

When balance of power meets globalization: China, India and the small states of South Asia

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TV Paul

McGill University, Canada

Abstract

This article addresses the research question: how have most small states of South Asian region managed to acquire substantial amount of investment from China and India without falling into the strategic orbit of either power? This is an anomaly because most structural theories, in particular neorealism, would expect small states not to have much power and influence on their own in their relationship with powerful states. I answer this puzzle by arguing that the limited competition between China and India in an era of intensified economic globalization has provided a window of opportunity to small states to maximize their returns from the two without upsetting their relationship with either in a big way. This short-term bargaining window has been facilitated by the managed rivalry and economic interdependence between China and India which is yet to become an intense strategic rivalry. The article cautions that as the Chinese and Indian ambitions in the Indo-Pacific collide, the smaller states may be asked to make choices akin to bandwagoning with either one, in particular by offering military bases and naval facilities. This development, if it occurs, will drastically affect the bargaining power of the smaller states.

Keywords

balancing, China, India, South Asia

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Introduction

Dominant international relations (IR) perspectives on balance of power and state behaviour are heavily focused on the European and United States–Soviet historical experience of yesteryears. The European model emerged out of a material condition of the colonial/imperial era and the Cold War rivalry and alliance system, although international institutions, democracy and economic interdependence helped shape the model in the post-World War II era. The realist conception of balancing, relying on arms buildup and

Corresponding author:

TV Paul, Department of Political Science, McGill University, 855 Sherbrooke Street West, Montreal, QC H3A 2T7, Canada.

Email: t.paul@mcgill.ca

alliances often have trouble explaining state behaviour in many parts of the world today, especially in South Asia and Southeast Asia. To many realists, small states are in general expected to balance powerful actors by joining countervailing coalitions or bandwagon with the most powerful one (Schweller, 2002: 10–18; Walt, 1987: 8; Waltz, 1979: 127). In South Asia, it seems most small states have avoided balancing and bandwagoning in the classic sense and retained their strategic autonomies up to a point. The question as to whether small states balance, bandwagon, or remain neutral in a structural conflict involving two rising powers is an important issue unanswered in much of IR literature.

The changes brought about by intensified globalization, especially economic globalization, have tied most countries at an unprecedented level. The South Asia region has also been globalizing in terms of extra-regional trade and economic relations, although intra-regional economic interactions still remain low. Smaller South Asian countries have been most active in developing high levels of trade links with China, Asia's economic superpower and leading military power. However, very few of them have joined in a balancing or bandwagoning coalition with Beijing to extract more resources. Instead, they have engaged in complex bargaining to gain economic assistance from key states in the region, China and India in particular. Yet, they also have been able to muster considerable economic support from both without forming military coalitions with either. The two rising powers are motivated by the fear of the smaller states joining in a coalition with their opponent in the future, but do not want to fully abandon burgeoning economic links between each other by upsetting the regional order too drastically. As a preventive strategy, the two rising powers attempt to outbid in giving economic concessions to the smaller states in the region (with China having an advantage given its deep pockets) without a whole lot of tangible results in return. As a Chinese scholar has contended, the new order has offered smaller states 'room to maneuver' and 'upwards mobility', although it needs to be seen how far this trend can continue (Xingi, 2017). This 'power of the weak' obviously has limitations, but has worked thus far to their advantage.

What explains the relative success of smaller states of South Asia to develop equidistance with key major powers in the security arena and at the same time extract resources from them? Why aren't they balancing or bandwagoning in the classic sense? What explains the relative difficulty of both China and India to compel full allegiance and form balancing or bandwagoning coalitions with the smaller states in the region? The key argument I make is that the structural conditions created by economic globalization and the limited power competition between rising powers and established states have generated new opportunities and constraints on state behaviour, especially in the balancing arena for larger and smaller states alike. The new global security environment calls for revising our existing theories that privilege great powers or liberal theories that place too much significance in economic interdependence alone. Economic globalization and interdependence theories have not yet explained the special asymmetrical opportunities weaker actors gain in different strategic contexts similar to what is happening in the contemporary world. Weaker states have adopted asymmetrical strategies to extract resources from their larger neighbours who are aspiring to be leading states in the international system.

