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Thomas Bauer

The CHINDIA-Connection and its implications for the Transatlantic Partnership

With the emergence of China and India the focus of international politics is shifting more and more to Asia. American and European experts therefore discussed in a two-day conference at the Center for Applied Policy Research (C·A·P) the 'Chindia Connection' and the implications for the transatlantic partnership. The 14th Transatlantic Roundtable of the *Improving Responsiveness* Program, dealing with this important topic, was organized in cooperation with the U.S. Consulate General in Munich. The 25 Participants analysed various security and economy related aspects concerning the current approach of the United States and the European Union towards China and India and the increasing cooperation between both emerging powers. The Center for Applied Policy Research would like to thank the German Marshall Fund of the United States for enabling this conference by the generous support of the Transatlantic Roundtable Program as part of a Key Institution Grant to the C·A·P.

China and India in the year 2020 – Transatlantic vision of two emerging powers

European and US approaches towards China have increasingly attracted the interest of an expert community on both sides of the Atlantic. Embedded in the field of security or economics, the question how the West should deal with the rising power of China is one of the most challenging topics. China's development has tremendous regional as well as global implications.

But it is not just China that matters. The role of India as an emerging world power is of great importance as well. Realizing how different the developments of China and India are and considering the long conflictual relationship between these Asian powers, it should not be neglected, that a new form of cooperative relationship is currently developing between them. Both, the EU and the United States are and will be affected by the way China and India continue to forge ahead in the near future. But, so far, we look at China and India rarely in a "combined" perspective. Regarding the noteworthy race between China and India, it is commendable to take a closer look at the economic and political development of both emerging powers within the next decades and the role of the transatlantic partners within the reshaping of international relations.

Various statistics show that China and India will be the fastest growing markets for the next 15 years, leaving Russia and Brazil behind. Important criteria for this development are the growth of the population (approximately 1.5 billion each in 2025), investment in human capital and the opening of their economies. In terms of democracy, environment and open economic markets India seems to be in a better position to handle the enormous challenges related herewith. Despite their

Growing Markets

great performance both will stay 'emerging' markets even beyond 2020. The consequences for the world economy are an increasing demand for commodities just as extension of provision of goods and services. China and India, the Growth Stars arise from developing countries to new investment destinations and needless to say to new investors abroad.

Close to the economic development, the question of cooperation or competition of India and China seems not to be answered in near future. Economic growth can be a chance for both countries to take advantage of the new national and international changes. A win-win-situation would be the best aim for India and China, of course when they try to generate a close partnership. Anyway, attaining this goal was not appearing on the agenda neither of India nor of China. Both states are fraught with interior problems and both states have an insecure international status, which needs to be appointed, especially by the United States, the United Nations and last but not least the European Union.

On the other hand, the economic growth also demands more natural resources for the production of energy. India and China strongly depend on the import of oil and natural gas, especially from the Middle East region. Apart from the environmental implications this dependency may also lead to some form of energy nationalism. Current attempts of signing cooperation deals with less reputable states can be seen as one indicator for this development.

Resources

From an economic point of view there will be a different impact on the transatlantic partnership and the world economy. Not every actor will benefit from the increasing importance of China and India. Related herewith, indirect consequences need to be considered such as the dominating role of Chinese textile exports which leads to a decline of textile industries in other countries e.g. in North Africa.

It is also pointed out that the integration of China and India into the global security architecture will be a major challenge for the United States and Europe. Looking at the continuous double-digit growth of the Chinese defence budget since 1990 the modernization efforts could be seen as a major strategic challenge in Asia, especially for the United States. But compared to the overall economic development, China and India are currently spending only between 2.3-2.8% of their GDP on the military. Nevertheless, it seems questionable whether China could become the regions' stakeholder in the field of defence. In a transatlantic context, the key issues discussed are the different perceptions of the United States and Europe towards the growing Chinese defence budget, the role of Japan as a *counter balance*, the relationship between China and Russia, the engagement of China in Africa, and a possible competition between a solid partnership of China and India on the one hand and the EU and U.S. on the other hand.

Security and Defence

India or China – who will dominate in the future?

Although the world hasn't realized yet, the result of the battle between India and China will replace the existing rules in international relations. The big question for the world community is: which of the two will come off as winner? The following comparison should help making a prophecy about the potential development of India and China on their way to assume power.

