

CSH Occasional Paper



CHINA-INDIA
ECONOMIC ENGAGEMENT
Building Mutual Confidence

Swaran SINGH

*Publication of the
French Research Institutes in India*

No. 10
2005

LIST OF CSH OCCASIONAL PAPERS

SENGUPTA D., *Exporting through E-Commerce: How Indian Exporters have harnessed the IT Revolution*, CSH Occasional Paper 9, 2004, 94p.

GUENNIF S., *AIDS in India: Public health related aspects of industrial and intellectual property rights policies in a developing country*, CSH Occasional Paper 8, 2004, 172p.

AARON S., *Straddling Faultlines: India's Foreign Policy Toward the Greater Middle East*, CSH Occasional Paper 7, 2003, 111p.

RUET J., SARAVANAN V.S., ZERAH M.H., *The Water & Sanitation Scenario in Indian Metropolitan Cities: Resources and Management in Delhi, Calcutta, Chennai, Mumbai*, 2002, CSH Occasional Paper 6, 2002, 167p.

LECLERCQ F., *The Impact of Education Policy Reforms on the School System: A Field Study of EGS and Other Primary Schools in Madhya Pradesh*, CSH Occasional Paper 5, 2002, 170p.

KUMAR G., *Constitutionalising Panchayats: The Response of State Legislatures*, CSH Occasional Paper 4, 2002, 104p.

GHOSH D., SHUKLA P.R., GARG A., RAMANA P.V., *Renewable Energy Strategies for Indian Power Sector*, CSH Occasional Paper 3, 2001, 113p.

TAWA LAMA-REWAL S., *Women in the Calcutta Municipal Corporation: A Study in the Context of the Debate on the Women's Reservation Bill*, CSH Occasional Paper 2, 2001, 63p.

RUET J., *Winners and Losers of the State Electricity Board Reforms: An Organisational Analysis*, CSH Occasional Paper 1, 2001, 85p.

CHINA-INDIA ECONOMIC ENGAGEMENT

Building Mutual Confidence

Swaran SINGH

March 2005

CSH OCCASIONAL PAPER N° 10 / 2005

Centre de Sciences Humaines (Centre for Social Sciences): Created in New Delhi in 1990, the CSH, like its counterpart in Pondicherry (*Institut Français de Pondichéry*), is also part of the same network of research centres of the French Ministry of Foreign Affairs. The Centre's research work is primarily oriented towards the study of issues concerning the contemporary dynamics relative to development in India and South Asia. The activities of the Centre are focused on four main themes, namely: Economic transition and sustainable development; Regional dynamics in South Asia and international relations; Political dynamics, institutional set-up and social transformations; Urban dynamics.

[Centre de Sciences Humaines, 2, Aurangzeb Road, New Delhi 110 011
Tel.: (91 11) 30 41 00 70 Fax: (91 11) 30 41 00 79
Email: public@csh-delhi.com – Website: <http://www.csh-delhi.com>]

Institut Français de Pondichéry (French Institute of Pondicherry): Created in 1955, the IFP is a multidisciplinary research and advanced educational institute. Major research works are focussing on Sanskrit and Tamil languages and literatures – in close collaboration with the *Ecole Française d'Extrême-Orient*

This research work has been conducted with the financial support of the *Centre de Sciences Humaines* (Centre for Social Sciences), New Delhi.

© Centre de Sciences Humaines, 2005

All rights reserved. No part of this publication may be reproduced or transmitted, in any form or means, without prior permission of the author or the publisher

Published by Raman Naahar, Rajdhani Art Press, C-166, Okhla Industrial Area, Phase I, Tel. : 98102 45301

The opinions expressed in these papers are solely those of the author(s).

ISSN- 0972 - 3579

for Malti and Mini

CONTENTS

List of Tables/Graphs/Maps	7
Preface	9 - 13
Chapter One : The Opening Up	15-52
Big Picture is Changing	
Inevitability about their Partnership	
China's Opening Up and Reforms	
Trade and FDI Driven Development	
Period of Internal Adjustment	
Transparency in Governance	
India's Intermittent Economic Reforms	
Politics Driven Economic Reforms	
Collapse of Soviet State and IMF Pressures	
Comparative Analysis	
Conclusion	
Chapter Two : Historical Legacies	53-81
Nature of Oriental Commerce	
Evolution of Silk Route	
Colonial Interface	
The Opium Trade	
The Great Depression Period	
Post-liberation Policies	
Post-liberation Economic Engagement	
Conclusion	
Chapter Three : Bilateral Trade	83-112
Comparing Their Fundamentals	
Emerging Nature and Trends	
Institutional Arrangements	
Investments and Joint Ventures	
Mutual Investments	
Impact of Nuclear Tests	
Economic versus Strategic Priorities	
Conclusion	

Chapter Four : Border Trade 113-141

China's Border Trade Policies
Opening Trade Route through Nathu La
Rising Economic Significance
Political Significance of Nathu La
Expansion versus Consolidation
Back to the Future
Conclusion

Chapter Five : Building Confidence 143-166

Economic Engagement as CBM
Some Major Watersheds
Impact on Border Communities
Border Trade and Border Dispute
Future of China-India Partnership
New Sub-Regional Perspective
Regional/Global Perspectives
India's Future Challenges
Conclusion

Chapter Six : Future Trends 167-182

Competitive vs. Complimentary Debate
Economics driven Politics
Future of Bilateral Economic Engagement
Specifics of the Border Trade
Conclusion

Chronology on China-India Agreements

183-186

Bibliography

187-205

TABLES/GRAPHS/MAPS

Graph 1.1	China-India: Comparing Their Fundamentals	26
Table 2.1	British India's Trade with China 1829-1838	68
Table 2.2	China-India trade Agreements during early 1950s	79
Chart 3.1	China-South Asia Trade 1993, 1999 and 2003	86
Graph 3.2	Trends in China-India GDP Growth Rates	88
Graph 3.3	Trends in China-India FDI	91
Graph 3.4	Trends in China-India Bilateral Trade	96
Graph 3.5	Trends in China-India Exports Imports	106
Map 4.1	Lipulekh and Shipki La Border Trade points	121
Map 4.2	Mansarovar and Kailash route	125
Map 4.3	Nathu La Pass and Border Trade point	126

PREFACE

Comparisons with China and lessons to be learnt from China's experiments in opening up and economic reforms have been a staple concern of Indian political and academic debates. Especially, those trying to project a case for India's liberalization and integration with global economy often cite China's success as example to follow. This excessive focus on China often overlooks the differences in both their challenges and opportunities. It also fails to underline the fundamental differences in their methodologies and mindsets.

Especially, the debate on China-India ties remains thin when it comes to examining the overall and multifaceted impact of their bilateral economic engagement and debate has been rather weak, or sporadic at best, in highlighting the larger socio-political implications of their ever expanding economic interface. Surely, given the size and dynamism of their economies, this interface remains critical to the evolution of China-India ties but also integral to the overall profile of globalization and international political economy at large that surround this relationship.

No doubt, China and India have lots in common: long histories, ancient civilizations, unique cultures, vast landmass, huge populations, and significant natural resources. Also, both countries have had their share of experience in colonial subjugation, and both spent their initial post-liberation decades experimenting with planned economic systems inspired by the anti-capitalist (anti-imperialist for us) Soviet model of those times. Later, both were to move (almost in tandem) towards re-structuring and opening up of their economies to the forces of free-market mechanism.

However, thanks to their colonial and cold war legacies, all these experiments of opening up were to occur largely on mutually exclusive basis, and this had continued to be the case till recent years. It is only in last few years that two have begun to emphasize

on their mutual linkages and on their new thesis of mutual benefit and mutual accommodation. This seems to bring the focus back to their strong and regular cultural and commercial interface which had been the norm since ancient times. Especially, with China's continuous rise during last three decades, Beijing's focus has since come to be on moving from being big economy to stronger nation and on building links of its 'multidimensional' economy to its immediate periphery.¹ This perhaps partly explains the recent upsurge in China-India economic ties.

It is in this new phase of their expanding economic engagement and political *rapprochement* that both China and India have begun to conceptualize the evolving new multifaceted contours of their interactions which has since begun to move beyond their State sponsored initiatives. This, indeed, had been the norm of China-India interface until the colonial invasions of these Asian giants which was to introduce counter-trends of exclusively State censorship and control which was alien to both these civilisations. It is this deeper and holistic understanding of their past that today forms the solid premises of their new found enthusiasm and confidence in promoting their mutual economic engagement as an instrument to create atmospherics for resolving their political problems.

Nevertheless, despite these positive portents, their economic engagement has long way to go to exploit their full potential and their mutual perceptions and policies remain still fairly circumscribed by their politico-strategic equations. As a result, even when both India and China have been experimenting with liberalizing their economies, their mutual interface had remained largely limited, if not completely neglected. It is only recent that both have begun to take notice of new opportunities in the realm of their mutual

¹ Zhongguo ren min gong he guo shang wu bu (Ministry of Commerce and Economic Cooperation), Guoji mao yi jing ji he zuo yan jiu yuan (Institute of International Trade and Economic Cooperation), *Zhongguo dui wai jing ji mai yi bai pi Shu* (The White Paper on China's Foreign Trade and Economy), January 2005, p. 3.

cooperation and mutual benefit and this has just begun to show positive results.²

Amongst some of the more sensational dimensions that were to catapult their economic engagement to the centre-stage of at least India's foreign policy, the fact that India's expanding trade with China overtook China's trade with Pakistan in 1993 – and that India has since remained the largest amongst China's trading partners in South Asia – had particularly provided boost to proponents of economic engagement as tool for building mutual confidence. India today accounts for nearly two-thirds of China's trade with seven South Asian states. Especially, given the unique standing that Pakistan has had in determining the nature of China-India ties, this has been treated more like a watershed in China-India ties leading to advocacy of promoting more of the same prescription of economic engagement.

As a result of this growing conviction amongst experts and officials of both these countries, China-India economic engagement has since come to be recognized as one most agreeable as also one most reliable CBM in the China-India political *rapprochement*. Indeed, this economic engagement has since taken deeper roots and picked up momentum and has since expanded beyond expectations. Amongst some of the newer prescriptions, experts now talk of making their border trade as their main instrument for resolving their long-standing dispute about their boundary which remains the second most critical irritant of China-India relations. According to long-term observers, China-India economic engagement has since come to be the most decisive influence in shaping their political perspectives.

This changing reality of China-India ties is clearly reflected in economic issues becoming increasingly subject of the official

² Sam Dzever and Jacques Jaussaud (eds), *China and India Economic Performance and Business Strategies of Firms in the Mid-1990s*, (London: Macmillan Press, 1999), p.ix; Joe Studwell, *The China Dream: The Elusive Quest for the Greatest Untapped Market on Earth*, (London: Profile Books, 2004), p. 255.

discourse and academic enquiry far and wide, including, of course, in China and India. It is as part of this larger exercise of revisiting these evolving new paradigms of China-India *rapprochement*, that this monograph was first conceived following a conference at Wilton Park during December 2000. Since then it was on the basis of these initial findings of last few years that the need to undertake a full book length study was realized. Accordingly, while this monograph makes an attempt to view the political implications of China-India economic engagement in the larger perspective of China-India *rapprochement*, it also tries to evolve the links that are beginning to unfold new aspects of its political implications and to make some specific propositions like how can China-India border trade be evolved to facilitate evolution of solutions to this complicated boundary question between these two countries.

As this author tries to tackle some of these emerging questions in black and white, this also provides an opportunity to record how several friends and well wishers have over years contributed not only towards sustaining one's interest in this field but also in several different ways, for ensuring that these ideas take shape of a full length manuscript. Amongst these, I must, first of all, thank the Center de Sciences Humaines (New Delhi) and its Director, Dr. (Ms) Veronique Dupont, for her constant support in facilitating my work on this monograph and for funding my field trip to China. I must also thank the former Director of CSH, Dr. Frederick Grare for his initiatives in introducing me to the CSH and for inviting me to become part of its activities. Besides, I must thank Prof. Wong Siu-lun, the Director as also other friends – Dr. Nicholas Thomas, Dr. (Ms) Mellisa Curley, and Dr. (Ms) Isabelle Saint-Mizard – of the Centre for Asian Studies, University of Hong Kong where I spent some time working on this manuscript.

Amongst others I wish to record my sincere thanks to Prof. Yu Xintian, (President) and Dr. Zhao Gancheng (Head, South Asia Centre) of the Shanghai Institute of International Studies (SIIS) for hosting me as Visiting Fellow and in promoting my work on

China-India ties. Amongst others I must also mention names of Prof. Wang Hongwei, Prof. Shen Dingli, Prof Sun Shihai, Dr. Tang Shiping and Prof. Tan Chung, Ambassdor C.V. Ranganathan, Prof Manoranjan Mohanty, Prof. Patricia Oberoi who have contributed to my interest in this subject in several ways. Special thanks are also due to my reviewers who had spent so much of their precious time and I must thanks them for helping me improve some of these ideas and their linkages and for appreciating and supporting some of my attempts to evolve newer explanations to old and new realities in this field.

Finally, I must also thank my publisher and Ms Attreyee Roy-Chowdhury (of CSH) for making this manuscript into a piece presentable to the wider readership. In the end, of course, I must stand to own responsibility for all the errors and omissions that may have eluded my eyes or my understanding.

New Delhi/February 2005

Swaran Singh

Chapter I

THE OPENING UP

China and India today represent Asia's two largest and most dynamic societies which are emerging as new trend setters in the world. Both these States have come to be important players in regional and global decision-making and their participation and influence in several regional and international forums has increased overtime. As a backdrop to their more recent rise, not only they have had an impressive track-record in conceptualizing and pursuing several norm-building frameworks about inter-state relations – thereby presenting an alternative Asian perspective to the world at large – they also possess the so-called 'currency of power' (read nuclear weapons) that symbolizes real power in the great-power-driven contemporary world politics. And now, both are all set to emerge as world's most important economies that symbolize the 'soft-power' and this had been their forte till as late as 1850s. All this promises to provide them with most effective backing for their future actions and policies.

However, thanks to their colonial legacies, their border war of 1962 and their consequent political differences and skepticism that was further enflamed by the larger context of the cold war divide, all this spectacular transformation in these two most dynamic Asian societies happened largely on mutually exclusive basis; completely bypassing their potential to evolve joint strategies or a strategic partnership or even to evolve as a power bloc constituting one-third of the global population as also bulk of global resources. To cite a few indicators of their as yet mutual-suspicion-driven ties, despite all this trade boom of recent years China's trade with India remains about one per cent of its global trade. In their post-liberation history, share of China's India-trade to its total foreign trade had been highest in 1952 when it has crossed 2 per cent of China's global trade. But going by these recent trends in their economic engagement, their bonhomie of early 1950s seems like returning; only this time on more firm basis and projecting their new thesis of building equation on mutual interest and mutual benefit basis.

However even now, far more stark remains the projections of per capita trade statistics. And here, while the *per capita* foreign trade of China and India respectively stand today at \$ 750 and \$ 100 per annum, their mutual bilateral trade remains little over \$ 5 per person per year. For year 2004, the bilateral trade between the two accounted 5 per cent for India's foreign trade and 1.1 per cent for China. Their mutual investment remains far more neglected and on the very margins with no third country joint ventures to their credit. China's most visible investor in India in recent years – *Konka* – had to close shop in 2003.¹ Currently, there are four direct flights a week between these two 2.5 billion-strong countries and that too remain generally empty and this fully conforms to several earlier such attempts by several airlines that have launched and retreated this facility several times.

The other side of the coin, of course, has equally selective and sensational media stories to cite. These stories, for example, highlight figures about China-India bilateral trade growing exponentially, at amazing rate of over 50 to 80 per cent per annum, and their overall growth rates between 6 and 8 per cent being the fastest around the world - creating ideal conditions for their second honeymoon; and this time being on far more stable and stronger footing as it were. China is today even projected as India's largest trading partner in-the-making.² China-India equations are believed to be shifting gear from suspicion-driven ties to economic driven mutual confidence and bold political initiatives have brought them closer towards becoming strategic partners. These new trends are expected to then make China and India the most effective and enduring players in this emerging era of globalization and free enterprise.

¹ Jia Hepeng, "Likely Sino-Indian FTA conducive to nation", *China Business Weekly* (China Daily, Beijing), 12 April 2004, p.1.

² N. Vidyasagar, "China to be India's No. 1 partner", *The Times of India* (New Delhi), 10 February 2005, p. 1; N. Vidyasagar, "India China trade may cross \$17 bn this fiscal", *The Times of India* (New Delhi), 10 February 2005, p. 18; T.T. Rammohan, "Don't let China give you a complex", *The Economic Times* (New Delhi), 11 February 2005, p. 8.

Experts believe that keeping tab on the growing web of economic interactions between China and Indian will become increasingly critical for gauging larger trends in the Asian arena and increasingly even in the global politics.³ However, this web of China-India economic interactions remains as yet rather complicated. To be sure, most of these partial realities remain intertwined and together make the mosaic of China-India economic ties. And, for an academic analysis of this critical relationship amongst these two emerging Asian powers, the challenge lies in interpreting this complex mosaic rather than taking sides. Most experts, however, believe that apart from accelerating the pace of their prosperity and social development, this steady expansion of their economic growth has major implications for improving their politico-strategic ties in the coming years.⁴

To the least, their economic engagement has already increased their mutual stakes and created positive atmospherics compelling their political leadership to work for mutual accommodation and mutual benefit in order to strengthen their mutual trust and understanding on each other's intentions and capabilities. From this perspective, the China-India relations can today be described as shifting from politics-driven-economics to economics-driven-politics which portends their strong strategic partnership in-the-making. It is in this emerging context of new enthusiasm and activism in China-India relations that this monograph makes an attempt to outline and examine various contours of their expanding economic engagement; assessing it primarily from the perspective of gauging its likely impact on their political equations and initiatives; especially for India's policy of "normalizing,

³ Jim Rohwer, *Asia Rising: Why America will prosper as Asia's economy boom*, (New York: Touchstone, 1996), p. 169, Kishor Sharma (ed.) *Trade Policy, Growth and Poverty in Asian Developing Countries*, (London: Routledge, 2003), p. 10; and on China see Frank B. Tipton (ed.), *The Rise of Asia: Economics, Society, and Politics in Contemporary Asia*, (Honolulu, USA: University of Hawai'i Press, 1998), p. 479.

⁴ Gerald Segal and Richard H. Yang (ed.), *Chinese Economic Reforms: The Impact on Security*, (London: The Routledge, 1996), pp. 6-7.

strengthening and expanding” and “intensifying” its overall engagement with Beijing.⁵

More specifically, this monograph makes an attempt to hypothesise how China-India bilateral trade and commerce in general and their border trade in particular can be conceived to become potentially the most potent instrument for resolving China-India border dispute which remains at the core of China-India problems thereby slowing down all possible progress in actualization of their strategic partnership which remains an essential prerequisite if Asia has to make any substantial contribution to the evolution of a balanced future world order for the 21st century.

Big Picture is Changing

To begin with, the big picture or the context that defines the broad parameters of China-India equations itself appears to be changing rapidly. At the most visible level, according to expert estimates of the World Bank, assessing on the basis of purchasing power parity (PPP), China and India have already become respectively the second and fourth largest economies of the world surpassing most developed countries.⁶ Indeed, in terms of PPP, figures for China’s gross domestic product (GDP) had crossed \$ 4 trillion mark way back in 1998 taking the second position since. But China seems ordained to stay forever as the second largest economy in the world, as it remains far behind the leader – the United States – and it is not likely to surpass the US in near

⁵ Ding Ying, “Sino-Indo Links In Good Shape” (Interview with Indian Ambassador to China), *Beijing Review*, Vol. 47 no. 23 (10 June 2004), p. 25; Amit Baruah, “Foreign policy not tied to doctrine or dogma: Natwar Singh”, *The Hindu* (New Delhi), 25 May 2004, p. 11; “New government for closer ties with US, China: Natwar Singh”, *The Indian Express* (New Delhi), 17 May 2004, p. 1.

⁶ “India’s world’s 4th largest economy: World Bank”, *The Indian Express* (New Delhi), 16 June 2004, p. 7. Citing World Bank’s annual report *World Development Indicators 2004* it shows that the largest five states in terms of purchasing power parity stood at US at \$10,414 billion followed by China at \$ 5,792 billion and then Japan at \$ 3,481, India at \$ 2,778 billion and finally Germany at \$ 2,226 billion.

future.⁷ As per July 2003 World Bank's *World Development Indicators Database*, the GDP figures were calculated to be \$ 6, 435.8 billion for China and \$ 10, 871 billion for the US.⁸ The Chinese, however, remain extremely modest in their projections. They only wish to reach some kind of parity with the US by 2049 i.e. when they complete a century of the founding of China's communist People's Republic.

