



Concessions to victory

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A few years ago, at a very friendly social dinner, one senior Chinese official and one senior Indian official (who are good friends and work together in a major regional organisation) were happily joking and jostling with each other about the relative merits and strengths of China and India as great powers. In so doing, the Chinese official made a profound comment.

He said China faced many real challenges in its relationships with other great powers, like the US and Japan and even UK and France. And he gave examples. Then he noted how India was facing challenges with its neighbours like Pakistan and Bangladesh, Sri Lanka and Nepal. He concluded, in a joking tone, that if India was to become a great power it should upgrade its adversaries from small neighbouring countries to other large great powers, like China had.

This Chinese official may well have a point. One other point he could have made was how successful China had been in improving its relations with all of its smaller neighbours. And it has succeeded despite huge political obstacles. Take the long-divided Korean peninsula, which remains one of the most dangerous places in the world (as demonstrated by the recent sinking of the South Korean warship Cheonan on 26 March). China is, of course, the last major supporter of the isolated and beleaguered North Korean government. Despite this, it has managed to establish diplomatic relations with South Korea. Even more importantly, trade between South Korea and China has grown in spectacular fashion, from \$41 billion in 1992 when diplomatic relations were established to \$156 billion in 2009. The main defender of South Korea is the US, while the main defender of North Korea is China. Yet, South Korea now trades far more with China than with the US (approximately \$80 billion), while the US-South Korea FTA cannot even be ratified by the US Congress. All this reflects China's geopolitical competence.

Similarly, when ASEAN was founded in 1967, the main opposition came from China. China declared loudly and vociferously on its founding that "ASEAN was a tool of American imperialists aiming at containing China and other communist powers." ASEAN was clearly seen as a pro-American organisation. Yet, 20 years after the Cold War ended (a Cold War that was allegedly won by America), ASEAN collectively now has far closer relations with China than with America. In a stunning geopolitical move, China proposed, negotiated and concluded an FTA with ASEAN in record time, a move that led to diplomatic jaw-dropping in Washington DC

and Tokyo, two of ASEAN's traditional allies. And now China's trade with ASEAN in 2009 (\$213 billion) has clearly surpassed ASEAN's trade with the US (\$177 billion).

But the most dramatic geopolitical move that China carried out was with an adversary that could have caused a serious war for China, with far-reaching negative repercussions. That "adversary" is, of course, Taiwan. Taiwan and the People's Republic of China are seemingly locked into an implacable hostility, with both claiming to be the legitimate government of China. Indeed, in the past decade or two, China and Taiwan have had close shaves, with Bill Clinton threatening to send two aircraft carriers through the Taiwan Straits in 1996. Against this backdrop of overt geopolitical hostility, it is remarkable how far China has progressed in establishing a mutually beneficial economic relationship with Taiwan.

This is why the world should pay careful attention to the Economic Cooperation Framework Agreement (ECFA) that China and Taiwan concluded on June 29. In theory, the ECFA is not a full-scale FTA. In practice, it is probably the most generous economic agreement China has signed. China has given Taiwan more benefits than it gave to ASEAN in the China-ASEAN FTA. For example, China has agreed to make tariff cuts for 593 finished products for Taiwan as opposed to the 400 products for ASEAN.

These generous economic concessions will, in reality, cost little for China. The polar opposite of a close relationship with Taiwan would be total hostility, which could lead dangerously to a possible war with the US, since the US Congress has mandated that the US has an obligation to defend Taiwan under the Taiwan Relations Act of 1979. The economic concessions by China seem trivial compared to the costs of possible hostility with Taiwan and the US. Any "rational choice" model of decision-making will confirm that China is doing the right thing in making these unilateral economic concessions.

While relations between India and its neighbours have improved quite a bit under the current government, it could certainly be even better. The relations between India and its neighbours are, of course, more complicated than China's relations with its neighbours. Despite this, it may be useful to ask if China's methods of improving ties with its neighbours can be emulated in the South Asian subcontinent. While India has started the process of cooperation with neighbours like Sri Lanka, (with whom it has an FTA), it may even be possible to conceive a pilot project with one of India's most promising neighbours: Bangladesh.

In theory, relations between Bangladesh and India should be close since the Indian military made a major sacrifice in liberating Bangladesh in 1971. In practice, relations have not been close. Fortunately, with a new government in Dhaka, relations between India and Bangladesh appear to be doing better. This may well provide an opportune moment for trying out something new. Even a plain vanilla FTA between India and Bangladesh would be a valuable first step. (Note that agreement on a South Asian Free Trade Area was concluded at the 12th SAARC summit on January 6, 2004. India and Pakistan have signed but not ratified the treaty. It is not clear when it will effectively come into force.)

There is no doubt that it is much easier for a communist-party controlled government like China's to sign FTAs than it is for a democratic government like India's. The Indian

government, almost by definition, has to be more sensitive to public opinion and negotiate its way carefully taking into account special domestic interests, that may be opposed to FTAs. The reason why India took a longer time to conclude its FTA with ASEAN was because of the Indian farm sector's protest over products such as fish, rubber and palm oil. India may never be able to catch up with China but it can at least start moving in the direction of significantly improving its ties with its neighbours. Modern great powers treat their neighbours magnanimously, like the USA vis-a-vis Mexico and China vis-a-vis Vietnam. When India does the same, the day might come for the senior Indian official to tell his Chinese counterpart: "We have upgraded our adversaries to the great powers. Hence, we too are playing in the A-League of geopolitical football."

This inaugurates a regular column from the dean of the Lee Kuan Yew school of public policy at the National University of Singapore