

Regional Diplomacy and India-China Economic Relations

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Abstract

Regional diplomacy is today a major trend around the world. China is an early mover in this field, while India has become in building its active Asian connections mainly after the launch of its Economic Reforms in 1991. At present the two countries collaborate in some regional bodies where they are members or observers, and this cooperation is likely to become stronger in the future, supported by objective circumstances and economic opportunities, and the growth in their bilateral economic exchanges. This has beneficial consequences for Asia as a whole and for the world community.

Background

Regional diplomacy (RD) has become a strong force in international relations. Globalization and interdependence have made all states aware, that neighborhood cooperation works to mutual benefit. Small countries see the benefit of numbers, for economic and political advantage. Many regions attempt to emulate successful exemplars, such as the EU, Caricom and ASEAN, with varying degrees of success.

The emergence of new regional groups has created a veritable alphabet soup; most are identified by their acronyms, stumping even experienced observers of international affairs. The key drivers of this trend are:

- An urge for stronger economic cooperation, often starting with the creation of regional trading groups. SADC in Southern Africa is one example.
- A conviction that the successful models from other regions can be replicated in one's own neighborhood. The African Union (AU) borrows some ideas and terminology from the EU, but with limited result.
- A realization that cooperation leads to better mutual security. We see this in the ASEAN Regional Forum (ARF) and ECOWAS in West Africa; other regional groups would like to follow suit.

Regional diplomacy is multilateral diplomacy, practiced within a closed circle.

Plurilateral groups (PLGs) differ from regional groups (RGs) in that they are defined not by geography but by other shared factors—examples: OECD, OPEC, and even G-77. Since they operate in the same way as RGs, it makes sense to treat them as a variant of regional diplomacy.

Regional groups are made up of countries belonging to a geographical area, i.e. a recognized sub-region (e.g. the Nile Basin, SE Asia). But we should remember that what we call 'regions' are political constructs. The Scandinavian group consists of Denmark, Finland, Norway and Sweden; with the addition of Iceland it becomes the Nordic group. Occasionally a non-obvious, geography-determined cluster emerges, but not all are less successful (e.g. IOC-ARC, consisting of states on the Indian Ocean rim, from South Africa to Australia, is one instance). But the Shanghai Cooperation Organization (SCO), covering continental Central Asia, China and Russia does much better.

Other examples:

1. Caricom formally established in 1973, brings together 15 small island states in the Caribbean, including Guyana and Suriname. It started as a customs union and has progressively grown into an economic community that encompasses an FTA, and extensive cooperation in other fields. For instance, it uses a joint negotiator on all EU and WTO economic issues, giving very concentrated powers to this block of votes. Within it, a sub-group of 6, the Organization of East Caribbean States (OECS) has even closer linkages. It runs joint embassies in Ottawa and Brussels.
2. Tehran is the headquarters of ECO, a group that has at its core Iran, Pakistan and Turkey (old partners of the former US-led military alliance CENTRO). This 'Economic Cooperation Organizations' has seven CIS members, and is focused on developing the oil and gas potential of the region.
3. New groups in SE Asia, focus on Myanmar, Thailand and the other countries, linking them with the Chinese Yunnan and Sichuan provinces, exploiting the economic potential of the region (e.g. the Greater Mekong Sub-region (GMS) program in which the Asian Development Bank is an investor, and BIMSTEC that covers SE and South Asia.
4. Regional cooperative groups are now active in the Balkans. Against the background of ethnic disputes and recent bloodshed, the NGOs have taken the lead in re-building mutual confidence, working in select areas, e.g. division of assets and sharing of heritage objects. Civil society leads the governments.

With **plurilateral** groups the unifying element is a *non-geographic* criterion, often economic, (e.g. the Cairns group of agricultural product exporters). This is usually applied with flexibility, when it suits the organization to extend coverage: witness the admission of Mozambique into the Commonwealth and Greece into Francophonie.

