

Issue 1, July 8th, 2020

STRATEGY SCAPE

Thought Leadership
Series from
Divgi TorqTransfer
Systems



Decoding China

-Hirendra Divgi
Executive Director



Divgi TorqTransfer Systems

ABSTRACT



This paper attempts to make a case for why India's corporate sector needs to draw deep strategic lessons from the current military standoff between India and China in eastern Ladakh on the border with Tibet and China.

Unlike in the contest between the US and the Soviet Union or between India and Pakistan, India and China have huge trading and commercial ties. Up to now, the countries have managed to keep their vastly different political systems aside in building trading relations. The events of May-Jun 2020 have called into question the basic premise on which India was operating as China brazenly pushed its geopolitical objectives using military coercion on our borders, brushing aside all other considerations.

The mindless and brutal ambush of Indian soldiers in Galwan has proved to be the last straw in trying Indian patience and restraint. As India sought other options to resolve the standoff, even as it held its ground to resist military coercion, it quickly became apparent that China was using its supply chain and current account asymmetry as a leverage to challenge India, as India sought out other avenues to bring diplomatic pressure on China. It was apparent that the first casualties in this war 'by other means' would be companies in India dependent on China for various inputs in their manufacturing operations.

We argue, therefore, that the time has come for the corporate world in India to consider these geopolitical currents very

seriously in charting a course for sustainability that is a strategic imperative for companies in the uncharted territory of the new world order that is emerging.



PART 1



Decoding China's Belligerence

This paper was triggered by a comment made by Mr. Gautam Bambawale, a distinguished and seasoned diplomat, and former Ambassador of India to China, that, "for minor tactical gains on the ground, China has strategically lost India"; the undercurrent in the remark being – what is China likely to lose strategically? This, therefore, triggers the larger question of whether there is a bigger game at work.

The first issue that comes to mind is the region that is geographically contiguous to the flashpoint region of Ladakh-the China-Pakistan Economic Corridor (CPEC) arterial connection running through Gilgit Baltistan. China's strategic interest is its investment in the CPEC project which is currently estimated to be beyond 80 billion USD. By abrogating Article 370, making Ladakh a Union Territory, rapidly developing road infrastructure in the region and raising new corps commands for this region, did India spook China into making some aggressive posturing as a signal to India? Or does China want to dismantle what India has done in abrogating Article 370, and is, therefore, signaling a belligerent intent?

To get a thorough understanding, let us first have a closer look at CPEC. At 80 billion USD plus, it is a significant portion of China's Belt & Road Initiative(BRI) projects. It mainly consists of developing a deep-water port at Gwadar in Baluchistan and connecting it by road to the autonomous regions of Western China of Tibet and Xinjiang – some thermal power projects and a metro rail infrastructure project. The power and metro rail projects are insignificant strategically and are already mired in deep controversy in Pakistan's more than lively internal politics. However, the deep-water port at Gwadar and the connecting road seem to be of strategic importance. The





port gives the Chinese navy a vantage-point in the Arabian Sea and to project power further south in the Indian Ocean region. However, the commercial significance of the port and connecting road is debatable as the autonomous western regions of China are very sparsely populated with limited economic activity. The manufacturing and economic hubs of central and eastern China are better connected by the eastern seaboard for global trade. The cost of transporting finished goods over land across the vast wasteland of the Tibetan plateau over the Himalayas through the troubled heartland of Pakistan to the port of Gwadar seems economically unviable, even truer for raw materials moving the other way. If one argues that it is China's backdoor in case of a naval blockade of its eastern seaboard, it really does not make sense as it is infinitely easier to blockade Karachi and Gwadar than the Chinese eastern seaboard because of geography. This was amply demonstrated by the Indian Navy in the 1971 war with Pakistan. So that leaves the potential of using Gwadar as a naval base, the most significant aspect of CPEC along with the road, to its relations and trade with Pakistan.

Whatever strategic significance the road may have for China, the other question is whether India is in a position to seriously threaten this road. The answer is no, unless India occupies Pakistan Occupied Kashmir (POK) or there is a full-blown war between India and Pakistan. If the road infrastructure is to be damaged and taken out of action, the air force would always be the preferred option as we cannot threaten the road from any of the currently Indian occupied positions with ground troops. More importantly, as we see it evolving on the ground, and according to most military analysts, China does not have the asymmetric military capability or advantage to force India militarily in the mountains of the Himalayas. As experienced by two superpowers in the past, the Soviet Union and the US in Afghanistan, even with an asymmetric military capability, mountain warfare equalizes the balance of the opposing forces. And, according to most analysts, India retains a slight edge over the Chinese on this count in terms of training, tactics, level of preparedness and number of troop levels that can be deployed.

