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**How can GCC countries
achieve equilibrium in the
China-India competition?**

August 2021

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EXECUTIVE SUMMARY

The competition between China and India continues to grow, driven by territorial disputes and China's growing strategic dominance and assertiveness. Both countries are also increasing their demand for energy and raw materials to fuel their economic growth. Since the Gulf Cooperation Council (GCC) countries are major suppliers of China's and India's hydrocarbon needs, and with a possible reduced US role in Gulf security, China and India are expected to grow their military role in the region to protect their supply routes.

Both countries should not, however, be considered through the same lens. India has a larger dependency on the Gulf and greater foreign policy proximity to the United States than China. India and the Gulf further have deeper cultural and historical ties that link their population together. While China does not have the same historic proximity to the Gulf, its larger financial clout, expertise in large-scale infrastructure deployment and growing technological edge make it an indispensable partner to the GCC countries. Yet China's intensifying proximity to Iran may pose a conundrum to some GCC countries.

Regional policymakers need to ensure that China's and India's antagonistic relationship is not projected in the Gulf. To achieve this, they should pursue a balanced relationship with each, avoid "picking sides", and where possible, encourage them to cooperate rather than compete in the commercial and security realms.

From an optimistic perspective, while competition is inevitable in meeting economic, political and strategic objectives, there is nothing stopping the two countries from cooperating and avoiding confrontation to maximise not only mutual but also plurilateral benefits. The GCC countries, despite their differences on various issues, should exploit these openings by continuing their pragmatic and multi-aligned foreign policies.

1. Introduction

As China and India experienced their gravest border crisis in four decades in May 2020¹, the GCC countries were concerned but remained diplomatically tightlipped. This was contrary to the voices of solidarity with India during its several crises with Pakistan in recent years. This deft approach on matters related to the two Asian giants highlights a brewing foreign policy conundrum for the GCC countries in the future.

China and India have been diligently assessing their demand-supply chain of energy and raw materials to feed their steadily growing economies. This is currently evident in both wooing Africa. The same has been apparent in their relations with the GCC countries, as well as Iran and Iraq. This is not just in the economic domain but in the security domain too, especially as their naval presence expands to protect their regional supply routes amid perceived signs of US disengagement.

While the economic strategies of the Asian giants have gelled well with the GCC's 'Look East' policy over the last two decades, the China-India relations and competition bring to the table a set of uncertainties and opportunities for the GCC countries.

On the one hand, the discourse on a potential Sino-Indo rivalry playing out in the region in the future is emerging, which portends replication of GCC's insecurity as a bloc of small states in dealing with US-China superpower rivalry. The anxiety stems from China and India bringing to the table another important dynamic – their bonds with Iran, which has incompatible ties with some GCC countries. On the flip side, China and India are also potential facilitators to mitigate regional tension.

These factors make Sino-Indo ties with the GCC countries comparable to an incongruent triangle, posing the question: will China and India cooperate, compete or confront on bilateral issues and matters related to the Gulf in the decades ahead?

2. Distinct contest

Ties between China and India have remained ambivalent since the end of the British colonial empire. India's northern borders – drawn by the British colonial administration – are considered provisional by China, and have often been the cause of sporadic violence, military clashes and all-out war².

This antagonism now transcends mere territorial disputes. China's economic ambition in the form of the Belt and Road Initiative is competing with India's own ambition for enhanced global diplomatic influence, and in particular with its own strategic interests in the Indian Ocean.

Both countries have significant but differing reliance on the GCC countries, which provide them with vital energy resources and investment capital. For India, the region is also a significant provider of employment and associated remittances. For China, the GCC countries represent a steppingstone to BRI projects in Africa and Europe, but are not as significant in terms of energy supplies as they are for India. As the Chinese and Indian economic-political-security imprint increases in the region, the GCC countries would benefit by comprehending the subtleties of the strengths and weaknesses of their partners. It would also help them recognise that despite several challenges there are more opportunities than challenges and ample prospects to ward off confrontation.

In the sub-sections below, we provide an overview of China's and India's differing position in the Gulf from both an economic and a security standpoint.

i. Economic imprint

Trade

At \$180 billion and \$110 billion, respectively, China and India are among the top trade partners of GCC countries. As represented in Figure 1, GCC exports to China and India are dominated by hydrocarbons, with the UAE standing out in terms of its trade with India in precious stones and minerals. India and China have however very different export profiles to the region, with the former acting as a significant source of cereals (particularly for Saudi Arabia, Qatar and Kuwait), while the latter's exports are dominated by consumer goods and electronics.