The World Trade Organization (WTO) is founded on the principle of universal trade liberalization benefit to all members. But this has not prevented its members from signing nearly 400 'free trade agreements' (FTAs) and 'regional trade agreements' (RTAs) that give exclusive benefit to the signatories, on the premise that these may serve as building blocks, for

eventual universal benefit. 'Preferential trade agreements' (PTAs) are often a halfway house to FTAs.

Regional or plurilateral cooperation is not a universal panacea. Some limitations:

- Ambition can outstrip reality. In 2001, the 'Organization of African Unity' (OAU) proclaimed itself into the 'African Union' (AU), modeled on the EU. This raised expectations, but did not generate new political will, a prerequisite to real unity.
- Vision is not sufficient; member-states must be willing to subsume national interests or see these in a long perspective, create mutual trust and credibility. This deficit is visible in many regional organizations.
- RGs are not a substitute for resolving bilateral disputes, though they can help. SAARC in South Asia has fallen consistently short of objectives owing to sharp India-Pakistan differences: the SAARCn2004 summit produced new determination in both countries to resolve their complex problems.
- Borrowed concepts and methods do not transplant easily. ASEAN, formed in 1967, has is still working on its free trade area; a common market is distant, promised for 2015.
- Enlarging an organization can slow down integration, e.g. ASEAN after enlargement to include Cambodia, Laos, Myanmar and Vietnam.
- Most RGs treat cooperation as a top-down process, directed by their leaders. The lesson of post-War Europe, the creation of understanding among the citizens, especially the youth, through study of languages, cultures and mass exchanges, has not been implemented by any other organization.
- Avoiding hard issues works in the short-term but creates blockage (e.g. ASEAN's problems in dealing with the military regime in Myanmar).

Regional diplomacy has the power to transform relationship paradigm among neighbors. Plurilateral diplomacy does the same for the clusters of states it serves. When it works, such cooperation produces a dynamic momentum that opens the door to possibilities that could hardly be imagined earlier. It proves the adage that whole is often larger than the sum of its parts.

China's Experience

In consonance with increasing sophistication in its international outreach and in its diplomatic techniques, China has become an astute practitioner of regional diplomacy. The Chinese Foreign Ministry has a division that works exclusively on regional diplomacy; according to one scholar the country is a member of about 40 formal and informal regional groups, which represents a high level of RD activity.ⁱ

Besides the regional organizations examined below, in which both India and China are members, China is an active participant in entities such as APEC and ASEAN+3 (A+3), each of which has a number of subsidiary activities, which extends cooperation in a huge range of functional areas. In contrast,

India harbors the aspiration of joining APEC, but is not as yet a member. As we see below, A+3 remains the key pan-Asian group, even while the related entity East Asia Summit mechanism (which is A+3, plus Australia, India and New Zealand), is slowly gaining strength.ⁱⁱ

The **Shanghai Cooperation Organization (SCO)** is a case in point; it consists of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. It initially started as the 'Shanghai Five', dealing with security issues, with a treaty signed in April 1996 among the first five countries (Uzbekistan joined later), on 'Deepening Military Trust in Border Regions'.ⁱⁱⁱ Indirectly, a perceived threat of Islamic fundamentalism that could affect its sensitive border regions was a motivating factor for its members — terrorism, separatism and extremism were officially described as mutual concerns for these countries. SCO has since then moved forward in the arena of economic cooperation. A framework agreement on economic cooperation was signed in 2003, and China has set as an eventual goal the creation of an FTA. Other economic initiatives have moved forward, in consonance with growing cooperation between China and Russia.

Mongolia became an SCO observer in 2004, and in 2005 India, Iran and Pakistan joined as observers; subsequently Iran and Pakistan have shown interest in full membership, while India has not taken any public position on this. It is generally accepted that SCO has worked well.

