

China in the 21st Century - Implications for India

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INTRODUCTION

An Indian scholar wrote recently, quite rightly in my view, that there is "frightening complacency" in this country about China and the threat it poses to India. Our policy makers seem to be engrossed with the nuclear threat from Pakistan, but they do not blame China loudly enough for exporting nuclear technology to Pakistan. Have we forgotten that China humiliated India, took its territory by force and still claims large chunks of Indian territory? There are many in India who cite the growing diplomatic, cultural and economic interaction and the relatively tension-free border as evidence of improvement in relations between the two countries.

There is every reason to hope that bilateral relations between India and China may improve further in the coming years. The total trade between the two countries may reach \$ 4 billion by the end of this decade from the current less than \$ 1 billion. Although China does not accept Sikkim as a part of India yet, happily for India, China now takes a position of neutrality of sorts on the Kashmir issue. Nevertheless, there is no likelihood of a mutually acceptable solution of the border dispute in the foreseeable future.

In real terms, improvement in Sino-Indian relations will not bring about any material change in China's strategic alliance with Pakistan. A new and additional concern for India is China's expanding political, economic and military ties with Myanmar. Sino-Indian relations will remain essentially competitive in the 21st century and the process of on going detente will be marked by mutual suspicion. Therefore, a close look at the scenario that is likely to emerge during the early years of the coming century is in order.

China and India, the two giants of Asia, together account for over 2 billion of the world's 5.3 billion people. With their economic reform, growing military power and global integration, the two countries, by the end of the first decade of the next century, are likely to play significant roles in the Asia -

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Pacific and the Indian Ocean region respectively. Just how important and how powerful are these two countries likely to become by the early part of the next century? These are questions which defy clear cut answers because there are too many variables involved in the calculation of a country's strategic potential and acquisition of power. Nevertheless, analysts and strategic thinkers agree that sustained rapid economic development is a crucial determinant and significant indicator of a nation's potential to be a regional or global power of some consequence.

The economic importance of the two countries are often under-estimated due to reliance on the misleading conventional calculations of Gross National Product (GNP). There is general agreement now that after adjusting for Purchasing Power Parity (PPP), India's per capita GNP will be somewhere around \$ 1000 to \$ 1150 which would make India's economy a little larger than Britain's. Similarly, the IMF, the World Bank and the UN PPP estimates of China's per capita GNP vary from \$ 1396 to \$ 3396 for the year 1992. A figure in the middle range would still give China an economy much bigger than Germany's and approaching that of Japan. According to the "World Development Report (World Bank)" of 1994, China's was the third largest economy after US & Japan and India's was the fifth largest after Germany in the list of the Ten biggest world economies (GDP on PPP basis).

There are many similarities in the developmental process in the two countries. Both China and India have significant technological and scientific base though millions in both the countries are still using farming techniques which have not changed for centuries. The transition to competitive market economies have created a strong nexus in both the countries between politicians, bureaucrats, organised crime and business, and corruption is rampant in both the societies. Both China and India are grappling with the common problems of inefficient public enterprises, retaining the levers of macro-economic management centrally while allowing decentralization of economic decision-making and above all, garnering political support for reform among rural population.

Along with growing economies, China and India are also steadily acquiring military strength. India has more than a million strong Army, expanding deep water fleet, indigenous missile delivery system, well-developed nuclear capability and space research programme. China's military capability is second only to that of the US and is expanding rapidly. It is already a nuclear power of global dimensions. From all available indications, both India and China will be able to sustain steady military build up in the years to come, but at the current level of rate of economic growth, China's military capabilities will be substantially greater in the coming decade and beyond.

COMPARATIVE PERFORMANCE

How have the two countries performed so far? After decades of unimpressive growth. India's growth rate accelerated to nearly 5 per cent in 1993-94 and reached 6.3 per cent in 1994-95. China maintained a steady more than 9.5 per cent average annual rate from 1978 till 1992 and double digit rates from 1992 to 1994. Since 1978, the per capita GDP of China has roughly quadrupled - a truly spectacular performance.

China's high growth rate stems from its high level of domestic savings and investment. China saves and invests about 40 per cent of its GDP, whereas India, a little over half of that. During 1981-1990 China's gross domestic investment was 33.6 per cent of its GDP on the average while gross domestic savings was 34.6 per cent. In 1993, the respective figures were 43 and 40 per cent, among the highest in the world. Secondly, India is much less urbanised and more dependent on agriculture in terms of share of national output and employment; sixty per cent of the working population in India are farmers, many in small-scale agriculture which acts as a brake on rapid growth.

In two key areas of reform, namely, foreign investment and foreign trade, China's performance has been superb. By the mid-90s, China had become one of the world's largest trading nations, its trade to GDP ratio having risen from 8 per cent in 1978 to over 20 per cent in 1992-93. In 1994, China's total trade stood at \$ 237 billion. By comparison, in 1994-95, India's total foreign trade amounted \$ 5.5 billion. As far as foreign direct investment is concerned, China's record is truly impressive. In fact, FDI has been the most important instrument for lifting China's economy rapidly. In 1994, it contracted US \$ 81.40 billion and the actual investment amounted to \$ 34 billion. The average annual inflow between 1979 and 1994 was \$ 6.1 billion. According to the latest RBI figures, from April 1995 to January, 1996, India's foreign direct investment amounted to only \$ 1.6 billion. In the years 1993-94 and 1994-95, FDI in India was \$ 620 million and \$ 1.31 billion, respectively.