Secondly, both China and India today represent the two unique new players in the global economy – ones that present an extraordinary combination of a very large GDP and still having a very low per capita income and other accompanying hindrances to peace and prosperity. In fact, this unique combination makes their economic profile unprecedented for being a major participant in the international economy. The conventional wisdom, accordingly, feels handicapped in making any predictions about the likely course of China's (or even India's) rise and what impact it can make on global decision-making as also about the likely international response to it. India is the only country that even approaches China's unique economic profile and, in PPP terms, both appear pretty close to each other though India is not regarded as yet an important player in world economy.⁹ This closeness of their national profiles is expected to push them further closer for building stronger partnership in order to deal with their similar challenges and to claim their space in international decision-making.

⁷ Experts estimate that at its current rate of growth China national economy would achieve parity with the US by 2024 and by all means become the single largest economy by year 2030. See for example, Daniel Burnstein and Arne De Keijzer, *Big Dragon - China's Future: What it Means for Business, the Economy, and the Global World Order*, (New York: Simon & Schuster, 1998), p. 341; also T.C.A. Ramanujam, "India and China – a study in contrast", *The Hindu Business Line* (Chennai, India), 12 October 1999, p. 14.

⁸ *World Development Indicators Database*, World Bank, July 2004, at http://www.worldbank.org/data/databytopic/GDP_PPP.pdf

⁹ Nicholas R. Lardy, *China in the World Economy*, (Washington DC: Institute of International Economics, April 1994), pp. 27-28.

Thirdly, this is already evident how their rapidly growing economic progress has begun to provide a great boost to China-India political *rapprochement* so assiduously evolved since early 1970s. No doubt, this boom in their bilateral trade could not have been possible in absence of bold political initiatives by two governments and without their political and business elite working together yet, in recent years, it is the role of their business communities that has become far more influential in determining the tone and tenor of their political and strategic equations and initiatives.¹⁰ Looking at their bilateral economic engagement for last few years, their recent initiatives in opening their disputed border for border trade and working together towards evolving a China-India Free Trade Area (FTA) remain some unique examples which have already begun to show positive results in terms of reduction in force deployment and peace on their borders and revival of several cottage industries amongst their overlapping border communities which augurs well for the future of China-India ties.

It is in view of such evolving multifaceted nature of their equations that China-India economic engagement has implications that go far beyond its visible and conventional profit-making motives. Policy-makers from both sides have since begun to increasingly appreciate this big picture and to focus on the social and political benefits of China-India trade and commerce for their overall complicated equations. Accordingly, China-India economic engagement can today be safely described as perhaps the most agreeable as also the most reliable confidence building measure (CBM) in China-India relations. Also, it is this economic engagement that makes their current political bonhomie far more

¹⁰ Especially, when their ties had reached their nadir following India's nuclear tests during May 1998, their trade was least to be affected as also was one-the-lead to provide necessary atmospherics for revival of China-India intercourse in other fields. China-India trade had begun to bounce back to normal from July and returned to normal before end of that year. Historically as well, it is culture and commerce that had joined these two ancient civilizations since 2nd Century BC. For details see Swaran Singh, *China-South Asia: Issues, Equations, Policies*, (New Delhi: Lancers Books, 2003).

promising and their strategic partnership the most likely outcome of their growing economic engagement. In fact, all that lack of political initiatives can do today is to delay in unfolding of this inevitable reality of coming times.

In some ways this rapidly changing larger picture also reminds one of the of the China-India equations until the advent of industrial revolution and the consequent colonial expansion of European powers into the East. In some ways, this presents a far more valid comparison than the oft-cited bonhomie of early 1950s which was driven by their euphoric visions on the Asian resurgence. Until the advent of Industrial Revolution and resultant Colonialism it was only culture and commerce that had defined the thriving China-India interface and, the political equations between Chinese and Indian kingdoms were often determined by the nature of their extremely flexible economic ties. Also perhaps their prosperity had something to do with this.

To recall, in the agrarian world until the middle of 19th century, half of world's GDP was produced in these two countries. And now, with the success of their recent experiments with opening up and reforms, the 21st century may well witness China-India equations returning to their normal self as had existed until the advent of Opium Wars of 1840s from where this brave new world of colonial expansion took hold on these two Asian societies making them competitors and adversaries in their cold war lexicon and architecture. The gradual end of cold war since mid-1980s has since opened avenues for alternative visions of these two Asian civilizational-states which has since become two most dynamic societies around the world.

Inevitability about Their Partnership

Recent decades have witnessed both China and India becoming more focused on their complementarities as also about the inevitability about the need for them to evolve a stronger

partnership. In addition to their cultural and commercial links since ancient times, the contemporary China and India had also evolved a closer interface during their common fight against colonialism and both continue till date to grapple with their colonial legacies. Both were also to spend their initial post-liberation decades inspired by the Soviet model and in trying to emphasize heavy industry and follow the Soviet central planning as part of their nation-building for their vast multinational societies.¹¹ But all this was to change (much before the collapse of former Soviet state) and recent decades have witnessed their attempts at opening up and reforming their centralized and antiquated economies. All this has inevitably pushed China and India on a course of developing a strategic partnership contours of which are only vaguely visible as yet.

At the most basic level, the success of these experiments with reforms and opening up have since transformed the very fundamentals of these two societies – like health, education, and skills of their huge populations of 1.3 billion and 1.2 billion people respectively – and their evolving business-friendly environment juxtaposed with this ever increasing purchasing power of their huge populations makes them far too attractive to be ignored by the flows of capital and manpower in this market-driven globalization of the 21st century world.

But both still remain developing nations with pockets of poverty, illiteracy and bouts of natural and man made disasters as also periods of political uncertainty that still continues to haunt. All this remains particularly true of India though China also has its share of similar challenges. Besides, both remain vulnerable to their ever-growing external linkages and on emerging new issues like environmental degradation, sustainable development, and human rights which are often used by developed nations to arm-

¹¹ T.C.A. Ramanujam, “India and China – a study in contrast”, *The Hindu Business Line* (Chennai, India), 12 October 1999, p. 14.

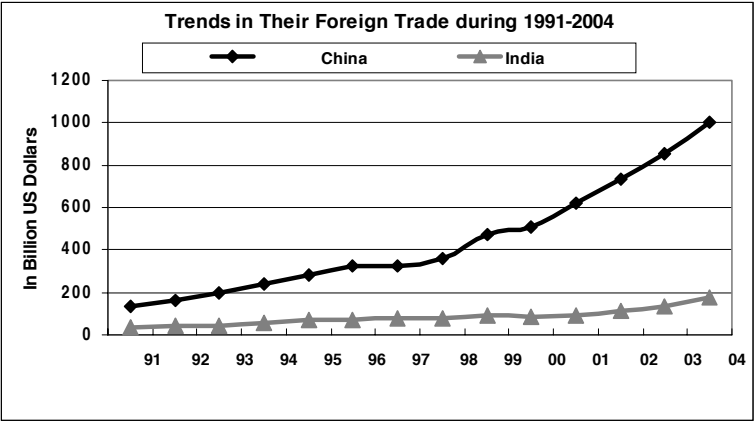
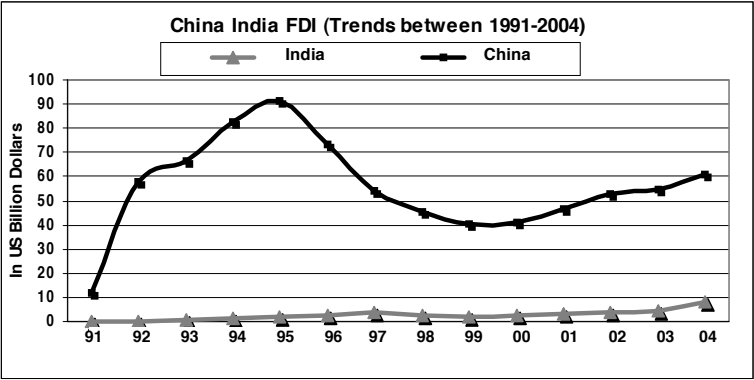
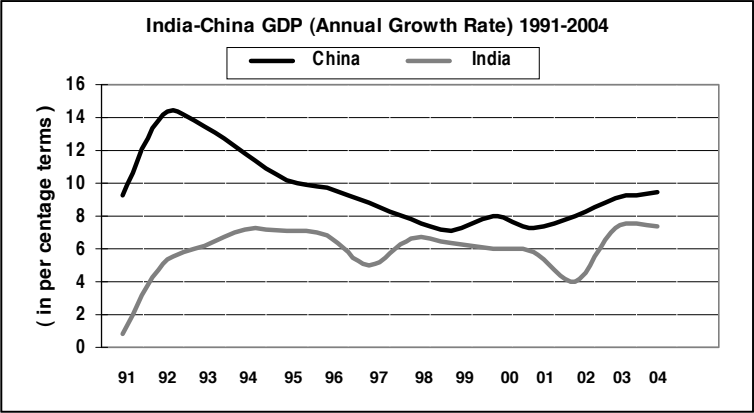
twist China and sometimes even India in order to keep them to the margins of global governance and this has been pushing Beijing and New Delhi further closer in recent years.¹²

Secondly, and more specifically, in their bilateral economic equations, the relative lowering of growth rates in China's GDP, though not so much in China's foreign trade and foreign direct investment (FDI) in recent years, juxtaposed with the *relative* and recurrent rise in India's growth rates in GDP, FDI and foreign trade since later half of 1990s has lately brought Chinese and Indian growth curbs further closer to each other. In particular, the East Asian financial crisis during the later half of 1990s were to provide a kick-start to China exploring new trading partners (read markets) and since this had coincided with India's years of impressive performance it greatly facilitated China-India trade boom during these last ten years.¹³ This has since moved China-India ties into a new phase of bold new initiatives in their trade and commerce which portrays great promise for China-India bonhomie on much stronger basis.

¹² On several issues around the US unilateralism both China and India has shared similar views and even deliberated on them, at times publicly. See Swaran Singh, "Strategic Triangle and Ballistic Missile Defence" in Gilles Boquerat and Frederick Grare (eds.) *India, China, Russia: Intricacies of an Asian Triangle*, (New Delhi: India Research Press, 2003).

¹³ John D. Langlois Jr., "Pressures on China from the Asian financial crisis", in Sylvia Ostry, Alan S. Alexandroff, and Rafael Gomez (eds.), *China and the Long March to Global Trade: The accession of China to the World Trade Organization*, (London: Routledge, 2002), p.111-12. Especially with regard to India-China trade boom one has to only cite figures for their bilateral trade between 1999 and 2004 where the trade has moved from being \$ 1.9 billion to the projected figure of \$ 13 billion for 2004.

Graph 1.1 China-India: Comparing Their Fundamentals



As for their future partnership, the visit to China by India's Prime Minister, Vajpayee, during June 2003 had resulted in ten Memorandum of Understanding/agreements including two breakthrough decision on (a) opening of the Nathu La border trade link and (b) raising the border talks to the level of Special Representatives in order to provide their border negotiations a 'political perspective' so as to expedite border negotiations that have been moving but slowly during the last 25 years. This visit provides an apt preview of the tenor of China-India equations in coming years. The general refrain in Chinese media had described this visit as symbolizing the second new phase of China-India engagement.¹⁴

In a run up to that important visit, the bilateral trade had shown a 71 per cent rise for the first four months and at end of year 2002, 15 Chinese-funded enterprises had been established in India (involving contracted volume of \$ 37.2 million) and India had 71 investment projects in China (with contracted fun of \$ 188 million).¹⁵ This was since followed by the so-called ambitious target of \$ 10 billion for year 2004 bilateral trade being achieved in less than 11 months and their annual trade had hit over \$ 13 billion by initial estimates for 2004. For the Indian fiscal year i.e. April-March, this is projected to go even higher, to \$17 bn.¹⁶

Experts looking through the recent trends in the growth rates of Chinese and Indian economies believe that these positive trends in their mutual economic engagement are very likely to continue and to be decisive as well, at least in the short term

¹⁴ Swaran Singh and Zhao Gancheng, "Vajpayee's China visit", *SIIS Journal* (Shanghai) vo. 10 no 3 , (August 2003), pp. 23-28.

¹⁵ N. Vidyasagar, "India-China trade may cross \$17 bn this fiscal", *The Times of India* (New Delhi), 10 February 2005, p.18

¹⁶ "China, India Makes Progress In Bilateral Economic, Trade Cooperaton", *The People's Daily* (Beijing) 23 June 2003, at http://english.peopledaily.com.cn/200306/22/eng20030622_118702.shtml

analyses.¹⁷ And, for long-term trends of China-India economic engagement leading to their politico-strategic partnership, the key perhaps lies in examining the long-term trends in their opening up and economic reforms that today underlines (and underwrites) this new enthusiasm in China-India *rapprochement*. It is in this continued success of these experiments with reforms and opening up that experts see peace and stability ensuring continued bonhomie between New Delhi and Beijing as also hope for any final resolution of their mutual suspicions and their intractable border question.

China's Opening-up and Reforms

The story of this new transformation in China-India ties must begin from the beginning of China's economic opening up and reforms from late 1970s. This period was aptly described by China's paramount leader, Deng Xiaoping, as their "second revolution" with the first one being their political liberation in 1949.¹⁸

In some ways, this second revolution was to move exactly opposite to China's first great leader Chairman Mao's inward looking policies with Mao's emphasis on self-pride and 'self-sufficiency' which had resulted in the deterioration of China's bilateral ties with China's two most important neighbouring countries – Soviet Union and India. This was partly responsible for Moscow and Delhi coming closer from early 1960s and this, in turn, was to push Beijing into building a 'special relationship' with Pakistan. The Cold War politics was to further sharpen their mutual divisions, misperceptions and skepticism.

¹⁷ Sam Dzever and Jacques Jausaud (ed.), *China and India Economic Performance and Business Strategies of Firms in the Mid-1990s*, (New York: St. Martin's Press, 1999), p. xi.

¹⁸ Deng Xiaoping, *Selected Works of Deng Xiaoping – Book Three*, (Beijing: People's Press, 1993), p. 113; for excellent outline of this era see Harry Harding, *China's Second Revolution: Reforms after Mao*, (Washington DC: The Brookings Institution, 1987) or Joseph C. H. Chai (ed.), *The Economic Development of Modern China: Vol.III: Reforms and Opening Up Since 1979*, (Cheltenham, UK: An Elgar Reference Collection), 2000).

The first sure signs of China's economic opening up and reform were to come two years after Mao's death when Deng Xiaoping managed to persuade the Communist Party of China (CCP) to shift the focus from revolution and ideology to economic development of their country.¹⁹ Soon political fervor of Cultural Revolution was to be acknowledged as unfortunate and waste and the new leadership was to decide to break free from the shackles of Mao's "self-reliance" concepts and underline the limitations of Zhou En-lai's Four Modernisation policies thereby re-orienting China's development framework under the new rubric of "opening to the outside world" (*duiwai Kaifang*).²⁰

De-collectivisation in rural sector and the Special Economic Zones (SEZs) in coastal cities were to become the first two priorities for China's second generation leaders and these were to begin showing results by early 1980s. This success of its four modernization drives was to catapult Deng's China into a major new course towards accepting interdependence with its obvious implications for China's foreign relations including China-India ties.

The first critical challenge to Deng's reforms was to come in the form of rapid rise in prices and the popular disaffection erupting into an unprecedented Tiananmen Square crisis of 4th June 1989. Amongst others, this was to briefly revive China's neo-authoritarianism. Deng's partial reforms had come to be strongly challenged in China in view of Gorbachev's comprehensive *glasnost* in Soviet Union since mid-1980s. This neo-authoritarian view had been shared, at least partly, by China's top-level leaders

¹⁹ For details see Richard Baum, *Burying Mao: Chinese Politics in the age of Deng Xiaoping*, (Princeton: Princeton University Press, 1994)

²⁰ Lawrence C. Reardon, *The Reluctant Dragon: Crisis Cycles in Chinese Foreign Economic Policy*, (Hong Kong: Hong Kong University Press, 2002), p. 185; Ian Seckington, "China reforms: A mixed legacy for a new generation", *Asian Affairs*, Vol. 33 no.3 (November 2002), pp. 346-358; Joseph FewSmith, *China Since Tiananmen: the Politics of Transition*, (Cambridge: Cambridge University Press, 2001), p. 36.

of that time, including Deng and Zhao Ziyang.²¹ Accordingly, in the post-1989 period, Deng's advisors were to classify the global process of modernization into four categories: (i) hard governments and hard economy (former Soviet Union); soft state and hard economy (India); hard government and soft economy (Asian tigers); and, soft government and soft economies (much of the developing world) and conclude that third system has proved to be most successful of all. Accordingly, they were to press ahead with only economic reforms and opening up and at best slow political reforms, if any.

Nevertheless, economic opening up was bound to show its impact on China's political profile. For instance, in terms of China's foreign relations, even this only economic opening up was to make development process dependent upon outside links with FDI which, along with foreign trade, was to emerge as the locomotive of China's economic reforms and modernisation. This was to also have impact beyond China and China's example was to further accelerate economic reforms in other developing countries with India being one example. In China, this was to be effected through two-fold policy initiatives - *first* was the shift in the allocation mechanisms from central planning to market-forces and *second* the shift of development strategies from an inward to an outward-orientation. When directed by a centralized single-party political leadership, these economic reforms were to produce spectacular expansion of domestic economy in next two decades thereby making 'Made in China' a household talk around the world.

In conjunction with this burgeoning of China's domestic economy were the receptive and supportive external conditions that were to make China's foreign trade the leading force in facilitating China's economic and social transformation producing a whole generation of cosmopolitan society in China's urban centers.

²¹ Wei Wei Zhang, *Transforming China: Economic Reforms and its Political Implications*, (London: Macmillan Press, 2000), p. 127.

As regards the response from the outside world in engaging China's leadership, China's FDI and foreign trade were to grow really slowly until the end of 1980s and, to virtually come to a halt in wake of the June 04 Tiananmen Square crises of 1989. It was only from early 1990s that China's foreign trade and FDI were to grow rapidly making China the second largest recipient of FDI in the world for year 1996. To cite some statistics, China's contracted FDI was to grow from \$ 3.49 billion for 1991 to \$ 42.3 billion for 1996 launching debates about "overheating" of China's economy and shifting the focus of China's leaders from opening up to 'soft-landing' for which China's former central bank chief, Zhu Rongji was invited to occupy China's premiership. Though Zhu was successful in stabilizing China's growth rates by late-1990s yet, debates on China's 'overheating' continue to re-occur sporadically ever since and reflects global concerns with China's rise.²²

Conversely, till the very last years of Mao regime and even till end of 1970s decade, China had been the world most isolated economy in all respects, trading barely about 0.75 per cent of global total imports and exports. It was under Deng Xiaoping that China's foreign trade was to grow at a whopping average of 15.5 per cent – twice as fast as world average. From 1978 when China's foreign trade stood at \$ 20.6 billion per annum making China 32nd in global trade ranking, China was to emerge as the sixth largest trading power with \$ 510 billion trade for 2002; marking a 30 times rise for these 24 years. From there China's trade has since moved up to \$ 851 billion for 2003 and it was expected to cross \$ 1 trillion and to wrest fifth position in

²² Sam Dzever and Jacques Jausaud (eds), *China and India Economic Performance and Business Strategies of Firms in the Mid-1990s*, (London: Macmillan Press, 1999), p. xiv. Even today this debates continues to be live and kicking. See for example, David Ignatius, "Is China's Economy Overheating", *Washington Post* (Washington DC), 21 April 2004, p. A19; Keith Bradsher, "In China, Signs of an Overheating Economy", *The New York Times* (New York), 15 April 2004, p. A20; "Greenspan: China's economy may be overheating", *Peoples Daily* (Beijing) 23 April 2004, at http://english.peopledaily.com.cn/200404/22/eng20040422_141190.shtml

global trade ranking before end of year 2004.²³ Part of this boom has also impacted China-India economic engagement where some of the following elements remain most critical in determining their overall equations and potential.

i) Trade & FDI Driven Development

The nature of China's opening up and reforms have made China's development increasingly foreign trade and FDI driven and its social transformation and political stability has come to be intertwined with sustaining these high growth rates on regular basis. To appreciate the long-term trends in and impact of China-India economic engagement it would be important to briefly take a look at how China's opening up to the outside world have been central to this rollercoaster ride of economic reforms and to compare it with India's intermittent and piecemeal efforts at economic reforms and structural adjustment as also to gauge into the nature and suitability of their new economic orientation and their impact on their overall mutual policies. In many ways, China may have since become example to India's policy makers but in some cases, China and India also continue to compete for the same space as well.