The **Bangladesh-China-India-Myanmar Forum (BCIM)** represents a special kind of RD entity, in that it focuses on the neighboring provinces/states of the two large countries, and tries to develop their economic cooperation with the two adjoining countries. Launched in 1998, this too originated with China, initially known as the 'Kunming Initiative'; it started as a track-two process, aimed at dialog among scholars, to identify the potential for mutually beneficial activities, mainly but not confined to the economic sphere. The BCIM process has grown slowly, partly on account of a need to create awareness among the members on its utility. It is in the process of gradual extension to track-one, but progress on this has been slower than what China, and particularly the province of Yunnan (which has been a special promoter of this RD) may have wished.

China has long wanted some form of cooperation with the **South Asian Association of Regional Cooperation (SAARC)**. This took shape when at the 14th SAARC summit meeting held in New Delhi, China, together with the US, EU, South Korea and Japan, attended as observers.^{iv} We assess the implications of this development in the final section. Given that India had shown reluctance in the past to open the door to China, we may take it that the Indian observer statue at the SCO was provided a quid pro quo.

The **East Asia Summit (EAS)**, which met for the first time in Kuala Lumpur in December 2005, is the nearest thing currently to a genuine pan-Asian organization, as noted above. While it may be logical to expect it to gradually replace the ASEAN+3 forum, that has not happened, even while some members of ASEAN and countries like Japan seem to favor this. It is said that

China has dragged its feet in making this shift, in part perhaps undecided over the inclusion of India and Australia.

A new form of trilateral cooperation is slowly taking shape between **China, India and Russia**. As yet not bearing a formal name or structure, this was originally a proposal advanced by Soviet Premier Primakov around 1998, to the effect that the three large countries that are neighbors in Eurasia, share some common perspectives on international affairs, and that it would be of utility for them to develop their contacts to mutual advantage. We may see this as a politically driven process of tentative exploration, looking for binding or shared elements. We see that in the fact that the foreign ministers of the three countries met first in Vladivostok in June 2005 (carrying forward contacts that had first been established in New York, on the margins of UN General Assembly sessions); they met again in New Delhi in February 2007, each time affirming that their group was not aimed against any other states. After initial hesitation, China has participated actively.

China and India participate in the 'Conference on Interaction and Confidence Building Measures in Asia' (**CICA**), an initiative launched in Central Asia in 1992 by Kazakhstan, which hopes to create a security framework along the lines of OCES in Europe; it has 16 members, ranging from China to Egypt, Palestine and Turkey, besides six observers including the US. It held its first summit meeting in 2002. The two are also in the 30-member **Asian Cooperation Dialogue**, which is a Thai initiative and has met annually at ministerial levels.

Another facet of regional diplomacy is the mobilization of intellectual exchanges in a regional setting, usually through a track-two process that is supported and funded by the government. When such actions take place via a periodic and regular set of exchanges, it deserves particular notice. China's **Boao Forum** falls into this category. It represents an outreach activity that aims at stronger economic, political and other exchanges. India does not as yet have any equivalent to this, as an instrument for sustained regional intellectual dialog.^v

We should also take note of **new communication routes and energy pipelines** that are under development or initial discussion in Asia, which are harbingers of new prospects for cooperation. In SE Asia, road and even rail networks are under prospection, and some linking segments are under construction and renovation. The eventual aim is endow Asia with a degree of unprecedented connectivity, which should transform the quality and volume of economic exchanges. This process is far more advanced in the Greater Mekong or GMS process, where the rivers serve as natural routes, but the transformation that is potentially possible in the re-building of the 'Southern Silk Route', linking the Eastern India with South-East China, via Myanmar, with links extending to Bangladesh, is no less dramatic. Oil and gas pipelines are another option that offers prospects, linking the new producer regions with the primary energy-hungry consumers, China and India; while no hard action on the ground is as yet visible on the building of these new pipeline networks, either the Iran-Pakistan-India project or other ambitious projects that would

link Central Asia with India, the logic of supply and demand may produce rapid action if the political and security atmosphere undergoes improvement.