It seems, therefore, that in the larger context, China, by its apparently irrational actions, is sending a larger message to India and the world at large. It seems to be orchestrating this with its aggressive posturing against Hong Kong, Taiwan, Philippines, Vietnam, Japan, South Korea and Australia. The common factor among these countries is that they are all either traditional allies of the US or now have deepening alliances and common causes with the US. With regard to India, the markers China has been observing over time with great concern are the expediting of infrastructure work along the border, the nuclear deal with the US, the growing sale of arms, India's entry in the Missile Technology Control Regime (MTCR), signing of Logistics Exchange Memorandum of Agreement (LEMOA), movement in the direction of forming the QUAD alliance and the number of joint exercises India is conducting with all arms of the American defence forces, which is the highest compared with any other country.

China's aggressive posturing with all its neighbours who have good or deepening relations with the US seems to be

bordering on deep insecurity, indeed paranoia. Why? one may ask. China knows all too well that that is exactly what the US did in the 1970s and 80s to contain the Soviet Union. It used China in the early 70s to checkmate the Soviet Union after the fallout between Soviet and Maoist China in the Khrushchev era. That the last of the Indo-China wars was fought in 1979 between China and Vietnam is indicative of this tipping point. China invaded Soviet-allied Vietnam in an attempt to evict them from Cambodia where Vietnam had overthrown the Chinese backed Khmer Rouge. The US subsequently used Pakistan against the

Dreams and International Realities”, has an interesting observation. According to him, for a country to be able to project power globally as a great power, it first has to cross the threshold of becoming a regional hegemon where no other country in its neighbourhood has the ability to compete economically, militarily or politically. Only after achieving such hegemonic status can a country aspire to exert global power. All of China's recent actions in its neighborhood indicate it is trying to achieve this. On the other hand, the US, throughout the 20th century, has ensured that no regional power has achieved this hegemonic status. In fact, he

influence or the Anglo Saxon civilisational influence subsequent to the colonial era. All their actions, not only in their neighbourhood, but also in the African continent and the South American continent and their consistent global propaganda of the “Chinese Way”, seem to be indicative of this.

The India-China relation has to be recalibrated in this context. China cannot tolerate India as a regional peer competitor. Period. China was that one large country in Soviet Russia's neighbourhood, which, when weaned away from deep Soviet influence, hemmed



Soviets in Afghanistan. Learning from the lessons of history, the Chinese seem to be attempting what the Soviets did not do, i.e., aggressive preemptive posturing to pressure neighbours into thinking otherwise. So, from that perspective, it seems China will continue to keep the pressure on the border till the time they feel India is pressured into thinking otherwise. Further, observing its actions in the South China Sea, they seem to be determined to bear heavy costs. Therefore, an early resolution seems unlikely and we can expect a long haul.

John Mearsheimer, a political scientist and international relations scholar from the University of Chicago and author of many books on the subject, a recent one being the “THE GREAT DELUSION: Liberal

cites four instances when the US went to great lengths to prevent this from happening; Imperial Germany, Imperial Japan, Nazi Germany and the Soviet Union. Therefore, it can be assumed that the US will go to great lengths once again to prevent China from becoming a regional hegemon and thus prevent it from becoming a peer competitor.

In conclusion, China's belligerence seems to be one of the moves on a larger chess board of the evolving contest for global influence between the US and China. It is clear that the Chinese indeed have ambitions of achieving global influence. This ambition seems going beyond economic, political and military influence. It includes soft power and cultural influence like the Western civilisational

in the Soviets. China sees India playing that pivotal role in its contest with the US. A lot will depend on how India plays this game and how China responds. The current dispensation in Beijing seems to be determined in achieving their goal of hegemony in Asia. And the US seems determined to prevent this from happening. If Beijing backs off and accepts India's rightful rise as a future global power, it could lead to a multipolar world. However, history seems to indicate otherwise.

Closing Note: The fate of Huawei in this case will be like the canary in the coal mine. If it dies in India, we know we are in for some toxic times ahead.

PART 2

Recalibrating India's Stance with China



China's preemptive aggressive posturing poses an immediate serious challenge to India, caught in the cleft stick of the challenges of the pandemic and a sinking local and global economy. In fact, China may have pushed forward this posture seeing India at its weakest moment in recent times. As a response, India seriously needs to recalibrate its relations with a China that has no moral qualms of pressing forward on what it perceives are its geopolitical advantages. What are India's options?