To briefly look at China's reforms record, one Chinese economist at University of Melbourne, Dr. Zhang Xiao-guang, very succinctly outlines China's current opening up and reforms in the following four consecutive phases.²⁴

- The first phase (1979-84) begins with series of measures to promote exports aimed primarily at providing a boost to foreign exchange earnings in order to revitalize an economy

²³ "China's Foreign Trade Rises Some 30 Times in 24 years", *People's Daily* (Beijing), 30 December 2002, at http://english.peopledaily.com.cn/200212/30/eng20021230_109285.shtml; "China's foreign trade to grow 17 % in '04", *The Economic Times* (New Delhi) 22 May 2004, at <http://economictimes.indiatimes.com/articleshow/691302.cms>

²⁴ Xiao-guang Zhang, *China's Trade Patterns and International Comparative Advantage*, (London: Macmillan Press, 2000), p. 7.

battered by China's isolation and disastrous Cultural Revolution of 1960s. Measures included decentralization of foreign trade, repeated devaluations of *Renminbi*, and establishment of Special Economic Zones (SEZs) to encourage foreign trade and attract FDI with People's Liberation Army (PLA) being given a leading role and special incentives.

- Beginning from September 1984, which marks the second phase, the State Council was to provide a further push to this opening up by deciding to (i) make Foreign Trade Corporations (FTCs) increasingly autonomous of the government ministries, (ii) reduce the number of commodities subject to central planning, and (iii) later (1985-87) institutionalize reforms by making FTCs work on commission basis. By now, part of foreign exchange flows were allowed on swap-market basis which witnessed further devaluations.
- Third phase (1988-93) begins with a new development strategy with focus on coastal regions and government launching foreign trade Contract Responsibility System (CRS) shifting most FTCs to provincial government and gradually abolishing foreign trade subsidies from 1991 and replacing it with time-bound tax rebate system thereby encouraging financial viability and autonomy of FTCs.²⁵ This follows an increased focus on 'transparency' and codification of rules as part of measures to ensure China's re-entry into the World Trade Organization (WTO) that it did join in July 2001.
- In the fourth phase (1994-1998) the two-tier system of foreign exchange (official and swap exchange) are unified

²⁵ Joseph C. H. Chai, *China: Transition to a Market Economy*, (Oxford: Clarendon Press, 1997), p. 147, 205.

which makes *Renminbi* fully convertible though trading companies were still to sell part of their foreign exchange to government on fixed rates. The CRS system was again replaced with assets management system (AMS) similar to corporate structures in free-market economies encouraging capital investment and preservation and growth. China had now come to be known as Socialist market economy with increasing role for private sector which has been booming in recent years.

ii) Period of Internal Adjustment

Of course, the juggernaut of China's economic reforms does not stop here. If anything, China's focus on internal and external adjustments has increased in recent years.²⁶ In many ways, period since early-1990s was to provide China's third generation leadership under Jiang Zemin with several unique new challenges and opportunities first with the "overheating" of China's economy during 1993-94 – that required "soft-landing" that was achieved under Premier Zhu Rongji – and then in wake of the East Asian financial crisis of late 1990s. Both these were to play as critical catalyst for China's several new initiatives in internal adjustments. These East Asian financial crises were to hasten China's third generation leaders into acting through the National People's Congress and revising China's constitution beginning from March 1999 with new laws providing far greater role to China's private sector describing it as complimentary and integral to China's socialist system.²⁷ And things have become only worse ever since.²⁸

²⁶ for an excellent source on china's track record in policy adjustments see Chi-Keung Leung and Steve S.K. Chin (eds.), *China in Readjustment*, (Hong Kong: University of Hong Kong, 1983), pp. 158-173.

²⁷ John D. Langlois Jr., "Pressures on China from the Asian financial crisis", Sylvia Ostry, Alan S. Alexandroff and Rafael Gomez (eds), *China and the Long March to Global Trade: The accession of China to the World Trade Organization*, (New York: Routledge, 2002), pp. 100-101.

²⁸ Allen T. Cheng, "Labour Unrest is growing in China", *International Herald Tribune* (Hong Kong), 27 October, 2004; Ronald Radosh, "Why is the left silent over Chinese Labour Unrest", at Front Page Magazine at <http://frontpagemag.com/articles/Read/Article.asp?ID=1475>

The other critical area of recent adjustments has been reforms in China's State Owned Enterprises (SOEs). In these reforms, recent past has seen China's focusing specially on putting an end to system of Non-Performing Loans (NPLs) on which China's SOEs thrived. But this has since witnessed repeated workers' demonstrations making it a major problem with China's official police statistics that claim of countrywide annual demonstrations having gone up from 8,700 for 1993 to over 40,000 for 2000.²⁹

Similarly, over years, increasing transparency and eradicating corruption have also come to be policy priorities for China's new leaders. Indeed, the fourth generation leadership, under Hu Jintao, has tried to strengthen these trends by focusing on 'transparency' in governance and by co-opting China's rich into the Party's fold and these issues today occupy the centre-stage of China's opening up which has been encouraging private initiative in all fields of life.³⁰ All this has important lessons and implications for India.

iii) *Transparency in Governance*

SARS epidemic of 2003, which had coincided with the transfer of power to China's fourth generation of leaders, was to prove an acid-test for accelerating and expanding transparency in governance i.e. political opening up and even reforms. For example in the wake of SARS epidemic during 2003, while the fear of social panic and

²⁹ Murray Scot Tanner, "China Rethinks Unrest", *Washington Quarterly* (Washington DC), Vol 27, no. 3 (Summer 2004), p. 139; Murray Scot Tanner, "Protests now flourish in China", *International Herald Tribune* (Hong Kong), 2 June 2004, p. 6; Robert J. Samuelson, "The China Riddle", *The Washington Post* (Washington DC), 30 January 2004, p. A21; Michael Lev, "7,000 Chinese workers unite in daring protest" *Chicago Tribune* (Chicago), 13 March 2002, p. 13; for details about trials and tribulations in China's trade unions moment see Lee Lai To, *The Structures of the Trade Union System in China*, (Hong Kong: University of Hong Kong, 1984), pp. 51-73.

³⁰ Eva Cheng, "China" Constitution change to promote private property", *Green Left Weekly* online at <http://www.greenleft.org.au/back/2004/574/574p21.htm>

economic disaster had perhaps encouraged initial efforts to censor information about the disease yet on April 20, the new Party Chief, Hu Jintao, was to dismiss both Beijing Mayor, Meng Xuenong, and China's Minister of Health, Zhang Wenkang, who had falsely declared that the disease was under control in China. The new leadership not only revised upwards the figures about SARS victims but also declared schools closed and discouraged travel during May holidays; even threatened to prison (even execution) those who violated quarantine. This was seen as more transparent way of building trust with common people and earning their confidence through transparency and discipline.

Similarly, corruption has also been dealt strongly with recent years witnessing some public display of justice for that purpose. In recent past, Yang Bin, once regarded as China's second-wealthiest man, was sentenced in July 2003 to an 18-year prison sentence for fraud associated with his flower-growing and property development Empire. In October 2003, Minister of Land and Resources, Tian Fengshan, was dismissed a week after a Hong Kong newspaper, with close ties to Beijing, disclosed that he was suspected of unspecified "misuse of land", apparently in his former political base of Heilongjiang Province. Similarly, China has also been more transparent on issues like industrial accidents and deaths in industrial accidents has been on rise in this so called sweatshop to the world, with over 11,000 such deaths recorded in the first nine months of 2003.³¹

In its external relations as well, this period has witnessed China getting increasingly integrated into the outside world and, with China finally entering the World Trade Organisation (WTO). This has dramatically boosted institutionalization of China's external economic integration.³²

³¹ Richard Kraus, "China in 2003: From SARS to Spaceships", *Asian Survey*, Vol. 44 no.1 (January-February 2004), pp. 148, 152.

³² Yanlai Wang, *China's Economic Development and Democratization*, (Burlington, USA: Ashgate Publishing House, 2003), p. 4.

In 2003, for example, irrespective of the SARS epidemic, China surpassed the US in attracting FDI and also, for the first time in its history, Kentucky Fried Chicken made greater profits in China than in the United States.³³ Similarly, it is in Hong Kong that MacDonald earns its maximum profits. For year 2003, for example, while SARS had resulted in China's GDP growth rate falling to 6.7 per cent for the second quarter (from 9.9 per cent for first) it was back to 9.1 per cent in the third quarter of 2003. Since then it is believed to have further slowed down to 9 per cent for 2004 and was expected to slow down further to 8 per cent for 2005.³⁴ Even on SARS, China was able to obtain millions of dollars as foreign assistance by highlighting its global links and implications.³⁵

The increasing integration of socio-political and economic trends at home has also boosted China's economic integration gradually leading to China seeking social and political integration with the world – as is obvious in its signing the international Covenant on Economic, Social and Cultural Rights in June 1998 and the International Covenant on Civil and Political Rights in October 1998 – as also in undertaking significant domestic legal, constitutional and peripheral political reforms. All this clearly obtains China far greater credibility and acceptance amongst its peers and neighbours who feel increasingly less skeptical about China's promises and pronouncements. This is at least true of China-India ties which have witnessed deeper and wider engagement which has also been facilitated by India undertaking similar experiments with opening

³³ Richard Kraus, "China in 2003: From SARS to Spaceships", *Asian Survey*, Vol. 44 no.1 (January-February 2004), p. 153. Between November 2002 and September 2003, 8098 people contacted SARS; 774 of them died. SARS was overwhelmingly a Chinese affliction. A total of 5,503 of the victims lived in the PRC, 346 in Taiwan, and another 238 in Singapore.

³⁴ "China's GDP Growth Will Likely Slow to 8% in 2005, Survey Shows", at *Boomberg.com* 17 January 2005 at <http://www.bloomber.com/apps/news?pid=10000080&sid=aTaXBxfjvtg&refer=asia>

³⁵ "Japan's aid to China for SARS totals 1.76 billion yen", in http://news.xinhuanet.com/english/2003-05/16/content_873056.htm

up and economic reforms beginning from mid-1980s which remains critical in determining the nature of China-India economic interactions.

India's Intermittent Economic Reforms

Unlike China's juggernaut of economic reforms the origins of which can be traced back to early-1970s China-US entente, the current phase of India's economic reforms are seen as starting only from mid-1980s. This argument about India having started later compared to China has been often highlighted in explaining India's lukewarm and slow progress. This, however, has been so because of bureaucratic and political hiccups of India's coalition politics. Only few studies have focused on series of political hiccups that flow from India's political transition from single-party rule to coalition governments. Besides, it is also often overlooked that, in case of India, economic reforms were not the only locomotive for India's opening up and that India has had a long track-record of foreign trade and investments before this World Bank/ IMF driven phase of reforms begins from the early 1990s.

Secondly, unlike China, that had remained generally closed (except for its links with select communist revolutionary states) till Deng Xiaoping came to the helm in 1978, India's experiments with economic reforms can be traced right from its time of independence in 1947. For example, by the time this opening up of economy began in China from 1979, Indian industry had already witnessed a steady nine times growth in its FDI since 1947 i.e. from Rs. 2.5 billion for 1947 to Rs. 24 billion (about \$ 3 billion) for 1978 and it was to move further to Rs. 317 billion (about \$ 32 billion) by 1985.³⁶

³⁶ Yan Shi Jing, "India and Foreign Capital", in Surjit Mansingh (ed.), *Indian and Chinese Foreign Policies in Comparative Perspective*, (New Delhi: Radiant Publishers, 1998), p. 208-209. In the beginning bulk of FDI was from colonial master United Kingdom which accounted for 82.8 per cent of India's FDI till 1953 but then declined to 35.5 per cent by 1974. Comparatively, not Soviet Union but the United States was to emerge a major investor during this period whose share in India's FDI in India was to go up from 7.4 per cent in 1947 to 27.3 per cent in 1974.

So to keep their comparisons in order it is important to underline these fundamental differences in the low velocity and longer time-span of India's experiments with economic reforms that underlie India's economic engagement with outside world. This sure creates different wavelengths when it comes to China-India economic interactions.

In India, beginning from announcements of new Industrial policies during 1980 and 1982, government had launched liberalization of industrial licensing rules and introduced exemptions in foreign equity restrictions under Foreign Exchange Regulation Act (FERA) though this liberalization had begun slowly from 100 percent export-oriented units. This was to keep pace with increasing exports that was expected to follow lifting of restriction on imports as government expanded number of raw material and capital goods that could now be imported under Open General License (OGL) system. Approvals for opening liaison offices by foreign companies were made easier and procedures for the outward remittances (or royalties and technical fees) streamlined. Finally in 1988, a 'fast channel' was also introduced for expediting clearance of FDI proposals. All this happened much before IMF asked India to introduce economic opening up from 1991.³⁷

In this free-market India, till 1991 domestic manufacturers benefited from very high levels of protection from external competition and industrial production was characterised by entry-exit barriers of all kind. This partly explains slow reaction and lack of confidence of Indian business sector when it comes to dealing with ever expanding China. This also meant that business sector in India had never been very demanding either. As a result, even now, Indian government has not had very strong groundswell for undertaking reforms in core infrastructure sectors like power where

³⁷ Charles R. Chittle and Kyoo H. Kim, "Foreign direct investment in China and India: The economic environment", Sam Dzever and Jacques Jausaud (eds), *China and India Economic Performance and Business Strategies of Firms in the Mid-1990s*, (London: Macmillan Press, 1999), p. 6.

India has been projecting its success on the basis of interest shown by private investors. The progress, however, has been slow to say the least.

In the much-hyped power sector itself, by 1997, just 11 private projects with a total capacity of 1.892 MW had been commissioned. In reality even many of the 'fast track' projects lag behind schedule, due to the endless negotiations, procedural clearances problems and huge delays and several groups have gone public on how other countries like China, Taiwan, Brazil or the Philippines have more attractive and competitive environment for their quicker clearances and financial closers.³⁸ The World Bank (1995) ranked India amongst the countries that have been least successful in reforming their state enterprises, and argues that India has met neither the desirability nor the feasibility conditions required for successful privatization.³⁹

i) Politics Driven Economic Reforms

While the economic reforms and opening up in both China and India had both been geared by need for foreign exchange and advanced technologies the approaches to achieve those objectives had been different and far apart. For example, while in India economic opening up and reforms have been driven by political conditions, in case of China it is economic reforms that have driven political discourse of Beijing's reform policies.⁴⁰ Nevertheless, their also remain several vital similarities especially in their strengths

³⁸ T. G. Arun and F. I. Nixon, "Privatization in India: "miles to go...?", in Nicholas Perdakis (ed.), *The Indian Economy: Contemporary Issues*, (Singapore: Ashgate, 2000), p. 79.

³⁹ Ibid, p. 88. Author says that The concept of state owned assets were embedded in Indian society even in the period of Kautilya (278BC). Arthashastra presents an illuminating picture of how public enterprises were conducting themselves successfully in that period. The importance of state owned assets as reinforced in Indian society at a later date by British rule and during the forty years of 'Nehruvian socialism' after independence. It is natural to assume that ideological shifts take a long time to gain wider public acceptance.

⁴⁰ Joe Studwell, *The China Dream*, (London: Profile Books, 2003, p.255.

and their objectives. For sake of comparison with China, for example, India's experiments with economic reforms can also be broadly categorized into four major phases.⁴¹

- The first part of the first phase (1947-1968) was to witness India imposing restrictions on foreign capital. This was possible because India was to retrieve over Rs. 34 billion worth of foreign currency from the United Kingdom. But from middle of 1950s, with sterling balances from UK being exhausted and, with India shifting to heavy industrialization, it was to gradually open up to foreign investments. Nevertheless, like China was to do in early 1980s, India continued to focus on strategy of import substitution and on developing local capabilities. But, given its insufficient technological base, any FDI that was fostering scientific, technical and industrial knowledge was welcome. This was to generate strong interest in western firms and during this phase over 50 per of FDI was in chemical, metals and pharmaceuticals.
- Second phase (1968-1979) was to witness far stricter restrictions on FDI as India's continued droughts since mid-1960s, oil crisis of early 1970s and rising foreign debt was to undermine its import substitution efforts making repayments difficult. This phase is known for India asking 50 foreign companies to pack up and institute stricter regimes like Foreign Exchange Regulation Act in 1974. This was followed by a period of political turmoil leading to national emergency in June 1975 that was to mark the beginning of the end of Congress domination in power.

⁴¹ Inspired by Yan Shi Jine (cited above) and Nagesh Kumar, "Industrialisation, Liberalisation and two Way Flows of FDI: Case of India", *Economic and Political Weekly* (Bombay), (16 December 1995), pp. 3228-37. Also see Charles R. Chittle and Kyoo H. Kim, "Foreign direct investment in China and India: The economic environment", Sam Dzever and Jacques Jaussaud (eds), *China and India Economic Performance and Business Strategies of Firms in the Mid-1990s*, (London: Macmillan Press, 1999), p. 26.

Worse, much of technological and managerial expertise accumulated was resulting in large outflows of foreign currencies – as profits, royalties, and technical fees. Consequently, a Foreign Investment Board was created and FDI was seriously restricted in the name of protecting indigenous industries from global competition.

- Third phase (1980s) was to witness return of Congress to power and economy was again opened up gradually with electronics sector taking the lead this time. With young Prime Minister, Rajiv Gandhi, coming to power in 1984, India's opening up process was to begin getting institutionalised. It was felt that India's protectionist policies of 1970s had proved counterproductive. Technological obsolescence, appalling export performance, poor product quality, a capital-intensive industrial structure and high costs had become characteristic of Indian economy.⁴² In parallel with the Chinese, this period witnessed creating of export processing zones, export-oriented units and streamlining of stringent guidelines for FDI though two political assassinations in 1984 and 1988 were to result in creating serious hiccups in this process of opening up.
- Fourth phase (1991-) was to see further radicalization of India's opening up and economic reforms and, like Chinese, FDI and foreign trade was now recognized as key to success. This phase is generally seen as era where reforms were actually externally driven. This had links to India's foreign exchange crisis of 1991 and the belief that reforms were launched under pressures from World Bank and International Monetary Fund; almost as a stand alone

⁴² Jagdish Bhagwati, *India in Transition – Freeing the Economy*, (Oxford: Clarendon Press, 1993), p. 49; Deepak Lal, "Ideology and Industrialization in India and East Asia", Helen Hughes (ed.), *Achieving Industrialization in East Asia*, (Cambridge: Cambridge University Press, 1988).

process. Also, this difference becomes stark when compared to China. Unlike China, India had largely ignored its small-scale and agriculture sectors which constituted 14 and 31 percent of GDP and focused itself on manufacturing and service sectors in India's urban centers. On the positive side, one sector that again unlike China was to make India's reforms really high-profile and noticeable was the information technology sector (especially software) that was to make 1990s a decade of India's rapid progress.

ii) Collapse of Soviet State and IMF Pressures

Much of the comparisons between Chinese and Indian opening up – that normally focus on India's economic reforms from this last decade of 20th century – have their inbuilt limitations of focusing only on the IMF factor. This last decade of 20th century had seen privatization efforts shifting focus to Eastern Europe and was also finding favour in communist countries such as China and Cuba. As for India, this was to present a unique situation of having lost its strongest ally (Soviet Union) that was to make New Delhi vulnerable to pressures from the IMF.

Internally as well, the year 1991 had been an extremely bad year for India's economic performance. This was year of the first Persian Gulf War which has resulted, for India, in rise in oil prices and a sharp fall in remittances from expatriate Indians in that region resulting in balance of payments problems and rise in foreign debt with new borrowings becoming difficult. Domestically again, inflation was running double digit while the growth rate was down to 0.7 for industrial sector and 1.3 for agriculture sector for the financial year 1991-92.⁴³ What did the trick was the extreme shortage of foreign exchange and this crisis coinciding with the collapse of former Soviet Union that had been

⁴³ Ministry of Finance, Government of India, *Economic Survey, 2002*, Tables 0.1 and 1.6.

India's close ally and implicit economic role model. This was the cathartic moment for Indian economic policymakers.

It is at this junction that India was to turn to the IMF for an emergency loan of \$ 2.5 billion. The IMF was not only to extend a credit of only \$ 150 million instead, it was to make it conditional on India launching economic liberalization which was to make India's reforms and opening up appear completely externally driven to begin with. These pressure tactics of the IMF to open up several critical sectors were to prompt India to launch systemic reforms and adjustment across the board covering foreign trade and investment, exchange rate management, and industrial policies, as well as the role of the public sector in production and distribution.⁴⁴

In matter of five years during the Narasimharao government (1991-1996), India was to bring down its import duties from its maximum rate of over 400 per cent to 65 per cent. This was accompanied by dismantling of the complicated import licensing system and opening up the erstwhile "core" sectors (power generation, telecommunications, mining) to private firms. In the long-run this rapid pace was also to make reforms unpopular with some political parties creating perennial roadblocks and hiccups slowing down its implementation by successive ruling regimes.

Comparative Analysis

To begin with, it needs to be highlighted how both China and India had both started with very different political models and economic thinking and priorities. For long, China's foreign trade was deliberately kept slow only to supplement the gap between domestic supply and demand. Particularly, following the Sino-Soviet split from early 1960s, Beijing had laid far more stress on principles

⁴⁴ T. N. Srinivasan and Suresh D. Tendulkar, *Reintegrating India with the World Economy*, (Washington DC: Institute of International Economics, March 2003), p. 2.

of ‘self-reliance’ and on its strategy of ‘independence’ which was not good for its foreign economic relations.⁴⁵ Unlike Nehru’s India, Mao’s China had been far more introvert and these opposite trends were to be further re-enforced by the Sino-Soviet split of early 1960s. This was to see India moving closer to the Soviet Union and towards a socialist pattern of society and China towards its *etente* with the US though things were to evolve a step further following the collapse of the Soviet Union.

