year track record of reducing emissions, increasing renewable energy generation and introducing technological advances that have served the international community, most notably through the Belt and Road Initiative (BRI). Yet on issues such as public health and climate change, it would be erroneous to suggest that any country could go at it alone. China must share best practices and past experiences with India, as the latter seeks to transition away from a high intensity, highly unsustainable growth model. This, in turn, is no fault of the Indian people or government, but a natural intermediary phase in most large nations' economic developmental trajectory. Only when both of the world's most populous countries work together in setting and ratifying mutually agreeable terms and conditions on environmental protection and sustainability can genuine prospects in the

ongoing global struggle against climate change be envisioned. Moreover, there are clear opportunities for progress in the environmental, social, and governance (ESG) fields, as well as finance, sustainability research, and the development and adoption of renewables as alternatives to the conventional oil and coal-driven energy order.

Despite the aforementioned opportunities, there remain pressing challenges to bilateral relations that require swift action for collaboration to be possible. These challenges are by no means absolute, nor are they immovable. The key prerogative is for both China and India to seek truth from facts and pursue consensus in order to avoid only partial convergence. This is particularly true when considering the conflicting claims to border regions concerning and straddled by the Line of Actual Control (LAC), e.g. in the Galwan Valley, where both Beijing and New Delhi claim jurisdiction. China has consistently framed its foreign policy claims around “defending its sovereignty and territorial integrity,” while India views border disputes as a matter of great reputational importance. Chinese officials have sought to defuse Sino-Indian border tensions by recommending compartmentalization, where both parties “put their differences over the border issues at a proper position in the bilateral relations.” However, for India, both public opinion pressures and politico-electoral calculations make compartmentalization particularly infeasible. The required alternative is a sustainable and proactive dialogue mechanism that allows both India and China to vent grievances and contribute to solutions on relatively “neutral” grounds. Territorial disputes must be contained, defined, and segmented into manageable portions to ensure at least partial resolutions leading to greater economic collaboration.

The second core opportunity relates to India’s continuous search for a position of strategic autonomy relative to the U.S., Russia, and China.

Historically, India had primarily depended upon Russia for military-strategic support, the U.S. for economic-financial and geopolitical backing, and China for the supply of essential imports via commercial relations. However, balancing across three sets of national interest only worked insofar as bilateral relations amongst the three aligned with their respective self-interests. The current *de-facto* state of geopolitical enmity between the U.S. and Russia, and the dynamics of heightened scepticism between Beijing and Washington have placed New Delhi on a fine line between pragmatic balancing and impractical attempts at “playing all sides at once.” India may wish to preserve strategic autonomy,

“The key prerogative is for both China and India to seek truth from facts and pursue consensus in order to avoid only partial convergence.”

but it must do so without compromising the tenability of maintaining at least some degree of coherence and sovereignty over its own foreign policy and agenda-setting.

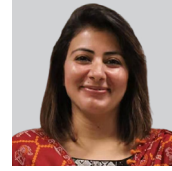
Another key consideration for India's relationship with China is Pakistan's recent episode of radical administration turnover and the departure of Imran Khan from the prime ministership. Turmoil over Pakistan's political leadership has significant implications for whether Washington's nebulous yet persistent pressure would see Pakistan adopt a more conciliatory approach to its relationship with India. Similarly, whether the long-lasting "Sino-Pakistani friendship" can withstand such challenging circumstances remains to be seen. Moreover, how Indian-Pakistani relations may spill over and impact China's relationship with India is also a daunting question. Would a gradual increase of scepticism and rebuke of China in Pakistan encourage New Delhi to shift more closely to Beijing, and vice versa? Or would the recalibrated and largely preserved alliance between Beijing and Islamabad motivate New Delhi to take a more pragmatic approach in shifting away from greater economic interdependence with Beijing? While these questions are open to debate, the influence of America in the region should not be overstated. Short of a substantial economic crisis, China will remain the preferred and dominant economic partner to the vast majority of countries in Asia.

The final, and perhaps most significant, challenge for Sino-Indian relations lies in their ideological similarities and differences. Both President Xi Jinping and Prime Minister Narendra Modi are firm leaders with comprehensive visions for transformative governance: governance aimed at mobilizing the masses in reshaping the power and ideological structures that undergird their respective nations. While India has consistently positioned itself as an exemplar in the vanguard of "Western-style" democracy, China shifted toward cultivating an ideologico-normative framework of its own, which repudiates Western monopolization over what constitutes democracy. This need not imply that China is unreceptive towards, or reluctant to engage with Western-liberal-democratic states. Indeed, Chinese pragmatism had encouraged the country to reform, open up, and constructively engage with its Western counterparts over past decades. However, as India seeks to rebuild its image of legitimacy and credibility in the eyes of Western peers, would it see China as a sufficiently desirable partner such that quibbles over "governing ideologies and systems" will not—as they indeed should not—matter as much in shaping bilateral relations? This question remains unanswered.