For a retrospective view, let us see another relationship India recalibrated since 2014 - that with Pakistan. After close to three decades of ambivalent responses to Pakistan's strategy of low intensity war in the form of cross border terrorism through proxies, India took a stand that terror and talks cannot go together. It actively de-hyphenated Pakistan from India's global outreach, stopped all bilateral talks, strengthened its border security, actively worked to diplomatically isolate Pakistan at various global fora and bring global attention on Pakistan's strategy of using terror as a tool of its statecraft. India further went on to define its national security posture as one of "Offensive Defense" by targeting terrorists and their infrastructure across the border. In short, India has exponentially increased the cost for Pakistan to maintain and operate its terror campaign. Though this is still work in progress, the results are there to see.

- Pakistan's GDP has shrunk to 11.56 % of India's from 12.43 % between 2013 and 2018
- Pakistan's per capita GDP has shrunk to 72.12% of India's from 81.51% between 2013 and 2018.
- Pakistan's exports have shrunk from 25.12 billion USD in 2013 to 23.63

billion USD in 2018. Even Bangladesh at 39.25 billion USD in 2018 has overtaken Pakistan in exports.

- Pakistan stood isolated at the inaugural meeting of the Organisation of Islamic Cooperation (OIC) in Abu Dhabi on 1st March 2019 where Sushma Swaraj, as India's external affairs minister, was invited as guest of honour.
- Pakistan is under constant pressure from the Financial Action Task Force (FATF) due to strong Indian activism.
- Pakistan is at the brink of bankruptcy, being supported only by China at the moment.
- If China is economically stressed, Pakistan runs out of options.

Therefore, we can see that since India recalibrated its stance with Pakistan since 2014, it has seriously dented and sapped Pakistan's capability to foment terror in India. Whether this will translate into long-lasting peace will depend on India sustaining this pressure and converting the sapping of capability to sapping of will of the Pakistani military establishment to foment terror.

The reason this perspective is important is because the change and its effects are so dramatic for all of us to see. Close to three decades of ambivalence on India's part, dealing with Pakistan got us nothing but pain, bloodletting and death. In just six years, we have now largely stemmed terror across India and brought Pakistan to a position from where it will be even more difficult to sustain their campaign of terror.

Yes, China is a different ball game altogether with its economy being about five times that of India's. But China too has deep structural weaknesses that India can exploit. The objectives of India's recalibration of relations with China should be to effect the change in China's attitude towards India that secures our national interests and enables India to focus on building its economy and realizing its true potential. Just like India took a fundamental stand with Pakistan that 'terror and talks' cannot continue together, PM Modi could very well take a fundamental position with China that 'coercion and commerce' can not go together.

Just like with Pakistan, it will have to be a multi-pronged approach that first restricts the ability and then the will to coerce by



also using commerce to penalize or incentivise behaviour that is against or aligned to our national interests. The military and global diplomacy options of securing India and blunting China's ability to coerce India are best left to military and diplomacy experts. As far as commerce is concerned, India will have to get its act together if we have to seriously recalibrate our relations with China in a sustainable way.

To me, Prime Minister Modi's call for "Atmanirbharta" strikes a deeper philosophical chord. It starts first with our ability and capability to be self-confident and self-reliant in our beliefs and the core values we cherish, the various forms of freedoms we enjoy, our democracy and our free market economy. Our economic growth has to be one that is sustainable in that paradigm, not at the cost of making compromises with a regime that is diametrically opposite in core values. If we practice self-reliance at this level, the material and economic aspects will follow. It does not mean that we irrationally raise all kinds of barriers, become xenophobic and insulate ourselves with the rest of the world.

Let me draw an analogy. India secures its geographical territorial integrity, sovereignty and national interests by developing strong and capable armed forces that can signal credible deterrence and power projection in a disturbed neighbourhood. It is obvious that in doing so India has to equip its armed forces with equipment and technology that is sourced from where the supply chain is secure in the advent of a military conflict with an adversary. When it is so obvious that no equipment will be sourced from a military adversary, why is there ambiguity when it

comes to economic adversaries who do not hesitate to convert asymmetric economic advantage to geopolitical advantage. India first needs to differentiate between trading partners who compete fairly by playing by the rule book India adheres to and those who cheat and manipulate to gain economic advantage with obvious intentions of translating that advantage into military and geopolitical advantage as an adversary. This is in the deep sense of taking a position that "coercion and commerce" cannot go on together. It is not a question whether China de-escalates the border tension to get back in business. It is a question whether China changes its overall posture with India; its support to terrorists in Pakistan, its blockage of India's entry to a permanent seat at the

United Nations Security Council (UNSC) and its incitement of our neighbours against India to "contain" India.

This realisation should also be imbibed by corporate India as an obvious business sustainability reality and not just leave it to the government to impose. The government, in turn, should take steps to level the field in terms of implementing reforms that create a globally competitive ecosystem in India. Under the rubric of national security and making India self-reliant, it will have to swallow the bitter pill of political considerations and push through long-pending policy reforms in land and labour to make India more competitive.

