Why India Made Up with China at the BRICS Summit

By

Amit Gupta

For the past six years India-China relations have been at a low point with the two countries getting into skirmishes along the border. The worst of these was in 2020, at Galwan, where at least 20 Indian and 4 Chinese soldiers were killed in a brawl.

Both sides subsequently took steps to militarize the border and there was talk in New Delhi of following a more aggressive policy towards the Chinese. It was quite a surprise, therefore, that before the 2024 BRICS (Brazil, Russia, India, China, and South Africa) summit at Kazan, India announced that it reached an agreement with the Chinese on how to patrol the border without clashes. Indian Prime Minister Narendra Modi and Chinese President Xi Jinping also had a bilateral meeting in Kazan. Several factors led to this turn of events.

The Indians knew for some time that to dislodge the Chinese from the positions they occupied in the Himalayas would lead to an expensive war where India would likely not succeed in achieving its objectives. The alternative was to negotiate a settlement on resuming patrolling along the border and move towards improving the relationship in other areas, as the Chinese had suggested, notably by increasing trade and foreign direct investment in India.

The first sign that a policy shift was taking place came when the Ministry of Finance’s publication, “The Economic Survey of India,” called for seeking Chinese foreign direct investment to boost the economy. Such a statement could only come with the approval of the prime minister’s office signaling a change in thinking in New Delhi. While India’s bureaucratic and military establishments wanted a hard line towards China and to move closer to the United States, India’s three major business houses—Ambani, Adani, and Tata—all wanted closer economic ties with the Chinese, as did others in the business community. China provides the necessary equipment for Indian industry as well as the much-needed middle managers for India’s bourgeoning high-tech industries.

Further, while the United States was engaged in discussions with India it could not provide anything concrete and meaningful to New Delhi. Foreign direct investment from the United States was not forthcoming in significant amounts. Militarily, Washington was not providing the high-tech weaponry that India badly needed—at least not without terms and conditions that India found onerous. On the other hand, India lacked the financial resources to pay for the more advanced technology it wanted.

In terms of the Quadrilateral Alliance (Australia, India, Japan, and the United States), the Indians were always the outliers since their military technology could not operate seamlessly with the American, Australia, and Japanese systems. Moreover, the Indians were cautious about the extent to which they wanted to aggravate the Chinese, worrying about Beijing’s potential to complicate the security environment in South Asia.

The budding bilateral alliance between Beijing and Moscow also worried New Delhi. Beijing and Moscow are moving towards a much closer political and economic relationship that is partly aimed at transforming the dollar-dominated international financial system.

Militarily, the emergence of closer military ties between China, Russia, Iran, and North Korea (CRINK) is worrying not only to the West but also to India since Russia is a major supplier of weaponry to India and New Delhi does not want to see this supply chain disrupted because Moscow decides to favor Beijing and reduces supplies to India.

Moreover, within BRICS there is a move towards accepting the Beijing-Moscow position on an alternative world order—the Law Based International Order—that while India accepts it, it is also concerned that it would be dominated by Beijing (and India would be shut out of framing the new narrative). All these reasons required mending fences with the Chinese.

Outcomes

At the very least, this move is welcome because it is going to lead to a lowering of tensions along the border, which helps the internal position of the incumbent prime minister. Narendra Modi was weakened in the May-June 2024 general elections where his party went from having an absolute majority to being forced into a coalition with untrustworthy partners.

In such a situation, a bad military outcome along the border would severely weaken Modi's internal standing and lead to calls for him to be replaced. Stabilizing the border, therefore, removes an irritant in domestic politics.

India needs foreign direct investment and despite all the talk from Tokyo and Western capitals, China is the most likely source of such financial resources. Chinese companies, despite the downturn in India-China relations, now control over 70 percent of the country's cellphone market with companies like OnePlus, Redmi, Oppo, and Vivo outselling Apple, Samsung, and Sony.

Huawei and Hisense are making inroads in India's white goods market while Chinese electric scooters (or ones powered by Chinese batteries) are becoming the ride of choice for young Indians. Paytm, the mobile payment service, has a Chinese majority share in its ownership and it is one of the leading players in the Indian market.

All of this has happened while relations between the two countries were sour. There is, therefore, considerable room for growth if the political climate between the two countries improves significantly. There is talk, in fact, that China may do a substantial foreign direct investment in India because, unlike Pakistan and Sri Lanka, there is less worry about nonperforming loans in India.

Some worry that the Indian rapprochement with China could have an adverse impact on US policy toward the Indo-Pacific and will give greater momentum to a BRICS-inspired move to de-dollarize the global economy. The Indians have a residual distrust of China and, therefore, are not going to bail out of Western-directed initiatives in the Indo-Pacific just because New Delhi is now the recipient of Chinese largesse.

Instead, India will encourage the development of Western-crafted institutions in the Indo-Pacific and participate in them particularly if they lead to economic growth. As far as de-dollarization is concerned, the Indians want to go to payments in one's own currencies within BRICS but are not talking of displacing the dollar. In part, this is because the alternative could be the yuan or a Chinese-dominated BRICS currency.

The rapprochement between the two countries is good because it deescalates tensions and makes room for investment that India badly needs to reinvigorate its economy. At the same time, it does not shift India into the Chinese camp since New Delhi is a long way from trusting Beijing and entering into an anti-Western partnership with it. For the West, the best move is to wait and see, while remaining on good terms with India.

Amit Gupta is a Senior Advisor to the Forum of Federations Ottawa. The views in this article are his own.