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Tension in the Himalayas: De-escalation or Prolonged Uncertainty?

By Rajesh Basrur

SYNOPSIS

The first winding down of the prolonged confrontation between Indian and Chinese troops along their disputed border has reduced immediate tensions, but the factors that led to the crisis remain in place and the prospects for a return to normalcy are uncertain.

COMMENTARY

THE LADAKH crisis was a low point in a relationship marked by a series of increasingly tense military face-offs between India and China over the past two decades. The first loss of lives on both sides since the 1970s and the occupation of contested territory by both raised the strategic temperature to an alarming degree, which appears to have facilitated the drawdown.

But the de-escalation is incomplete: withdrawal from several sectors is still in abeyance and the conditions that led to the crisis remain largely in place. Besides, this has been a watershed moment. As late as 2017, it was still possible to be optimistic about the prospects for a relationship that allowed the two countries to enhance trade and investment relations even as their border dispute simmered. But it is now clear that a return to business as usual is improbable at best.

Competing Perspectives

From the Indian standpoint, China can no longer be trusted to exercise military restraint along the fractious border. While New Delhi has consistently called for the formalisation of the disputed Line of Actual Control (LAC) separating the two armies, Beijing has instead insisted on a final border settlement.

From the Chinese perspective, India is building threatening links with states inimical to China, mainly the United States, but also Australia, Japan, Vietnam and to an extent Taiwan. Moreover, the reinforcement of India's military position in the region is a potential threat to the China Pakistan Economic Corridor, which traverses territory claimed by India.

Both India and China are led by strong populist leaders who are unlikely to make the kind of give-and-take territorial concessions needed to resolve border tensions. The consequence is the sharpening of a security dilemma: each side acts to defend its interests and is seen by the other as an enhanced threat requiring a symmetrical response; and the two are caught in a spiral of antagonism and distrust. If anything, there is a real possibility that the confrontation on land may lead to similar face-offs at sea, where red lines are even less clear.

The Nuclear Facet

Two dimensions of the competitive dynamic have the potential to sustain or even increase tensions. First, the nuclear facet of the relationship has not been foregrounded by either the players or most analysts, but is of considerable significance. Tensions over the LAC assumed ominous proportions with the Doklam crisis at the India-China-Bhutan trijunction in 2017.

The crisis involved the active role of the Indian military in defending the disputed Bhutan-China border on behalf of Thimphu. In the context of the January 2003 delineation of Indian nuclear doctrine, which affirmed India's right to nuclear retaliation against nuclear attacks on its forces *anywhere*, India obliquely provided a nuclear umbrella to Bhutan even though there is no formal alliance between them.

The issue continues to simmer and New Delhi retains its commitment to defend Bhutan, though neither wants to talk publicly about the extended deterrence implicitly extended to the latter by India.

Second, the nuclear facet of the Ladakh imbroglio was evident from Indian signalling by means of the flurry of nuclear and dual-use missile tests – by one account, one every four days during September-October 2020 – that followed the onset of the crisis that summer. These tests were preceded by China's test-firing of its DF-26B and DF-21D ballistic missiles in the South China Sea, which would have been read as nuclear signals not only in Washington and the region, but in New Delhi as well.

Finally, reports of China's use of cyber attacks to disrupt power supply in India's commercial capital, Mumbai, in October 2020 have not only highlighted the need for cyber deterrence, but also placed a question mark over India's No First Use (NFU) policy and the possible need to revisit NFU for cross-domain deterrence in case of massive disruptive attacks. The issue is likely to be debated extensively in coming months.

Economic Interaction

A second aspect of continuing tensions relates to India's economic response to the Doklam and Ladakh crises. Before Doklam, economic relations were on the upswing,

with trade and investment rising steadily. After Doklam, they have shown a consistent decline. In 2017-18, according to Indian Ministry of Commerce data, bilateral trade touched US\$89.7 billion; in 2019-20, it dropped to \$81.8 billion; and by 2020-21, it is expected to fall to \$60.6 billion.

Similarly, Chinese foreign direct investment (FDI) in India fell from \$350 million in 2018 to \$229 million in 2019 and is estimated to have dipped further to US\$ 162 million in 2020. Though part of the reason for the downward trend has been the economic impact of the COVID-19 pandemic, both sets of figures show the pattern as having begun well before the current health-related economic crisis.

In addition, India in June 2020 banned a number of Chinese social media firms that were well placed in the Indian market, such as Tik Tok, UC Browser and WeChat. Since then, restrictions on Chinese FDI into India have been extended. There are limits to India's cutting down of links. As a major producer and exporter of pharmaceuticals, India depends substantially on China for the supply of inputs, primarily bulk drugs and drug intermediates (valued at \$1.78 billion for the period April-December 2019). Ironically, China has now become India's top trading partner thanks to the attrition in India-US trade caused by the pandemic.

India Reducing Economic Dependence on China?

That said, India has embarked on a more wide-ranging effort to reduce its economic dependence on China by working with the US, Japan and Australia towards a restructuring of supply chains. The India-Japan-Australia Supply Chain Resilience Initiative is one such effort under way. India has also shown an interest in Japanese and US initiatives to develop alternatives to China's Belt and Road Initiative.

Japan's Partnership for Quality Infrastructure and the US-led Blue Dot Network both have the potential to reduce Indian dependence on Chinese FDI. Substantial changes in patterns of trade and investment are on the evolving agenda of the Quadrilateral Security Dialogue ("Quad"). While these are unlikely to yield a rapid transformation of the India-China economic relationship, they will steadily erode its foundations.

Strategic and economic relations between India and China were till 2017 carefully delinked. That is no longer on the cards. What remains to be seen is whether the new normal will be better managed than the old one.

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