Are China and India allies or enemies in the South Asian economy? Well, it seems they are both; working together in healthy and profitable partnerships while maintaining armies in the contested China-India borders. This article explains the paradoxical nature of the China-India relationship and its impact and implications for the smaller countries in South Asia and neighboring Southeast Asia.

The rise of China and India over the last two or three decades continues to make global news headlines. Competition between these two global powers in economic, political and diplomatic domains has garnered scholarly and media attention. Yet we know much less about China’s growing ties and contention with India that are also spreading across the South Asia subcontinent and beyond. As China-India trade has grown, India in 2006 opened the historical trade route, Nathula Pass, which had remained closed for almost 50 years as a result of a border war with China in 1962. Today in the presence of several persistently disputed border zones in South Asia (see Map 1), China is beginning to build dams on the rivers in the Tibetan Plateau, including the upper Brahmaputra (yarlung tsangpo or Yarlung River), which could impact populations living downstream in India and Bangladesh (see Map 1).

China has taken over the construction of Gwadar Port in the Pakistani province of Baluchistan, on the Arabian Sea. China has also begun building the Gwadar road corridor all the way north to Xinjiang.

These developments in South Asia are not unusual considering that China has expanded its trade ties with many developing countries, secured more energy supplies from them and built extensive transport and urban infrastructure (roads and municipal buildings) there in recent years. At first glance, China’s growing presence in South Asia is part and parcel of its global reach of economic activities. A closer look reveals distinctive regional challenges facing China in the presence and growth of India as a major geopolitical power. Unlike in any other world region, China has to contend with India, not so much in direct economic competition but rather in restricting the latter versus its long-time ally Pakistan, thus maintaining a rough balance of power in South Asia. This broad geopolitical concern shadows any moves of China and India and their impact in the region.

Contention between China and India is critical to the South Asian Association of Regional Cooperation (SAARC), which was set up to promote trade and other economic cooperation among the South Asian countries. While India is reluctant to admit China from its observer status to a full member, the other members, especially Bangladesh, Pakistan and Nepal want China to join – as a counter to India. Not being a full member of SAARC may limit China’s trade with India, whose volume ranked behind smaller Asian economies like Malaysia, Singapore and Thailand as recently as 2012 (see Table 1 on next spread), even though India led all South Asian countries in growth of trade with East Asia, especially China during 1990-2012.

As China and India continue to grow their bilateral trade, they have become co-leaders of the BCIM (Bangladesh-China-India-Myanmar) Corridor project. Following two
meetings between Indian Prime Minister Manmohan Singh and his Chinese counterpart Li Keqiang, in New Delhi in May and in Beijing in October 2013, China and India have turned the BCIM project, which had been mired in scholarly discussions in the four countries, into a crucial official initiative. Designed to link China and India with Bangladesh and Myanmar, the BCIM project will take the form of an economic corridor that will run from Kunming to Kolkata and then extend all the way to and through Mandalay in Myanmar, and Dhaka and Chittagong in Bangladesh (see Map 2). The main driver of this trans-border regional project is China, which used Kunming, the capital city of Yunnan province bordering Tibet and Myanmar, to launch the first-ever China-South Asia Exposition in June 2013 (see Photo 1). In terms of geographical proximity and symbolic significance, Kunming serves the most convenient regional platform for China to strengthen and deepen its economic ties with South Asia. The BCIM project illustrates the under-recognized importance for examining China’s efforts to engage its South Asian neighbours across multiple borders, with the India-China border being the most important for both its lasting tension and potential new opportunities.

**A Contested Borderland**

The India–China border stretches across the entire snowy range of Himalayas from the North to Northeast regions of India. When Britain ended her colonial rule over India, she left behind a fraught legacy of arbitrarily drawn borders between countries in South Asia. For decades now these borders have caused bilateral tensions between India and other surrounding countries particularly China, Pakistan and Bangladesh.