The relative strength of China's and India's economic growth are reflected in the evolution of trading volumes with the six member countries. While GCC imports from India and China were balanced in 2009 (around \$32 billion each), imports from China have grown at an annual rate of 10%, compared to 2% from India. As of 2019, GCC imports from China amounted for \$81 billion, double the amount of imports from India.

Looking at imports alone cannot of course determine strategic priorities. In a context of limited domestic resources and an unfavourable geography to access resources through pipelines, India has a larger energy dependency on the GCC countries than China: in 2019, 59% of India's crude oil imports originated in the Middle East, against 44% for China, which unlike India, can count on pipeline imports from Russia³. India was also more dependent on Middle East LNG, with 56% of its imports coming from the region, of which 41% from Qatar; for China, Qatar represented only 9% of its LNG imports⁴. With India expected to be the largest energy growth market globally, this dependency is unlikely to abate⁵. This dependency will necessarily translate into India's active pursuit of strategic partnerships with Gulf hydrocarbon producers and an interest in the GCC region's political stability and security.

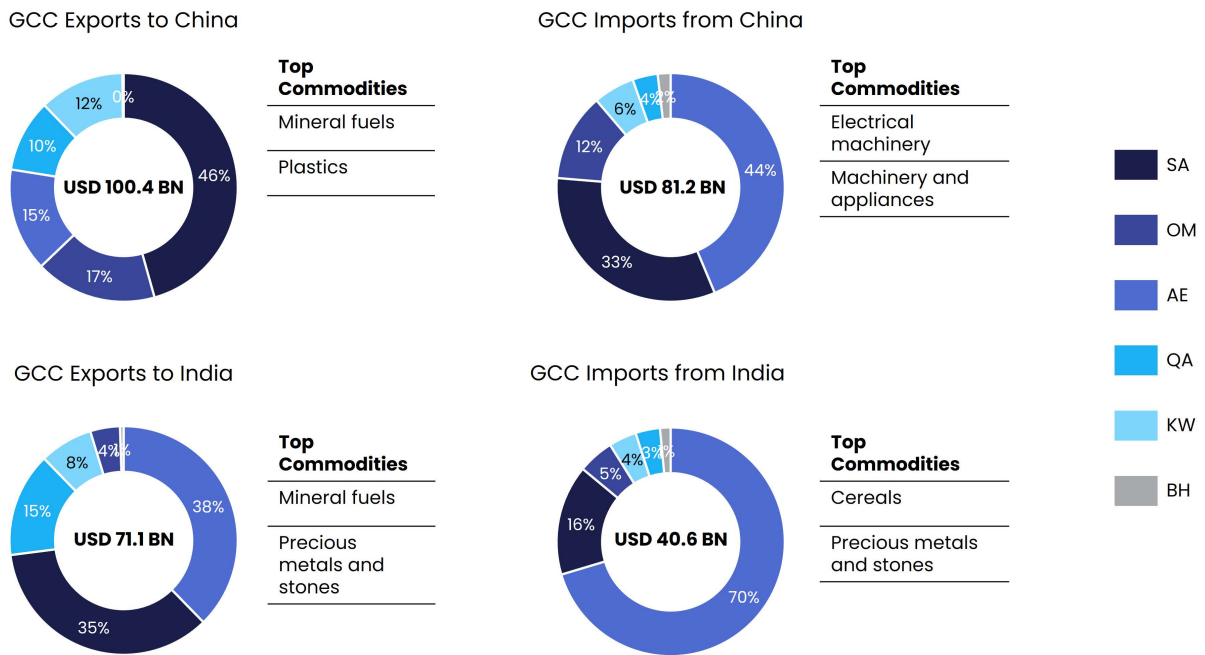


Figure 1: Comparative analysis of GCC exports and imports to and from China and India. Source: Observatory of Economic Complexity, 2019 data