As the first indication of its economic opening up, it was the “Law of the People’s Republic of China Concerning the Joint Ventures with Chinese and Foreign Investment” of 1979 that was to institutionalize China’s economic internationalization on firm roots. The same year, the CCPCC and the State Council decided to grant Guangdong and Fujian provinces ‘special policies and flexible measures’ in foreign economic affairs. On 26 December 1979, the People’s Congress of Guangdong province approved the Guangdong provincial government’s proposal that a part of Shenzhen next to Hong Kong, Zhuhai next to Macau, and Santou be designed to experiment with a market-oriented economy with Chinese characteristics, namely special economic zones or SEZ. This proposal was finally accepted by the National People’s Congress (NPC) on 26 August 1980. At the same time, Xiamen in Southeast Fujian province vis-à-vis Taiwan also became SEZ with the approval of NPC. For India, this had been a period of political upheavals and distress.

Secondly, even though much of the credit goes to Deng Xiaoping for bringing about China’s “second revolution” of opening up and economic reforms, China’s economy had several inbuilt and inherent characteristics making it attuned to openness and reforms. China’s economy had particularly begun to be opened up following US-China *entente* from early 1970s. Unlike China, India,

⁴⁵ Rongxing Guo, *How the Chinese Economy Works*, (London: Macmillan, 1999), p. 130.

however, had never been ever closed to foreign investments and private initiative. More substantially as well, the structural adjustments in Indian economy in its current phase had begun during Rajiv Gandhi's regime (1984-89).⁴⁶ Like Deng Xiaoping in post-Mao China, young Prime Minister, Rajiv Gandhi, had allowed for higher imports to break away from Nehruvian 'self-sufficiency' which had produced excessive state control of economy.⁴⁷ But while in China reforms were to move steadily with strong State control on foreign exchange, in India they were to soon result in excessive external debt and balance-of-payment crisis which was to change the tenor of India's economic reforms to becoming externally-driven from early 1991. On the contrary, for China this was to become their period of rapid development with GDP growth rate tossing into unprecedented double-digit range.

Thirdly, there have been several explanations for such opposite outcomes of Chinese and Indian economic reforms. The strong hand and single-minded control by the CCP is often cited as reason in most Indian commentaries.⁴⁸ Amongst other reasons some believe these reforms were perhaps too rapid in China and too slow in India and both were perhaps headed for different, if not opposite, directions in terms of their priorities.⁴⁹ For instance, China's economic reforms had started from mid-1970s and were largely internally-driven and moved from rural agricultural sector to urban and manufacturing and only recently into services sectors with its manufacturing creating a booming success from 1990s. India, on

⁴⁶ Pamela Shurmer-smith, *India: Globalization and Change*, (New York: Oxford University Press, 2000), p. 22.

⁴⁷ Sam Dzever and Jacques Jaussaud (eds), *China and India Economic Performance and Business Strategies of Firms in the Mid-1990s*, (London: Macmillan Press, 1999), p. xiv.

⁴⁸ See for example academic studies like Malenbaum (1956, 1959, 1982), S. J. Patel (1985), Bhalla (1992), Hawes (1992), Matson and Selden (1992), Rosen (1992), and Srinivasan (1994), Subramanian Swamy (2001) and so on

⁴⁹ Prem Shankar Jha, *The Perilous Road to the Market: The Political Economy of Reforms in Russia, India and China*, (New Delhi: Rupa & Co, 2002), p. 165.

the other hand, was to begin with its urban and industrial sector reforms thereby opening its core sectors without any serious bargain with the IMF which was visible only amongst urban middle-class and elite.

Fourthly, China also had its share of hiccups. Amongst these, apart from the political upheavals of late 1980s and the so-called overheating of China's economy during early 1990s, the other factors for recent slow-down in China's growth rates may include (a) decline in demand from the Southeast Asian countries; (b) growing competition from Southeast Asia with devalued currencies, (c) Southeast Asia increasingly relying on exports to spur economic recovery; (d) China's export sector maintaining a very high annual growth rates of above 15 per cent for over last two decades; and (e) the resultant sluggish domestic market within the country.⁵⁰ Given this scenario, India was to become one important market where China has sought greater access. China's World Trade Organisation (WTO) membership in this case seems to favour China far more than India. Under terms of its commitments in the Uruguay Round of trade negotiations, India was required to phase out in April 2001 long-standing restrictions on the import of 743 consumer products, most of which are labour intensive in nature. Had China remained outside WTO, India could have continued to impose WTO-inconsistent restrictions on imports from China but, given China's entry into WTO from July 2001, India no longer has that option.⁵¹ But this has also facilitated their mutual trade and investment.

Fifthly, while looking at China's declining growth rates during the 1990s bringing it closer to trends in case of India's development, one has to pay due attention to China's burden of

⁵⁰ Susumu Yabuki and Stephen M. Harner, *China's New Political Economy*, (Boulder, Colorado: Westview Press, 1999), pp. 245-253.

⁵¹ Nicholas R. Lardy, *Integrating China into the Global Economy*, (Washington DC: Brookings Institution Press, 2002), p. 127; also World Trade Organisation, Draft Protocol on the Accession of the People's Republic of China, annex 7, WT/ACC/SPEC/CHN/1/rev.8 (Geneva, July 31, 2001, pp. 204-09.

internal reforms, especially in its non-State economic sector which has since come to be projected as the driving force in China's economic engagement with the outside world. To describe the evolving new profile of this nascent but influential private sector during its initial years of booming success during 1989 to 1997, China's private enterprises had grown in number from 90,581 to 960,726. This amounts to an annual increase of 34.3 per cent. For the same period, the number of people working with these enterprises increased from 1.64 million to 13.49 million – an annual increase of 30.1 per cent. Similarly, capital assets of China's private sector increased from 8.4 billion to 514 billion yuan which represents an increase of 67.2 per cent for this period.⁵² In the added volume of the GDP over the past 20 years, the contribution of the non-State sector reached 70 percent, with averaged growth rate doubling that of the State sector. India has faced no such systemic jerks as it has had a thriving private sector from the very beginning.

Sixthly, in the wake of East Asian financial crisis of late 1990s, the Chinese leadership had become increasingly concerned with rejuvenating their State Owned Enterprises (SOEs), which witnessed non-State economic growth slowing down in the past few years. In 1998 in particular, while the government investment in the State sector was increased by 22 percent, the government investment in the non-State sector showed zero increase or even a negative increase in real terms.⁵³ Still some momentum has been kept especially in China's private sector involved in construction projects, labour projects, design and consultancy services contracted by China in foreign countries including India. Indeed, India has lately emerged to be one favoured destination for China's private sector which clearly owes its existence to China's (and India's) opening up process.

⁵² "Private Sector Grows Fastest of All", *Beijing Review* (Beijing), Vol.42 Nos. 9-10, March 1014, 1999, p. 4.

⁵³ Zheng Xinli, "Supporting Points for Economic Growth in the Coming 20 years", *Beijing Review* (Beijing), Vol.42 No.12 (March 22-28, 1999), p. 22.

In a comparison, therefore, unlike India, China's phased transition to free market remains a unique example in several ways. Beijing, for instance, has been able to modulate its tradeoff between encouraging new enterprises and not imposing very hard budget constraints on existing state enterprises as also going slow on recovering their huge borrowings. China only gradually moved its loss-making SOEs compared to other transition economies and, at the same time, witnessed an explosive growth of new private enterprises. Unlike India, China has been particularly successful in reaping spectacular gains from liberalizing repressed sectors such as agriculture, rural industries and from a massive flow of foreign direct investment. Such official initiatives have resulted in an impressive growth in private sector viz collective sector, individual sector (small capitalists business) and other capitalist enterprises. As a result, the industrial output produced by the state sector which was over 75 per cent in 1978 fell to 34 per cent by 1995.⁵⁴ It has been further reduced to 27 per cent since then. India, by comparison, has expanded its services sector and domestic savings that provide more reliable boosters to its economic development.

In recent years, some of China's initiatives have created an impression that perhaps now Beijing is gradually moving in a direction where it is prepared to allow its private sector to grow at the expense of its state sector. At the 15th Party Congress in September 1997, for instance, the Central leadership had decided to engage in fundamental restructuring of some 3,000,000 SOEs within three years through mergers, acquisitions, corporatization, privatization and declaring bankruptcies. This involved systematic lay off of excess workers which have been carried through irrespective of occasionally serious labour unrest and political opposition. The 16th Party Congress in 2003 was to amend Constitution to welcome capitalists and soon China's constitution was amended to allow private property to its citizens. Conversely,

⁵² Sudhir Naib, *Disinvestment in India: Policies, Procedures, Practices*, (New Delhi: Sage Publications, 2004), p, 176.

India's privatization, by comparison, seems to have developed some new limitations under the new Congress-led United Progressive Alliance government which has been having difficulties with left parties on this issue ever since it came to power in 2004.

Whereas the impact of opening up has been spectacular on the economic growth of both India and China yet, some serious problems have also emerged at the same time. In China, the total number of jobs in SOEs and state collectives has since decreased by 43 million or almost one-third. Over the same period, by comparison, the jobs increased in the private sector and other non-state sector was only 16.5 million (*Time* 17 June 2002). Another closely related major problem has been one of their rising prosperity levels and especially China's proportions of its work force and its expanding aging population. The World Bank estimates that the number of people aged 65 and above, in China will rise from 76 million in 1995 to 300 million by 2050. The ratio of workers to pensioners is expected to decline to 3 to 1 in 2050 from 10 to 1 in 1995.⁵⁵ India will have advantage by comparison of having larger younger populations for longer years on this growth curve analysis.

Conclusion

To conclude, therefore, for both China and India, their rise to stardom does not remain without its share of pitfalls, puzzles and challenges. But sure this opening up does create avenues for greater cooperation and enhances their mutual trust. It also need to be underlined that much of aforementioned portrayal of success remains particularly true of China though India has also been showing signs of staying not too far behind. Especially in case of bold political initiatives, India has always been at the forefront.

⁵⁵ Ibid., p, 177; also *The Economist* (London) June 15-21, 2002.

The current Prime Minister, Manmohan Singh, is seen as one strong advocate as also architect in the current phase of India's economic reforms and opening up and this promises to enhance China-India economic engagement. In his earlier avatar as Finance Minister to Prime Minister P.V. Narasimharao in early 1990s, he was the mastermind in that government's New Economic Policy and structural adjustments. Besides, he has also been a long-standing advocate of lowering of trade barriers and, decades ago, he had written his Ph.D thesis from the University of Cambridge on the subject of the benefit of international trade to India. Dr. Singh, however, will continue to carry through this vision within the limitations of coalition politics where views remain divided on several matters.

China's leader, Hu Jintao, has also given a personal touch to China's reforms with increasing accommodation of entrepreneur class and private sector. Keeping with China's policies he has continued with China's focus on developing western regions – with obvious implications for greater opening up of Tibet to India – as also on shifting focus from manufacturing to service sector where large population, when it is healthy and skilled, has become increasingly far more profitable. The strength of China's leader also lies in the fact that no one doubts of his continuing at the helm for at least coming decade if not more and this political stability remains the main strength of China's economic reforms and global engagement under his leadership.

As for China-India ties, therefore, most experts portend favourable trends and especially believe that, with the numbers of skilled professionals from India growing at the highest speed and, working mainly in the software industry, has provided a major boost for the India's software sector.⁵⁶ In this the combination of India's edge in software and China's edge on hardware of information

⁵⁶ Zou Huilin, "Foreign workers flocking to Shanghai" in *China Daily* (Beijing), 14 May 2004., p.1.

technologies has often been cited as example of their perfect marriage of China-India in coming times. With prosperity and peace ensured for one-third of global population this sure has implications for this larger region, if not the entire 21st century world order.

However, some myths and misperceptions must be tackled head-on to ensure better mutual understanding and coordination. Especially, even amongst experts, references continue to be made to China, as if both China and India were following similar pattern of reform with success. This clearly remains misplaced, since China is following a case of reforms of their state enterprises with the sole intention of making them competitive.⁵⁷

Furthermore, such reforms need to be backed up by massive government expenditures on retraining of retrenched workers, job creating infrastructure projects, and other related activities even at the cost of increasing budgeted deficits – a very Keynesian solution indeed. Unlike the case of India, the principal concern of the Chinese government is solely growth and employment generation (to compensate in some ways for the fall in employment due to shedding of the workforce in the state enterprises) and not budgetary considerations or ownership patterns. Some of this historical baggage of compartmentalizing China-India as either identical or complimentary must be shed to open up new vistas for cooperation between these two most dynamic societies.

⁵⁵ Anjan Chakrabarti and Stephen Cullenberg, *Transition and Development in India*, ((New York: Routledge, 2003), p. 279.

Chapter II

HISTORICAL LEGACIES

To appreciate its inherent strengths, the earliest evidence about the traditions of trade and commerce between China and India go as far back as the advent of all the territorial and maritime branches of the Silk route network or even to the opening of Western Regions during the Emperor Wu Ti (early Han period 207BC-220AD). For some, it goes to even before say, the unification of China under Emperor Qin Shi Hunag (during Qin Dynasty 221-207 BC). On the Indian side as well, the earliest recorded evidence of China silk, as mentioned in the previous chapter, appears in Kautilya's *Aarhasastra* - which is believed to be the product of 4th century BC – which uses Sanskrit compound *Cinapatta* meaning “a bunch of Chinese silk”.¹ Later works like *Manusmriti* – believed to be compiled during 2nd century BC and 2nd century AD – frequently make mention of China silk.

With the opening of China's Western Regions there was to come into existence the shortest and most direct route between China and India. The use of this direct trade route has been now established by archaeologists who have unearthed several evidences in these regions. Amongst these, the discovery of a strip of silk from the Former Han Dynasty period with *Brahmi* script on it in the watch-station in the Han site of Yu-men Kuan may be taken as an unmistakable evidence of China-India trade links of that period.² Similarly, a coin of Hermaeu's, the last Greek king in India (ca. 50-30 BC) was found in Chia's Xinjiang province and another one found in Khotan are cited to indicate the level of sophistication that marked the extensive commercial interface between China and India during that time.³

¹ Chi Hsien-lin, *Chung-Yin wen-hua Kuan-his shih lun-t'sung*, (Taipei: ??) pp. 163-64; Chang Hsing-lang, *Chung-his chiao-t'sung shih-liao hui-pien*, Vol. 6, (Taipei: Shih-chieh shu-chu, 1962), p. 26; R.C. Majumdar, *An Advanced History of India*, (London: Cambridge University Press, 1950), p. 126.

² Sir M. Aurel Stein, *Serindia*, Vol. 2, (Oxford: Oxford University Press, 1921, pp. 701-02.

³ W. W. Tarn, *The Greeks in Bactria and India*, (Cambridge: Cambridge University Press, 1938), p. 338.

Under the Later Han period (25-200AD), direct official interactions are reported to have been established between India and China and several Indian envoys are believed to have traveled to Han courts through Western Regions and large quantities of silk are believed to have been transported westward to Rome through India.⁴ Later Han times China-India economic interactions were to expand through the sea route as well. For instance it is believed that in 159 and 161 AD, Indian envoys twice came to the Han court to pay tribute. In both cases they are believed to have taken sea route via Jih-nan (Annam).⁵

Later in the third and fourth centuries, it is believed that Indians migrated to and settled down in Yung-ch'ang, the Chinese province on the Yunnan and Burma border and this had further facilitated close economic engagement.⁶ From here the Cholas of South India and Sung Dynasty of China were to develop flourishing trade ties that were to continue almost until the advent of colonialism that was to introduce several negative legacies that till date continue to distort mutual perceptions and policies between China and India. Indeed, this colonial interface with the West has remained the main source of distortions in reconstructing the past of China-India economic engagement. It is only recently that scholars from both sides have begun revisiting these issues from a fresh perspective.

Nature of Oriental Commerce

To begin with, several western experts believe that given the virtual non-existence of urban centers in ancient Asia, commerce

⁴ Sir Mortimer Wheeler, *Rome Beyond the Imperial Frontiers*, (London : Routledge, 1937), p. 137; M. P. Charlesworth, *Trade-Routes and Commerce of the Roman Empire*, (Cambridge: Cambridge University Press, 1924, pp. 57-63; F. Hirth, *China and the Roman Orient*, (Shanghai: ??, 1885), p. 42; E. H. Warmington, *Commerce Between the Roman Empire and India*, (Cambridge: Cambridge University Press, 1928), p. 176.

⁵ Sir Henry Yule, *Cathay and the Way Thither*, Vol.1, (London: Routledge, 1915), p. 66.

⁶ Ying-shih Yu, *Trade and Expansion in Han China: A Study in the Structure of Sino-Barbarian Economic Relations*, (Berkeley: University of California Press, 1967), p. 115.

amongst these Asian societies could not have played any substantial part in their inter-state relations.⁷ They believe that pre-industrial oriental societies like China and India were largely assemblage of self-sufficient villages that had little demand for material goods and services from the outside world as also a very negligible State interference in their everyday lives. Others, primarily Asian scholars, contend that such a view remains extremely biased and critically dependent on rather narrow understanding of post-Industrial Revolution free-market trade and commerce.⁸

⁷ see for example G. William Skinner, (ed.), *The City in Late Imperial China*, (Stanford: Stanford University Press, 1977), pp. 211-249. His pioneering and indulgent work on urbanization in late *Qing* China (measuring on the basis of 4,000 inhabitants) conclude that by end of 19th century, China had only 3.5 per cent population living in its 877 cities while Europe by now had 10 per cent of its population living in major urban centers (measured on the basis of 100,000 or above inhabitants).

⁸ There are several citations that contradict such simplistic Western analysis. Before the advent of steamship, India had a considerable mercantile marine of flourishing shipbuilding industry. See Simon Digby, "Maritime Trade of India" in Tapan Raychaudhuri and Irfan Habib (eds.), *The Cambridge Economic History of India, Vol. I, c.1200-c.1750*, (Cambridge: Cambridge University Press, 1982), p. 130; also Vera Anstey, *The Economic Development of India*, (London: Longmans, Green And Co., 1929), p. 152; Similarly in cotton industry, Tatas of India had installed ring spinning at their Empress Mills at Nagpur in the early 1880s, whilst Lancashire was still reliant on mule spinning. See Neil Charlesworth, *British Rule and the Indian Economy 1800-1914*, (London: Macmillan, 1982), p. 37; also B. R. Tomlinson, *The New Cambridge History of India Vol. III: The Economy of Modern India 1860-1970*, (Cambridge: Cambridge University Press, 1993), p. 104-05. And, until the end of 19th century India clearly dominated textile exports and especially in case of China, during 1890s, while India supplied over 90 per cent of China's cotton imports, Britain accounted for less than 5 per cent. See Brian Davey, *The Economic Development of India: A Marxist Analysis*, (Nottingham, UK: Spokesman Books, 1975), p. 89. And, even after full blown Industrial Revolution in 1913, India was still the world's second largest exporter of yarn, next only to Britain. See Dharma Kumar, *The Cambridge Economic History of India, Vol. 2: c. 1757-c. 1970*, (Cambridge: Cambridge University Press, 1983), p. 577. In the same vein, much before the onset of Industrial Revolution in Europe, for example, there were over two hundred foreign firms already operating in Shanghai alone in 1876. Tm Write, *The Chinese Economy in the Early Twentieth Century*, (London: Macmillan, 1992), p. 166; also see Yen-p'ing Hao, *The Commercial Revolution in Nineteenth Century China*, (Berkeley: ???, 1986), pp. 108-11; Ts'ui-jung Liu and John C. H. Fei, *The Public Granary Institution of the Ch'ing Dynasty (1644-1896)*, Yale University: Economic Growth Centre Discussion Paper no. 299, (October 1978), p. 18; Albert Feuerwerker, *Studies in the Economic History of Late Imperial China: Handicraft, Modern Industry, and the State*, ((Ann Arbor: The University of Michigan, 1995), p. 35, 47-49; also Yeh-chien Wang, *Land Taxation in Imperial China, 1750-1911*, (Cambridge: Harvard University Press, 1973).

Most social anthropologists believe that in ancient times, commerce encompassed transactions of rituals, religious ceremonies and important social considerations rather than being limited to material transactions alone, which places traditions of China-India trade and commerce in a wholly different perspective.