<p>China and India have both an exorbitant interest on education, but India is producing more young and better-qualified professionals. By 2008, India's total pool of qualified graduates will be more than twice as large as China's.</p>	Education
<p>While India is becoming more and more world's number one in the medical area, especially in cardiology, China seems to neglect even its own population. Only 20% of Ministry of Health financing are spend on rural areas, where 70% of the population is resident. The public health spending is shrinking ratio of GDP. Nevertheless AIDS is an enormous subject matter in both countries. India is mis-managing its AIDS crisis. It has more HIV cases than any other country in the world. China in contrast is covering up its situation about HIV-infected person. Facing the risk of an Africa-style AIDS crisis that could decimate its population and economy, the Chinese government acts irresponsibly.</p>	Medical Care
<p>India has a solid financial system, while China's banking system is collapsing. Since the gradually opening of the Chinese banking sector, there is a chance to rekindle the solidified system of regulation, which prevented the investment and closely work of foreign banks with the Chinese credit institutions.</p>	Financial System
<p>By 2025, China's population will be only 90 million more than India. However India has better demographic premises for future growth, because China's population will suffer from rapid aging (Population % > 65 = China: 13,4; India: 8,4). Half of India's population is nowadays under 25 years old.</p>	Demographic Growth
<p>Free press, Civil Society and political stability are the potential of India's democracy. China bears more uncertainty, concluding mass unrest or even a civil war.</p>	Democracy
<p>India is not an expert in economic policy-making. Referring to the complicated Indian political system, the economy decision making of China seems to be more shrewd, pro-growth and farsighted. The consequence is a new prosperity to millions of China's citizens. Its population is presently nearly twice as rich as India's. Remarking the weak middle class in India and the great amount of the population living in rural poverty, it will depend on how India is going to take the plunge from an agricultural economy to a service economy, without an industrial revolution in-between.</p>	Economic Policy-Making
<p>Despite all barriers erected by China's government, the administration is more incomplex than in India, where ramified laws aggravate the daily trade flow. India's bureaucracy has created thousands of controls and resulted in blockading the day-to-day business. The new appraisal system for the top bureaucracy has not done much to improve the situation.</p>	Administration
<p>China has been perfectionist in upgrading its infrastructure, while India lost sight of this basic challenge. This could be a regression in the Indian rise. Its third-rate roads and ports mar its economic future.</p>	Infrastructure
<p>Five of world's ten most polluted cities are in China. Furthermore 70% of the water is polluted, 30 % unusable for any purpose. China's environmental problem becomes more and more a big domestic deal, especially the rising energy consumption associated with wilful environmental neglect.</p>	Environment

India and China – cooperation or competition?

The possible scenario for 2020 concerning the cooperation between India and China could reach loose cooperation in the field of peacekeeping up to closer economic relationship. The India-China two-way trade is now US \$ 1 billion a month, compared to US \$ 1 billion a year one decade ago. India is a potential economic partner for China, while China's value is being a possible ally in espousing some developmental issues in the World Trade Organization. Economic cooperation between China and India began in earnest in the year 2000, a few years under age to enable a prognosis about it.

Rising trade-numbers

Another prophecy anticipates that China will neglect India and build rapport in the range of competition. The current volume of China-India trade (\$ 12 billion) is still of modest proportions by world standards, because competition between the two countries is considered inevitable, despite the fact that neither India nor China would like to give a competitive edge to each other, especially in the hard-fought software sector.

The question is whether the competition remains to be purely economical or if China is military challenged by India. Hereby the relationship between these two countries is running the risk of attaining the status of the relationship between China and Japan. But there was also agreement about defence cooperation, even though China's suspicions about India's intentions in its neighbourhood. After all China still has a strong relationship with Pakistan. About 80% of Pakistan's Armed Forces are equipped with Chinese defence goods. 60% of its military aircrafts come from China. But domestic disturbances in China could lead to instability and even state failure within the region, which would prevent China from external adventures and soften their military ambitions. A useful and equal partner is valued in uncertain times. China is aware of that fact.

Security Relations

The role of India in Washington's foreign and security policy

After three decades of isolation the relationship between the United States and India seems to transform into a new form of strategic partnership. Washington has practical economic, political, energy, and strategic interests to enhance better relations to a country, which personates moreover the most numerous minority group in the U.S. with a strong lobby. Noteworthy appears the foreign policy of the Bush-administration as well as the debate concerning the civil nuclear cooperation deal between both countries, which de facto recognizes India as nuclear weapon state, even though it has not signed the Non-Proliferation Treaty (NPT).