Investment and labour

China’s and India’s investment approaches in the region can be respectively considered as capital-intensive and labour-intensive. China has privileged FDI, predominantly in the energy industry in Saudi Arabia and the United Arab Emirates. Between 2005 and 2019, it invested about \$16 billion in the GCC countries⁶. China was further awarded more than \$85 billion in investment contracts in the region for the same period⁷. With regards to India, its inward FDI stock into the region was an estimated \$6.2 billion in 2017 (also predominantly in energy infrastructure), with broader Indian investments estimated at \$85 billion through thousands of its companies and commercial interests across multiple sectors⁸. Yet a key difference it has with China is its several million citizens working in the six countries, which in 2017 was contributing \$40 billion in remittances, thus playing a vital economic role⁹. The larger and better integrated Indian community in the Gulf has also played a significant role in financing development through investments in real estate, particularly in Dubai. Here again, this should translate into India’s high interest in the stability and economic prosperity of the Gulf.

ii. Political and security imprint

While China has greater economic leverage in the Gulf, India taps into the value-added historic, cultural and people-to-people ties (with its seven million-plus Indians residing in the GCC countries) to comfortably stay in the race. Two inter-related issues are likely to concern the region’s policymakers: India’s and China’s dealings with Iran; and their potential role as security guarantors should the United States continue to reduce its role in the Gulf.

Port diplomacy with Iran

China and India have both sought to expand their commercial ties with Iran. While they have both demonstrated interest in Iran's port and transport infrastructure, the extent of their engagement has differed.

After the Iran nuclear deal, India signed an agreement with Iran in 2016 to develop the port of Chabahar as a shipping hub with rail links that would connect India to Afghanistan through Iran¹⁰. The democrats were in power in Washington, and sanctions on Iran were being gradually lifted. For India, this was also an opportunity to compete with the port of Gwadar in Pakistan, part of the Chinese-financed China-Pakistan Economic Corridor (CPEC) and China's most significant economic and strategic foray in the region's vicinity.

Political developments between 2016 and 2021 severely undermined India's plans. The US withdrawal from the Joint Comprehensive Plan of Action and reimposition of sanctions on Iran by the Trump administration coupled with India's compulsions due to its strategic proximity with the United States reduced India's ability to develop Chabahar at the speed and scale it originally intended. Additionally, the China-Iran 25-year comprehensive cooperation agreement signed in 2021 showcases China's strategic advances in the region: Iran recently stated: "We have made it very clear to our Indian, Chinese friends that Chabahar is open for cooperation for everybody. Chabahar is not against China ... is not against Gwadar. Chabahar is a place where we can all come together (including Pakistan) to help Afghanistan..."¹¹ India is unlikely to compete against this despite robust ties with Iran, recognising China's strength as the world's second largest economy and its own limitations at not being able to match the expansive BRI.¹² "We are not in a race...they have already won the race"¹² an Indian former minister said about a decade ago. Finally, given the announced American withdrawal from Afghanistan and the possible establishment of a Taliban-friendly government, India may be cautious about immediate investments in Chabahar: Afghanistan is likely to fall back under the sway of Pakistan, and as such goods are likely to flow into the country predominantly from Gwadar and China (through CPEC).

With a more Iran-friendly administration in Washington, India may still have arguments to continue and expand its engagement in Chabahar because of its strategic value in acting as a counterweight to China and Pakistan. Beyond Afghanistan, Chabahar could provide an access to other Central Asian markets for Indian goods, and potentially to Europe if a robust rail infrastructure was to be developed across Iran and Turkey, as a way to bypass the maritime chokepoints of Bab El Mandeb and Suez. As a matter of fact, India plans to soon start cargo operations in Chabahar¹³.

Gulf security

As India strives for United Nations Security Council membership, P5 member China already has the power to influence global affairs. This includes Gulf issues, by offering protection from the UN sanctions regime like it did by opposing the US resolution to extend the arms embargo on Iran in 2020.

While India is loath to mediation in its own or other's bilateral affairs, China's economic interests are encouraging it to explore unique diplomatic tactics in the region that could help strengthen Beijing's developing global role. These involve mediation to defend commercial rather than security interests; conflict 'management' instead of 'resolution'; and promoting a harmonious relationship among China's strategic partners – Iran and the GCC countries, both involved on conflicting sides of proxy wars.