In their 2012 paper on India-China and India-Bangladesh borderlands, Pallavi Banerjee and Xiangming Chen argued, “...the security concerns at the borderlands still shape how the nations react to each other.” The brewing tension between India and China since the mid-1940s led to the Sino-India frontier war of 1962. In the aftermath of the war, China retained most of its claim in Aksai Chin (marking the region at the junction of China, India and Pakistan). India maintained its claim over 70% of the land in the Northeast Frontier under dispute in 1947 when Britain withdrew from India. The 1962 war spurred India and China to treat their mutual borderlands as critical frontiers for national security. The armies of both countries remain deployed on the borders, especially in the strategic town of Tawang in Arunachal Pradesh in India (see Map 1). China claims Tawang for being the birthplace of the sixth Dalai Lama. India has not laid claim on Manasarovar which is located in China and considered a Hindu pilgrimage site of great significance. However, India pushed toward building an artery of roads and military bases along the critical areas where it felt vulnerable to China.

Since the war, the India-China border areas along the State of Arunachal Pradesh have experienced sporadic tensions. In the last few years, Chinese officials are calling the far northeastern part of Arunachal Pradesh, “South Tibet.” This has infuriated India, which perceives this attempt to rename as a territorial claim by China. The continued disagreement on the demarcation of the borderland has ensured that the relationship between India and China remains volatile and the borders contested with imminent danger of military action.
the Kunming (City) Initiative (now the BCIM Forum advancing the corridor project) to strengthen regional economic cooperation and cultural exchange between the contiguous regions of Eastern/Northeastern India, China’s Southwest, Myanmar and Bangladesh.” China has emphasized the advantages of trans-border trade, tourism and transport linkages, investing in building access routes by land (railways) and sea to South Asia and the Bay of Bengal. China is now India’s second largest trading partner after the United States.

So what does the paradoxical nature of the India-China relationship (persistent border disputes co-existing with surging trade/economic relationships) mean for people living in the borderlands? Border residents are largely unfazed by the ongoing disputes even though the living conditions in the area are not ideal. The governments have no stake in developing these borderlands. The civic resources are scarce, threats of military action loom large and the terrain remains harsh. In reaction to the conditions, the border residents downplay the bilateral sanctity of the border, crossing between them often covertly, to access material resources on either side. They have little allegiance to the nation-states or their politics but make the best of the situation by establishing economic and cultural relationships across the borders, rendering the borders open despite the ongoing contestations. It is up to the two countries to resolve the geopolitical border conflicts and encourage the already existing friendly cross-border relations.

### Firing Conflict with Water

On April 15, 2013, a 19-km strip of land, barren and cold, with no apparent strategic importance, caught national attention in India and became the symbol of Chinese aggression after People’s Liberation Army (PLA) soldiers intruded on alleged Indian territory in Ladakh. Though border issues grab attention, the water conflict between the two countries is developing at a much faster rate and will have a greater impact in the coming years. On March 1, the Arunachal Pradesh government reported that the Brahmaputra River was drying up due to alleged malpractices of Chinese dams. Although this report was disputed by the Indian government two months later, it generated attention in China and other circles. If the river was indeed rerouted, as an Indian analyst would say, it would “be akin to a declaration of water war on India and Bangladesh.” Similar to border issues, the Sino-Indian water conflict arises due to a lack of an institutionalized approach and meaningful dialogue to solve water issues.

