

Europe and ChinIndia

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Introduction

1. The rise of China and India is unparalleled in human history because never before has the world witnessed the simultaneous and consistent takeoffs of two nations, accounting for more one third of the planet's population, which have been consistently registering high growth rates, for two decades. Their rise has profound implications for the world economy and world politics, even though India and China are relatively poor at present, because strategic calculations are being made on the basis of the long-term trajectories.

2. Europeans tends to perceive China as a direct immediate threat to European jobs in some manufacturing sectors whereas India is seen as a latent and potential threat taking away service-sector jobs, though pressures would increase as both move up the value chain. There is no unified response amongst the diverse business interests in Europe because as China becomes more competitive globally, it is giving rise to winners and losers. European political elites seem to be indulging in a degree of scapegoating about the danger from ChinIndia, since the roots of European *angst* really lie in European difficulties in managing globalization, declining competitiveness, growing Euroskepticism (which is no longer an exclusive British privilege), fear of change, an unsustainable health, pension and social welfare system, inflexible labour markets, and the inertia of a population more inclined to enjoy the fruits of life instead of seeking to

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compete with foreign workers. A worsening demographic profile with a graying population will compel it to address the problems and opportunities of in-sourcing highly skilled immigrants or outsourcing services. A growing China and India do pose challenges, but they also provide opportunities since it contributes to greater growth worldwide, it means more exports, especially to a swelling consumerist middle class, which will make more demands of European goods, technology, and services.

3. Both China and India are revisionist powers. A fundamental redistribution of global economic power is underway, and this will inevitably lead to further tensions. Both China and India want to play a greater role, in the making of new rules of the international economic and financial system, in the establishment of which, they had no role since it reflected the geopolitical realities of the end of the Second World War, and which, till today, have been exclusively managed by Western industrialized countries. The two new big kids on the block have no difficulty with a rule-based world order, what they want is “a different set of rules”.

Both China and India are sensitive about their sovereignty and remain wary about humanitarian intervention and the circumstances in which force may be used.

The advanced industrialized countries are finding it difficult to cope with unprecedented assertiveness and effective coalition-building by India and China in world trade negotiations. The WTO has ceased to be a tango where the United States and the European Union called the shots, and played a decisive role in both agenda-setting and rule-making. Despite greater interdependence and the need for greater coordinated action, “existing institutional frameworks tend to pay more attention to the concerns of developed countries and their special interests than those in the developing world”.¹ Very often, the dialogue between Asia and Europe is a dialogue of the deaf, with the two talking at, and not with, each other.

There are calls for enlarging the Group of 8, but changes in other international institutions like the United Nations, the International Monetary Fund or the World Bank are not that evident yet.

4. The United States is, and for the foreseeable future, will remain the pre-eminent power. While both China and India regard the European Union to be an economic and financial superpower and an extremely vital market, but consider it rather unlikely, that it

will any time soon become a single strategic actor with coherent policies and possessing both the will and the means to implement them.

5. Despite the widening and deepening of the European Union's dialogue with both China and India, both of them consider bilateral relations with individual member states, especially Germany, the United Kingdom, and France, to be as important as collective Europe for it is they who move the wheels within the EU and are the catalysts for change. "There is," as Chris Patten put it, "no European policy on a big issue unless France, Germany and Britain are on side. Unless they work together, nothing else will work. It is as clear and simple as that. . . without the 'big three', there is no policy."¹

China and Europe

1. The United States is concerned about the steadily increasing Chinese power, and perceives it as an economic competitor and increasingly politically as well. Like the United States, Europe too feels that low-cost goods from China have helped tame inflation and keep interest rates down and that they would be most competitive in innovative, high-quality, high-tech products.^{2c} However, Europe does not share concerns of the security community in the United States, which feels that as China's economy grows and expands, the more resources will an unpredictable China have for military modernization and for pursuing a more proactive foreign policy globally.

Europe is not inclined to think more strategically about Asia-related security issues because there is no pan-European strategic elite, believes that Asian issues and nations are too distant for them to directly impinge on its own security and partly because it is content to be a "free rider" and let the United States play the role of an external balancer in Asia.

The European Union essentially seeks to support China's internal transition towards market economics, the rule of law and democratic accountability in the expectation of facilitating it to become "a responsible and reliable global player that respects international rules". Europe feels that a comprehensive engagement of China at as many levels as possible, even though results may not be immediate and encouraging, in the hope that his process will eventually lead to the transformation of China into an open, democratic society. Chinese leaders and scholars, however, continue to be skeptical

about the eventual goal of the Europeans in seeking to “westernize” and “transform” China.

5. There are three major problems in the EU-China strategic partnership, viz. lifting of the EU arms embargo, human rights, and grant of a market economy status to China. For China, lifting of the arms embargo is of greater political, rather than military, importance; removing it from being bracketed with the likes of Burma and Sudan. There seems to be a kind of American veto on lifting the arms embargo, even though it has not proved to be very effective, since Washington is concerned about potential conflict over Taiwan, weapons and technology proliferation, human rights, etc.

Europeans have traditionally been aggressive about human rights in case of small markets and softpedalled them in case of large markets. This will continue with regard to China, where the dialogue on human rights is not making much of a headway anyway. The Europeans very often tend to be easily persuaded by frequent hinting by the Chinese that “friendship and compliance with Chinese positions can lead to big, fat contracts”.³

The EU would be reluctant to accord market economy status to China any time soon despite Chinese remonstrations as it facilitates the levying of anti-dumping duties since proof requirements are milder.