What is new here from the Cold War days? Although a few allied states such as Korea, Turkey, Pakistan, Israel, and Egypt were successful in extracting geostrategic rents from the United States during the Cold War era, the big difference was that these states had to offer services, especially military bases to the major power ally. The weaker allies were able to influence US policy through formal bargaining, developing strong links with the US governmental agencies and influencing public opinion (Keohane, 1971: 161–182;

Paul, 1992: 1078–1092). The Soviet Union also developed special relationships with several states in Asia, Africa and Latin America during the Cold War era. Often, the smaller states had to choose one superpower over the other in order to gain an advantage. The difference in the globalization era is that smaller states are able to extract concessions and resources from both China and India without formally or informally aligning with either. The absence of a Cold War style rivalry and the high levels of economic interdependence between China and India enable many of the smaller states to avoid committing to an alliance with either side.

China, India, and South Asian states

China has pursued a ‘peaceful rise’ strategy, later christened as ‘peaceful development strategy’, during much of the post-Cold War era, that was, until 2012 or so, aimed at accelerating its economic might through intensified trade of manufacturing goods, while deliberately keeping a low profile in the security arena. It has managed to build up a huge foreign reserve, amounting to US\$3.23 trillion in 2016 (Aizhu, 2016), while maintaining a growth rate averaging 8%–10% for over two decades, which has come down to 6.9% in 2015 (BBC News, 2016). Despite the simmering disputes with the Association of Southeast Asian Nations (ASEAN) countries and Japan over small islands or islets in the South China and East China Seas, and India over occasional patrolling and intrusions by each other’s forces on contested territory or infrastructure building, China has not engaged in an active military conflict with any of its neighbours in nearly three decades. It has managed to settle some 17 land border disputes, except the ones with India and Bhutan (Fravel, 2008). The 2017 Doklam standoff with India in the tri-junction of Bhutan, Tibet and India was a serious crisis, but neither side used lethal military weapons to advance themselves. Soldiers confronted each other, and while they were unarmed, some amount of mobilization was going on both sides as precautionary and for deterrent purposes. They managed to restore status quo ante after a 73-day crisis, although the rhetoric on both sides were quite antagonistic (Bhattacharjee, 2017). While intensifying its economic relations with India, China has engaged in the infrastructure development of countries such as Pakistan, Sri Lanka, Nepal and Bangladesh that has both economic and security implications. The construction and development of deep sea ports in places like Gwadar (Pakistan) and Hambantota (Sri Lanka) and border area roads (Nepal and Myanmar) have been part of the Belt and Road Initiative (BRI) earlier known as One Belt, One Road (OBOR). The maritime element of it has been dubbed as part of what some call the ‘string of pearls strategy’ (Khurana, 2008: 1–22; Garver, 2012: 391–411). China has also used soft power by way of establishing Confucian institutes in different countries. Such institutes have been created in smaller states such as Nepal, Sri Lanka, Maldives, Pakistan, and Bangladesh, although their value is yet to be seen. India has also:

adopted a soft power approach based on a series of new initiatives framed around concepts of ‘non-reciprocity’, ‘connectivity’ and ‘asymmetrical responsibilities’, which indicate a willingness to use economic attractiveness to persuade its neighbors rather than the use of coercive military capabilities. (Hazarika and Mishra, 2016: 144–145)

In Nepal, China has increased its economic and infrastructure support, especially in the hydro-power and road construction sectors. The 2015 earthquake in Nepal generated much Chinese assistance (Murton et al., 2016: 403–432). But the most significant development is Nepal joining China’s BRI and as part of that gaining considerable investment

for the development of infrastructure, roads and rail, and air links, and a possible trade route via China as parallel to the existing trade route with India (Dixit, 2017). China has promised some US\$8.3 billion for infrastructure development, including the Kathmandu–Lhasa rail link, while India’s formal support remains at much less US\$317 million, although Nepal depends on India in a variety of sectors, including fuel supply and remittances. This has meant India will no longer have the ability to place highly punitive sanctions on Nepal as it did on some previous occasions. In response to China’s increased activism in Nepal, India has ratcheted up its support for Kathmandu by pledging more economic assistance along with frequent visits to each other’s capital by Indian leaders and Nepali politicians. In recent years, Nepal has been somewhat successful in not giving in to either China or India in the area of military cooperation while reaping considerable economic benefits from both. In the summer of 2017, Nepal attempted to remain neutral during the Doklam crisis and was uneasy with the standoff prolonging as Nepal did not want to alienate either side. In November/December 2017 (Pant, 2017b), a coalition of Communist parties won the Nepal elections, defeating the pro-Indian Nepali Congress. The new regime is expected to strengthen economic relations with China. Some predict that this may bring the Indo–Nepal relations to more of an even keel, allowing additional manoeuvring space for Kathmandu (Pant, 2017a).