In short, we will first have to level the field to make India globally as competitive as China, if not more. This is easier said than done, but not impossible. Indian society as a whole, for once, will have to raise itself up to the occasion. Three facets of society come to mind.

1. The Government of India, through policy decisions and implementation, setting the macro environment.
2. Corporate India working in conjunction with government policies to raise the bar of its global competitiveness.
3. The Indian society and consumers at large conducting itself in the larger national interest.

Some broad level issues that could be looked at are identified below.

Government Policy



Trade: Clearly distinguish trade relations with countries that practice free-market economies and those that do not and severely penalise those who do not with anti-dumping duties. On the other hand, incentivise those that do with free trade agreements. Such a clearly defined free-market value-based posture should be easily defensible in the World Trade Organization (WTO).

Land Policy Reform: The land reforms that India implemented in 1951 after independence is one that set us on a different trajectory compared to Pakistan which is still mired in 19th century "zamindari". It hugely contributed towards redistribution of wealth sustainably after independence. India in the 21st century needs a similar inspired reform that strikes a balance in new economy nation building, ecology protection and fair monetisation of

landowners. The option of remaining meaningful stakeholders in nation and economy building projects that land is acquired for could incentivise land owners in speedy acquisitions and implementation. Many successful private initiatives abound in India that can be formally codified in policy.

Labour Policy Reform: It is obvious that the labour laws that were devised in an era of mass exploitation have now run their course and are now in fact counterproductive to the interests of labour. They are working against employment creation and do not actually deliver the protection they were intended to provide as majority of the people employed in India remain outside the small islands of organised protected labour. Labour reforms should address:

- Employment creation with ease of exit.

- More inclusive forms of labour in organised and unorganised sectors.
- Proper implementation of minimum wages via digital platforms.
- Increasing severance package to stem exploitation.

Tax Policy: Should be directed towards attracting productive investments within and with foreign investors:

- Simplify.
- Widen basket.
- Rationalise tax rates.
- Consistently boost long term confidence of investors.

Ease of Doing Business: There are well established internationally accepted factors of ease of doing business. India should improve all these factors with a missionary zeal to be on par with China.

zamindari : system of landholding & revenue collection by land owners.



Corporate India should rise to the occasion and connect the dots that ensure sustainable long-term business growth in the context of the realities of geopolitics. The current situation is symptomatic of corporate India's inability to connect the dots. **Over dependence on a supply chain and source of technology on a country that is openly adversarial to India's regional and global interests is not sustainable;** so is that market for exports. Diametrically opposite national interests and commerce cannot be sustained in the long term and friction points will occur that will disrupt and severely impact corporate performance. Corporate India will have to take a more strategic approach to long term business sustainability and growth and not just be focused on short term profitability. Business leaders, academicians and thought leaders will have to sensitise corporate India to these business risks with more case studies leading to a culture of long term sustainable competitiveness based on innovation and strategies that address these risks.





Indian Consumer and Society

Recent events have shown that the Indian consumer and society in the new digitally connected world can conduct itself as a potent force. The severe anti-China sentiment that it has generated has not only shaken the mandarins in Beijing but also corporate board rooms in India. It has forced corporate leaders in India to make “vocal for local” statements. Corporate India should recognize this force and consumer behaviour in a digitally informed world. They are capable and will make choices in solidarity with their fallen brethren on the battle fronts and shun products and services that they deem tainted with the blood of Indian soldiers.

CONCLUSION

In conclusion, even these limited skirmishes have exposed deep undercurrents that were being overlooked. The brutal killings of Indian jawans have rudely awoken us to the fact that it is not an isolated incident. It is part of a larger strategy of China to use economic power, military power and political power with our other neighbours to deny India its natural growth potential and compete fairly to attain its rightful place in the comity of nations; because India is the only other large nation in the neighborhood that can deny China its hegemonic status in Asia. It actively seeks to constrain India with all tools at its disposal, the border skirmishes being one

of them. India too needs to take a position to utilise all tools, military strength and global military alliances, economic options at its disposal and political activism to counter this. It cannot be business as usual going forward and it is hoped that India as a whole will not once again be lulled into a sense of complacency. The authoritarian dispensation in Beijing structurally does not have the checks and balances to self-correct. Unlike a democracy, change can happen only when the people of China revolt. That seems to be unlikely in the foreseeable future. For now, it appears that India and China are on the threshold of a long unremitting cold war.





Head Office & Bhosari Unit:
Divgi TorqTransfer Systems Ltd.
75, General Block, MIDC, Bhosari, Pune 411 026.
TEL: +91-20-27302000, 27129690 • FAX: +91-0-27129691
www.divgi-tts.com