In sum, the Sino-Indian relationship is one brimming with substantial

opportunities. Clearly both China and India would benefit from a closer, more dynamic, more organic, and more integrated relationship. Yet, vast impediments remain, and it is high time that both parties take significant steps toward a joint program of active resolution.

China-India Economic Relations: Challenges and Prospects



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The economic development of both China and India is remarkable. Yet, they view each other as potential competitors both regionally and internationally. China's unique strategy of cooperation and complex interdependence allow it to be economically competitive across much of South Asia, Southeast Asia, Africa, and Latin America. Moreover, China's comprehensive system of infrastructure and innovative export trade have also enabled wide-ranging business ties with India. In 2021, China-India bilateral trade reached a record high of over 125 billion USD. Key Indian imports from China include smartphones, automobile components, telecoms equipment, plastic and metal goods, active pharmaceutical ingredients (APIs) and other chemicals.

Despite growing economic ties with India, China faces a number of challenges to improve the trade and investment relationship. The negative effects of the COVID-19 pandemic on the Indian economy were accompanied by a perceived excess of imports from Chinese firms. Consequently, India began adopting protectionist measures aimed at countering the flooding of Chinese goods in its domestic market. Another medium-term challenge for Sino-Indian trade was the introduction of both a restrictive regulatory environment and visa regime for Chinese businessmen. Long-term challenges between the two Asian giants include conflicting cultural norms, perception building and communication barriers. Among ordinary Indian citizens, there seems to be a widespread level of mistrust in China and Chinese businesses. Similarly, Chinese investors have feelings of insecurity for their assets invested in India.

Another long-term challenge has been the persistent trade imbalance in favor of China. The initial COVID-19 pandemic and its recurring waves were a major contributing factor for increased exports of medical products and raw materials for India's burgeoning pharmaceutical industry. While India is an exporter of APIs, it is also dependent on cheaper API imports from China. This highlights why India seeks increased Chinese investments and access to China's vast market for its IT, pharmaceutical, and agri-products to reduce its trade deficit. Conversely, China believes that Indian manufacturing needs to ascend the value chain before it can increase exports into China's highly competitive market. In short, issues related to market access and security keep the trade balance in favor of China.

A key medium-term challenge to greater Chinese digital investment has been India's concerns of platform control, data security and vulnerability. In 2021, India blocked 59 Chinese social media apps including TikTok, WeChat, Alibaba's UC Browser, Club Factory, and PUBG mobile, calling them prejudicial to India's sovereignty and national security. Later, the blocks were converted into permanent bans.

The geopolitical circumstances impacting economic ties between China and India also present short- and long-term challenges for China's economy. India, along with Australia, Japan and the U.S., is a member of the Quadrilateral Security Dialogue (Quad). A significant stage of the Quad arrangement was the signing by Australia and India of an interim Comprehensive Free Trade Agreement (FTA) on April 2nd, 2022. The Indian-ASEAN Free Trade Area (IAFTA) permits zero duty trade on crucial trade items and provides an opportunity for both countries to diversify trade and reduce economic dependence on China. In order to further diversify its trade balance, India is currently negotiating and signing FTAs with other key trade partners such as the UAE, the EU, and the UK.

Despite the aforementioned challenges, India retains enormous potential for economic complementarity with China. India's vast population, which is expected to overtake that of China by 2050, persistent poverty, socio-economic inequality, rapid urbanization, and inability of governing elites to meet the aspirations of a rising middle class, may cast a shadow upon its long-term economic development. This may in turn negatively impact India's attractiveness to global investors seeking diversification. For example, India's pharmaceutical and motorcycle industries have huge potential due to global health crises and surging energy prices.