In Sri Lanka, China has made major inroads by its infrastructure development programmes, especially by acquiring the Hambantota port on the southern side of the island state in a 99-year lease. The port was built with Chinese assistance, and in July 2017, Sri Lanka signed an US\$1.12 billion agreement allowing a Chinese company to run the Port due to huge operational costs and lack of profit. Following Indian protestations, Sri Lanka declared that the port will be used exclusively for civilian purposes and that China cannot bring naval vessels to the port (Al Jazeera, 2017). In May 2017, Sri Lanka had rejected a Chinese request to dock its submarine on this port, because of concerns by India as well as protests by Sri Lankan opposition groups (The Wire, 2017). In December 2017, Sri Lanka and China signed 99-year lease for Beijing to develop and use the port for civilian only purposes (*The Hindu*, 2017). The latter part of the agreement was a clear signal to India to consider the deal as not threatening India’s security interests in the Indian Ocean. Moreover, Sri Lanka is encouraging India to invest in the now closed airport in Hambantota. China has other infrastructure projects in Sri Lanka, especially the huge Colombo port city, and many highway developments. India is also actively developing projects in Sri Lanka and provides a large part of the Island nation’s railway, truck and other transportation vehicles. India still remains Sri Lanka’s largest trading partner, and New Delhi has offered over 2.5 billion investment dollars in recent years (*The Sunday Leader*, 2017). The ability of Sri Lanka to harness resources from both China and India without substantially alienating either is an interesting phenomenon.

Bangladesh has played a delicate balancing game between China and India. China has promised considerable economic assistance to Bangladesh, and it has been eager to join the BRI as well as India-Japan initiative linking Northeast India and Southeast Asia. In October 2016, Bangladesh signed a memorandum of understanding with China for a US\$24.45 billion bilateral assistance for some 34 projects in addition to a preexisting US\$13.6 billion Chinese investment for joint ventures and thereby receiving a total of US\$38.05 billion in Chinese assistance. This materialized following a much smaller Indian contribution of US\$2 billion for socio-economic projects in Bangladesh. Although the Chinese funding is much larger, Bangladesh declared that it has no desire to be part of any geopolitical alliances and that it wants to ‘maintain good relations with everyone’

(Hosain, 2016). Under pressure from a possible China–Bangladesh active relationship, India had already softened its stand towards Bangladesh and signed a border settlement agreement in November 2011 which was ratified in June 2015 under which the exchange of 162 territorial enclaves spread in both sides of the border took place. Border connectivity and hydro-electric power generation were also part of the Indian commitment to Bangladesh. In addition, India is spearheading the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) grouping as a parallel to the South Asian Association for Regional Cooperation (SAARC) which is somewhat inactive due to continued India–Pakistan rivalry. The new grouping consists of India, Nepal, Bhutan, Bangladesh, Sri Lanka, Myanmar and Thailand (Yang, 2017). Similar to Sri Lanka and Nepal, Bangladesh has managed to obtain considerable economic investments by both China and India.

Smaller South Asian states like Maldives have also been wooed by both China and India and have maintained somewhat equidistance in the security arena while attracting considerable financial windfall. Maldives has become a focal point of China in its efforts to gain access in the Indian Ocean area, especially for the BRI links. China has offered key infrastructure projects, including expansion of the international airport under a 50-year lease by a Chinese firm signed in December 2016, a bridge connecting the capital and the island where the airport is located, and several other projects including the construction of a new port. Maldives also has a standing naval presence of India for its protection and has expressed keenness not to allow China any military facilities (GlobalSecurity.org, 2017).¹ The December 2017 free trade deal gives China a major economic edge over India in Maldives. But immediately afterwards, Maldives politicians flew to Delhi to reassure India of no security concessions to China and expressed the Island state's 'India-first policy' (Ramachandran, 2018).