Nuclear Technology Deal

The U.S.-India deal fits not only in security precautions of the U.S., it is also part of the new environmental and energy strategy, whereby the U.S. accepts that they have a big dependency on oil from instable states. Hence they try to avoid fossil fuels and to turn toward alternative energy sources like hydrogen technologies and above all nuclear power. Because this is not only a U.S. problem (nuclear power seems to be a proper solution for many other States as well), they are choosing the line of least resistance. The U.S.-India deal could be the first move in a new global appreciation of nuclear power and connected with this challenge the first move to control this preciousness.

New Strategic Partnership

Besides the positive effects of this strategic approach there are several risks attached to this deal. First, other countries like Pakistan, North Korea, or Iran could reconsider their self-restrained position and feel encouraged to intensify their military nuclear program. Pakistan could adopt the U.S.-India agreement for an according model with China. Second, international efforts to control the spread of nuclear arms could in general be seriously damaged. The deal still has to be confirmed by U.S. Congress, which seems possible, if India accepts special conditions concerning the cooperation with the U.S. and the International Atomic Energy Agency.

In this context it is pointed out, that the way how the U.S. and India prepared the agreement – consulting only some EU member states – was not helpful for the transatlantic partnership. Doubts were also raised whether India could be taken for granted. An emerging India, which is referred to as a strategic partner for the United States, could become an ambitious political power in the region, unprepared to act in a reasonable and responsible way. Moreover, it was a point of interest, whether the U.S. are cooperating with and supporting India because they represent the same value for democracy – in contrast to China. This could be seen as a wider process of a U.S.-'democracy-promotion-strategy'.

Regional Power India

According to the point, the U.S. are actually trying to implement the deal with India as a part of the *democracy promotion strategy*, it unsheathes once again the dilemma of the transatlantic partnership. Europeans are not only but primarily interested in economic advantages, while the U.S. bear in mind their national interest when dealing with India. The intention of democracy promotion is in this case to enforce India to sign the Non-Proliferation Treaty (NPT) and thereby to assume international responsibility.

Nevertheless, the *democracy promotion strategy* has also perfections. It is not a neutral tool and changes always the balance of power. Furthermore the U.S. could be faced with new problems when the democracy promotion works. The rise of strong states could produce new competitors to the U.S. and thus a situation the U.S. has never been faced with. Also the continuous problem of differentiation of civilian and military utilization of nuclear power fortify the tense situation. In spite of these presumptions, the U.S.-India deal shows promise that this intention to collaborate could overlap the possible collective action problems produced in a multi actors game with multiple goals and make a hardly dirigible situation controllable.

India as rival

EU-China cooperation – what's in it for Europe?

The European Union does not refer to China as a direct military threat, but rather as a major economic partner. Economy is currently the main field of cooperation. China is the second most important trading partner for the EU and China refers to Europe as its most important trading partner (with Germany as the strongest European trading partner followed by France). Nevertheless Europe needs to bear in mind that with the still open Taiwan question and strained China-Japan relations, there are unresolved security tensions within the region endangering stability. Growing nationalism within China might increase this danger.

Economic Partnership

It is also laid out that there is a big structural difference in Europe's approach towards China, compared to the China policy of the United States. The multiface-

ted nature of Europe's policy-making leads to varying competences in the involved policy fields, to a variety of actors, and to different perceptions within the member states. Because of the disparity within the EU, Europeans concentrate more on institutions and sometimes get the allegation to focus rather on the debate than on the implementation of political action. But even though the EU cannot be seen as a single actor, it is an important global player. With publishing an EU-strategy-paper, China has shown that it takes Europe for granted. This was a common sign for emphasizing the importance of Europe for China.

Varying Competences

However, recently there were few differences between Europe and China, which should be smoothed out in the near future. Especially the states in southern Europe, that have strong links with the textile industry in North Africa, compete with the Chinese textile industry, which grows larger every day. This situation results in extended anti-dumping measures made by the involved states. But protectionism is a step, which China is expecting the European Union to neglect. It is roughly the same situation concerning the arms embargo. The Chinese therefore reacted cold when the EU decided not to lift it in the near future.