Global inflationary pressures can be witnessed in the preference of many Indians



Indian customers checking out Xiaomi's flagship product Redmi phone in a Xiaomi store in India. Source: <https://www.bbc.com/news/world-asia-india-50135050>

for less expensive Chinese products. To satisfy consumer demand, India currently hosts around 800 Chinese companies. Unfortunately, the Indian economy is neither technologically nor economically capable of producing the crucial products it imports from China. India's policies of self-reliance, "Make in India" and "Digital India Programme," are simply not sufficient enough for the country to decouple with Chinese supply chains. In other words, Indian dependency on cheaper Chinese critical power plant equipment, APIs, automobiles, telecoms, and electronic equipment will continue benefiting the Chinese economy over the long-term.

India has good long-term opportunities for Chinese automobile manufacturing and smartphone companies. China's top smartphone brands Xiaomi Corp., Oppo, and Vivo have started discussions with Indian manufacturers about making phones locally for global export. Even during 2020, when tensions between the two countries were high, Chinese goods were not boycotted by the Indian population. There are also significant private investments from China in the Indian tech sector and start-ups, especially those focusing on technology and e-commerce. In 2017, Chinese companies such as Alibaba, Fosun, Baidu, and Tencent invested 5.2 billion USD into 30 Indian start-ups. Alibaba and its affiliates have invested about 1.7 billion USD in the Paytm and BigBasket platforms.

Despite their security and geopolitical concerns, both India and China recognize the mutual benefits of greater economic cooperation. China's vast consumer market and transition to a primarily consumption-based economy promise great potential for Indian investment and trade in goods and services. When

considering energy supplies and global economic security, India has little choice but to cooperate with Chinese firms that operate on multilateral international financial platforms.

The damaging effects of the conflict between Russia and Ukraine have created a desperate need for capital inflows to improve living standards, ensure functional governance and maintain economic stability. Commodity and financial markets, commerce and migration, and consumer confidence have all suffered from the on-going crisis. The reluctance of both China and India to involve themselves in the Ukraine crisis is due, in large part, to economic imperatives. Russian gas is provided at beneficial rates to India while China seeks to mitigate risk as a result of the crisis and the ensuing sanctions imposed by the West to ensure the positive long-term trend of its economic relations with both Russia and Ukraine. In 2021, China's trade with Russia totaled 147 billion USD and 19 billion USD with Ukraine. China's trade of finished products with Russia may already be compromised with companies such as Xiaomi, Lenovo, and SMIC, which offer a broad variety of goods in Russia, being negatively affected. The wheat and agricultural trade of China's Northeast region, which borders with Russia, is also expected to decline.

China's imports of Russian goods may also suffer considerable declines due, in large part, to Western sanctions. Russian imports of potash, aluminum, and nickel will be affected and have an inflationary effect on commodity inputs for China's industrial and manufacturing sectors. Despite China's pre-war replenishment of staple supplies from Russia, Western sanctions are sure to negatively impact natural gas supply and pricing. Increased Russian energy imports may also harm China's long-term energy reform objectives, which are a significant economic and diplomatic priority.

The deterioration of Sino-Indian ties over recent years is, in large part, attributable to the involvement of the U.S. in the so-called Indo-Pacific. Moreover, India's participation in the Quad and its hardening military relations with the U.S. have also alarmed and agitated China's leadership, leading some Chinese observers to believe that India is aiding the U.S. in its quest to contain China's rise.

Nonetheless, China has adopted a responsible attitude towards India as part of the two countries' strategic accord. In March 2022, during the first high-level official visit to India in over two years, Chinese Foreign Minister Wang Yi, Indian National Security Advisor Ajit Doval, and External Affairs Minister Subrahmanyam Jaishankar discussed a wide range of topics. Due to India's refusal to join the U.S. in its condemnation of Russia over the Ukraine crisis, Washington has repeatedly

reprimanded and threatened India with sanctions if India acquired Russian oil. The US attempt to exert pressure on India for its own strategic objectives was seen in New Delhi as violating India's independent diplomacy and made the Indians more cognizant of the hegemonic inclinations of the U.S.

In sum, China and India have large populations that prioritize sustained economic development. As such, border tensions with neighbors are seen as both tedious and irrational. Rather, both seek to develop a shared vision that encompasses specific concerns while fostering continued development initiatives along their respective economic paths, which are most suitable for their own national conditions. Along with vaccine supplies, China and India can offer grains, wheat, and rice for sale at globally regulated prices. This initiative may protect Ukraine and other European countries from suffering a price shock in essential goods. Last but not least, both countries can also mobilize global support to oppose unilateral sanctions and increase joint efforts to accelerate both countries' integration into the world economic system through the formation of an alternate trading system.

How Has the Situation in Ukraine Affected the Underlying World Economic Outlook?