From a larger geopolitical and geo-economic perspective, the most significant project undertaken by China with a great geopolitical ramification is the 'OBOR Plan' now christened BRI that connects key centres of South Asia, Central Asia, Russia and Europe with Chinese cities, almost replicating the ancient silk road network. Within that plan is the Maritime Silk Road linking many Asian ports with China through the Indian Ocean (Tiezzi, 2015). Pakistan and some other South Asian states figure prominently in these links, while India is significantly absent, raising concerns that selective trade and maritime relationships may cause geopolitical rivalry to resurface more prominently. The China-Pakistan Economic Corridor (CPEC) linking Xinjiang to Gwadar Port is expected to cost some US\$62 billion and include major infrastructure projects such as highways, rail links, energy projects, and industrial parks (Markey and West, 2016). The success of BRI, especially the Indian Ocean maritime component will require the help of many small littoral and island states, and this gives them an advantage, at least for the time being in bargaining between China and India.

In the geopolitical competition with India in South Asia, China has more success in creating a wedge between India and the smaller states that were traditionally close to New Delhi due to geography and cultural factors. However, even here the relationships have not matured to alignments as South Asian states have benefitted from the India–China managed rivalry. As a Chinese scholar conceded:

Currently India still lacks adequate resources, such as funds and professional technology, to provide more public goods in South Asia for regional development, thus providing room for China to fill the gap. However, China's influence on South Asia has been so far constrained in

the economic domains, while India has kept its strategic advantage in terms of geographic, historical, and cultural ties. (Yang, 2017)

One of the key reasons for smaller states strategic manoeuvring is the absence of an intense balance of power game between China and India which has enabled the smaller states to play off each other. India itself has been pursuing a mixture of limited hard balancing, soft balancing and diplomatic engagement strategy towards China. This is part of the umbrella hedging strategy of India which implies a 'wait and watch approach', signalling to the other power that benign policies will produce benign responses, while aggressive policies could potentially generate hard balancing.² The soft balancing strategy of India involves developing ententes with Japan, and ASEAN countries as well as the United States. The newly initiated Quadrilateral talks between India, United States, Japan, and Australia is another soft balancing effort directed at China. India's soft balancing is limited to an entente with the United States and increased security and economic collaboration with Japan, Australia, and Southeast Asian states such as Vietnam. Occasional military exercises with these countries are part of this strategy. India's strategic cooperation with the United States has increased dramatically with the arrival of the Modi government in Delhi in 2014 (Kumar, 2016). However, it is yet to emerge as a full-fledged hard balancing alliance relationship as India still harbours a desire to maintain a non-aligned option or strategic autonomy as a recent document prepared by key Indian intellectuals show (Khilnani et al., 2012).

The annual naval exercises (Malabar), and use of each other's ports by United States and Indian naval ships are part of the limited hard balancing strategy of India. New Delhi's limited hard balancing also involves building military capabilities and infrastructure on the border aimed at asymmetrically limiting the possibility of a Chinese aggression. The raising of several mountain divisions on the China border is part of the hard balancing. Yet, the Indian efforts remain asymmetrical with China showing more success in its infrastructure development on the border. India is also building up naval and nuclear capabilities as part of an asymmetrical hard balancing strategy. The deployment of most of these capabilities is at least 5–10 years away, and meanwhile New Delhi has engaged in large-scale arms purchases to bolster its conventional capabilities. By 2016, India emerged as the sixth largest spender on defence and no. 1 importer of weapons systems in the world (Tian et al., 2017). Despite this buildup, the China–India relationship is yet to reach a full-fledged hard balancing competition, involving smaller allies in South Asia and beyond.

