

# Associate Paper

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## New Significance to Resumed India-China Strategic and Economic Dialogue

**Tridivesh Singh Maini**

*FDI Associate*

### Key Points

- Indian PM Narendra Modi is set to meet with Chinese President Xi Jinping in Wuhan for a personal summit on 27-28 April. A number of key issues are likely to be addressed during the summit.
- There is no doubt that there is immense scope and potential for Chinese investment in India, especially in infrastructure.
- It was evident from the most recent Economic and Strategic Dialogue that, for a more meaningful economic relationship to develop, India's misgivings regarding the Belt and Road Initiative will need to be addressed by China.
- New Delhi, for its part, should not be bogged down by the baggage of the past and must work to address key issues, such as bureaucracy, that are impeding Chinese investment.

### Summary

The fifth India-China Strategic and Economic Dialogue, held in Beijing on 14 April, took place at a very interesting time. In the past few months, both [India and China](#), in spite of their deep divergences over strategic and economic issues, and the strains caused by the Doklam standoff in 2017, are trying to put relations back on track by increasing their engagement at the governmental level. In keeping with those attempts, Indian Prime Minister Narendra Modi is set to visit China on 27-28 April, for a one-on-one summit with Chinese President Xi Jinping.

Significantly, this Strategic and Economic Dialogue, the first after Doklam (one of the consequences of which was that there was no dialogue last year), was held just days after the Boao Forum, at which [President Xi Jinping](#) (now leader for life) articulated his vision for a myriad of important, but complex issues, such as globalisation and geopolitics, especially the Belt and Road Initiative.

### **Analysis**

At this year's dialogue, India was represented by [Rajiv Kumar](#), Vice Chairman *Niti* (National Institution for Transforming India) *Aayog*, while China was represented by He Lifeng, the Chairman of the National Development and Reform Commission (NDRC).

Apart from bilateral issues – trade, investment, infrastructure co-operation and economic connectivity – the possible impact on the Sino-Indian relationship of the trade dispute between the United States and China, including any opportunities that it may open up, also figured in the discussions.

On the trade dispute between Beijing and Washington DC, India was unequivocal and maintained that it would remain [neutral](#) in the dispute. India did [suggest](#) to China, however, that it should consider importing soya and sugar from India; China's annual imports of US agricultural commodities are valued at [US\\$20 billion](#) (\$26.4 billion).

#### ***Possible Chinese Investments in India***

For a long time now, the possibility of China setting up special economic clusters in India has been under discussion. The issue came up again at this year's Dialogue, with the Indian delegation stating that it sees great scope for China to establish [special clusters](#) in such sectors as textiles, food processing, electronic componentry and pharmaceuticals. It is pertinent to point out, however, that several Memoranda of Understanding to facilitate the creation of special Industrial Parks were [signed in June 2014](#) between the governments of Maharashtra, Gujarat and Haryana states and various Chinese agencies. So far, though, all have achieved very little.

In the area of infrastructure, closer co-operation was sought for [increasing the speed](#) of the Chennai-Bangalore railway corridor and the upgrading of the [Agra-Jhansi](#) railway stations. India also invited China to invest in Prime Minister Modi's [“Housing for All by 2022” programme](#).

#### ***Connectivity and the Belt and Road Initiative***

On issues relating to the Belt and Road Initiative, the differences between the two sides persisted. In particular, no progress was made in terms of addressing certain Indian misgivings surrounding the China-Pakistan Economic Corridor (CPEC). China continued to pay little attention to the concern of India that the CPEC [passes through disputed territory](#), an aspect that New Delhi views as a major sovereignty issue. After the Chinese President's speech at the Boao Forum, some in India had believed that China may be more sensitive to addressing India's concerns over the BRI. Commenting on the BRI, President Xi told the [Boao](#)

[Forum](#) that ‘China has no geopolitical calculations, seeks no exclusionary blocs and imposes no business deals on others.’

While China observed that the Bangladesh-China-India-Myanmar (BCIM) Corridor is one of the most [important components](#) of the BRI, New Delhi disagreed, saying that the BCIM project predated the idea of the BRI by some time. India also stated that it is currently more focused on projects such as the [ASEAN Trilateral highway project](#) linking India, Myanmar and Thailand, as that would give a significant boost to its “Act East” policy.

Interestingly, China did take note of India’s “Act East” Policy and the infrastructural projects and upgrades that are being undertaken in India’s north-eastern region.

The issue of “soft power” also came up during the discussions, with India suggesting that, in addition to the current working groups, an additional group be established to promote [culture](#). Of late, Indian movies have been doing very well in China, with the latest success being [Hindi Medium](#), with box office collections nearing 200-crore rupees (\$3.9 million). Earlier movies, like *Secret Superstar* (Rs. 450 crore/\$8.7 million) and *Bajrangi Bhaijaan* (Rs. 300 crore/\$5.8 million) had even bigger takings. Indian film star Aamir Khan, also one of the producers of both *Dangal* and *Secret Superstar*, has a large number of fans on [Sina Weibo](#) and has also expressed interest in working with Chinese actors. The strained ties between the two governments clearly have not been an obstacle to the success of Hindi movies in China. In fact, the success of Bollywood movies in China receives extensive coverage in the Chinese media.