5. Energy. The most visible, and commented on, aspect of Chinese and Indian attempts to ensure their energy security in efforts by their respective national oil companies to purchase overseas assets and locking up preferential access to resources. The search for energy security has led to differences over Iran’s nuclear policy and over agreements with certain “troublesome” countries with poor human rights records such as Sudan and Myanmar, and on which the West has imposed sanctions. There is likely to be more competition and less cooperation between China and India in the scramble for oil and gas. The real difficulty, it seems, is that whereas the Europeans seek to manage interdependence on the basis of equally applied rules and an access to resources and investment moderated by market mechanisms accompanied by strong investment of private companies, China and India are not willing to constrain their autonomy in determining their developmental priorities and ensuring continued economic growth which is contingent on ensuring energy security.

6. In regard to China, Indian foreign policy seeks a constructive and pragmatic engagement with an emphasis on forging closer economic and trade ties, which are likely to touch \$24 billion this year and perhaps \$40 billion by 2010. China has a head-start of 12/13 years over India. As a result, India has too much of catching up to do. India is clearly in the Commonwealth Games league whereas China is in the Olympic Games league. China will continue to pose difficulties in India's immediate neighbourhood economically, politically, and strategically. As part of its strategy to simultaneously engage and develop special relations with **all** the major powers, India will pursue an independent foreign policy that will maximize its freedom of manouvre in all directions.

India and Europe

1. Over the years that I have been trying to understand Europe, I feel that when it comes to India, there are three categories of people in Europe: (a) there are those who are otherwise very well informed and knowledgeable, but who do not try to understand India, or for that matter South Asia, because others have tried it before and failed to do so. India doesn't make things easier, because it is so complex and because whatever one may say about India, the opposite would perhaps be also true. (b) the second category consists of those who neither understand anything nor do they wish to understand anything; and (c) the third category, which falls in between these two, consists of a small minority who have the courage to make a serious effort and the patience in persevering in trying to understand the more complex problems of India and wish to do something about it. Both Europe and India need to encourage and more frequently interact with this small minority amongst European think tanks and the broader strategic community.

2. India's greatest achievement, perhaps, is not so much its rate of growth, but the very idea itself that a country of more than a billion people, with so many different religions and languages – a country with greater diversity than Europe – and a country – whatever be its imperfections as a democracy – endures as a liberal democracy. No one listens any more to doomsayers who 15-20 years ago wondered if India could hold together. India will survive and continue to grow, i.e. if politicians don't screw up things, and that is a tribute to the resilience of Indian democracy. In fact, the rise of India and China offers two developmental models to the world, especially to developing countries: sustainable

development by an open and democratic regime in a relatively free market economy and economic development by a one-party state.

3. India-EU strategic partnership. The driving force behind Europe's relations with India will essentially be trade and commerce. Despite its shared values and common ground on many issues, there are basic differences, in both perceptions and interests between India and the European Union in many fields including trade, development and globalization. Given the mismatch of context, concerns and goals, prospects of more substantial cooperation in the realm of security are not particularly bright. In recent years, India has shed its earlier reservations about the involvement of external powers in South Asia and realized the advantages of engaging the European Union more closely in helping to resolve crises in Nepal and Sri Lanka.

Shared values undoubtedly facilitate dialogue, however in the ultimate analysis, it is shared interests that will determine the scope and content of the India-EU strategic partnership. Both India and Europe acknowledge the inherent value and need to cooperate more with each other, but for a variety of reasons they are not able to consummate this mutual desire. In order for India to rise rapidly, there is an imperative need to quickly and intensely, their economic, technological and demographic complementarities.

4. US and the Rise of India. One of the most significant changes in Indian foreign policy in the post-Cold War era has undoubtedly been the transformation in India's relations with the United States, which are no longer "estranged democracies" but "engaged democracies". As a rising power, India is more sympathetic to the American effort to rework the rules of the global game, viz. the Indo-US civilian nuclear deal, which will really be the key which will unlock the entire spectrum of technologies which have been denied to India for over three decades and thereby make a vital difference to its modernization. It would have been unimaginable for Europe to make such a quantum leap.

5. Europe needs to engage Indian strategic elites more meaningfully because many of the historical, cultural bonds and terms of reference, which traditionally linked India with Britain have considerably weakened over the decades. There is an imperative need to develop a more robust framework of educational exchanges and encourage Indian elites

to study in Europe. A key goal should be to induce a larger number of students to study in Europe, which has so far been constrained because of the language barrier and because Europe does not provide a structure of post-doctoral fellowships and employment prospects that is available in the United States, which has been able to skim off the cream of the cream from the world over and attract the best and the brightest.

Conclusion

We do not know what is going to happen in the future. The rise of China and India represents both challenges and opportunities for Europe. Even though both these Asian giants confront major domestic challenges, most economists tend to agree, that barring a catastrophe, the fundamentals of both economies growing at 7-8 per cent for decades will continue.

Globalization will exercise a determining influence on the world economy and international politics. We will gradually gravitate to a multipolar world, but effective multilateralism will continue to be elusive. The redistribution of power currently underway will enable rising powers like China, India, and Brazil, to shape and influence global agendas and decisions to a greater extent than at present, but this will happen in an increasingly contested environment on a number of issues.

Europe may be having problems with globalization, but it has coped with crises before and successfully adapted to new challenges and opportunities. For both China and India, Europe remains a vital source of trade, advanced technology and foreign direct investment. Europe still generates 40 per cent of the world's GDP. Both realize that Europe will be an indispensable partner in the future as well because it still has enormous capacity to influence the world economy and world politics.

NOTES

1 Joseph Stiglitz, "We have become rich countries of poor people," *Financial Times*, 8 September 2006.

2 Chris Patten, *Not Quite the Diplomats: Home Truths about World Affairs* (London: Allen Lane, 2005), pp. 159-160.

3 *Ibid.*, p. 277.