India's Experience

In the past, India was hesitant over RD, but this attitude has undergone transformation, following the launch of economic reforms in 1991. Without digressing into other related themes, it may be fair to say that India had long back nailed its flag to the doctrine of bilateralism in its dealing with South Asian neighbors, as a by-product of its experience of taking the Kashmir issue to the UN in 1949-50, when it found that for reasons of political calculation, the major world powers equated the original victim of aggression with the aggressor state, (when Pakistan raided Kashmir in 1948, using 'tribal forces' and its army, to try and undo the Kashmir Maharaja's act of joining India). Experience with well-meaning Soviet mediatory efforts at Tashkent in 1966, after its 1965 war with Pakistan, further strengthened India's resolve that it was better to deal directly with each neighbor, without tolerating interference from other countries. Indirectly this also meant a cool attitude towards RD. At present India is perhaps a member of about 20 regional organizations.^{vi}

Unrelated to the above, India has also been a late convert to FTAs. For long it held to the doctrinaire view that at a time when the WTO process for global liberalization of trade is underway, it would be counterproductive to build regional (or even bilateral) trading arrangements that give selective preferences.^{vii} India's first bilateral FTA was with Sri Lanka in 1999, and its strong mutually beneficial results have encouraged a shift in thinking, and India has since signed more bilateral agreements and is negotiating some others with ASEAN, GCC, Mercosur and others on a regional basis.

While China and India are the principal members of **BCIM**, as noted above, New Delhi has hesitated over the evolution of this forum, as if India might be in two minds about the utility of BCIM. One reason is past Chinese support to separatist movements in India's North-East states, and lingering doubt among some of its security agencies over Chinese intentions. But the joint declaration issued after Chinese President Hu Jintao's visit to India in 2006 unequivocally declares support to extending this sub-regional cooperation. A related issue is that under the Indian constitution, external relations is a federal subject and the Indian states have no formal role in this area, very unlike the situation in China where provinces have extensive latitude in pursuing close ties with the neighboring foreign states.^{viii} This means, for instance, that at best Indian states can participate in groups such as BCIM as observers, while in the case of China the province of Yunnan plays the lead role, and its governor or vice-governor usually leads the Chinese delegation.

SAARC was formally established in 1985, though the decision on its establishment was taken in 1981. India hesitated before deciding to join; Bangladesh had been pursuing this proposal since the 1970s. Cooperation in South Asia has developed slowly, with the long dispute between India and Pakistan acting as a barrier to real economic exchanges, even while fairly

extensive cooperation has developed in functional areas such as meteorology, communications and sharing development experiences. A free trade area, SAFTA, has remained blocked with Pakistan reluctant to give MFN status to India on grounds of political differences, and non-resolution of the Kashmir issue.^{ix} Little wonder that observers have called South Asia ‘the economically least integrated region in the world’.^x Is it possible that the opening up of the SAARC process to observe, as noted above, might help in moving forward on South Asian cooperation, reinforcing the trend that is connected with improvements in the key bilateral relationships, including India-Pakistan and India-Bangladesh ties?

Inclusion in 2005 the **East Asia Summit (EAS)** represents for India a result of its rejuvenated post-1992 Asian diplomacy, as also a product of the economic growth that the Economic Reforms of 1991 have generated, both elements upgrading its relevance as an interlocutor in Asia. In its own way this group is slowly extending downstream linkages in functional areas, even while it remains a junior partner to the A+3 group. Is the EAS likely to emerge stronger in the future? This is likely, provided China and some members of ASEAN put aside their reservations.

In 2007, India is to join the **Asia-Europe Summit Cooperation group (ASEM)**, which came into existence in 1994 as an annual summit level encounter between the EU and an Asian group that came into existence on an ASEAN initiative. While this group does not undertake other regular activities beyond its annual summit, it is an important forum for high-level exchanges. For India, participation represents an act of recognition of its legitimate role in continental affairs.