### ***Challenges for Both Sides***

The insular economic policies of US President Donald Trump, and his intransigence on issues pertaining to climate change, are creating space for India and China to co-operate.

For any meaningful progress to be made, however, some important steps need to be taken.

First, China needs to genuinely address Indian concerns on the Belt and Road Initiative. Indian Ambassador to China, Gautam Bambawale, commenting on India’s apprehensions in an interview with the [South China Morning Post](#) stated that:

If a project meets those norms, we will be happy to take part in it. One of the norms is the project should not violate the sovereignty and territorial integrity of a country. Unfortunately, there is this thing called CPEC, which is called a flagship project of BRI which violates India's sovereignty and territory integrity. Therefore, we oppose it.

At the same time, New Delhi should also take a more pragmatic vision towards the Belt and Road Initiative. While New Delhi should not give up its stance on the “sovereignty issue”, synergies should not be ruled out. New Delhi should be open, for instance, to the BCIM Corridor, which seeks to connect Kunming to Kolkata.

While New Delhi is working jointly with Japan on projects like the [\(Africa-Asia Growth Corridor\)](#) and other countries in the Indo-Pacific have spoken in terms of strengthening

connectivity projects, New Delhi should look at all options. If Japan and China are willing to work jointly on [connectivity projects](#), (during a meeting between the Foreign Ministers of both countries in Tokyo, this issue was discussed), there is no reason why New Delhi should be totally closed to the BRI. Considering the fact that China is planning to extend the CPEC through to [Afghanistan](#), New Delhi cannot afford to take an excessively rigid attitude towards participating in the project.

Second, in such areas as investments, infrastructure and agriculture, it is important to get the Indian state governments and Chinese provinces on board by rotation. The fourth Strategic Dialogue in October 2016 witnessed the participation of India's coastal states and presentations by representatives of them on possible investment opportunities. It was decided that greater co-operation between both sides was possible in the field of manufacturing. The Minutes of the [Dialogue](#) note that:

... representatives of different States, viz., Gujarat, Telangana, Karnataka, Andhra Pradesh and CEO, Delhi Mumbai Industrial Corridor Development Corporation Ltd., made presentations in the Working Group .... The State Government representatives gave presentations on the opportunities in the above sector in the coastal regions of India .... Mr Li Xuedong (Deputy Director General NDRC) stressed that the Statement of principles on Manufacturing and Industrial Capacity between NDRC, China and NITI Aayog, India to be signed on 7 October by two Chairmen of the 4th India China SED, would mark the good beginning of manufacturing and industrial capacity co-operation between the two sides, with active participation of Chinese local governments and Indian states ....

In recent years, a number of states and provinces which were not previously pro-active in that sense have now begun to play a greater role in the bilateral relationship. Of late, for instance, China has shown an interest in eastern India (especially West Bengal), due to the [BCIM project](#). On the Chinese side, provinces such as Jiangsu, which have done well in agriculture, and Indian states like [Punjab](#) have sought to build linkages with them. Although the [India-China](#) Forum of State and Provincial Leaders has failed to elevate the participation of the Indian states and the Chinese provinces in the bilateral relationship to the greatest degree possible, it is something that the Strategic and Economic Dialogue could – and should – work towards achieving.

Third, while China needs to address India's concerns and cannot afford to be dismissive of India's apprehensions, New Delhi needs to move beyond a "security mindset". Building a constructive economic relationship will be tough without some degree of flexibility from both countries. If both sides are not genuinely flexible, the bilateral relationship will not move beyond platitudes and MoUs.

Fourth, basic issues like a more realistic (if not relaxed) visa regime, increased connectivity, and more direct flights between both countries are essential for progress in all spheres.

The current geopolitical and economic scenario is highly interesting – albeit challenging and complex – and India cannot restrict itself to anyone camp. It should try to harness all

opportunities, as and when they arise. Most important of all is the need to distinguish between short-term goals and a long-term vision, which needs to be futuristic and holistic. Taking all of the above into account, it remains to be seen whether the Modi-Xi summit will contribute to addressing at least some of the key geopolitical and economic differences between the two countries.

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**About the Author:** Tridivesh Singh Maini is a New Delhi-based Policy Analyst, associated with the Jindal School of International Affairs, O.P. Jindal Global University.

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80 Birdwood Parade, Dalkeith WA 6009, Australia.  
Tel: +61 8 9389 9831 Fax: +61 8 9389 8803  
Web: [www.futuredirections.org.au](http://www.futuredirections.org.au)