



China and India: Economic Ties and Strategic Rivalry

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By Deepa M. Ollapally

Deepa Ollapally is Research Professor of International Affairs and Associate Director, Sigur Center for Asian Studies Elliott School of International Affairs, George Washington University. She is co-editor, most recently, of *World Views of Aspiring Powers*, Oxford University Press, 2012. She gratefully acknowledges support from the Carnegie Corporation of New York and the Office of the Vice President for Research at George Washington University for this work. This article is a revised version of a paper she delivered at a conference on "The Great Divergence? Economic Integration and Political Conflict in Asia," cosponsored by FPRI and the Reserve Officers Association, held in Washington, D.C. in October 2013.

Abstract. How well do theories of economic interdependence and structural realism explain the India-China divergence between growing economic relations and continuing strategic mistrust? This article looks at the Indian side and argues that we need to go beyond economic and strategic factors, and brings in a more contingent approach based on domestic elite discourse and thinking. The article suggests that a more nuanced and complex debate on China is emerging in India than that posited by interdependence or realism, a debate that is framed by what I term nationalist, realist and globalist schools of thought, with the latter two groups currently holding the center of gravity.

For more than a decade, India-China economic relations have been on a fast track. While their bilateral trade crossed \$10 billion in 2004, leaders of the two countries then declared their aim to reach the \$100 billion mark by 2015. Against the backdrop of unresolved borders and political tension, it is important to consider what this means for their future prospects in both the economic and politico-strategic realms. Given the growing economic and political heft of India and China, we can assume that the nature of their relations will have considerable implications for the international relations of Asia, as well as for the role of the United States in Asia. Understanding the dimensions of the apparent anomaly or divergence between economic and strategic relations in the India-China relationship is thus essential.

Quite apart from the economic and strategic indicators and trends, I believe that elite discourse and thinking on this divergence is even more important. The

perceptions and viewpoints of the political leadership, economic and business leaders, and strategic policymakers and analysts are even more important for policy formulations and potential outcomes. This article focuses on the Indian side and looks at the interplay between economic and strategic relations of India and China, as well as their worldviews by addressing the following questions:

- What does the literature tell us regarding the impact of economics and peaceful relations between rivals?
- What do the economic trends between India and China suggest?
- What do the politico-strategic trends between India and China suggest?
- How are key Indian domestic actors (government leaders, business and economic elites, strategic and policy analysts, and public intellectuals and media responding to the “divergence”?

This article concludes by identifying what seems to be a more nuanced and complex Indian approach to China overall, one that cannot be explained without bringing in the growing economic factor. The theoretical and policy implication is that it is no longer possible (or desirable) to separate economic and strategic spheres and to privilege strategic variables as the dominant international relations theory of structural realism posits.¹

Impact of Economics on Peaceful Relations between Rivals

Regarding the role of economics on political and security affairs, the most significant difference is between those who believe that economic interdependence will lead to less conflicting relations, and those who argue that economic ties will not be able to overcome, what they view as, more fundamental strategic factors. These are essentially the ends of two well-known alternatives—economic interdependence and structural realism.² However, there is also a growing literature emphasizing the interconnectedness of economics and security.³ The strongest proponents of economic interdependence make their argument using a fairly straightforward cost-benefit utility calculus. They focus on the opportunity costs that would result from conflict, as well as the reduction of benefits to be gained

¹ Structural realism, long dominant in international relations, gives primacy to international strategic environment and military capabilities. Kenneth N. Waltz, *Theory of International Politics* (New York: Random House, 1979); and Charles L. Glaser, *Rational Theory of International Politics: The Logic of Competition and Cooperation* (Princeton, N.J.: Princeton University Press, 2010).

² For interdependence arguments see the classic work by Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little Brown, 1977); for an update on the literature, see Edward D. Mansfield and Brian M. Pollins, eds., *Economic Interdependence and International Conflict: New Perspectives on an Enduring Debate* (Ann Arbor, MI: University of Michigan Press, 2003).

³ See for example, Avery Goldstein and Edward D. Mansfield, eds., *The Nexus of Economics, Security and International Relations in East Asia* (Stanford, CA: Stanford University Press, 2012).

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