India has had more success in developing a stronger soft balancing coalition with Japan under Prime Minister Shinzo Abe. This relationship now involves several economic and infrastructure projects, including high-speed rail networks as well as an annual naval drill Malabar exercises, Japanese involvement in developing the Iranian port at Chabahar and Japanese participation in India's connectivity bids between its northeast and Southeast Asian countries. Regular summit meetings between the two countries also signify the importance that Japan and India give to this relationship (Mohan, 2017). India, however, finds it difficult to obtain full-fledged cooperation in the military realm from countries like Vietnam, despite its many commonalities in terms of threat perceptions vis-a-vis China (Brewster, 2009: 24–44; Dutta, 2011: 229–261; Mohan, 2012). India engages China through forums like BRICS, G-20, and the Shanghai Cooperation Organization (SCO) and has some similarities in viewpoints on a variety of issues including climate change and many aspects of global financial reform. More significantly, China has

emerged as India's lead trading partner. By 2011, India's trade with China amounted to US\$73.9 billion, showing a substantial growth during the past two decades (*India Today*, 2012). India has also shown that it can cooperate with China on oil exploration in African and Central Asian countries despite the competition that exists between the two for these resources (Reischer, 2012; Sharma, 2012). This conflict/cooperation patterns in India–China relations are quite different from New Delhi's intense rivalry with Pakistan.

Among all South Asian states, *Pakistan* is the most active traditional balance of power player in South Asia today. As India became friendly to the United States, and due to Washington's continued military involvement in Afghanistan, Pakistan found itself with its long-standing alliance relationships under challenge. However, Islamabad has maintained its all-weather alliance with China and Beijing has supported Pakistan's nuclear and conventional weapons development. It has facilitated missile transfers to Pakistan some of which are being deployed for nuclear delivery systems. The joint development of fighter aircraft is one of the key China–Pakistan military activities. However, Pakistan's hard balancing strategy has major limitations. It no longer receives the kind of strong support it obtained from the United States until the 1980s and parity in treatment with India from Washington. The only major power country that is supporting Pakistan's balancing quest is China, but even that is moderated by China's economic relations with India. The Pakistani elite's ambitious agenda and hobnobbing with terrorist groups have indeed caused hesitation among its allies. Moreover, other than geostrategic salience, Pakistan has little economic goods to offer to leading powers. Pakistan's playing of 'double games' with the Taliban and the United States has generated much disapproval among elites and publics in many Western countries. It is unlikely that the Pakistani elite so immersed in hard realpolitik will abandon balance of power politics anytime soon, partly because of the geopolitical rents it receives and the intensely perceived threat from an increasingly powerful India.³

Pakistan's lack of active involvement in economic globalization and more specifically in global trade is indeed a cause for this continued adherence to traditional balance of power politics (Noshab, 2006: 341–362). Had Pakistan been economically globalized it would also have adopted less militaristic balance of power policies as India is pursuing vis-a-vis China today. This inverse example shows the moderating effect of economic globalization and interdependence in the contemporary era. Countries that are not sufficiently globalized such as Pakistan are bent on hard balancing as the idioms with which they deal with on a daily basis are military and national security, border control and support or opposition to insurgencies and terrorist activities rather than trade and investment.

China and India's rise in the globalization era and the opportunities for smaller states

The larger global context needs to be brought in here for understanding the manoeuvrability of smaller states in South Asia. The rise of China and India is occurring at a stage when economic globalization has become a key dimension of international politics. The two Asian giants have been major beneficiaries of economic globalization at the global level, and have been able to insert themselves in a significant way as trading states and recipients of international investments. In 2016, 40% of India's gross domestic product (GDP) and 37% of China's GDP depended on international trade which are quite high for any country, in particular large economies with huge domestic markets (Sinha, 2016). Although a rivalry exists between the two states over territory, water, status, and strategic conceptions, it has been a managed rivalry and both sides have been making efforts to not

to escalate their disputes, although they tend to erupt periodically, the latest in Doklam, the tri-junction of Bhutan, Tibet and India in the summer of 2017 (Paul, 2018). Interestingly, both sides were reluctant to use any lethal arms even in demonstrative form in the immediate theatre (Mastro and Tarapore, 2017).