China has reportedly shown interest in the **IBSA group** started around 2000 (this is a trans-regional forum that consists of Brazil, India and South Africa, each a leading democracy on its continent). It started as a political forum, taking advantage of commonalities between these developing states, which has rapidly moved into economic activities, aimed at stronger trade, investment and communication exchanges. Besides annual meetings at the level of foreign ministers, it held its first summit meeting in Brasilia in September 2005, and the next summit meets in Delhi later in 2007, where progress is expected on plans to set up an FTA, which would effectively link Mercosur with SACU (the Southern Africa Customs Union) and India.^{xi}

China is also said to have shown interest in **BIMSTEC**, which is a cross-regional initiative led by Thailand, covering Myanmar and South Asia. China has its own regional networks that reach out to SE Asia, notably GMS. As cooperation in the different regional groups develops, it is possible to imagine the emergence of an overarching architecture that would take advantage of the commonalities in transport and other infrastructure links, and the implicit generation of mutual confidence and credibility, as we see below. That could mean some form of harmonization in the future between GMS, BIMSTEC and BCIM. Further evolution on this also hinges on the degree to which Myanmar opens itself to wider, mutually beneficial regional cooperation.

Conclusions

China has been more proactive in pursuing regional opportunities. This is evident from its participation in the well-established entities, as also in the initiatives it has taken, such as SCO and BCIM. We may view this as a consequence of its earlier start in economic reforms, and its higher level of economic growth.

India has slowly transformed its worldview in relation to this form of multilateral diplomacy. We should also consider the fact that its 'Look East' policy commenced as recently as 1992, and up to that time, India took relatively limited interest in SE Asia, beyond the standard activities in building external relationships.

What have been the economic consequences of the RD that China and India have practiced hitherto? And what are the emerging consequences of the broader regional group activities in which both these countries are member? These issues have perhaps not been studied in depth, as far as can be ascertained. Some of the developments are too recent to have yielded hard data, though entities such as BCIM have begun to set targets for expanding trade and other exchanges, and clearly, the growth of transport infrastructure and the spread of awareness of opportunities has led to some growth in exchanges. Tourism is one immediate beneficiary.^{xii} Given the opportunities for shared exploitation of energy, transport and infrastructure, it is fair to assume that as in other regions of the world, the whole is bound to be much greater than the sum of its parts. The creation of a transport and communications infrastructure leads to its own demand impulsion. The extension of cooperation is bound to yield high dividend to all its participants. Naturally, the dramatic growth in India-China economic exchanges witnessed in the past decade would also indirectly make their regional cooperation stronger.

We should also consider some other consequences of the RD development process.

- Both BCIM and the Trilateral Forum (China, India, Russia) show that it is possible to make a soft start on regional cooperation with an academic, track-two format that permits exploration of ideas and clarification of the intentions of other partners, and allows also the building up of confidence and domestic consensus in favor of the regional group. It also makes sense to retain the academic groups as support entities, even when the baton passes to an official or track-one process.
- The establishment and growth of support institutions, often outside the official ambit, engaged in academic research, networking with other home and external partners, and carrying out domestic public outreach, is crucial to taking full advantage of regional diplomacy. ASEAN understood this well in creating its ISIS network of institutes focused on security and international affairs.^{xiii} China has been much ahead of India in building a

large, well-funded network of research institutes. In India a number of private initiatives have led to the emergence of very small new research institutes, which are often run on a shoestring, but have the advantage of flexible, autonomous functioning. These Indian entities need stronger connections with their official agencies to provide inputs into the decision process. This calls for stronger official commitment to the development of thinktanks, which throw up a range of policy options and engage in wide domestic and international networking.

- Following from the above, public diplomacy plays a support role in the growth of RD, in creating awareness of the benefits of regional cooperation. In 2006 India created a new Public Diplomacy Division in the Ministry of External Affairs, which is expected to help in official networking with the existing research bodies that form part of India's foreign affairs community. Strong vision and leadership are needed.
- There exists considerable scope for mutual learning among the foreign ministries of the region and their diplomatic communities. Study of 'best practices' and benchmarking are of utility. Here too China and India can take the lead, through their own direct exchanges and by encouraging studies in the diplomatic process, a relatively understudied subject throughout Asia.^{xiv}