China's foreign exchange reserves stood at a substantial \$ 80.83 billion at the end of March 1996 as against \$ 20.89 billion for India in January 1996. Although China's outstanding foreign debt was \$ 93 billion at the end of 1994, the debt burden was modest with a debt-service ratio of 9.12 per cent on account of its massive exports which enabled China to be a large borrower from abroad. By contrast, India's external debt stood at \$ 99.04 billion in March 1995 with a relatively high debt-service ratio of 26.6 per cent in 1994-95. India's trade reform not only began much later, it has moved at a leisurely pace unlike China where sustained commitment to liberalization of external trade has paid rich dividends.

Without doubt, China has out-performed India in terms of growth, capital inflow and social dimensions of development, China has higher aggregate per capita production of goods and services, higher levels of health and education and less number of people living in absolute poverty. The World Bank's and the United Nations economic and social indicators are significantly higher in the case of China.

PROJECTIONS FOR CHINA'S FUTURE

Many in the West have wondered whether China will be able to sustain its spectacular economic record in view of various uncertainties and systemic instabilities that may slow down China's rapid emergence as an economic and military super power in the coming decades. Admittedly, China faces uncertain political future surrounding Deng's imminent succession. But there are certain vital areas in which post-Deng China will differ from post-Mao China.

The current Chinese leadership is much less divided than their "revolutionary" predecessors over the basic domestic and foreign policy issues. Though there are latent differences over the pace and extent of economic reforms, there is a broad consensus in favour of the need for economic pragmatism and links with the outside world. The majority now seem to prefer relatively slower and gradualist reform while retaining strong political control by the centre so that the various socio-economic evils caused by rapid transition to market economy-such as corruption, crime, unemployment, etc., can be kept in check. Jiang Zemin, Li Peng, Vice-Premier Zou Jiahua and many others belong to the more conservative group which exert greater influence within the leading party and state organs than the more adventurous Zhu Rong Ji, Qiao Shi or Tian Jiyun.

As China approaches the post-Deng era, one notices a number of domestic trends which will inevitably shape and influence China's foreign policy and strategic posture in the coming years. The growing economic disparities, wide-spread corruption, unemployment, urban inflation - have all combined to give rise to public discontent and cynicism. The Communist Party's prestige has suffered a relative decline and the capacity of the Leninist state apparatus to enforce decisions has diminished. The leaders of China have realised that the legitimacy of one party dictatorship will be challenged in future if they fail to reverse the growing popular discontent. They are also aware that in the long run, economic success may generate pressures for political change as it has done in South Korea, Taiwan and elsewhere. Hence, there is a consensus at present that political reform must be given a back seat and there should be greater authoritarian control so that the change-over to post-Deng era is smooth and orderly.

More importantly, as the legitimacy of Communist ideology declines, the leaders of China today seem more and more compelled to appeal to patriotic nationalism in order to justify one party rule. The new generation of PLA leaders are younger, better-educated and more professionally trained than their predecessors. The attention of the officer Corps is now focussed mainly on modernization of the armed forces because they believe that China must acquire military strength for attaining global stature. Many within the PLA seem convinced that the West led by the US intends to weaken or fragment China by promoting dissent and separatism. The PLA advocates expansion of China's naval and air capabilities so that China can regain its historical role as the dominant power in Asia.

Unlike their predecessors, the PLA leaders of today have fewer political ties and consequently, the civilian leaders are less and less able to manipulate them for political ends as in the past. None of the top civilian leaders today have the power or charisma to disregard the military's views which has been amply illustrated by the recent hardline response vis-a-vis the US on the Taiwan issue.

The Chinese military planners today place high priority on the creation of a modern force structure consistent with rapid power projection and more combined services tactical operations doctrine employing sophisticated C³I systems. The strategic outlook is now that of a continental-cum-maritime power with much wider range of external security needs. The emphasis is on the development of air-borne drop and amphibious landing capabilities, air and naval electronic warfare systems, precision-guided munitions, communication and early warning satellites and inflight refuelling technology.

Given sustained growth, China's future military capabilities will be substantially greater. By AD 2010, China will have, according to various estimates, a strategic nuclear force with 50-70 MIRV, solid-fuel ICBMs capable of targeting all of Asia, parts of Russia and most of the USA. A fleet of nuclear-powered ballistic missile submarines will most likely enable China to hit targets in Asia from under the sea. Its navy will have aircraft-carrier capability of modest scale and the Air Force will be modernized with advanced combat aircraft.

There is general agreement among China-watchers that China's impressive economic performance and growth rate can be sustained in the remaining years of this century and beyond-albeit at a slightly reduced pace. At the recently held 4th session of the 8th NPC, Premier Li Peng has indicated that China will apply moderate brakes on the fast-paced reform programme. The average annual growth rate during the 9th Five Year Plan (1996-2000) will be kept at

8 per cent as against a steady nearly 10 per cent annual growth rate experienced by China since 1981. However, this will only marginally delay, but not postpone, China's emergence as an economic super-power by early 21st century.