The process of economic globalization has been ongoing for a long period, but in its most intensified form arrived in the post-Cold War era beginning in early 1990s. While globalization has multiple political, social, economic, and normative manifestations, the most significant one is economic, that is, a large-scale global level process that is taking place by which capital, investment and manufacturing change their locations beyond the border of their originating countries. Globalization has been defined as ‘the expansion of socioeconomic and sociopolitical activities beyond the state on an international and transnational scale’ (Ripsman and Paul, 2010: 9). Economic globalization is the most relevant of these dynamics to security behaviour. This is especially true for the Asia-Pacific region where the major growth stories, both in terms of GDP and inter-state trade figures occurred during the past two decades (Helleiner, 1994).⁴ Countries like China have made use of this structural opportunity, devising strategies that attracted many manufacturing units to its locations where abundant factor endowments in the form of labour and capital helped develop an exporting economy while decimating some manufacturing industries in the advanced industrialized world. State capitalism as practised by China has been quite effective in using globalization to the country’s advantage. India, although a latecomer in economic reforms, has also benefitted from global trade and investment, especially in the software and pharmaceutical industries. India has also used different normative mechanisms beyond material resources to enhance its global status (Basur and De Estrada, 2017). Not that all Chinese or Indians have profited from this process, however. The technically qualified segment of the workforce has been the largest beneficiary, although a powerful middle class has emerged in both countries due to the new-found prosperity generated by the insertion of these countries into economic globalization. The continued GDP growth rates of the two states during the past two decades have been unprecedented for any country in modern times, except for Post-War Japan and Korea in their early stages of development.

Smaller states in Asia, especially in East and South Asia have also benefitted from globalization, although some more than others. In the meantime, the trade volumes between China and India and China and other Asian states have increased manifold to the extent that Beijing has emerged as their lead trading partner, even though for China the reverse is not the case. For instance, the annual trade volume between China and India grew from US\$2 billion in 2000–2001 to US\$70.08 billion in 2016, although the trade deficit of India was US\$46.56 billion (Krishnan A., 2017). The increasing trade volume in the globalization era appears to have exerted some impact on the security behaviour of China and India towards one another. For one, both China and India are attempting to influence the behaviour of smaller states, but those efforts are constrained by the potential impact they may have on their own mutual relations.

Despite the huge power asymmetry with their neighbours, both China and India are not able to fully translate it in to influencing the behaviour of smaller states in the region, although China has had more success than India in recent years due to its deeper pockets. More importantly, security rivals such as Japan and China and China and India have been expanding their economic relationships, a paradoxical behaviour from the point of view of Realism and balance of power. The absence of an intense security and economic rivalry enables smaller powers not to join either side in a military alliance, but at the same time

extract resources and infrastructure development funds using asymmetrical strategies. Both China and India also have made some efforts to rope in regional states as partners but not to the extent of seeking military alliances. The managed limited rivalry between China and India has allowed smaller states to play off one against the other and to gain maximum economic benefits. Domestic opposition to giving excessive concessions plays a role in the ability of the ruling elites of smaller states to balance the two powers. The smaller states of South Asia are also constrained by India's geographical proximity and historic ties but are able to balance that with China's higher levels of economic assistance to them.

Explanations vary as to why security rivals such as China and India have intensified their economic ties, despite their security competition. Other than sheer commercial interests, it is argued that a strong reason might have been to show to the world that both countries are responsible stakeholders in the global economy (Rusko and Sasikumar, 2007: 99–123). This is plausible, but the question is why now they are keen to project a good image via trade than in previous periods when trade between the two states had remained abysmally low. Intensified globalization and the benefits accruing from it may have encouraged the two countries to increase economic interactions even though their territorial dispute is continuing. But this behaviour defies traditional IR approaches such as realism and liberalism as both rising powers seem to follow elements of the two approaches, but not either of them exclusively.

Although the concepts of globalization and economic interdependence are not the same, increased globalization has led to heightened economic interdependence among key states involved in economic relations. To many liberal scholars, economic interdependence can reduce conflict among states in such relationships due to a variety of factors. The three dominant arguments in this respect are as follows: the increase in economic interdependence heightens the cost of conflict and economic losses if war erupts; powerful domestic groups, especially businesses exert pressure on governments to avoid conflicts with their major trading partner countries; and economically interdependent states avoid conflict to project the image of responsible stakeholders in the global economy (Rusko and Sasikumar, 2007: 107–109). More specifically, those mechanisms that produce peace among interdependent countries as analysed by scholars are relevant here. It is argued that as the opportunity costs increase war becomes less likely among interdependent countries, interdependence increases the supply of costly signals states can send to each other and thereby avoid unnecessary conflict, and finally, the increasing ties among people in interdependent economies decrease conflict (Gartzke, 2007: 166–191; Oneal, 2012: 158–180; Owen, 2012: 107–132; Rosecrance, 1986; Russett and Oneal, 2001). Stephen Brooks has argued that globalization has reduced conflict not because of trade but because the way multi-national corporations (MNCs) have organized themselves and produce their goods and services. From this viewpoint, the dispersal of MNCs in key geographical region has acted as a major force for peace among great powers (Brooks, 2007). From these perspectives, the causal arrow goes the opposite direction also, that is, more economic interdependence produces less conflict.

