

India Can't Cut the Cord From China

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Argument

An expert's point of view on a current event.

Amid a stalemate at the border, it's clear that Xi Jinping still has the upper hand.

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Indian Prime Minister Narendra Modi arrives for the Shanghai Cooperation Organisation (SCO) leaders' summit in Samarkand, Uzbekistan, on Sept. 16, 2022. Sergei Bobilyov/Sputnik/AFP via Getty Images)

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In the wake of Russia's invasion of Ukraine and despite Western sanctions, India became one of the main buyers of Russian crude oil. Indian refiners have [bought](#) more than half of the oil exported by Russia in the current fiscal year. Europe and the United States have largely chosen to look away, but in May, the European Union [objected](#) to a direct shipment from Russia's Rosneft Oil Company destined for India's biggest state-owned refiner. As a result, the Reserve Bank of India refused to allow payment to Moscow in either euros or U.S. dollars. The state-owned refiner went to another bank, and ended up paying for the Russian crude in [Chinese yuan](#). This gave a boost to Beijing's efforts to internationalize its currency.

India's stridently nationalist government was likely left embarrassed by the incident. In the summer of 2020, 20 Indian soldiers and four Chinese soldiers were killed in a skirmish on the disputed border in Ladakh after the Chinese People's Liberation Army moved into areas controlled by India. Since the faceoff, the Indian government, headed by Prime Minister Narendra Modi, has [repeatedly said](#) that New Delhi cannot maintain normal ties with Beijing because the border situation is not normal. It has further tried to assuage anti-China sentiment by hyping its ban of TikTok, Shein, and [hundreds](#) of other Chinese-owned apps. Meanwhile, though, Indian companies continue to use yuan to pay for [10 percent](#) of the country's Russian oil supplies—and New Delhi remains silent on the issue.

The yuan payments show how India's dependence on China has only grown in the past three years, despite the fraught situation on the border. Bilateral trade has increased, and the trade balance has tipped further in China's favor. Breaking previous [vows](#), Indian ministers [solicit](#) Chinese investments. New Delhi is conceding to demands from electronics manufacturers to make it easier for Chinese engineers to [get visas](#). India is the biggest recipient of [financing](#) from China-based multilateral banks, and Modi and his ministers are enthusiastic participants in both the BRICS group (Brazil, Russia, India, China, and South Africa) and the Shanghai Cooperation Organization (SCO), two groupings dominated by China.

There has been substantive diplomatic engagement between the two sides through these multilateral forums, but when it comes to the border dispute, Beijing has [refused](#) to make concessions. China has put additional diplomatic pressure on India, including by failing to post an ambassador to New Delhi since last October. Last week, [positive language](#) in a joint statement that followed border talks raised expectations that Modi and Chinese President Xi Jinping are [likely to meet](#) bilaterally in Johannesburg, South Africa, at this week's BRICS summit. It would be their first structured meeting since 2019. But whatever the outcome of those talks, the task for

India is to build its strength—democratic, economic, and military—so that it is prepared to confront the Chinese challenge going forward.

India, in recent months, seems to be reversing some of the steps it initiated against China at the time of the Ladakh border crisis in 2020. Around then, New Delhi amended its policy on foreign investments from countries it shares a land border with, requiring additional government approval for proposals; it was a thinly veiled policy to stall and block Chinese activity. Indian ministers have at least verbally changed their tune this summer, suggesting that completely cutting off China is not a sustainable strategy. In July, a reporter asked Rajeev Chandrasekhar, the minister of state for electronics and information technology, if India is open to doing business with Chinese companies. “Of course we are,” Chandrasekhar [said](#).

That softening is in part because India needs Chinese investments in electronics, batteries, and electric vehicles. In January, New Delhi asked Apple to identify Chinese suppliers of parts who would be [prepared](#) to set up a joint venture with an Indian partner. The Indian government gave 12 Chinese companies [clearance](#) to apply to start such businesses, but many of them initially seemed unenthusiastic, since New Delhi had [unleashed](#) harsh measures against Chinese mobile phone producers for violations of tax and foreign exchange laws in 2020. However, a [slowdown](#) in tech funding in India in the past year means that the Modi government can no longer afford to be so strict about Chinese investment: Shutting the taps entirely had put India in a tough spot, with an economy that remained stagnant despite Modi’s much-hyped “Make in India” plan.

Such is India’s dependence on Chinese electronics manufacturing know-how that in July it agreed to [open](#) faster visa processing for Chinese experts in installation, expansion, and repair work, especially for those workers employed by companies approved under New Delhi’s so-called production-linked incentive scheme, a flagship program to boost Indian manufacturing. The Indian government has pushed Chinese cell phone manufacturers to rope in Indian partners for local production, but that has not delivered results. As a result, the Indian government’s long-running unofficial policy of [denying](#) visas for Chinese citizens and [making](#) things difficult for Chinese companies in India is [falling at the altar](#) of its plans to increase manufacturing.

India’s heavy reliance on Chinese imports, including smartphones, semiconductors, solar cells, and pharmaceuticals, is another challenge. Of the \$117 billion worth of goods traded between the two countries last year, [87 percent](#) were Chinese exports. India’s \$50 billion pharmaceutical industry is dependent on bulk drugs and intermediate goods from China—essential raw materials to manufacture finished products for domestic consumption and export. Despite its efforts in the past three years, India has not found alternative sources to China for these materials. So critical are these links that Modi has no way of reducing New Delhi’s reliance on Beijing—and thus runs a risk of serious economic disruption in a crisis.