Beyond diplomacy, both countries bring distinctive security strengths to the region. While the United States is still the chief security guarantor and largest arms supplier in the region, Chinese and Indian security footprints are growing with their navies having a presence in Duqm, Oman, and the former emerging as a 'Plan B' for supply of sophisticated weaponry denied by Washington. China, along with Russia and Iran, launched joint naval drills in the Indian Ocean and the Gulf of Oman in 2019. This adds to China's military base in Djibouti and the speculation that its Gwadar port project could have a military component.

While India is no match to China in arms manufacturing and exports, its naval capacity and bases have grown exponentially through its 'Necklace of Diamonds' to counter China's 'String of Pearls' in the Indian Ocean. Even though it is part of the US-promoted Quad, which also includes Japan and Australia, India has resisted formal affiliation to the bloc to avoid antagonising China. Equally, however, India is now conducting joint naval exercises with the UAE and Saudi Arabia, and in an ever-expanding set of alternative security options, India, France and the UAE are joining forces in trilateral naval exercises.

Thus, while Beijing has the upper hand in economic, diplomatic and security spheres, New Delhi is convinced that the prevailing complexity, diversity and necessity in the Gulf guarantees its relevance without pulling extra strings. China, on the other hand, will have to be mindful about US interests in the region that are largely in sync with the GCC countries.



3. Outlook for the GCC-China-India trilateral

Amid these commonalities and contradictions, it is important to stop viewing the developments in mere India-versus-China terms and take an optimistic India-plus-China approach that guarantees a win-win situation for all, including the GCC countries. As the global economic balance shifts towards Asia, despite differences between the two countries with “oversized egos”, there are sufficient reasons to believe that they could engage in cooperative and competitive engagement, avoiding confrontation.

Yes, there are problems between Asia’s ‘dragon’ and ‘elephant’, but they exist between India and Pakistan too. In fact, the Indo-Pak dimension was, is and will remain more complicated than Sino-Indo relations can ever be. Again, unlike the Iran-Israel relationship, where ideology determines geostrategic interests, there are no ideological factors deterring Sino-Indo ties, leaving them to just worry about geostrategic interests.

The future of China-India bilateral ties and their roles in the Gulf region will, no doubt, be influenced by the United States. While Washington would desire a unipolar world and a multipolar Asia, China would prefer a multipolar world and a China-centric unipolar Asia. On the other hand, India would like to see a multipolar world and a multipolar Asia. While this may intensify Beijing-New Delhi competition, the new dynamic GCC foreign policies are capable of circumventing diplomatic barriers.

The point is that China, India and other principal Asian players will sooner or later be forced to stop “free-riding” on the back of US naval presence in the region’s waters and find their own means of securing their sea lanes. Since this aligns with the security requirements of the Gulf and a recognition that “...the international guarantees [necessary to provide a framework for Gulf security] cannot be provided unilaterally even by the only superpower in the world”¹⁴ it opens the possibility of a collective security architecture in the region, an idea that is gaining resonance around the world, including the United States.

The Way Forward

To optimize their position and leverage, GCC countries should consider trade, investment and security policy options in their dealings with China and India:

- **Trade**
 - Revive and accelerate the pace of negotiations in view of establishing free-trade agreements with China and India. Given the slow pace of GCC-wide negotiations, there is a rationale for individual GCC countries to pursue such agreements bilaterally as a first step – like the one between Qatar and Singapore, which was then expanded to include other GCC members in 2008.
- **Investment**
 - Encourage but balance (to the extent possible) both Chinese and Indian investments in the Gulf to increase these countries' stakes in the security and stability of the GCC.
 - Encourage possible Indian participation in the BRI, which opens new economic opportunities, apart from mitigating tension between the Asian giants.
 - Increase their own participation in BRI projects in third countries, not only as an economic boost, but also for the security impetus it provides.
- **Security**
 - Invite leaders of China and India separately or together to the GCC Summit to share thoughts on future cooperation (like Iranian and British leaders were invited in December 2007 and 2016, respectively).
 - Borrow China's 2+1 diplomacy idea (involving China, India and Nepal) to use either power's good offices to facilitate rapprochement with Iran.
 - Host Track II or Track 1.5 dialogue involving experts from the GCC bloc, China and India to explore alternative security scenarios, including potential joint exercises involving the armed forces of the GCC countries, China and India, which enhances strategic autonomy for all.

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