From this wider perspective, therefore, China and India had flourishing commercial relations since ancient times. Apart from references about China Silk in Kautilya's *Arthashastra* this can also be seen in Zhang xuan's narrations to the King of Bactria during his visit to later's court during 129 BC.⁹ Amongst others, Buddhism was to play a critical role in facilitating official patronage for the China-India trade from early 7th century AD. The association of trade with Buddhism becomes evident from the nature of monasteries which were themselves huge consumers of both staple goods and luxury items on regular basis and in plenty.¹⁰ Besides, pilgrims and preachers were a great help in traders being able to traverse long and difficult distances. This inspiration, guidance and companionship between pilgrims and travelers was to be complimented by example of monasteries' consumption pattern which was to spread gradually to the common populations thereby expanding mutual supply and demand for trade and commerce.

Secondly, there is also often an argument of oriental cultures not having undergone renaissance as did happen in European Christendom and therefore Asia having missed the industrial revolution for its lack of interest in material existence. These historians have tended to overlook the economic strengths of non-staple non-bulk trade amongst large societies like that of China and India and failed to appreciate the social and economic significance of the so-called luxury goods for the means of

⁹ Prakash Charan Prasad, *Foreign Trade and Commerce in Ancient India*, (New Delhi: Abhinav Publications, 1977), p. 66.

¹⁰ Xinru Liu, *Ancient Indian and Ancient China: Trade and Religious Exchanges AD 1-600*, (Delhi: Oxford University Press, 1988), p. 82-84.

production as also for relations of production and on social structures and social norms. They believe that since the luxury items were only for the small ruling elite, its impact on the economy and society was marginal at best. However, given the symbolic and value intense nature of luxury items, historical facts demonstrate their vital role in influencing the nature of production and social structures.¹¹ For sure, in early stages of economic development, ornaments and tools were the first products which were exchanged on quantitative terms but soon different values were attached to them. This difference in their social and monetary evaluation was to increase overtime and thus demonstrating their impact on social consumptions patterns, inter-relationships, institutions and norms at large.

It is believed by eminent scholars in the field that as the emerging new power in Southern India, the 11th Century Chola Kings had even sent their first tributary mission to China that reached the Sun court in 1015 AD.¹²

In the Sung court, the news about Chola rise in South India had already been coming through maritime merchants of the Sung Empire in China. Amongst others, this was to facilitate the transfer of hydraulic engineering and canal and dam construction techniques were transferred from Tang Dynasty at Sichuan (China) to India and this was to make a substantial input in India's agricultural system of that time.¹³ The evidence for commercial intercourse between Indian kingdoms and Sung China during this period is extensive and points to their continued contacts

¹¹ Xinru Liu, *Ancient Indian and Ancient China: Trade and Religious Exchanges AD 1-600*, (Delhi: Oxford University Press, 1988), p. 176-77.

¹² Billy K. L. So, *Prosperity, Region, and Institutions in Maritime China: The South Fukien Pattern, 946-1368*, (Cambridge, Mass: Harvard University Press, 2000), pp. 35-36.

¹³ A Rahman, "Pre-Colonial Links with China, Central and West Asia", in Confederation of Indian Industry's *Footprints of Enterprise: Indian Business Through the Ages*, (Delhi: Oxford University Press, 1999), p. 43.

from the past.¹⁴ Especially, the maritime trade of South *Fukien*¹⁵ had concentrated especially on markets of Southeast and Indian Ocean kingdoms. Between China and India, this coincides with the composition of the foreign community of Ch'uan-chou at this time on India's northeast and China's Southwestern region. This region of China, by now, had several hundred foreign traders including Arabs and Persians who constituted the bulk, followed by South Indians and then Europeans.¹⁶

In fact Asian (and particularly China-India) trade transactions were to introduce several pioneering changes in the pre-Industrial Revolution cross-country trade transfers. Maritime trade was to be one such important new segment of inter-state trade relations that, in some ways, was to become the precursor of European post-Industrial Revolution colonialism. Right from ancient times the maritime trade had formed an important part of Asian cross-country trade transactions. However, around 1,000 AD, there was to take place a remarkable change in the structure of the maritime trade in Asia. Whereas earlier, goods were shipped directly from the place of origin to that of final consumption, now, especially on Indian ports, this was to evolve a unique new practice of re-exports.¹⁷ This involved breaking of the bulk into parts according to demand in various ports of call.

¹⁴ Wang Gungwu, "The Nanhai Trade", *Journal of the Malayan Branch of the Royal Asiatic Society*, Vol. 31 part 2 (1958), pp. 72-112.

¹⁵ South *Fukien* larger version of today's Fujian province was representative of the prosperity of maritime China from 10th to 14th century; also Billy K. L. So, *Prosperity, Region, and Institutions in Maritime China: The South Fukien Pattern, 946-1368*, (Cambridge, Mass: Harvard University Press, 2000), p. 119.

¹⁶ The presence of a South India community is attested by the remains of a Hindu temple in urban Ch'uan-chou. For details see Wu Wen-liang, *Ch'uan-chou tsung-chiao shih-k'e*, (Peking: K'o-hsiung chubanshi, 1957), pp. 48-59; A. K. Coomaraswamy, "Hindu Sculptures of Zayton", *Ostasiatische Zeitschrift*, Vol. 9 (1933), pp. 5-11.

¹⁷ Dietmar Rothermund, *An Economic History of India: From Pre-Colonial Times to 1986*, (New Delhi: Manohar, 1988), p. 8.

This new trade tradition in Asian trade transactions was related to the simultaneous rise of several powerful corporate empires in several parts of Asia. The Cholas empire in South India, the Khmer empire of Cambodia, the Champas empire in Vietnam, and China under Sung dynasty had all emerged around 11th century that was to witness a rapid extension of rice cultivation and a large-scale increase both in local and long-distance trade transactions.

The second fundamental change pioneered by China-India trade from this ancient period was that the goods to be traded were no longer only a few luxury items, but increasingly included a wide variety of consumer commodities such as processed iron, spices, sandalwood, camphor, pearls, textiles as well as horses and elephants. All this was to result in large scale and regular transactions amongst these early medieval empires and evolve a trading road network in this region that was to be one of its kind around the world. Popularly called the Silk Route this was to symbolize the flourishing cross-country trade of Asia of ancient and medieval times.

Evolution of Silk Route

Silk Road has played an important role in reconstructing the history of cultural and economic affinity between India and China and this larger Eurasian region. Thanks to Silk Route, silk fabrics and tea from China had been the pillars of Eurasian life, commerce, and foreign trade since ancient times. Between China and India, China learnt from India how to make sugar from cane, how to decorate costumes and living spaces with beads, how to weave gold and silver threads into fabrics, how to enrich Chinese cuisine with black pepper, and how to make medicines from aromatic woods and tropical herbs. India also learnt paper making and the use of the compass, in addition to sericulture and the silk industry from China and gained from such Chinese inventions like tea, gun-powder and printing. All these interactions were facilitated by this extensive road network known as the Silk Route.

A large number of Buddhist texts of bark, leaf, silk or paper inscribed with ancient Indian, Central Asian and Chinese scripts has been discovered over the past hundred years that throw light on the entire course of the movement of Buddhism from India to China via Central Asia – along the Silk Road.¹⁸ Using the Silk Road as a guide, scholars have analysed the spread of trade especially in silk and its production as also its know-how from western China to Central Asia, and further to Europe and Indian subcontinent. It is believed that a counter-flow must have been simultaneously evolved, of cotton fabrics as well as cotton textile technologies, from India to Central Asia and then to interior China. Relics of cotton fabrics from earlier times have been found along the Silk Road. It was the Silk Road that helped the imperial palaces of China get Indian presents of superior cotton fabrics.¹⁹ Obviously, therefore, while there was flow of Silk from China to India, there must have been some Cotton flow from India to China as well.

As for sea routes, Indian ships are believed to have frequented the Pacific Ocean and Chinese coasts in the first millennium after Christ. Similarly, there were Chinese ships (generally very large) in the Indian Ocean from the seventh to the seventeenth centuries. These were known in China as the ‘jewel-taking ships’ with which the merchants of Quilon and other south Indian ports did regular business.²⁰ The Kerala ports, particularly

¹⁸ Tan Chung, “The Silk Road and India”, in Confederation of Indian Industry’s *Footprints of Enterprise: Indian Business Through the Ages*, (Delhi: Oxford University Press, 1999), p. 22.

¹⁹ Tapan Raychaudhury and Irfan Habib (eds.), *The Cambridge Economic History of India, Vol. I: c.1200-c.1750*, (Cambridge: Cambridge University Press, 1982), p. 137. The Liang Emperor Wu was supposedly very fond of a hat and a quilt made of Indian cotton, discarding the hat only after using it for three years, and the quilt only after sleeping under it for two years. Chenghiz Khan (1206-70), and also Kublai Khan (1260-94) who was founder of China’s Yuan dynasty, treasured their Indian cotton robes so much, they would continue to wear them even after they had been repeatedly patched. Kublai Khan especially sent a mission to Malabar in 1285 to bring back 10 Indian garments.

²⁰ n. 18. p. 23.

Cochin and Quilon, lay on the main route between far East and the far West and formed part of several merchants fables. There are also authentic accounts of Chinese literature of Chinese ships that would anchor at various ports along the entire western Indian coasts for trade, to change into smaller ships to sail to Red Sea. Chinese merchants used Silk Route to sell silk, tea, porcelain, and other goods to India, and took from India pepper, perfume, jewels, even horses (mostly Indian imports from West Asia).

All this was to have a major and lasting impact on the nature of China-India relations. For instance, a major historic event along the maritime Silk Road was to include a series of seven Chinese naval expeditions into the Indian Ocean led by Admiral Zhang He between 1405 and 1433. Some sinews of trade guided political expansion of post-Industrial Revolution can also be traced to these voyages from China. The fleet consisted of a giant flagship and a dozen smaller ships with several thousand sailors and other personnel on board. The admiral and his officials conducted diplomatic and trading activities with thirty-seven countries and regions along the Indian Ocean rim up to Hormuz in the Persian Gulf. Zhang He is also believed to having contacted the Nair ruler of Calicut on behalf of the Ming emperor, and left behind a stone inscription.

Even the British were to try and exploit these historical trade routes though Industrial Revolution had since changed the equations of States that once thrived on Silk Route network. For example, after annexing Assam, and getting British ally Gambhir Singh installed as the king of Manipur; in the wake of the Burmese withdrawal from Assam and Manipur under the Treaty of Yandabo of 1826, the East India Company was to start exploring different alternative routes to Yunnan, the South-West province of China bordering Tibet and Burma.²¹ At that time the East India Company

²¹ Gurudas Das and R.K. Purkayastha, *Border Trade: North-east India and Neighbouring Countries*, (New Delhi: Akansha Publishing House, 2000), p. 14.

enjoyed the monopoly of British trade in China and their main trade with China was that of opium. Even as in 1800 China prohibited imports of opium in any form into China, the foreign traders clandestinely smuggled opium into China by bribing Chinese officials because this was very profitable trade for East India Company.

The disputes over trade in opium in China were to ultimately result in the waging of opium war of 1840-42. Under the treaty of Nanking of 1842, China agreed to open five ports – Canton, Shanghai, Amoy, Ningpo and Fooshow – for foreign trade which was virtually opium trade. Following China's defeat in the second China War of 1858 in the hands of British more ports were opened for trade. This was to open an entirely new (and totally negative) phase of China's trade with India i.e. British India. This opium trade and opium were not only to become symbols of China's anti-colonial sentiment but also greatly undermine the long-standing positive China-Indian equations since ancient times.

Colonial Interface

As first thing, the onslaught of European colonial expansion into Asia was to completely transform the larger framework of Asia's economic relations' profile. These new imperialist patterns were to result in completely isolating their respective colonies and spheres of influence from any mutual commercial intercourse to the point where intra-regional trade in Asia was to become virtually non-existent under colonialism except for few cases where it was geared to serve colonial powers. The only trade now was between the natives and their cosmopolitan masters in Europe and in this the importance of India's "country trade" for imperial Britain remains far too well-documented.²²

Similarly, European literature on China's mystic attraction and expeditions also remains equally exhaustive. All this helps us

²² See for example, M. Greenberg, *British Trade and the Opening of China 1800-12*, (Cambridge: Cambridge University Press, 1951), pp. 1-12, 105-06.

in plotting trends in Britain's trade with China through India which was to result in the revival of China-India trade during the colonial period.

Till about 1750s, China-India trade had survived substantially in its pre-colonial mode of mutual benefit. The exports from India to China included raw cotton, sandalwood, and olibanum, while China's chief exports were sugar, sugar candy, china-root, tutenague, alum and tea. The private Indian trade had not yet begun to supply counterbalancing bulk products like opium and cotton as yet. Accordingly, the trade at this time was in China's favour and the difference between imports and exports had to be met by silver balances.²³ The same was also true of China's trade with Europe. As a result, the British East India Company (EIC) was experiencing double trouble in finding silver to finance the huge demand for Chinese goods in India and Europe. And this was beginning to create serious problems of one-sided purchase and was to force EIC to take some drastic measures.²⁴

As for the British Indian trade – which had been partly encouraged by the British East India Company – this had also to deal with British fears of European competitors as also compete with Englishmen operating as natives. Amongst others, this unequal trade with China and increasing competition from European states was to make Great Britain use its local colonies like India to capture the Chinese market. That is how China-India trade relations were

²³ Earl H. Pritchard, *Anglo-Chinese Relations During the Seventeenth and Eighteenth Centuries*, (New York: Octagon Books, 1970), p. 125

²⁴ Much of the European companies have been carting silver to China for decades as there was nothing that Chinese bought from European countries and almost all the bullion of European companies including EIC was Spanish-American in origin. But Spanish American revolts from 1811 resulted in 15 years of unrest dramatically reducing the supply of silver forcing European companies to withdraw from Chinese market. At that time EIC found a solution in opium from Indian which lured Chinese into accepting it and saw this trade flourish even when Chinese had declared illegal towards end of 18th century. For details see Zhuang Guo-tu, *Tea, Silver, Opium and War: The International Tea Trade and Western Commercial Expansion into China in 1740-1840*, (Xiamen: Xiamen University Press, 1993), p. 131.

partially able to survive during colonialism and this continued to include their traditional items of transaction as the colonial forces introduced new styles and commodities into their bilateral transactions. India's exports to China, for example, still included raw materials for Chinese medicinal preparations like cinnamon bark, clove, patchouli, baka-wood, asafetida, rhinoceros horn, myrrh and cow bezoar though these also now included small quantities of food and drink, dyeing and tanning materials, yarn jute and cotton fabrics.²⁵

It would be though naïve to blame it all on the colonialism. Even the Chinese scholars believe that the Chinese had been a typical autarkic society for a long time before it was forced to open up to the outside world at the end of the First Opium War (1840-42).²⁶

Therefore, from one perspective, China's colonial interface was also to have several positive outcomes and was to transform China by laying foundations of new trends towards the final destruction of feudalism. Secondly, this was also to result in foreign capital and technology flowing in gradually into China, followed by the penetration of Western culture, representing the first signals for the beginning of Chinese industrialization. Unfortunately, because of the long civil wars as well as Japanese invasion, Chinese economic reforms were still not to progress

²⁵ O. P. Jain, *Regional Cooperation for Trade in Asia*, (New Delhi: Commercial Publications Bureau, 1973), p. 124.

²⁶ Zheng Peiquan, *jiangming xiandai zhongguo jinji shi* (A Concise Modern History of Chinese Economy), (Beijing: Beijing Normal University Press, 1993), pp. 30-31. He explains how China's *haijin* (close-door) policy before that was based on (a) no exports of cereals and five metals (gold, silver, copper, iron, and tin); (b) private trade and contacts between Chinese and foreign businessmen being illegal; (c) foreigners' activities in China were regulated under conditions like (i) at most ten foreigners may take a walk together near their hotel three days a month i.e. on 8th, 18th and 28th, (ii) overseas businessmen were not allowed to stay in Guangdong during winter and (iii) women from foreign countries were prohibited from entering China, and so on; (d), Chinese businessmen going abroad had similar conditions like (i) at most one litre of rice may be carried by a seaman a day, (ii) at most two guns may be installed in a ship; and (e) manufacture of sea-going vessels of more than 500 tons in weight and 8 meters in height was prohibited.

well.²⁷ If anything, it was Opium trade that was to become the epitome of China-India trade during the colonial period.

The Opium Trade

Opium was brought to China by British to offset the flow of silver which British merchants of EIC had to pay for high demand of Chinese tea, silk and porcelain in Europe and British India. Until the onslaught of opium trade, China had sought little in the way of Western imports. But once begun, the opium trade grew exponentially and soon reversed the silver flow in favour of Great Britain. This threat of losing silver plus the obvious perils of the drug to the nation's health, as well as growing demand to curtail the official corruption – which had allowed the opium trade to flourish – led the Emperor Tao-Kuang in 1839 to attempt the suppression of the opium trade.²⁸ This was to result in two “opium wars” in 1839-42 and 1856-60.

As a price for her defeat in Opium wars, China was forced to accept a ‘treaty system’ as a substitute for the tribute system, on which traditional China-India trade and commerce had been based so far.²⁹ In this critical era of one-sided transactions, the opium trade was to provide unique opportunities for the British to tilt the balance in their favour by using India and its merchants and by promoting the unique trade of opium between these two Asian giants.

For Indian shipping merchants, however, this was to provide them with unique opportunities to make substantial profits though this was to leave a permanent scar on the future of China-India

²⁷ Rongxing Guo, *How the Chinese Economy Works*, (London: Macmillan, 1999), p .129.

²⁸ Gene T. Hsiao, *The Foreign Trade of China: Policy, Law, and Practice*, (Berkeley: University of California Press, 1977), p. 3.

²⁹ Immanuel C.Y. Hsu, *The Rise of Modern China*, (New York: Oxford University Press, 1970), pp.183-241, 253-269; John Fairbank (ed.), *The Chinese World Order*, (Cambridge, Mass: Harvard University Press, 1970), pp. 257-275.

relations. By 1833-34, for example, Indian merchants' trade with China was not only becoming one-sided (in favour of British India) but now it accounted for over half of the British Indian trade at \$ 24 million compared to the total East Indian Company's China trade of \$ 44.3 million for that year.³⁰ For a change, imports from China were to become so much less resulting in transfer of silver from China to British and British Indian merchants. (See **Table 1.1**)

Table 2.1: British India's Trade with China 1829-1838
(in million rupees)

Year	Exports to China	Imports from China
1829	30	8
1830	29	8
1831	40	5
1832	34	5
1833	47	5
1834	37	6
1835	56	5
1836	67	5
1837	45	4
1838	45	5

Source: Dietmar Rothermund, *An Economic History of India: From Pre-Colonial Times to 1986*, (New Delhi: Manohar, 1988), p. 25.

It was in this context that, having made its share of profits, East India Company was to let its monopoly on its China trade lapse in 1834 and gradually encourage Indian companies to take over. The EIC had several reasons to do so when it came especially to its thriving opium trade with China.³¹ *Firstly*, it saved

³⁰ A. J. Sargent, *Anglo-Chinese Commerce and Diplomacy*, (San Francisco: Chinese Materials Center Inc., 1975), p. 41.

³¹ Asiya Siddiqi, "The Business World of Jamsetjee Jejeebhoy", in Asiya Siddiqi (ed.), *Trade and Finance in Colonial India 1750-1860*, (Delhi: Oxford University Press, 1995), pp. 193, 202; also S. Ambirajan, *Classical Political Economy and British Policy in India*, (Cambridge: Cambridge University Press, 1978), p. 41-42.

Britain from the political embarrassments of directly participating in a trade that was illegal in China. *Secondly*, effortlessly for the EIC, this was to facilitate channeling of Indian financial resources into this trade. And *thirdly*, it placed the burden of huge price fluctuations and other exchange difficulties on to the shoulders of the Indian merchants and the EIC ran this business on “purely commission business” with income yet no responsibilities. In fact, in 1839, the cargoes of opium that surrendered to the Chinese belonged mainly to Indian merchants of Bombay, who were only partially compensated several years later.³²

Beginning from here, the onslaught of opium and cotton in coming years was to completely tilt the picture in favour of Indian shipping merchants trading with China. Though statistics for opium remain shrouded in secrecy and controversies, the figures for cotton remain equally startling yet both available as also reliable. Beginning from 1884, Indian yarn was beginning to attract Chinese merchants in Shanghai and was soon to begin competing with European and non-EIC British traders selling cotton in China. In 1889, England was credited with 50,000 piculs while India with 628,000 but, by 1892, while England declined to 49,000 piculs, India was to rise to 1,254,000 and Indian handlooms were now beginning to cloth millions of Chinese.³³ But things were to change once again with the coming of Great Depression. Within a space of five years after 1928-29 the value of India's foreign trade was very nearly halved and recovery thereafter was sluggish and restricted.

³² D. E. Owen, *British Opium Policy in China and India*, (New Haven, 1934), p. 191, fn.41.

³³ A. J. Sargent, *Anglo-Chinese Commerce and Diplomacy*, (San Francisco: Chinese Materials Center Inc., 1975), p. 259. In 1989, Japanese Consul at Amoy records how Indian yarn has led to Chinese learning to weave cotton clothes and Foochow prefecture (of China) alone having more than ten thousand looms. See W. E. Willmott, *Economic Organisation in Chinese Society*, (California: Stanford University Press, 1972), p. 152.