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The Russian special military operation against Ukraine that began on February 24th, 2022, has not only precipitated substantial, long-term economic damage for both Russia and Ukraine but significantly impacted the global economy. The immediate Western response to the Ukraine crisis was the imposition of rigorous and impactful sanctions on Russia. US President Joe Biden has stated that the invasion of Ukraine was an act of genocide. On April 12th, 2022, Russia's President Vladimir Putin said that peace talks with Ukraine were at a "dead end," signaling that no end to the crisis was in sight.

Russia and Ukraine play a sizable role in the production of natural and neon gas, wheat, fertilizer, agricultural products, lumber, as well as steel, and other metals. By suspending the production of food and fertilizer, Russia catalyzed the ban of exported goods by other countries. As a consequence, global grain, natural gas, and fertilizer markets have been disrupted, adding further inflationary pressure to already inflated food and production costs. On April 6th, 2022, oil had risen to US\$108 per barrel, and by April 10th, Ukraine had lost at least US\$1.2 billion in grain exports. The UN task force has warned that the Ukraine crisis will have severe negative effects on the economies of developing countries already facing rapidly escalating food and energy costs.

Energy prices are the main transmission channel for rising inflation and declining economic growth resulting from the Ukraine crisis. On the front

lines of the global energy market, Russia and its agricultural production will be adversely affected by the resulting increase in energy prices. Agriculture is heavily reliant on energy, absorbing a high amount directly from fuel, gas, and electricity. At a meeting on April 14th, Putin blamed Western partners for the current situation with the country's oil and gas sector, claiming they were in payment default for the delivery of Russian energy resources. Eager to improve the situation, Russia is ready to sell crude oil and oil products to supportive countries. Additionally, Ukraine's active war zones are currently facing severe shortages of food, water, and energy. The shortages are due to disrupted logistics of food supply chains, winter harvesting, and spring planting, as well as limited availability of agricultural stores of fuel, fertilizers, pesticides, and seeds.

Aside from the ban on oil products, recent sanctions have also targeted common consumer goods and diverse services.¹ Food and beverage companies, such as McDonald's, Coca Cola, and Heineken, among others, have announced a temporary service suspension in Russia, some even declared a permanent end to their operations. The introduction of another round of sanctions has included the Society for Worldwide Interbank Financial Telecommunication (SWIFT), which ejected several Russian banks from its network, and direct sanctions against the Central Bank of Russia.

On April 13th, 2022, the Russian Foreign Minister, Sergei Lavrov, said that Russia planned more sanctions in riposte to those placed on Russia by the U.S. According to a recent Reuters poll, Russia's economy has shrunk by 7.3% in 2022, indicating the significant effect of the sanctions on the country's economy.² The sanctions have also caused a significant depreciation of the Russian rouble, which, in the long term, could negatively affect investment and productivity growth prospects in the country. In this challenging context, China is one of many countries opposed to the imposition of sanctions on Russia. These countries and individuals argue that sanctions affect civilian populations with minimal or no control over foreign policy issues. On April



Illustrated by Xie Xuru

1 Kristine Aquino and Netty Idayu Ismail, "Junk Russia Bonds Mirror Ruble Drop as Sanctions Bite," Bloomberg.com (Bloomberg, March 1, 2022), <https://www.bloomberg.com/news/articles/2022-02-27/russia-bonds-now-junk-set-to-reel-from-central-bank-sanctions>.

2 Person, "Inflation in Russia Hits Highest in More than 20 Years," Reuters (Thomson Reuters, April 13, 2022), <https://www.reuters.com/world/europe/inflation-russia-hits-highest-more-than-20-years-2022-04-13/>.

4th, 2022, China called for talks over the crisis and blamed Washington and NATO for provoking and fueling the conflict by supporting Ukraine with arms and soldiers.

Russia faces a steep decline in economic prosperity by the end of 2023 as the cost of war, injurious sanctions, and corporate flight weaken the economy. Statistics depict the sad state of the Russian economy following the crisis. As of April 2022, inflation in Russia was at its highest point in 20 years. As such, Russia's economy is expected to contract by 15% in 2022, followed by a decline of 3% in 2023, leaving the gross domestic product (GDP) where it was 15 years ago. This depreciation means that more than US\$30 billion has been removed from Russia's annual GDP, something that will have significant implications for its global influence. Unless Russia can extend new partnerships, reshaping how its position in world politics is perceived, its future influence on and partnerships with other countries remain uncertain.

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