Textile Industry

In contrast to the United States, trade and economic relations determine the EU's perception of China. In terms of security policy Europe still faces problems to define its global security interests. While the United States proclaims their concerns in a very open manner, security in the Asia-Pacific region is still limited to an expert debate in Europe. If both transatlantic partners think about elaborating a common agenda, the EU and the U.S. have to consider how to deal with the dilemma of sharing responsibilities as allies in the terms of security policy while being economic competitors at the same time.

Security Policy

Especially the U.S.-India-deal should make the Europeans think about their role in the world's new energy situation. If nuclear power will be the next big deal, Europe should define its position besides the different national interests and attitudes. Germany in this point can be referred to as a special demeanour. The former coalition of Social democrats and the Green Party with Chancellor Gerhard Schroeder was resolved to back out of the nuclear energy program. Despite a new administration since autumn 2005, the current coalition has shown steady resistance to withdraw from that decision. But the German minister for economic affairs, Michael Glos, put this position into question when he said that nearly all developed nations have understood that nuclear power is essential for a save supply with energy and for achieving the climate protection goals. His final thought is simple: Why should Germany not come to this conclusion and use nuclear power peacefully? The answer on this question will also have effects on the European approach towards the current nuclear energy debate and its attempts to influence ambitions and decisions of third countries like India or China concerning their energy security.

Energy Security

The CHINDIA-Connection as touchstone for the future Transatlantic Partnership
Concluding the consequences of the emergence of China and India for the transatlantic partnership, for the United States this topic is part of a broader context dealing with the rise of Asia, leading to principal challenges:

- Will the region produce a peer competitor to the United States?
- Will the region's weaknesses produce threats to U.S. security?

- Will the region's behaviour produce collective action problems that undermine U.S. security?
- Will the region produce new partners that can collaborate in the attainment of common goals?

Europe's strategic deficit is clearly a great disadvantage for the transatlantic partnership, making it almost impossible to find a common approach towards China and India. The main issue remains to be the impact of globalization on the international struggle for power. The central dilemma in this struggle is that the process of economic interdependence that conduces to the mutual prosperity of the West also leads to the creation of capacities and capabilities that aggravates strategic competition. But nevertheless Washington is also counting on the pacifying effects of economic interdependence and democracy. Problems between the United States and the EU occur because of the different, if not even diverging, perceptions on the two emerging powers.

Europe's strategic deficit

For Europe, it is considered best to abandon the *arrogance of the weak* and try to regain new strength, while at the same time it should overcome the incoherence of the interests of its main actors and finally define itself as an international actor, who deserves to be taken seriously.

The U.S. instead still seems to be divided on China Policy. No consensus exists on the question whether the U.S. should cooperate with China to help maintain peace and prevent the spread of nuclear weapons in Asia. A study from *The Pew Research Center for The People and The Press* acknowledges that 45% of the public choose cooperation while 44% opt for a firm stand. The problem is that the Americans not really believe in China's change to democratic standards. Less than one-quarter (23%) of Americans say that China is becoming more democratic, 65% feel just the opposite is true. Another study confirms these outcomes. Only a small minority (14%) still see China as an adversary, four-in-ten regard China to be a serious problem but not an adversary and 36% of Americans don't care about China's imminence. As the American population, the U.S. Government still seems not to have established future intentions in their relationship with China. One can say, that U.S.-China policy since the election of George W. Bush as President of the United States has run through four phases: half-hearted confrontation, half-hearted cooperation, disregard and imminent loss of navigation.

U.S. scepticism

China needs more observance by the UN. India needs to take a more privileged position in the European world outlook. Both, China and India are today more willing to try their luck through international cooperation based on the membership in the United Nations. Before the U.S.-India deal, India strengthened its opinion about the United Nations having a future role especially in elimination of the threat arising from the proliferation of Weapons of Mass Destruction. Multilaterally negotiated, universal and non-discriminatory disarmament instruments should be proved by the side of the United Nations helping to stop the proliferation of nuclear weapons. Needless to say that India has in mind becoming a permanent member of the Security Council one day.

United Nations

The transatlantic partners Europe and USA have currently in common that their approach is a balancing act based on the hope that globalization, democratization and the need for ongoing economic development in both, China and India, will help to settle potential security dilemmas. What neither Europe nor USA should

Balancing Act

lose sight of is the classification of China and India in the new world order. The transatlantic partners interest has been sparked in these two countries. A plan is needed how to arrange with the new situation. And finally, this arrangement will depend on what the new situation might be: a chance for abolishing new security hot spots or a threat on the part of two countries, which perhaps simply haven't been aware of their true potential to this day.

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