The Great Depression Period

This rising foreign trade between China and India also had its inbuilt strengths and pitfalls. For instance, the impact of World War I and Great Depression on India was to be far more severe compared to previous ‘Great Depression’ of 1873-96. Though the last Depression had witnessed a sustained fall in world agricultural prices yet, India’s internal economy had been relatively insulated and unaffected.³⁴

The only marked decline had happened in the crop prices and even that came only temporarily in the 1870s and there was never any serious loss of foreign trade values for kingdoms in the Indian subcontinent. Partly, internal prices held up because the impact of this first depression period was counter-balanced by the inflationary effects within India of the steady devaluation of the rupee between the 1870 and the 1890s. Besides, inter-war Great Depression of 1929-30 was far more violent and Indian economy also by now far more integrated into international trade and commerce. This was to greatly affect China-India trade during their pre-liberation years. In fact Indian merchants’ role in British India’s opium trade with China was to become particularly notorious and influence their post-liberation equations.

At the same time, however, this colonial interface had also generated several positive trends in China-India economic interactions. As regards China, firstly, its imperial interface was not limited to European imperialism or to Opium wars. In addition, the Japanese militarism was another major factor in Chinese evolution during this period. The Shimonoseki Treaty of 1895 concluding the first Sino-Japanese war had forced Imperial China to initiate economic reforms and open doors to foreign investments. Even though the *Qing* Empire collapsed in 1908 the rapid expansion

³⁴ Neil Charlesworth, “The Peasant and the Depression: The Case of the Bombay Presidency, India”, in Ian Brown (ed.), *The Economies of Africa and Asia in the Inter-war Depression*, (New York: Routledge, 1989), p. 59.

of city-port trade and investment continued the development of urban networks along the coast and up the Yangtze River, as far inland as Chungking.³⁵

Amongst its positive outcomes, the Chinese economy was to show a moderate spurt and commercialization of agriculture immediately before Great Depression. Nevertheless, even following this integration with international economy China's foreign trade was now about 5 per cent of its GDP. As a result, China simply did not experience any national depression (e.g. no massive unemployment) as the world depression deepened. China's evolving new urban sector continued to grow during the inter-war period though these had briefly declined around early 1930s because of Nanking government imposing higher (war) tariffs and later for dislocating impact of the Japanese take over of Manchuria yet China's domestic trade continued to grow and its foreign trade found new routes.³⁶

As regards India, this interface with Great Depression under the colonial subjugation era was to witness further strengthening of trends in Indian mercantilism. Especially, India's banking that lay at the roots of India's free-market economy and which can be traced back to *Mughal* India of 16th and 17th centuries was to benefit largely from the colonial interface.³⁷ By introducing British patronage to systems like banking and by adding on to them new technologies of transport and communications like Railways,

³⁵ Ramon H. Myers, "The World Depression and the Chinese Economy 1930-6", in Ian Brown (ed.), *The Economies of Africa and Asia in the Inter-war Depression*, (New York: Routledge, 1989), p. 253.

³⁶ Ramon H. Myers, "The World Depression and the Chinese Economy 1930-6", in Ian Brown (ed.), *The Economies of Africa and Asia in the Inter-war Depression*, (New York: Routledge, 1989), p. 274.

³⁷ Irfan Habib, *Essays in Indian History*, (New Delhi: Tulika, 1995), especially chapter on "Potentialities of capitalistic development in the economy of Mughal India". China also had its own well developed banking systems as well. See Lien-sheng Yang, *Money and Credit in China: A Short History*, (Cambridge, Mass. : Harvard University Press, 1952), pp. 88-89.

British imperialism had only further strengthened India's free market systems.³⁸

At the same time, colonial interface was also to show its negative impact during this inter-war period of Great Depression. For example, two World Wars were to lead to serious dislocation of shipping, shortage and later loss of China's coastal areas to Japanese. As for China-India trade and commerce, this was to result in significant decline in these years preceding their respective national liberation. Moreover, following this China's founding of its People's Republic in 1949, continued internal upheavals in its initial post-liberation decades were to lead to further downward plunge in China's overall foreign economic relations as also in China-India trade.

Later, New China was to sever all its economic ties with much of the capitalist world as a matter of ideology and get embroiled into Korean War and suffer Sino-Soviet split while internally China was to experience disastrous failures in its gigantic social engineering under its Great Leap Forward and Cultural Revolution experiments. All these were to inflict economic chaos on China and by extension on China-India economic engagement during 1930s and 1940s.

Post-Liberation Policies

Given India's strong democratic traditions and their refinement under the British, independent India was to prevent any consolidation of monopolies and geographical concentration of development assets thereby focusing on free and fair distributions as also developing inter-connection amongst various regions. In doing this India was supported by its strong private sector which held near monopolies in infrastructural sectors like railways, ports, air transport, banking, finance and insurance and controlled about

³⁸ Amiya Kumar Bagchi, "Transition from Indian to British systems of money and banking, 1800-1850," *Modern Asian Studies*, Vol. 19, no. 3, pp. 501-19.

half of India's international trade.³⁹ Private sector also had major control in steel, non-ferrous metals, heavy engineering, chemicals and pharmaceuticals and also, unlike China, agriculture sector in India had always been in private hands. In some ways, all this was exactly what New China sought to denounce, demolish and discard.

As the newly liberated nation the PRC was founded on 1st October 1949, China's currently prosperous eastern belt was to continue stagnating in view of Japanese onslaughts from 1930s, the Civil War and World War II in 1940s, and their sufferings were only to increase given New China's indulgence in Korean War and the Taiwan Strait crisis during much of 1950s. By comparison, China's North and part of its Western region were to benefit from China's close ties with Moscow. Also, given their ideological orientation, New China's foreign trade was kept low only to supplement the gap between domestic supply and demand and, following the Sino-Soviet split from early 1960s, China's rulers emphasized on policies of 'self-reliance' and 'independence' as their most favoured technique. All this was not good for New China's foreign economic relations.

Some of this political isolation of 1960s had also been caused by the fact that Taiwan had been representing China before 15 October 1971 when the UN seat was finally switched from Taiwan to mainland China according to UN resolution No. 2758 reversing international position of China and Taiwan.

To briefly recount the policies, practices and progress of China-India during these difficult decades of 1950s and 1960s, the foodgrains annual growth rate for 1950s had been 4.3 per cent for China and it was much lower at 2.7 per cent for India. However, during 1960s while India's food grain output grew to 3.2 per cent the devastating impact of the Cultural Revolution was to result in

³⁹ Prem Shankar Jha, *The Perilous Road to the Market: The Political Economy of Reforms in Russia, India and China*, (New Delhi: Rupa & Co, 2002), p. 165.

this sliding to 1.4 per cent for China.⁴⁰ The same was also largely true of non-foodgrain crops and value-added agro-products. At this juncture, while Indian agriculture was moving rapidly towards its 'Green Revolution' the agriculture sector in China was facing serious difficulties.

Similarly, the rate of growth in industrial production had been about 7 per cent for both China and India during their first decade but it fell during the second decade to 6.7 per cent for China and 6.1 per cent for India. The rates of growth of net domestic product were also quite similar in China and India during 1952-65 (3.6 per cent for India and 3.0 per cent for China). However, if the period is extended to 1970, they are significantly different (3.7 per cent for India and 2.3 per cent for China) which again shows China in poor light compared to India. The broad conclusion that experts reach is that (a) the growth rate of the Chinese and Indian economies had been about the same over the period 1952-65, and (b) there had been a significant deceleration in growth rates in China, especially during 1952-65, and a significant acceleration in India during that time.⁴¹

However, the picture was to begin changing from late 1970s. China's foreign trade policy nevertheless, had always been integral to its strategy to deal with the economic and political realities of the world i.e. to improve foreign relations through the expansion of trade and to promote trade through the conduct of diplomacy and the record of China's foreign relations and trade patterns during this period clearly reveals a process of interaction between these two elements.⁴²

In its first decade, for example, the PRC had established diplomatic relations with 34 states, only 12 of which were communist

⁴⁰ Subramanian Swamy, *Economic Growth in China and India 1952-1970: A Comparative Appraisal*, (Chicago, US: The University of Chicago, 1973), p. 81.

⁴¹ Subramanian Swamy, *Economic Growth in China and India 1952-1970: A Comparative Appraisal*, (Chicago, US: The University of Chicago, 1973), p. 82.

⁴² Gene T. Hsiao, *The Foreign Trade of China: Policy, Law, and Practice*, (Berkeley: University of California Press, 1977), p. 27.

states. It extended trade relations from fewer than 15 countries and regions in 1950 to 93 in 1959. In the 1960s, China was to exchange diplomatic missions with 18 additional states while extending trade relations to include 125 countries and regions.⁴³ From the later half of 1960s, the Cultural Revolution was to hold back further expansion in its foreign relations; but following its *rapprochement* with the US from 1971, China was to win diplomatic recognition from 56 more states, bringing the total to 107 states by 1975. At the same time China's trade partners had increased to a record high of more than 150 countries and regions and become more active as well. Such a blending of trade and politics had not been contemplated by India's first generation leaders.

Post-Liberation Economic Engagement

Much more than their Indian counterparts – who never had much difficulty in connecting with the outside world – the New China's leaders were to emphasize on the intimate link between international trade and diplomacy right from the very beginning. Commenting on the Soviet trade with belligerents on the both sides during the World War II, Chairman Mao was to say, "...even if one or several countries adopt an anti-Soviet attitude, the Soviet Union will not break off trade relations with them so long as they, like Germany before August 23 [1939], are willing to maintain diplomatic relations and conclude trade treaties with it and do not declare war on it."⁴⁴

However, at the domestic level, China's leaders were not convinced on the validity of this principle of co-existence with commercialism and private property. It was not until late 1970s that they were to even contemplate such a change in China. In contrast to China, India had inherited much of its free market

⁴³ Lin Hai-yun, "China's Growing Foreign Trade", *Peking Review* (Beijing), no. 1 (1965), p. 22.

⁴⁴ Mao Tse-tung, "The Identity of Interests Between the Soviet Union and All Mankind", *Mao Tse-tung hsuan-chi* (Mao Zedong Selected Works) (Beijing, 1966), p. 583.

institutions from the British and was to stay with them through 1960s and it was only from the early 1970s that India was to witness some tilt towards socialist pattern of society only to be followed by a quick return to free-market from the mid-1980s. India had also inherited a vibrant class of entrepreneurs not only in big industrial houses but millions of mid-level and small entrepreneurs that was to create a strong backbone of small and cottage free-market private enterprises. This had been completely demolished by the Chinese first generation leaders.

New China was to begin by establishing state monopoly on all trade both domestic and outside. At the time of its liberation in 1949, in face of its devastation in the long-drawn civil war as also the Japanese onslaught and World War II, *Guomintang* China still had state control only over 61 per cent of its trade. This was to rise to 99.2 per cent in 1955 and then to 100 per cent in 1956 with all private firms being fully converted into state or joint private-public enterprises.⁴⁵

As for India, like Chairman Mao, Nehru for one had a clear understanding on the inextricable links between the political and economic processes except that he remained focused primarily on its domestic dimensions and did not fully transmute this perception to India's foreign policy operations.⁴⁶

During the first decade of its independence, India's economic diplomacy was focused primarily on obtaining assistance for its economic development from North America (while UK was already closely knitted) even when India continued to refuse to join them in their political and military alliances of the Cold War security architecture. Between 1954 and 1956, Nehru was sufficiently

⁴⁵ T. J. Hughes and D. E. Luard, *The Economic Development of Communist China*, (London: Oxford University Press, 1961), p. 29; Feng-hwa Mah, *The Foreign Trade of Mainland China*, (New York: Aldine, 1971), p. 37.

⁴⁶ J. N. Dixit, *Across Borders: Fifty Years of India's Foreign Policy*, (New Delhi: Picus Books, 1998), pp. 301-302.

disillusioned with the reticence of these industrially advanced Western nations to turn to the Soviet Union for technological and financial assistance. This was to make the West cautious as also attracted towards India and this was to get them increasingly involved in India's economic development projects. By early 1970s, there existed a rough equilibrium in India's economic relations with both East and West.

In terms of India's institutional arrangements – which Jawaharlal Nehru put in place as India's first Prime Minister – these were such that the Indian Ministry of External Affairs had very little to do with economic diplomacy. Economic aspects of India's foreign relations were primarily dealt with by ministries dealing with specific aspects of economic work. For instance, the Ministry of Finance, along with its Department of Economic Affairs, the Ministry of Commerce and the Ministry of Industry were expected to handle India's foreign economic relations throughout Nehru's tenure as Prime Minister and Foreign Minister. This, more or less, continued to be the practice during Mrs. Indira Gandhi's tenure as Prime Minister.

Conversely, these other ministries were often of the view that Ministry of External Affairs perhaps had been given too much control when it came to India's foreign economic relations. Economic diplomacy in this divided house, though not completely ignored yet, for long time, remained compartmentalized.⁴⁷ But it is not as if politics had no link with India's economic relations. Even

⁴⁷ There was no separate bureau or division to deal with economic subjects in the Indian Ministry of Foreign Affairs till the mid-1970s. India's economic relations with China were not of great substance during the first decade after independence. The Ministry of External Affairs not getting involved in economic diplomacy was also a functional and psychological attitude inherited from the colonial past, i.e. from the "foreign and political department" of the British Indian Government, which was precursor of the Ministry of External Affairs and from the British Foreign Office on which the Indian Foreign Office had been patterned. It was only in 1990s that MFA finally had a Secretary heading four divisions dealing with economic matters but the turf better continues. After 1991, the process of opening up has also been diluted by this turf war amongst various departments. For details see J. N. Dixit, *Across Borders: Fifty Years of India's Foreign Policy*, (New Delhi: Picus Books, 1998), pp. 303-307.

when trade was not seen as primary instrument of engaging inter-state relations, political bonhomie did show a positive impact in facilitating inter-state economic engagement. For instance, despite aforesaid bureaucratic hiccups, there was tremendous political enthusiasm that guided India's foreign economic relations during this initial period. In case of China-India ties, their economic intercourse both reflected and strengthened their political bonhomie of early 1950s. (See **Table 2.2**)

Nevertheless, in the larger picture of China's foreign trade, even at its peak of early 1950s – say in 1952, when China's total foreign trade was \$ 1,929 million – its trade with India stood only at \$ 40 million which was the highest share of India for that period of China-India brotherhood.⁴⁸ Even then, therefore, India was never seen as the most important commercial partner by New China. It was in this backdrop that the two sides had signed their famous trade agreement in April 1954 incorporating (now-famous) Five Principles of Peaceful Coexistence.

From the Chinese side, this was primarily a political agreement creating a framework for China's political (and economic) relations with Asian countries and, it is in the spirit of these principles that China was to play a leading role in the 1955 Asian-African Conference in Bandung (Indonesia), which was to facilitate its economic integration with the developing nations and promote its leadership of the Third World. It was in this critical period of virtual isolation when, by 1954, only 24 countries (mostly small ones) recognised Beijing that its *Panchsheel* agreement and close ties with India was to provide China that critical launching pad to project itself as a model for Asia's inter-state trade relations.

⁴⁸ No doubt, even today despite their trade boom during recent years', share of China's trade with India as part of China's total foreign trade has remained less than half (less than 1 per cent) of what it had been during early 1950s, when relationship was entirely driven by political equations. It is only recently that trade has begun to show its impact on their mutual policy making process.

Table 2.2: China-India trade Agreements during early 1950s

Date of Signing	China's Imports	China's Exports	Nature of Agreement/other data
Jan 3, 1951	Burlap bags 16,500 bales	Rice 50,000 tons	First rice barter. Five shipments made between Feb-April 1951
April 25, 1951	NA	Rice 50,000 tons	Second Rice barter
May 22, 1951	NA	Rice 400,000 tons	Third Rice barter
Dec 13, 1952	NA	Rice 50,000 tons	Fifth Rice barter
April 29, 1954	NA	NA	Trade Intercourse with Tibet
July 2, 1954	Tobacco	NA	—
Oct 14, 1954	Rice, uncured Ores and metals, Vegetable oils, Chemicals, Pharmaceuticals, Electrical supplies, Scientific machinery etc.	Rice, soyabeans, Tobacco, bean, pneumatic machinery, cotton spindles, medical equipment, antimony silk fabrics, glassware, films, wool, leather, paper, wood oil, canned food etc	Sino-Indian Overall machine tools, agreement pending individual contracts
Oct 19, 1954	Tobacco	Raw Silk 90 tons 9 million pounds	Individual contracts
Dec 15, 1954	NA	Silk	Contracts signed under Oct 19, 1954 agreement

Source: Yuan-li Wu, *An Economic Survey of Communist China* (London: Constable and Company, 1956), p. 478-79.

This *Panchsheel* treaty of April 1954, for example, had provisions for certain diplomatic immunity for Chinese ‘trade agencies’ visiting or operating in India. This also provided the trade agents of both parties with freedom from arrest while exercising their functions and with the right to enjoy freedom from search in respect to themselves, their wives, and dependent

children.⁴⁹ The agreement also provided the trade agencies of both parties with privileges and immunities for couriers, mail bags, and communications in code. The trade agents of both parties, in accordance with the laws and regulations of the local governments, had access to their nationals involved in civil or criminal cases.

Chinese trade agencies were established in New Delhi, Calcutta, and Kalimpong, whereas the Indian representation was confined to Yatung, Gyantse, and Gartok in accordance, of course, with the titular limitations in keeping with the nature of the Agreement for trade with China's Tibet Autonomous Region. But beginning from late 1950s, several political events were to derail their relations – leading to a border war during October-November 1962 – and this was to put an end to their economic intercourse let alone their using trade and commerce to resolve their political problems.

This post China-India War part of the story has been researched and commented extensively and has little relevance to this volume's objectives except that this problematic period of 1960s sure delayed India-China maturing their economic engagement which may have facilitated their resurgence earlier than when it finally occurred from early 1970s. Secondly, this may have also helped in being less skeptical about each other and facing less hurdles in resolving their political equations which were to get more typecast given the larger trends of East-West divide as also other regional equations. In some ways, though, this was also to offer China and India opportunity to re-think and to build their *rapprochement* on far more stronger foundations of national interest as outlined in their principles of mutual accommodation and mutual benefit.

⁴⁹ Gene T. Hsiao, *The Foreign Trade of China: Policy, Law, and Practice*, (Berkeley: University of California Press, 1977), p. 116.

Conclusion

To conclude, therefore, historical traditions and legacies of China-India trade and commerce continue to have strong impact on their contemporary mindset both in their operative interface as also on their perceptions and policies. No doubt, much beyond being a cliché, the fact that both China and India represent ancient civilizations does have both positive and negative implications but it does provide them with a unique capacity to view each of these in long term perspective which remains a pillar of strength in their contemporary visions that guide their vision an mutual initiatives. Accordingly, proper appreciation of their historical legacies only further reveals several new explanations to their contemporary concerns and biases as also offers new policy options that provide their new initiatives with far greater validity and potential to cement their economic and strategic partnership in the coming times.

In particular, the China-India colonial legacies – which remain the most critical negative influence in China-India ties – have also been used occasionally as a pretext to divert their domestic opposition or even their mutual misdemeanor and to facilitate bonding together of their national elite. Starting from their not-so-strong contacts during their national liberation struggle, both sides have often played up the positive side of their ancient past and their anti-colonial ethos and this remains reflected in their contemporary conceptualizations of their new economic models for strengthening their ties. This also helps in appreciating the nuances and limitations of their contemporary policy initiatives. But sure, both sides have tried to move beyond these limitations of their historical legacies and to evolve a futuristic vision for building a stronger economic engagement which has gradually come to occupy the very center stage of their mutual equations and initiatives.