In the era of globalized diplomacy, the engagement of states in regional organizations is interconnected with and impacts on bilateral relations, as Beijing and New Delhi are beginning to witness. China and India, together with Japan, have a major role to play in the emergence of pan-Asian cooperation. There is no reason to imagine that the growth of economic cooperation, within or outside the East Asia Summit mechanism should lead to an Asian FTA — some scholars and institutions have already begun to think of ways this can be realized. Hitherto, ASEAN has been the driver of regional cooperation on the continent, and this is a kind of 'extra-regional' role that no other comparable entity has played on any continent, not even the EU. Much hinges on the vision that these four key players are able to marshal, and the matching political will that rises above past antipathy, suspicion or history.

Looking beyond, the extension of Asian economic cooperation has security consequences for all the states in this extended Asia-Pacific region, and for the world. Already, ARF functions as an expanded Asia-plus mechanism for the development of soft security, again driven by ASEAN. Its footprint and activities reach out across much of Asia, the Pacific region, and Australasia, though leaving out the Arab states and Iran in West Asia, and Central Asia. It is not fanciful to imagine that the flowering of regional diplomacy in Asia, with active participation by China and India, would have beneficial political consequences as well direct economic benefit to the people of the region and to the global community.

ⁱ This comment was made by a visiting Chinese scholar at the Institute of Chinese Studies, Delhi in 2005.

ⁱⁱ The ASEAN + 3 forum has established over 40 functional and technical discussion groups that meet periodically. This is an example of the momentum that a successful RD entity is able to create, as a web of mutually beneficial exchanges.

ⁱⁱⁱ A year later they signed another treaty on the reduction of military forces in border regions, another practical measure that showed growing mutual confidence.

^{iv} The same meeting admitted Afghanistan as a full member, taking the total to eight countries, and decided to give observer status to Iran.

^v India has extensive bilateral dialogue fora with a number of countries, most of them indirectly funded by official agencies, but nothing in a regional setting. This is one of the challenges that could be taken up by the rejuvenated India Council of World Affairs, an autonomous entity under the Ministry of External Affairs.

^{vi} A partial list of regional organizations where India is a member or an observer: ACD, ADB, ARF, the Bangkok Agreement, BCIM, BIMSTEC, China-India-Russia Forum, CICA, CSCAP, EAS, ESCAP, IOC-ARC, Mekong-Ganga Cooperation, SAARC, SAPTA, SCO, and others.

^{vii} Eminent international trade specialist Professor Jagdish Bhagwati is a leading votary of this viewpoint.

^{viii} The federal-state equation is under slow evolution in India, as part of a wider decentralization process. For instance, the state of Punjab has taken the lead in developing close exchanges with its Pakistan counterpart that bears the same name. The state of West Bengal is also slowly reaching out to Bangladesh. In both cases, shared languages and sub-cultures are a powerful factor that India has been rather slow to exploit.

^{ix} As a member of the WTO Pakistan is obliged to give MFA status to all fellow-members, but instead restricts imports from India to a short 'positive list' of items; in contrast, India has unilaterally given MFN status to Pakistan.

^x The Managing Director of the World Bank, speaking in Mumbai to a meeting of businessmen from South Asia, January 2007.

^{xi} IBSA has also fostered a business forum, encouraging companies and entrepreneurs to overcome mutual unfamiliarity and develop stronger business links; it aims to double trade exchanges between these countries in the next three years.

^{xii} For instance, the direct air-link between Dhaka and Kunming, going on to Beijing has been an economic success from its launch in 2005; Kolkata is now linked with Kunming and Guangzhou.

^{xiii} Chile joined APEC in 1994, and created a research center the *Fundacion Chiena del Pacifico*, in a public-private partnership, to provide intellectual backup to its membership.

^{xiv} Please see Kishan S Rana *Asian Diplomacy: The Foreign Ministries of China, India, Japan, Singapore and Thailand* (DiploFoundation, Malta and Geneva, 2007; OUP, New Delhi, 2008).