An unexplored reason for increased economic interactions among security rivals could be that success breeds success in the elite's economic and political calculations, while expectations of populations change on what the state and market can deliver. For instance, it is very plausible that the middle class in both China and India expect continued economic growth and prosperity and the regimes pin their legitimacy and survival on to delivering sustained economic growth. In order to deliver continued growth, countries

need to seek all avenues for trade and investment and overt military competition, alliance formation and armed conflict with significant trading partners can upset that search for economic prosperity.

Assuming intensified globalization and the resulting interdependence reduce conflict, but not eliminate them, how do states with pre-existing rivalries and territorial disputes manage their relationships, especially balance of power competition that emanates from intra and extra-regional forces? Given both are rising powers with great ambitions, a certain amount of conflict and rivalry exists among them, and they frequently engage in disputes, even when they have many avenues for institutionalized cooperation. Could balance of power politics be mellowed down as interdependence encourages states to resort to low-cost strategies to conduct their rivalry and competition? My argument is that they do. Globalized economies depend on international market and have to be careful not to adopt highly offensive military doctrines or expansionist policies involving military alliances. Hard balancing, relying on military alliances and intense overt arms races can send wrong signals to trading partners and reduce the possibilities for economic cooperation and interaction. Hence, they have to depend on low-cost balancing strategies utilizing institutions and limited ententes to deal with each other. The soft balancing mechanism is useful for this purpose along with diplomatic engagement (Paul, 2014: 11–18). This phenomenon calls for more eclectic and nuanced analysis on the conditions under which countries use mixed strategies enshrined in key IR paradigms, especially realism and liberalism.

When competing great or rising powers are economically interdependent they also offer weaker states opportunities to develop bilateral and multilateral links with those powers more effectively. They are not fully bound by either but have limited bargaining space to extract economic goods from the competing powers. The larger powers are also restrained in seeking full allegiance from the smaller actors as it could provoke unnecessary backlash from the other state and against the smaller state itself. The relative success of smaller South Asian states to extract trading concessions and infrastructure development funds from both China and India point to this direction. State behaviour thus does not follow through established patterns of balancing and bandwagoning.⁵

Small states and the future of South Asian security order

The strategies of the smaller states in South Asia have limitations. Even though China is offering greater economic assistance, they, except Pakistan, are unlikely to bandwagon or form an alliance with China militarily because if they do so they are likely to receive the wrath of India, the dominant power of the region and the United States, the global power which still has a strong naval presence in the Indian Ocean. However, India is under pressure as evident in its efforts to restrain on a regular basis these states into allowing Chinese naval facilities especially in strategically vital ports. If these states agree to offer such bases to China, they may invite balance of power competition in to the region and thereby increased security competition between rising powers and established powers, an outcome that may harm these states themselves in the end. The fact that several of the smaller South Asian states have been able to manoeuvre somewhat effectively thus far from not becoming close military allies of China or India, while receiving economic benefits from both shows that traditional realist or liberal approaches may not adequately capture small state behaviour in the region today. The weaker states have developed a kind of asymmetrical bargaining power in the era of globalization given that the two rising powers are competing, they are also cooperating in different domains.

Is the somewhat mellowed level of balance of power competition in South Asia likely to continue in the years to come? The South Asian region is not immune to global shifts in power competition, especially involving China and the United States. A fundamental shift in the attitudes of regional states can occur if China adopts a more aggressive policy towards India and the East Asian neighbours in an effort to assert its primacy in the Asia-Pacific region and pushes the United States to actively create balance of power coalitions to contain the Chinese power and security threats. So, the ball is largely in the Chinese court, although US domestic politics may have some impact on Chinese behaviour, depending on how Washington pursues an active balance of power strategy in the Asia-Pacific region. China's turn towards revisionism could be propelled by many factors including economic nationalism, the assertion of the PLA and political rivalry within the Communist Party. A sudden economic decline or downturn of China may encourage the regime to consolidate its economic position by competing more aggressively in the military arena. Conversely, US economic sanctions may generate nationalism among the Chinese public and the elite, somewhat similar to the US economic sanctions that led Japan to assume an aggressive position in the 1930s. The rise of nationalist forces could overrun the pragmatism that characterized the Chinese policy thus far.