Chapter III

BILATERAL TRADE

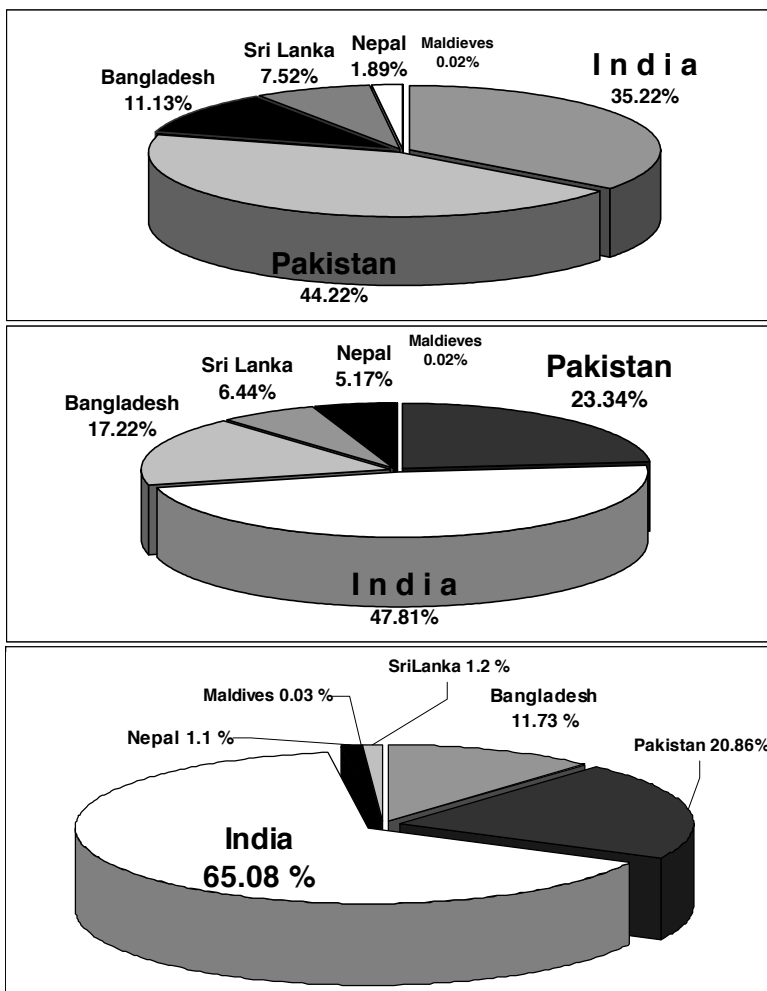
Nothing perhaps compares to the China-India bilateral trade when it comes to evaluating the nature and significance of their post-1962 *rapprochement*. Starting from an extremely slow and intermittent pace with an annual turn over of only a few millions of dollars and then staying on the margins of their largely limited and primarily political interactions for much of the 1980s, their bilateral trade has gradually come to occupy the center-stage of China-India economic engagement. Especially since early 1990s, their bilateral trade had come to be the most visible part of their growing interactions and in their post-nuclear equations since 1998, it has come to be recognized as the backbone of China-India confidence building measures (CBMs) which is expected to create the necessary atmospherics and critical mutual trust to tackle their long-standing political problems.

To look back, it is their historical and colonial legacies and their more recent experiments with economic reforms that have been two most fundamental strands determining the nature of their mutual policies and perceptions with regard to their economic engagement. The pace of this engagement has been particularly shaped by their opening up and economic reforms and their consequent search for new opportunities and new partners where both India and China have tried to evolve holistic policies integrating trade to their political and diplomatic initiatives. But so far, their complicated politico-strategic equations have continued to slow down their rising enthusiasm in building strong economic engagement.

To cite some example of China's using trade as its diplomatic tool, China's trade boom with other problematic neighbouring countries like Japan and South Korea, have gone up respectively from \$ 16.8 billion and \$ 0.7 billion for 1990 to a whopping \$ 99.6 billion and 36.2 billion for 2002, making them

each other's most valued partners.¹ For the same period by comparison, share of China's trade with India grew only from \$ 0.2 billion for 1990 to \$ 5 billion for 2002, though it has increased much faster since then reaching \$ 7.6 billion for 2003 and \$ 13 billion for 2004.

Chart 3.1 : China-South Asia Trade 1993, 1999 and 2003



¹ *Key Indicators 2003: Education for Global Participation*, (Asian Development Bank, Manila, 2003), p. 160.

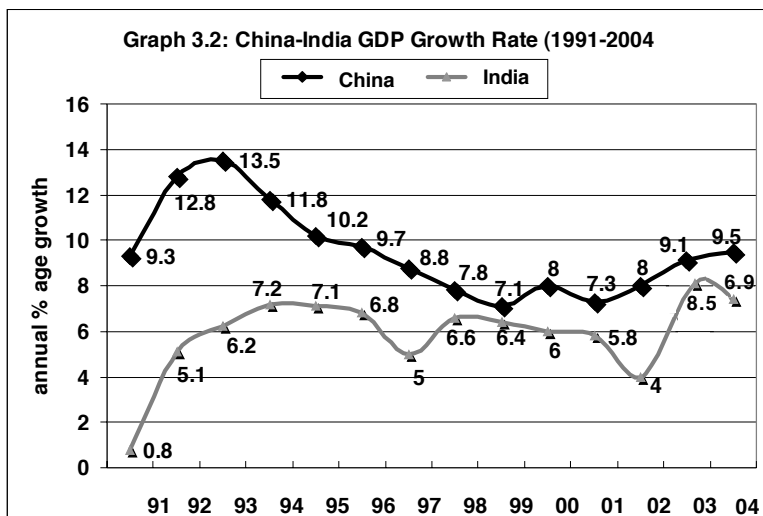
This slow growth of China-India trade may have some explanation for this lack of enthusiasm in China when it comes to South Asia. China-India trade, however, seem to be doing exceedingly well yet this does not present best example of China's expanding trade relations and lot remains to be desired in China-India economic relationship. But some progress has been made and this must also be highlighted. Beginning from early 1990s, while China's trade with India and Bangladesh have witnessed impressive increase, China's trade with all other five South Asian countries has actually declined as their percentage share within South Asia's trade with China. (See pie chart 3.1) Besides, in South Asia, China's trade with India remains the only one most balanced which augurs well for its continued growth in coming times. Besides, these two also represent two largest and fastest growing economies and their physical proximity makes their engagement inevitable.

Comparing Their Fundamentals

The most critical feature of China-India trade remains its much debated mutually competitive or complementary nature of their trade and commerce. Prime facie, in the context of China's economic engagement with South Asia, while China continues to enjoy huge trade balance vis-à-vis most other smaller states of South Asian region, it is only the China-India trade that has remained to be China's most balanced trade in South Asia thus reflecting strong fundamentals that promise continued rapid pace in mutual cooperation. Economic reforms have created stronger factors in both economies which both require as also ensure stable economic interactions as also new dynamism in their trade relations. While China had already crossed the proverbial hump of double-digit growth rates during the early 1990s and since stabilized at more credible growth rates around 7 to 8 per cent per annum, India's have also been intermittently rising between 6 to 7 per cent. For India, this is far above compared to what was once known as India's *Hindu* rate of growth of about 3 per cent

and this similar high rate of growth today brings China and India closer together to evolve similar strategies for development and portends greater cooperation. (See Chart 3. 2)

Graph 3.2 : Trends in China-India GDP Growth Rates



Similarly, FDI has been another indicator of rapid growth creating newer avenues for China-India trade and commerce. China's FDI had peaked at \$ 60 billion for year 1993 which had seen China's GDP growth rate shooting up to 13 plus per cent per annum unleashing debates about 'over-heating' of China's economic engine which carried threats of bubble-busting with its disastrous consequences for the Chinese nation. By comparison, India's FDI had been sluggish and, for the early 1990s India's contracted FDI stood at \$ 0.15 billion for 1991, \$ 0.23 billion for 1992, \$ 0.57 billion for 1993, \$ 0.95 billion for 1994, and \$1.96 billion for 1995.² By comparison, this period was to witness steep rise in China's FDI which had moved from \$ 2.7 billion for 1984

² Charles R. Chittle and Kyoo H. Kim, "Foreign direct investment in China and India: The economic environment", Sam Dzever and Jacques Jaussaud (eds), *China and India Economic Performance and Business Strategies of Firms in the Mid-1990s*, (London: Macmillan Press, 1999), p. 6.

to \$ 64 billion by 1997.³ Recent years have seen it rise again to \$ 3.4 billion for 2002 and to \$ 4.3 billion for 2003.⁴

For year 2004, India's FDI was estimated to having crossed a rather impressive figure of \$ 8 billion. And, given this new enthusiasm of the United Progressive Alliance, the government has been talking of absorbing an FDI of \$ 15 billion for 2005 and \$ 30 billion for 2007 and reach to \$150 billion of fresh FDI in next ten years.⁵ But that, of course, remains matter of projections. As of past, China's FDI trends to be too high to be even comparable to India and it has since stabilized between \$ 50 to 60 billion per annum. In recent years this has been \$ 46 billion for 2001, \$ 51.7 billion for 2002, \$ 53.5 billion for 2003 and was expected to be \$ 60 billion for 2004.

Their differences do not end at this stark gap between statistics on FDI in China and India. More than this, the gap between India's total contracted and realized FDI was also seen as wide and still growing and this remains another cause for concern. But China's startling FDI statistics have distracted serious debate on these issues. Apart from occasional reference to India's internal bureaucratic hiccups the debate in India remains focused simply on highlighting China's advantages over India.

It is argued that China had decided to open up to FDI in 1979 by creating SEZs in coastal cities, that China's coastal cities had clear advantage of geographical proximity to Hong Kong – hub of external capital investment in Asia – and that China had advantage of its political system which was partly responsible for

³ Jun Ma, *The Chinese Economy in the 1990s*, (London: Macmillan, 2000), p. 121.

⁴ "India is among top four FDI destinations", *The Hindu* (New Delhi), 23rd September 2004, p. 18.

⁵ "Govt plans mainframe to attract \$150bn infrastructure investment", *The Economic Times* (New Delhi), 20 October 2004, p. 1; also "Govt. keen to attract \$150bn FDI", (Business), 19 October 2004 available at <http://inhome.rediff.com/money/2004/oct/19fdi.htm>

China's cheap labour and other such special incentives for foreign investors in China.⁶

Another important refrain in this debate has been about Overseas Chinese (OCs) contribution. Non-Resident Indians (NRIs) and OCs have been distinct categories in FDI inflows into their respective homelands. Beginning only from early 1990s, while NRIs do contribute very little to India's FDI inflows, OCs are known to present a unique example by contributing over two-thirds of the whopping inflows of FDI into China.⁷

But to look at the track-record of success of India's bold initiatives since 1991 both foreign trade and FDI were to grow only snail pace something that resembled China's case of 1980s. Though for different reasons, yet like China, India's foreign trade actually showed a negative growth during 1991-92 and since moved really slowly with imports always exceeding exports.⁸ India's FDI was also to grow at snail pace from being \$ 97 million for 1990-91 to \$ 3.1 billion for 2002-03.⁹ And, provisional calculations put it as \$ 4.1 billion for 2003-04 and project it to cross \$ 8 billion for 2004-05. Thus, despite recent years witnessing a general global decline in FDI, India has registered a steady increase in its FDI inflows.

According to the UNTAD annual report titled *The World Investments 2004*, India has clocked an FDI of \$ 4.3 billion for

⁶ Charles R. Chittle and Kyoo H. Kim, "Foreign direct investment in China and India: The economic environment", Sam Dzever and Jacques Jaussaud (eds), *China and India Economic Performance and Business Strategies of Firms in the Mid-1990s*, (London: Macmillan Press, 1999), p. 7.

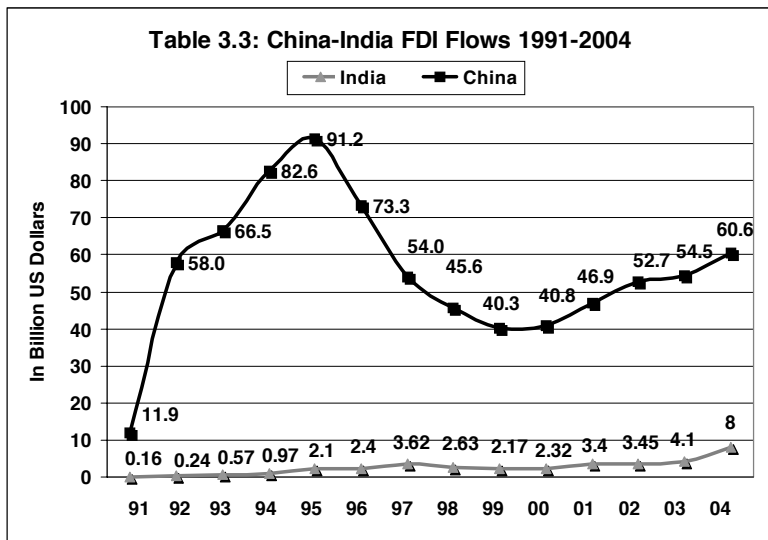
⁷ n. 6. p. 20.

⁸ For statistics on India's foreign trade during 1990-91 to 2001-02 see *Director General Foreign Trade* webpage at <http://dgft.delhi.nic.in/>

⁹ Government of India, *Economic Survey 2002-2003*, (New Delhi: Ministry of Finance and Company Affairs, Economic Division), p. 119.

2003 which is a 25 per cent increase over the preceding year.¹⁰ But same report also shows China's FDI at \$ 53.3 billion and this does not include FDI for Hong Kong which is listed as separate entry (second highest in Asia) at \$ 13.6 billion for 2003. This was one area where despite lessons to be learnt, gap between China and India has been too stark and has continued that way. (See **Graph 3.3**) But this flourishing FDI has also created strong trends in favour of encouraging mutual investments between China and India.

Graph 3.3 : Trends in China-India FDI



There are experts who highlight how even in absence of such FDI (that creates dependence on outside forces and factors) India has managed to almost catch-up with China's growth rates in recent years. Indeed, there have been persistent debates about different methodologies adopted by China and India in calculating their FDI figures. It is believed that in comparison to China's

¹⁰ "India is amongst top four FDI destinations", *The Hindu* (New Delhi), 23 September 2004, p. 18.

statistics, calculations on India's FDI appear to be an understatement. Some economist estimate India's real FDI (in terms of its global definition) to be at least double of India's current official figure. But hard facts still remain too stark to ignore and gap of China and India in this segment remains far too wide to be bridged by adopting different methods of calculation.

No one today questions China's uncontested virtual monopoly in this region attracting foreign capital. And, if one were to believe the *Annual World Investment Report* of the UN Conference on Trade and Development (UNCTAD) for 1999-2000, China's FDI seems slated to again begun moving upwards. According to this report, in view of China's accession to the WTO and its accompanying sweeping market-opening reforms, China's annual FDI was expected to rise from \$60 to \$100 during the next five years.¹¹

Unlike India, FDI itself makes China a global player. China is today world's fifth-largest recipient of FDI, after US (\$1.3 trillion), UK (\$497 billion), Benelux Economic Union states (\$ 482 billion) and Germany (\$ 480 billion). Moreover, it is expected to leapfrog to second position which though remains difficult by most estimates based on current trends. But there are indicators that experts cite in this regard. During the year 2000, for example, the total US corporate revenue generated from China was \$ 7.2 billion, compared to \$ 4.6 billion from Mexico, \$3.5 billion from Singapore, and \$ 1.85 billion from Brazil.¹²

The greatest strength of China's economic reforms from the 1970s and 1980s, was that its economic transformation was led by agricultural reforms that gave peasants an incentive to expand

¹¹ "Unctad sees new foreign investment boom in China", *The Hindu Business Line* (Chennai, India), 5 October, 2000, p.8.

¹² David Hale and Lyric Hughes Hale, "China Takes Off", *Foreign Affairs* (New York), Vol. 82 no. 6 (November-December 2003), pp. 38-42.

output significantly. During the 1990s, however, this economic revolution moved to the urban centers and to the manufacturing sectors of China. But as a result, in China today its FDI produces 57 per cent of its GDP growth rate in its east, 26 per cent in the central region and only 17 per cent in the west. Selective FDI inflows have also further reinforced these east-west divisions by placing 86.4 per cent of their capital in the east, 9 per cent in the central region, and only 4.6 per cent in the west.

As a result, several Chinese scholars remain skeptical about China's fundamentals where again India is cited to having done much better despite its limited FDI and trade statistics. According to Song Guoqing, chief economist of the China Securities Executive Council, China's trade surplus that stood at \$ 43.6 billion for 1998, was to be constrained to \$ 10 billion for the year 1999.¹³ Even during 1998, when China kept a foreign trade surplus of \$45 billion, experts felt that the sum was achieved mainly through import substitution.¹⁴ Even the strong Hong Kong's budget surplus of HK\$86.9 billion for 1997 was to experience a budget deficit of HK\$32.3 billion for 1998 and it was predicted to reach HK\$36.5 billion for 1999.¹⁵ This has since risen to \$ 62 billion for fiscal year 2004-05.¹⁶

All this presents the other side of China's economic fundamentals that place India in a comparative and long-term advantage for a balanced and sustainable growth.

¹³ Wu Feng, "Jan-June foreign trade hits \$ 158 billion", *China Daily* (Hong Kong), 14 July 1999, p. 1.

¹⁴ Yu Yi, "RMB to Remain Stable", *Beijing Review* (Beijing), Vol.42 No.11 (March 15-21, 1999), p. 16.

¹⁵ "HK Expects 0.5% Economic Growth", *Beijing Review* (Beijing), Vol.42 No.12 (March 22-28, 1999), p. 5.

¹⁶ "Hong Kong Budget: No Surprise", *Economic Forum*, 11 March 2004, at <http://www.tdetrade.com/econforum/dh/dh040301.htm>. This was projected at \$ 42 billion with government deciding to issue bonds for another \$ 20 billion.

Emerging Nature and Trends

Recent years have seen China's foreign trade rising exponentially which is another major area that underlines the difference in present and potential of China's foreign trade and investments. China's foreign trade stood at \$ 851 for 2003 and was expected to cross the magic \$ 1 trillion figure for 2004 while India's foreign trade has reached only at about \$ 120 billion per annum. Indeed, in case of India, in the wake of India's nuclear tests of May 1998 its foreign trade had actually slid from \$ 86.86 for 1997-98 to \$ 81.84 billion for 1998-99.

Interestingly, this general slide was not proportionally reflected in China-India bilateral trade though China was perhaps one most directly affected party from India's nuclear tests. If anything, their bilateral trade had still managed to register marginal growth rate for that year. Moreover, India's foreign trade was to soon pick-up a steady momentum and cross the \$ 100 billion mark for 2001. And, China-India trade was (and has since been) one major contributor to this general increase.

Similarly, China's foreign exchange reserves have since hit a figure of \$ 470 billion.¹⁷ These may not be huge compared to that of Japan at \$ 750 billion yet remain very big compared to India's \$ 130 billion.¹⁸ Nevertheless, from another point of view, though India's foreign exchange reserves may appear to be far smaller by comparison yet, for India given its foreign exchange crisis of 1991, it reflects impressive record during 1990s. These have gradually grown from \$22.37 billion for 1996 to \$25.97 billion for 1997, \$29.52 billion for 1998 and \$31.94 billion for 1999 and it crossed \$ 40 billion mark for year 2000. So compared to the historic date of March 1991 when India's foreign exchange reserves had

¹⁷ <http://www.chinability.com/Reserves.htm>

¹⁸ For details on this and other related issues see http://www.economist.com/research/ArticlesBySubject/displayStory.cfm?story_ID=24643388subjectid=348879

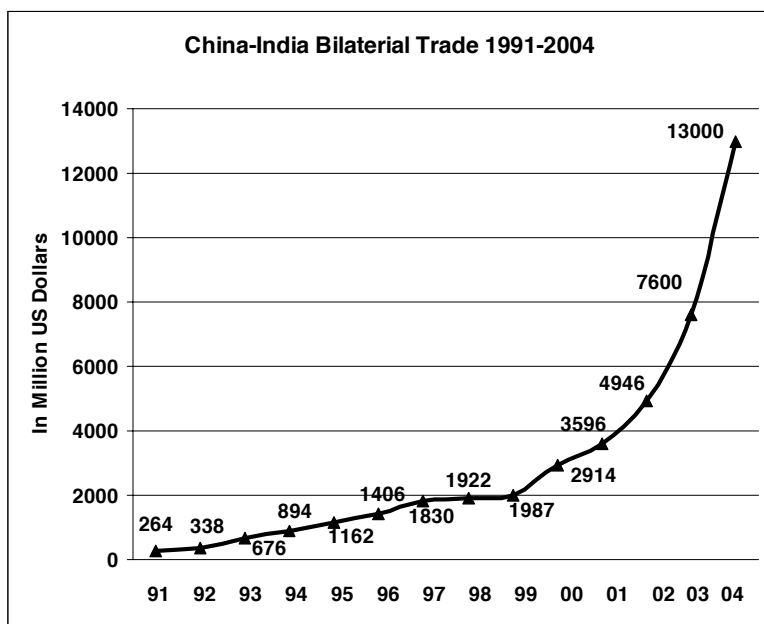
dipped to \$ 5.8 billion while its foreign debt stood at \$ 83 billion, the situation at end of the year 2004 is projected as extremely satisfactory: with foreign debt staying at \$ 112 billion while India's foreign exchange has crossed \$ 130 billion.

The progress has sustained a strong rising curb during the initial years of 21st century. At the same time, both China and India stand as the 3rd and 8th largest debtor nations with their foreign debt standing respectively at \$ 146.7 billion and 94.4 billion as of December 1997. All this has had a major impact on China-India trade and commerce during these years.