### Table 1

<table>
<thead>
<tr>
<th>Country</th>
<th>2011 Total Trade from China</th>
<th>2012 Total Trade from China</th>
<th>2011 Exports to China</th>
<th>2012 Exports to China</th>
<th>2011 Imports from China</th>
<th>2012 Imports from China</th>
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<tr>
<td>Brunei</td>
<td>1.3</td>
<td>1.3</td>
<td>0.7</td>
<td>0.4</td>
<td>0.6</td>
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<td>2.3</td>
<td>0.2</td>
<td>0.2</td>
<td>2.9</td>
<td>2.7</td>
</tr>
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<td>Indonesia</td>
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<td>29.2</td>
<td>31.3</td>
<td>34.3</td>
<td>66.2</td>
<td>34.3</td>
</tr>
<tr>
<td>Laos</td>
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<td>0.8</td>
<td>0.9</td>
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<td>62.1</td>
<td>36.5</td>
<td>94.8</td>
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<td>1.7</td>
<td>5.7</td>
<td>7.0</td>
<td>1.3</td>
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<td>18.0</td>
<td>16.7</td>
<td>36.4</td>
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<td>28.1</td>
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<td>39.0</td>
<td>31.2</td>
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<td>341.3</td>
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<td>194.6</td>
<td>151.6</td>
<td>329.5</td>
<td>177.8</td>
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<td>South Korea</td>
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<td>83.0</td>
<td>162.7</td>
<td>87.7</td>
<td>256.4</td>
<td>168.7</td>
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<td>82.7</td>
<td>37.7</td>
<td>122.3</td>
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<td>5.0</td>
<td>3.9</td>
<td>9.7</td>
<td>5.8</td>
</tr>
<tr>
<td>India</td>
<td>73.9</td>
<td>50.5</td>
<td>23.4</td>
<td>47.7</td>
<td>66.5</td>
<td>18.8</td>
</tr>
</tbody>
</table>

Source: 2013 China Statistical Yearbook

Water is essential to agriculture in China (137 million hectares of arable land) and India (161 million hectares of arable land) with a majority of citizens relying on agriculture for income.

The gravity of the Sino-Indian border-intensive conflict is immense. Asia is the driest continent with the lowest per capita freshwater availability, around 3,190 cubic metres (less than half of the global average). On the other hand, its irrigation practices have amounted to three fourths of the world’s irrigated land. Water is essential to agriculture in China (137 million hectares of arable land) and India (161 million hectares of arable land) with a majority of citizens relying on agriculture for income. Beyond rural needs, urbanization and a growing middle class have offset the reduced pressure of slowing population growth in the two countries on water. With growing water needs from industrial hubs and for consumption purposes, India and China will likely try to harness the resource at a much faster rate. As such, the Brahmaputra River has become the centrepiece of...
Sino-Indian geo-economic maneuvering with Indians at a natural disadvantage of being a downstream partner.

China’s unilateral approach to dam-building decisions has become an issue of national security. Indians find any dam creation on the Chinese side akin to a hostage situation where the PLA could use the dams to its strategic advantage. Similarly, the Chinese believe dams in Arunachal Pradesh amount to diplomatic sabotage in a disputed area of ‘South Tibet.’ The river is of such importance that the Chinese government has repeatedly announced its unilateral approach to harness the ‘Great Bend’ on the river near the Indian border (see Map 1) with a 38,000 Megawatts (MW) Metog Dam. This project, though dormant as of now, would have fed into the drying Yellow River in Northern China but would have severely impacted livelihoods of hundreds of millions in East India and Bangladesh. Nonetheless, the Chinese announced the creation of three dams on the Brahmaputra, all near the Indian border, without any consultation with the Indian authorities. After India lodged complaints against this unilateral approach and suggested an information sharing mechanism, the Chinese side responded with facts of dam designs and a rejection of creating new mechanisms.

Even flood data sharing mechanisms are temporary and subject to periodic agreements. Compared to China’s relationship with the Mekong River countries, the conflict over the Brahmaputra River shows that the Sino-Indian dialogue is more reactionary than it is a process. Moreover, unlike the unified approach Mekong Basin countries adopt, India’s fragmented relations with its South Asian neighbours decreases the diplomatic weight needed to ignite the creation of water institutions.

In a vast region with several major rivers crossing multiple national boundaries, the heavy construction of dams presents major challenges. With several hundred dams being proposed or planned for the region, it could lead to capacity additions of over 150,000 MW in the next 20 years. But it could also generate disastrous ecological consequences. “Submergence of lands, homes, fields and forests on a large scale will displace hundreds of thousands of people. Damming and diversion of rivers will severely disrupt the downstream flows, impacting agriculture and fisheries and threatening livelihoods of entire populations.”