The evolving regional security order in South Asia, as in other parts of the Asia-Pacific holds potential for intense balance of power politics emerging as relations between the US, China and India evolve as the 21st century advances. The chances of a typical European style historical balance of power competition involving formal alliances is low in the region. Thus far, active hard balancing has been limited to India and Pakistan, although elements of it are present in the United States–China and China–India relations, more prominently in the past 4 years or so. The balancing behaviour still remains in the realm of soft balancing and limited hard balancing, and economic globalization has contributed much to this phenomenon. A decline of the globalization process or de-globalization and an attendant weakening of economic growth in various countries can create conditions for resurgence of nationalism, especially in China. This is especially probable if the United States unilaterally imposes highly protectionist policies and the Chinese view them as efforts by Washington to weaken China precipitously. The opposite is also true, a rapid growth can make China more confident and take on the established order, especially by stroking the lingering territorial disputes. The balanced evolution in economic strengths coupled with institution building and sustained engagement among all states offer the best hope for peace and order in Asia-Pacific, especially in South Asia.

Conclusion

State behaviour in the 21st century defies the conventional wisdom inherent in both realism and liberalism suggesting that IR scholarship should develop more global roots than historical European and cold war patterns (Acharya, 2014: 451–467; Eun, 2016: 451–467). The rise of China has not produced the kind of heightened balance of power activity or rivalry or formation of exclusive power blocs. For liberalism, the increased trade interdependence has not produced the kind of linear progression towards liberal peace or security community. Instead, what we are witnessing is a mixed pattern and the impact of the forces that generate balance of power and globalization have colluded to make different dynamics in Asia-Pacific. This calls for more eclectic approaches to scholarly investigation, and not just either/or paradigmatic views as prevalent in many IR discourses. Global IR perspectives may offer rich avenues for understanding change and continuity

in the balancing behaviour of Asian states. Much of the Western IR perspectives relying on theoretical paradigms use European or Cold War era examples for both the phenomena and Asia-Pacific behavioural patterns call for mixed approaches to the study of IR. Heightened economic relationships have dampened security competition and instruments of competition as well as strategies, but, pre-existing conflicts simmer and states worry about China's rise, in addition to its active militarization of the South China Sea and potentially the Indian Ocean. Despite this, state behaviour in the region thus far does not reflect the Cold War era style competition or cooperation but a mixed pattern of limited balancing and continued economic interactions even among countries with long-standing adversarial relationships with China, such as India. Small states have benefitted economically from this strategic climate between China and India without forming balancing coalitions. It is yet to be seen how long this trend will continue and whether the small states develop highly asymmetrical influence relationships with the two rising powers in the years to come.

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Notes

1. China's efforts at developing strong relationship with Seychelles has been stymied by the island nation's strong links with India, at least for the time being.
2. For the concept of hedging, see Kuik Cheng-Chwee (2008: 159–185).
3. For more on this, see T.V. Paul (2014) and Husain Haqqani (2013).
4. According to Baldev Raj Nayar (2005), geopolitics has played a significant role in the contemporary structuring of globalization.
5. The two exceptions are Pakistan and Bhutan. Pakistan has a strong security relationship with China, in recent years strengthened by the China-Pakistan Economic Corridor (CPEC) and China's building and managing of the Gwadar Port. Bhutan is protected by India according to a 1949 treaty between the two which was renegotiated in 2007, giving Bhutan more sovereign rights on foreign relations.

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Author biography

TV Paul is James McGill Professor of International Relations in the Department of Political Science at McGill University, Montreal, Canada. He served as President of International Studies Association (ISA) during 2016–2017. Paul is the author or editor of 18 books and over 60 scholarly articles/book chapters in the fields of International Relations, International Security, and South Asia. His most recent book is: *Restraining Great Powers: Soft Balancing from Empires to the Global Era* (Yale, 2018). For more, see: www.tvpaul.com