



## India and China

## Still treading on India's toes

## Trade is booming; but even that adds some new elements of mistrust

CLOSE friends have little need of formal professions of warmth. India and China are not there yet. Thus 2006 is officially "a year of friendship" between the two countries, culminating in a visit by Hu Jintao, China's president, to India on November 20th. China's ambassador in Delhi chilled matters this week, declaring Arunachal Pradesh, a state covering some 84,000 square kilometres (33,000 square miles) in the north-east of India, to be part of China. The dispute over the border is so long-running that India's reaction was no stronger than official outrage and unofficial weariness. Yet the calm reaction also shows how, on the Indian side, antagonism with China is already priced in.

Relations between the two countries have improved since 1998, when India angered China by justifying its tests of nuclear weapons with an oblique reference to the Chinese threat. The thaw is a tribute to a political process that has kept border talks going since 1988, and saw them elevated to a higher level in 2003. Progress has been slow, but that has been part of the point: the dispute has been in quarantine while relations improved in other ways.

The benefits can be seen in the growth of trade between the two countries. In urban India, the biggest Hindu festival of the year, Diwali, was this October lit up almost

entirely by lanterns made in China, despite enthusiastic use of anti-dumping petitions by Indian firms to keep Chinese goods out. Two-way trade, worth only \$1.5 billion in 1998-99, may reach \$20 billion this year, with a surplus in India's favour.

Yet suspicions endure and will be hard to shift. Inside India's defence establishment, they are fuelled by three aspects of China's policy.

First, still, come the contentious borders. The outline of the eventual solution seems clear: the disputed land on the eastern end of the border stays with India and with China in the west. But that would represent acceptance by India of the outcome of its abject defeat in the two countries' war in 1962, and has always been politically difficult. China appears unwilling to help with even cosmetic concessions, and has been loth to define where it thinks the border runs. Indian officials think agreement is still some years away.

Second, Indians worry about China's traditionally cosy friendship with Pakistan, and its alleged help with Pakistan's nuclear-weapons programme. They point out that while Mr Hu will sign agreements on trifling cultural matters in India, in Pakistan, his next destination, he will sign nuclear-power deals worth billions of dollars. They also resent China's assistance to

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Pakistan's navy, which will as a result by 2015 have as many frigates as India, according to Srikanth Kondapalli of Delhi's Jawaharlal Nehru University.

Third, China's military ties with India's other neighbours in South Asia make them jumpy. China has a defence co-operation agreement with Bangladesh, and has offered assistance to governments in Sri Lanka, Nepal and Myanmar. Other parts of India's hydra-headed government may feel more warmly towards China, but they will find it hard to silence the hawks.

For China, which tends to look on India not as a rival but as a poor neighbour afflicted by bureaucracy and democracy, suspicion springs less from fear than from pique at India's spurning of Chinese investment. One official Chinese newspaper complained recently that Indian approval for Chinese investments can take between six months and a year, and requires the endorsement of four bits of the bureaucracy, whereas investments from most other countries require approval only from the Reserve Bank of India, the central bank.

India has indeed blocked investments in ports and telecoms infrastructure. It considers both strategic assets which ought to be kept out of the hands of companies controlled by a foreign government that claims a large chunk of India. And it has thought out loud about drafting a law that would subject investments from proscribed countries to special scrutiny. A certain country with 1.3 billion people would probably be first on the list. This has prompted Chinese talk of retaliation.

So far, though, India has found other ways to keep Chinese companies out. Chinese businessmen operating in India grumble about the difficulty of getting vi-

> sas for Chinese workers. "Chinese people are suffering very special treatment," says Hongsen Wang, managing director of Sino-steel India, the largest Chinese importer of iron ore from India. Even Indian companies that have tried to import Chinese workers have had trouble.

India, in turn, points out that its information-technology companies, which have expanded into China, are winning business primarily from their multinational clients there, not Chinese firms or the government. All of which has conspired to keep the growth in cross-border investment lagging behind trade.

For that to improve, and for trade to

keep growing, the two countries need to make their trade routes more direct and open up their markets to each other. There are still only six direct flights a week from Delhi to Beijing. More business and tourist travel might help dispel the lingering suspicions. But it will not happen quickly. "These are two old civilisations," says C.V. Ranganathan, a former ambassador to China, "and their relationship will move at a civilisational pace." That is too slow for many businessmen, and, to the extent it impedes trade and growth, too slow for the hundreds of millions in the two countries who have yet to reap much benefit from their growing economies. •