India is also a major beneficiary of support from multilateral development banks based in China. New Delhi is the largest borrower from the Beijing-based Asian Infrastructure Investment Bank, with [\\$9.8 billion](#) committed to projects since 2016, spanning energy, transport, and public health. India is also a founding member of New Development Bank, the erstwhile BRICS bank that is based in China. With 20 approved projects and seven proposals under review, at \$7.5 billion, New Delhi is the [second-largest](#) recipient of the New Development Bank’s financial support after Beijing.

India’s association with these development banks stems from its membership in two groups dominated by China: BRICS and the SCO. New Delhi’s involvement with these groups predates its involvement with the Quadrilateral Security Dialogue (known as the Quad) alongside Australia, Japan, and the United States. While New Delhi sees its membership in BRICS and the SCO as part of its [policy](#) of multi-alignment, its active participation in the Quad was driven in part by India’s desire to externally balance China after the Ladakh border crisis. Senior Indian officials enthusiastically take part in BRICS and SCO meetings, and Modi has always been present at the summits—as he will in Johannesburg this week.

India’s involvement with BRICS and the SCO has ensured that a floor exists for its relationship with Beijing. Officials from both countries often hold bilateral discussions on the sidelines of meetings. Since 2020, most of these conversations have focused on the border crisis. The stalemate on this issue seems to be in China’s favor, with previous border management agreements now redundant. The differences between the two sides have only increased in recent months, with separate official statements after border talks. That trend was only broken this month after a 19th round of discussions between senior military commanders.

India was surprised by the Chinese on the border three summers ago, and it is now caught on the back foot in negotiations. China recently responded to India’s offer to create a buffer zone at the sensitive area of Depsang in Ladakh by instead [proposing](#) buffer zones 15 to 20 kilometers inside Indian territory, further cementing its ingress into the region. (India did not accept the Chinese proposal.) In five other areas where Chinese and Indian soldiers have stepped back from their positions by a few miles, Beijing has

rejected any plans to move these soldiers back to their bases and has set about [building](#) significant military infrastructure in the meantime. New Delhi never publicly acknowledged the violations.

Differences in messaging between the two countries have caused some embarrassment for India. When Indian National Security Advisor Ajit Doval met top Chinese diplomat Wang Yi in South Africa in July, the Chinese readout [referred](#) to an “important consensus” reached between Modi and Xi at last year’s G-20 summit in Bali, Indonesia; India never mentioned such a consensus. Three days after Beijing’s July statement, New Delhi had to admit that Modi approached Xi in Bali not only to exchange pleasantries but also to [discuss](#) the need to stabilize bilateral relations. (The two leaders did not have a formal bilateral meeting in Bali.) This admission likely didn’t play well with Modi’s domestic audience because it drove home the starkness of India’s empty quiver when it comes to targeting China.

Militarily, India finds itself in a predicament of its own making: a poorly prepared force suffering from critical shortages in weapons, platforms, and spare parts, as well as a shortfall in soldiers. Russia has stopped providing many supplies due to large [pending payments](#), of [over \\$3 billion](#), further impairing India’s military. (Around 70 percent of India’s army arsenal, including tanks and aircraft, are of Russian origin.) Moscow doesn’t want to be paid in Indian currency, while New Delhi is unable to find ways to pay in a currency that doesn’t violate G-7 sanctions against Russia. As a result, Indian Foreign Minister S. Jaishankar has [ruled out](#) even a limited offensive option against China, essentially tying the military down with defensive deployment on the border to prevent further loss of territory.

Jaishankar’s ministry has never summoned a Chinese diplomat to issue a demarche on any of the issues, not even after the deaths of 20 Indian soldiers. This has further signaled New Delhi’s weakness. China does not initiate talks on the border situation and often takes weeks to grant Indian requests for such discussions. The lack of a Chinese ambassador to India for the last 10 months has not helped matters. After attending a think tank event in Beijing last month, former Indian Foreign Secretary Shyam Saran—a longtime China hand—reported that he found no willingness on China’s part to return to the border’s prevailing status quo from before the 2020 Ladakh clashes.

With no prospect of disengagement on the border, all eyes are now on the BRICS summit, where many analysts [expect](#) a meeting between Modi and Xi that could provide a breakthrough. Amid this speculation, India [refrained](#) from participating in a military drill hosted by Australia from July 22 to Aug. 4. Earlier this month, India’s usually brusque foreign minister [said](#) there had been “good progress” and that “talks are going on” with China. If Xi and Modi don’t have a formal meeting in Johannesburg, the G-20 leaders’ summit in New Delhi in September presents another opportunity. But Modi has no aces up his sleeve in these negotiations, while Xi could threaten to not turn up for the G-20 leaders’ summit—as has been [suggested](#) by some Chinese analysts—and ruin Modi’s party. (The Indian leader is banking on a successful summit as much for his own personal branding ahead of his reelection campaign next year as for diplomatic purposes.)

Modi, Jaishankar, and their advisors cannot avoid the reality that India is losing ground to China. But China has often erred in seeing India through the prism of its ties with global superpowers; it may be repeating this mistake by reacting with aggression in part in response to India’s deepening relationship with the United States—seeing India as part of the U.S. design to contain Beijing. New Delhi’s partnership with Washington can help to deal with an assertive Beijing to an extent. Still, India must develop its own strengths on its own terms—both as a vibrant, liberal democracy and as a military and economic power. Indians need to do the heavy lifting themselves; nothing else will serve the country’s purpose.

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