Given their low level of development and high level of poverty, South Asian countries have few other choices than building dams to generate electricity, and in the case of Nepal and Bhutan, exporting it to India. This is very similar to Laos building dams on its segment of the Mekong River to export electricity to Thailand, with financing and construction from China.

Looking East and Going Southeast
China’s incursions into South and Southeast Asia worry Indian policymakers who fear that an Asia under Chinese hegemony would end India’s ambitions of becoming a global power and severely curtail its regional influence.

These concerns are an important force behind India’s “Look East Policy” (LEP), a post-Cold War initiative that centres Indian foreign policy around stronger engagement with its neighbours to its east. During the Cold War, India was an isolated figure in Asian geopolitics. But the demise of the Soviet Union, as well as a flagging economy at home, forced India into two policy revolutions in the early 1990s: liberalization to fix the economy and the LEP to strengthen links with Southeast and East Asia. Implementation of the LEP was slow in its first decade, as the Indian policy establishment struggled to formulate concrete aims for the initiative. The past ten years have been more successful, with policymakers shifting away from the early emphasis on trade and investment promotion to a broader package of economic and security concerns. India’s ties with ASEAN have improved considerably under the watch of the LEP; trade reached $68 billion in 2011, from a baseline of $3.1 billion in 1991. But this volume does not establish India as a regional force commensurate with its global ambitions. China-ASEAN trade in 2011 was four times as large. Yet recent changes in Asia’s strategic environment may favour a stronger role for India in Southeast Asia. Incidents such as the ongoing South China Sea dispute have spurred a succession of security cooperation initiatives between India and ASEAN nations who hope a more active India might help counter Chinese influence.

Myanmar’s opening up also promises a new land bridge between India and ASEAN. After ten years of stalling, the Myanmese officials have finally committed to completing a tri-lateral highway project with India and Thailand by 2016 that could increase India-ASEAN trade by $100 million over five years. Stronger ties with Southeast Asia are just one component of India’s efforts to reorganize the regional geography of Asia. The Bay of Bengal Initiative for Multi-sectoral and Economic Cooperation (BIMSTEC), launched in 1997, includes seven geographically contiguous South and Southeast Asian countries: India, Nepal, Bhutan, Bangladesh, Sri Lanka, Myanmar and Thailand. These members established a framework for a free trade agreement in 2004 and target completion by 2017. The BCIM corridor mentioned...
above could be even more transformative. The corridor retraces and revives much of the ancient “Southern Silk Road,” dating from 200 BCE, and the Ledo or Stilwell Road (see Map 2), a World War II-era road that supplied military equipment from Assam and British India to Chinese Nationalist forces fighting Japan. Representatives from Bangladesh, China, India and Myanmar met in December 2013 for the first round of official-level talks to set a timetable for the multi-billion dollar initiative; they hope to establish a cooperation framework by late 2014 to set the stage for on-the-ground work. Long-term aims include multi-modal transport networks across land, sea and air that will significantly shorten transit times for Chinese and Indian exports. Goods from China’s landlocked Yunnan province will gain faster overland access to the Bay of Bengal. Meanwhile, goods from India’s northeast right now take seven days to move by road to the Kolkata port, and then another three to four weeks to move by sea to China; the reopening of the Stilwell Road will allow them to reach Yunnan in less than two days, while reducing transport costs by about 30%. Bangladesh also stands to benefit from the coastal shipping line as the movement of basic commodities would be much cheaper and faster.

But success for the BCIM corridor will require enormous changes in the political and economic environment of Northeast India. The region is a crucial starting point and link in the BCIM corridor, but it suffers from weak infrastructure, poverty levels from 40-60%, and as many as 109 ethnic insurgencies. At best, the corridor could bring an economic boost to the Northeast akin to what stronger trade links with Southeast Asia have brought to China’s Southwest. But making this happen would involve reversing Delhi’s longstanding strategy towards the region, a mixture of economic neglect and military heavy-handedness.