No doubt there are other problems too connected with the ongoing economic reform which have to be tackled with a combination of expertise and ideological flexibility on the part of the Chinese leadership. In order to sustain even the moderately high annual average growth rate of 8 per cent, China has to undertake extensive structural reforms. The fiscal system needs overhauling. The restrictive property and labour rights and the pricing structure of the State-owned enterprises need to be made more compatible with the market system.

China has been facing severe fiscal deficit which was estimated to be in the order of \$ 14 billion in 1994 - more than a quarter of government revenues. Apart from greater need for public spending in social sectors such as health care, housing, unemployment, etc. there is pressing need for expenditure in infra-structural development, environment, alleviation of regional disparities and most importantly, for funding the steadily rising defence budget. Meanwhile, the Central Government revenues have been declining as a share of GNP.

These are, however, transitional problems and are manageable. The Chinese regime is better suited to withstand serious bouts of macro-economic instability as compared to the struggling new infant democracies of Eastern Europe which, unlike China, are facing the problems of double transition viz., building of a democratic society and transition to a market economy. Though economic and political institutions ultimately interact with each other and a Marxist-Leninist state is fundamentally incompatible with a market system, China has shown that one Party dictatorship can co-exist with market reform, at least in the short-term. In fact, China's authoritarian political system has allowed the gradual development of market forces and provided a stable climate for massive inflow of foreign capital which has mainly propelled China's rapid economic growth since the eighties.

IMPLICATIONS FOR THE FUTURE

It is reasonably fair to assume, therefore, that by the end of the first decade of the next century, China will probably be the second largest economy in the world (or, perhaps, the largest economy if one includes "Greater China") with much greater military capabilities than it has at present. It is noteworthy that unlike the frequent debate on the pace and extent of economic reform, the current leadership in China is not divided on the issue of military posturing. China's aggressive nationalist approach is evident from the way it has handled

the territorial disputes in the South China sea. It's regular resort to force in seizing islands demonstrate that it may not hesitate to use force to take what it claims as its own. The recent show of military might in the Taiwan Straits illustrates this tendency more forcefully.

It has been argued that as China becomes more and more integrated into the regional and global economy and depends more and more on foreign capital and trade for sustaining its impressive economic growth, its military posture may become less aggressive and China will be reluctant to intervene militarily in a dispute unless it perceives that its vital economic interests are at stake. But economics and politics often follow their separate course and economic interdependence may not necessarily bring about political harmony between China and its neighbours. China's aggressive military posture against Taiwan which accounts for roughly 10 to 15 per cent of its actual foreign direct investment and 20 per cent of China's total trade is a case in point.

During the remaining years of this century and beyond, the primary goal of China will be maintenance of moderately high rate of economic growth and attainment of big power status. China will carefully watch the future military postures of the US and Japan and also that of other regional players in Asia - notably India. The central element in its foreign policy will be the quest for ways and means of limiting the power of all its regional and global rivals so that it can become the preponderant power in Asia and a global power in its own right.

In the past, China has used military power on several occasions to "right the wrongs of history". It is also unique among the great powers in having territorial dispute with virtually all its neighbours. Will, therefore, a strong and powerful China, be tempted to project its military power outside its borders or overseas? It is said that when nations are weak, they cite principles. When they are strong, they invoke the artillery. Will this dictum be true of an economically prosperous and militarily powerful China?

There is no country in the world which has undergone more radical and more frequent changes in foreign policy than China. During the Cold War era, it has been alternately the friend and adversary of both the superpowers. The South East Asian countries and India have seen China's warm friendship and bitter enmity by turn. Vietnam, once the closest ally, became China's arch enemy. No wonder, therefore, that as China becomes more and more powerful, its neighbours in East and South East Asia tend to feel uncomfortable due to the potential future threat from an economically powerful and militarily aggressive China.

CONCLUSION

If India realises its full economic and military potential and develops its capabilities in the field of nuclear weapons and ballistic missiles, it can hope to acquire countervailing power vis-a-vis China by the year 2010. So far, however, Indian policy-makers have not been able to adequately respond to the rapid change in the post-cold war security scenario. India, in the coming years, will have to watch China not only across the Himalayas, but also in the larger Asian context and the Indian Ocean in particular where the interests of the two countries are likely to clash in the next century.

The next decade will be crucial for India. Like China, India is also passing through a political transition. If the next ruling Government in Delhi shows half-hearted commitment to the agenda for economic reform, India will fall significantly behind and will not be able to acquire the stature of a regional power of consequence, though it has the size, resource-base and technological depth to be a key player. Meanwhile, as China's economic clout grows, it will inevitably seek to expand its areas of influence because it seems all set to acquire the capability to project significant military power outside its land and sea borders within a decade from now. India's strategic focus must, therefore, remain on the challenge posed by the likely emergence of a powerful and aggressive China in the 21st century.

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