Though it supports the BCIM corridor, India is concerned that too much Chinese access to India’s underdeveloped border states will limit the potential of the corridor as a spur for growth. According to Binoda Kumar Mishra, director of India’s Centre for Studies in International Relations and Development, "as Yunnan is the most advanced in the cluster, India fears that it will become BCIM’s economic centre, with the rest of the region reduced to its periphery." Staging the first China-South Asia Expo in Kunming in June 2013 (Photo 1) served as southwestern China’s platform for connecting to and expanding into South Asia. India lacks the geopolitical and economic heft to fully match China’s growing influence in Southeast Asia. But the shifting geopolitics of Asia are offering India new opportunities to strengthen integration with its eastern neighbours and developing its own poor northeastern region.

Hang Together or Hang Separately

As China and India seek a balance between cooperation and contention in South Asia, their respective positions in the region are complicated by their varied cross-border linkages with the other neighbouring countries, as well as their competition for exerting a greater influence on these countries. Despite being archrivals, India and Pakistan have decided to open the Wagah-Attari border for 24/7 trade and allow containers to be moved right up to Amritsar and Lahore instead of being unloaded at the check-post and re-loaded on the other side. This move will help smoothen trade between the two countries. A long-standing backyard for India, Nepal has become economically closer to China, India’s ties with ASEAN have improved considerably under the watch of the LEP; trade reached $68 billion in 2011, from a baseline of $3.1 billion in 1991. But this volume does not establish India as a regional force commensurate with its global ambitions. China-ASEAN trade in 2011 was four times as large.
which overtook India to become the largest foreign investor in Nepal during the second half of 2013.

China made a more significant move to establish a strong foothold in South Asia when it took over the upgrading and operation of Pakistan’s Gwadar Port in 2013. The Gwadar project serves China’s “look west” policy while allowing Pakistan to “look east.” China is building a road from Gwadar all the way north to Kashgar or Kashi, the westernmost large city in Xinjiang, China near the borders to Tajikistan and Kyrgyzstan (see Map 3). Pakistan and China also plan to connect the port via the Indus Highway, around 414 km from the China-Pakistan border and further reaches to Tajikistan, Kyrgyzstan and Kazakhstan. This will provide China with a land-based supply of oil from Central Asia. Given its geographical location, Gwadar cuts China’s distance from the Persian Gulf, from which China gets 60% of its oil, by thousands of kilometres. Gwadar is already connected to Karachi through the Makran coastal highway, built with $200 million in Chinese assistance.

Overall Gwadar Port offers existing and new transport connections for moving commercial and other traffic to and through the Central Asian states, Afghanistan, the Middle East, the Persian Gulf, China, Iran and Southeast Asia (Map 3).32

While the economic rise of China and India is felt globally, it is in South Asia where the two emerging powers both contend and cooperate with each other while wielding competing influence on the neighbouring countries. Despite the legacy from the 1962 border war, China and India have come a long way in improving their bilateral relationship, especially under India’s current Prime Minister Manmohan Singh and former Chinese Premier Wen Jiabao. To build on this momentum, India has designated 2014 as the “Year of Friendly Exchanges” between India and China. This optimism aside, the two key players are bumping into each other’s strategic interests as India and Bangladesh look east and China moves west and south. It is up to the two giant neighbours to manage their competition by enhancing their cooperative activities and ties. If they can do that, they will foster more favourable spaces of shared development and prosperity for their smaller neighbours in the region. EBR

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As Borders Bend: Transnational Spaces on the Pacific Rim, by Xiangming Chen (Rowman & Littlefield Publishers, 2005)

A brilliant deciphering of the meaning and agency of borders. Chen shows us how the decentering of state power enables border regions to emerge from the shadow of capital city regions. This in turn produces a whole new research agenda on the increasing complexity of the interaction among borders, transnationality, and the scattering of state functions.

— Saskia Sassen, author of The Global City