Secondly, it is not so much in absolute and real terms but in its nature and larger trends that China-India trade has special significance for their political equations. At the most visible level, in its annual growth rate, the China-India bilateral trade has witnessed an impressive progress since the early 1980s. (**See Graph 3.4**) In absolute terms, though, this still presents a different picture; one of being on the margins of their respective foreign trade with China's trade with India accounting only one per cent of its total foreign rate and India's trade with China amounts for about five per cent of its total foreign trade for 2003.¹⁹

In terms of per capita figures as well, China-India trade remains as low as \$ 5 per person per annum. This seems to be in contrast with the projected picture of dynamism of economies of China and India as also incongruous with trends in both countries, healthy and skilled manpower that are going to be their critical asset in the coming times. Similarly, there remains much to be desired, for example, in the travel statistics between the 2.5 billion people of China and India where direct flights have generally remained intermittent and uncertain.

¹⁹ "Likely Sino-Indian FTA Conducive to Nation", *China Business Weekly* (Beijing) 12 April 2004, p. 1

Graph 3.4 : Trends in China-India Bilateral Trade

Thirdly, it is the political nature of China-India bilateral trade that again makes it so significant to be measured beyond purely economic formulations of statistics and profits. Especially, the period since the two sides signed their trade protocols in 1984 granting each other the most favoured nation (MFN) status their mutual trade has witnessed faster growth than their average growth rates. During the last five years alone, the China-India bilateral trade has quadrupled and the expectation to reach \$ 25 billion by 2010 appears increasingly credible. Moreover, with the return of Hong Kong to mainland China since July 1997, and following return of Macao in December 1999, India's trade with Hong Kong and Macao (as also India's rising trade with Taiwan and in the case of an eventual unification of Taiwan) together promise to make Greater China potentially India's largest trading partner and one of its own kind.

And *finally*, it is also the nature of China-India commodity transfers that remain uniquely suited to their strengths and requirement as developing economies. Over the years, the main Indian exports to China include iron ore, plastic and linoleum, marine products, cotton yarn and fabrics, organic and inorganic chemicals and drugs and pharmaceuticals. *Firstly*, this export basket has not changed much though some new products emerged with a strong potential to grow in coming years. *Secondly*, much of this caters to the booming construction business and lately China has become major importer of Indian Aluminium for which Indian exports have risen rather sharply. *Thirdly*, India's exports are concentrated around primary products while higher value added manufactured items have yet to make their presence in India's export basket.

As of today, major items of export from India to China include iron and steel, chrome ore, chemicals, dye intermediates, bulk drugs and pharmaceuticals, construction quality wire rods, tobacco and tea, while imports to India from China include items like raw silk and silk yarn, coking coal, some types of chemicals, pulses, mercury and antimony, fresh water pearls, pig iron and newsprint. Gradually, many new sectors – like border trade or high-tech trade – is being also explored for future expansion of their current trade ties.

Institutional Arrangements

As regards evolving overall institutional framework of their bilateral trade and commerce, China-India Joint Working Group (JWG) for promoting mutual trade and commerce was set up in 1984. This is the one most generic forum for their bilateral trade and this has since been spearheading their trade cooperation through their annual meetings held alternately in Beijing and New Delhi.

In its work the JWG on trade and commerce is supported by a Joint Business Council which represents business interests especially of the non-State sector from both sides. In operative

terms, much of the norms and regulations for clearing road-blocks in smooth transaction of China-India trade and commerce have been the result of efforts of these dedicated institutions for bilateral trade. Much of the agreements on evolving the new legal framework for trade and for facilitating trade and for establishing joint ventures have been facilitated by their regular meetings.

Amongst some of the other major watersheds in this regard, on July 18, 1994, during his visit to New Delhi, then foreign minister Qian Qichen had signed a trade agreement on avoidance of double taxation between these two countries.²⁰ Later, the interactions during President Jiang Zemin's visit to New Delhi during November 1996 witnessed India and China signing three other major agreements in areas of (i) putting in place double taxation avoidance mechanisms, (ii) providing MFN status to each others' sea-borne trade commodities, and (c) combating smuggling of narcotics and arms and other economic offenses. From time to time, many other agreements have also been signed between individual Departments and Ministries from both sides.

Amongst the more exciting institutional frameworks, China and India have recently launched talks to evolve a bilateral free trade area (FTA) agreement, which analysts say will help China establish a "diversified trade system". Indeed, during their two day meeting during 21-22 March 2004, the senior officials from China and India had launched the first meeting to discuss signing a FTA agreement and a comprehensive economic co-operation agreement in Beijing. The first meeting was co-chaired by Reserve Bank of India's Deputy Governor, Rakesh Mohan, and China's Vice-Minister of Commerce, An Min. The two sides are scheduled to work out a clear timetable and study the areas of co-operation in trade, investment and other issues. Also, they will try to work out a specific five-year programme for economic partnership.

²⁰ "Qian, Finance Minister sign agreement", *Xinhua* (in English), cited from *Foreign Broadcast Information Service-China-94-137*, 18 July 1994, p.9.

The skepticism, however, also continues to be equally strong. To quote from China's one most seasoned expert on South Asia, "Although a FTA between China and India will be hard to achieve in the short term, its significance in forming a multi-party regional free trade system is apparent, given the huge population and size of the two countries."²¹ However, it is also believed that the stronger trade ties and complimentary economic structures cannot ensure the quick establishment of a FTA between the two countries."²² Amongst some of the more prominent factors that portends stronger trends for a China-India Free Trade Area, one could include the following –

- ♦ *Firstly*, the surging trade relationship of last few years has prompted experts and leaders in China and India to begin contemplating of not only expanding mutual trade and investments but also for evolving a Free Trade Area agreement which seems rather bold given their mutual territorial disputes and mutual suspicions that has dominated China-India equations.
- ♦ *Secondly*, from the Chinese perspective, India's rising resistance to inexpensive Chinese goods has sure been one factor in pushing Beijing towards forging ahead with this free trade area argument. As of 2001, for example, nine of 25 anti-dumping investigations against Chinese goods were launched by Indian authorities. In 2002, 10 more anti-dumping litigations were initiated by Indian companies against Chinese firms, involving batteries, tapeline and silk and so on.
- ♦ *Thirdly*, China seems determined to move ahead with this idea of FTAs as next logical step with its trading partners.

²¹ "Likely Sino-Indian FTA Conducive to Nation", *China Business Weekly* (Beijing) 12 April 2004, p. 1

²² Ibid.

China has already signed agreement for a FTA with ASEAN in November 2002 towards creating by 2010 the world's largest FTA, with about 1.7 billion residents and nearly \$ 2 trillion worth of trade per annum. India has also signed a similar agreement with ASEAN in 2004 which aims to create a similar FTA by 2012.²³ These trends make FTA the next logical step between China and India.

Investments and Joint Ventures

Finance capital investments have been a rather recent phenomenon compared to the more conventional art of trading goods in terms of selling and buying or even creating special or free trade zones. This is especially true when it comes to China-India economic engagement which continues to carry historical baggage on all such issues. However, with gradually increasing mutual trust, India and China have since expanded their economic engagement from bilateral trade to evolving FTA on the one hand, and towards exploring opportunities for mutual or third country investments and joint ventures as their natural next step in their economic cooperation.

As for India today, the United States stands out as the largest investor in India, accounting for about 21 per cent of total FDI inflows. Mauritius follows with 12 per cent share, but it is really a conduit for investors from various countries, including the United States, because of a special tax treaty with India which grants exemption from Indian taxes for Mauritius-based companies. The United Kingdom is the next largest investor followed by the Republic of Korea, Japan, and nonresident Indians who account for about 4 per cent of total inflows.²⁴ Nevertheless, China's export

²³ P. S. Suryanarayana, "India for Strong ties with ASEAN", *The Hindu* (New Delhi), 2July 2003, p. 11.

²⁴ Pradeep Agarwal, "Economic Impact of Foreign Direct Investment in South Asia", in Aditya Mattoo and Robert M. Stern (eds), *India and WTO*, (Washington DC: The International Bank for Reconstruction and Development, 2003), pp. 121-22

expansion in certain sectors has had a direct impact on similar exports from labour-abundant India.²⁵

The first China-India joint venture – between India's Mideast Integrated Steel Limited and China Metallurgical Import Export Corporation – was commissioned in Orissa as early as in January 1993.²⁶ The coming of joint ventures, however, has been slow and full of hiccups. This has since been facilitated by global trends of export of finance capital that has since come to be the core of this new era of globalization. Their new economic engagement today involves finance capital investments into manufacturing or services inside one another's nation and this presupposes far greater mutual confidence than what entails normal inter-state trade transactions. In fact, there minor indications of this already beginning to move China-India ties further to technology transfers and human resource exchange promises to cement their economic engagement in future.

From a political perspective, therefore, the track-record in relatively long-term capital investments can be described as perfect barometer that reflects the level of mutual understanding and trust between the involved countries. This is so because these long-term investments remain far more vulnerable to their politico-strategic equations. But it is not always that the nature of political equations determines the level of mutual investments. There can be other factors.

In case of China and India, for example, despite positive environment, the fact that both India and China happen to be developing countries also circumscribes the existing low levels of their mutual investments. Amongst other factors in the recent past re-enforcing reluctance, India's nuclear tests during May 1998 had also resulted in a visible downtrend in their mutual investments during these last few

²⁵ Ross Garnaut and Yiping Huang, "China and the future of the international trading system", in Peter Drysdale and Ligang Song (eds.), *China's Entry to the WTO: Strategic issues and quantitative assessments*, (London: Routledge, 2000), p. 15.

²⁶ "Beijing Establishes joint venture in India", *Xinhua* (in English), cited in *Foreign Broadcast Information Service-China-93-013*, 22 January 1993, p.15.

years. But both trade and investments have picked up momentum since then. Amongst the factors that have facilitated the course of mutual investments one could highlight some of the following -

- *Firstly*, China's attempts at soft-landing of its overheated economy of early 1990s have been followed by the onslaught of East Asian financial crisis forcing Beijing to explore alternative trade partners and investment opportunities. This has also coincided with India's impressive economic performance since early 1990s making India one attractive destination.
- *Secondly*, the sudden rise in China's (and India's) foreign exchange reserves since mid-1990s have coincided with negative global trends in trade and investment pushing some of China's capital investment towards India that witnessed certain hype in recent years. This period has witnessed rapid rise in India's investment in China; of these information technology education and pharmaceutical sectors have been particularly noticeable.
- *And finally*, China's economic reforms during the 1990s have created a small yet fast growing non-State sector that has provided Indian entrepreneurs with new opportunities and confidence to invest inside China through joint ventures with these firms. They have also created a new investment culture.

As a result of this evolving new business environment, beginning from Ranabaxy Laboratories from 1993, a large number of Indian companies have already established their foothold in China.²⁷ Nevertheless, in terms of statistics, the broad trends in

²⁷ Some of the well known Indian companies include Tata Exports (Shanghai), NITT (Shanghai), Bry Air (Shanghai), Essel Packaging (Guangzhou), Ranbaxy (Guangzhou and Shanghai), Ofind Refractories (Liaoning), Wockhardt (Beijing), Lupin Laboratories (Guangzhou), August International (Beijing), Archean Granites (Beijing), Ispat Karmet (Urumqi), State Bank of India (Shanghai).

China-India mutual investments present a very slow moving picture for the prospects of their economic engagement between these two huge sized dynamic economies.

Mutual Investments

Irrespective of India's private sector being active since its independence in 1947, the nearest that India's investments were to reach to China or in East Asia in general were traditionally concentrated in Hong Kong. Also, even after long years of operations in Hong Kong, only few businessmen of Indian origin have made it really big at the very top of Hong Kong's power elite and business circles. Besides, considering that much of Indian investments remain in areas of services, Hong Kong has always been the most favoured destination for its obvious attractions as hub of business and trading. Indeed, it is from here that most of Indian business houses had made their debut in extending their operations onto China mainland. This, however, is not true of Chinese investments that have been concentrated on India's mining and manufacturing sectors. However, there still remain a whole range of bottlenecks and these can still vitiate their politico-strategic equations.

More noticeable however, has been the fact that China has since come to be one of India's competitors in attracting foreign investment. Over the years, China, apart from starting reforms much ahead of India in 1978, has established a considerable lead over India in terms of the size of foreign investment.²⁸ As regards their mutual investment, Chinese investments into India have not only continued to heavily fluctuate from time to time but also continues to suffer from a huge gap between their contracted FDI and their actual absorption in real projects on the ground. To cite one set of statistics available for

²⁸ M. R. Narayana, "Foreign Direct Investment and Inter-regional Growth in China: Lessons for India", *China Report* (Delhi), Vol. 40 No. 1 (January-March 2004), p. 2.

the whole period between India's opening up from August 1991 and August 2000, while China had contracted an FDI worth \$ 225.07 million with India, the actual inflow was only \$ 0.56 million. Comparing this with their overall performance in attracting FDI both India and China have fared better which shows that the pace of their mutual investments still continues to be guided by their bilateral politico-strategic equations.

To compare this with China's FDI statistics that are now available upto April 2000, China has approved a total of 34,800 foreign ventures involving \$ 628.70 billion worth of contracted foreign investment and has already achieved an actual inflow of \$ 317.5 billion.²⁹ This shows that China has been able to convert over 50 per cent of its contracted FDI into actual investment on the ground. Similarly, India till August 2000 contracted a total FDI of \$ 55.11 billion and its actual inflows stand at \$11.96 billion which means that the proportion of India's actual FDI inflows compared to India's total contracted FDI stands at 22 per cent. FDI approved in 2003 is US\$ 3.1 billion as against US\$ 4.43 billion in 2002. According to another estimate, total FDI inflows approved in the period April 1991-April 2003 stood at US\$ 78 billion, of which US\$ 35.5 billion has been realized.³⁰

The comparative figure of China's actual FDI inflows into India compared to its contracted FDI over the years stands at impressive 50 per cent. But again this has been changing off late. India's Ranabaxy pharmaceuticals and National Institute for Information Technology (NIIT), today clearly dominates China's scene in pharmaceuticals and IT education. There have also been several other smaller and less known initiatives in IT education.

²⁹ "Foreign Investment continues to go up", *Beijing Review* (Beijing), Vol.43 no.24, 12 June 2000, p.9.

³⁰ Ministry of External Affairs, Investment and Trade Promotion Division, *Brief on Promotion of Foreign Investment and Business*, 4 August 2004 available at <http://www.embindia.org/Articulos/Investbrief0804.htm#5>

India's Tata Group, one of largest conglomerates in Asia, plans to increase its investment from \$ 2 million to \$ 5 million in China's software sector and is also discussing for joint-venture projects in other sectors like automobiles and steel. China's home electric appliance makers Guangdong Province-based *Konka* and TCL have also established joint ventures in India. China's *Konka* stopped its manufacturing in India due to the allegedly restrictive policies and TCL was reported to have deep difference with its Indian partners.³¹ But China during June 2003 visit by Prime Minister Vajpayee had pledged to invest \$ 500 million in India's infrastructure sector.³²

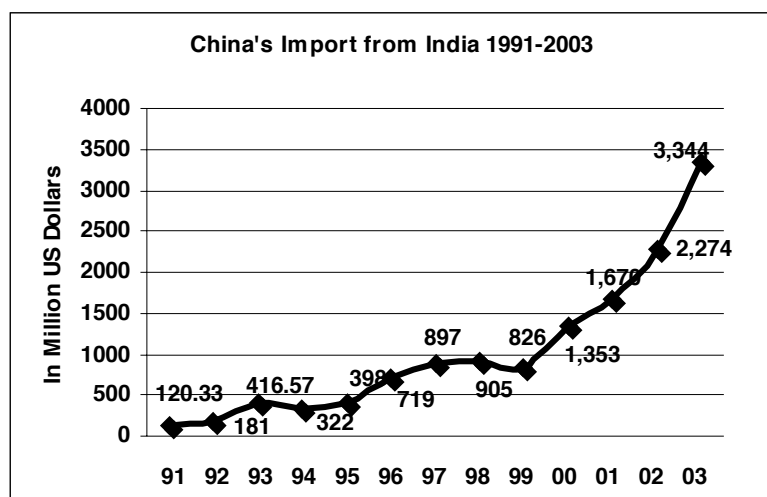
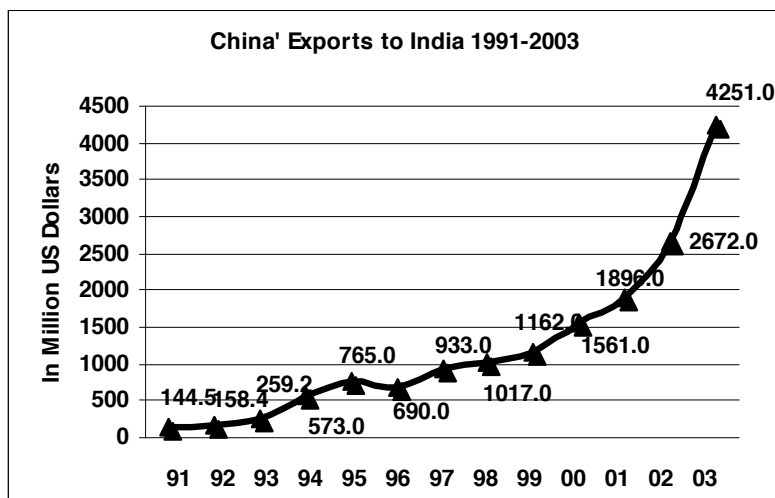
Impact of Nuclear Tests

Without doubt, India's nuclear tests of 1998 had presented the most serious challenge to China-India bilateral trade. There are various ways to examine how China-India trade and commerce had been affected as also how this bilateral trade and commerce have proved to be a major catalyst in facilitating official and political initiatives between the two sides. At the very first look, their bilateral trade had suffered a major set back bringing down the growth rate from an average of 64 per cent during the preceding six years to mere 5.02 per cent for 1998. This happened in the form of India's exports to China suffering a great deal while India's imports from China had continued to grow at normal pace.

³¹ "Likely Sino-Indian FTA Conducive to Nation", *China Business Weekly* (Beijing) 12 April 2004, p. 1

³² "China pledges \$ 500 mn investment in India", 23 June 2003 available at <http://sify.com/finance/fullstory.php?id=131791488vsv-157>

Graph 3.5 : Trends in China-India Exports Imports



This period also saw some of their economic interactions being cancelled or postponed in the wake of India's nuclear tests. But, at the same time, this speaks volumes of non-economic contributions of Sino-Indian bilateral trade that despite the difficulties their inter-state equations following the Pokhran-II of May 1998, their bilateral trade still facilitated various economic interactions

that finally paved the way for initiatives at the official and political level. Indeed, a month to month change in China-India trade for 1998 presents one most startling picture on how business sector was the first to bounce back to normal and facilitate revival of China-India interactions in the wake of India's nuclear tests. It is from here that role of trade as instrument for resolving political differences had begun to be contemplated and appreciated by both sides.

Trends in trade surplus can be another important indicator to project the impact that post-Pokhran-II politics was to have on bilateral trade ties. Beginning from the early 1990s while India had enjoyed trade surplus during years 1992, 1993 and 1996, the trade surplus had been with the Chinese side during 1994, 1995, 1997. In fact, according to experts China-India trade is known to witness fluctuations where India generally enjoys trade surplus during the first half of the year while China reverses this trend during the last few months every time. For 1997, for example, during the first 8 months of 1997, there was a trade surplus in favour of India of \$ 40 million. But suddenly, China's exports witnessed faster growth resulting China having a trade surplus of \$ 53 million by November which came down \$ 36 million by the end of December.³³ But no such trend was seen during 1998 when the trade surplus with China reached its peak of \$ 110 million through this has since been rectified.

Broadly speaking, quick revival of trade links after India's nuclear tests was to help both sides to overcome much of their concerns before the end of 1998 and interactions and initiatives amongst the two business communities had a definite role in normalisation of Sino-Indian ties in the post-Pokhran-II period. Though the symbolic cancellation of China Commodity Fair in Mumbai during August-September 1998 and China's visibly low-profile presence during New Delhi's India International Trade Fair

³³ *A Status Report on China-India Trade & Investment 1998*, (Confederation of Indian Industries, Shanghai, November 1998), p. 4.

during November 1998 did create skepticism amongst the businessmen on both sides yet, their bilateral trade had begun to bounce back to normal before the end of that year. There were also several academic exchanges and visits which were also very positive on not letting politics overshadow positive economic initiatives.

But, when seen in the larger context of China's negative growth rates in their annual trade with Asia, even the low positive growth in Sino-Indian bilateral trade for 1998 trade inks were seen to augur very positive for Sino-Indian ties.³⁴ Especially so, when seen in still larger context of the long history of Sino-Indian interactions, was the impact of Pokhran-II on the tenor and pace of Sino-Indian economic cooperation appears not only short-lived but also very marginal.

Economic versus Strategic Priorities

Having established the linkage between China-India politico-strategic equations affecting their decisions on mutual trade and commerce and implications of their mutual economic cooperation on their politico-strategic situation in return, one must explore how much their economic integration has been aloof from their political polemics of recent years. China-India interactions following India's nuclear tests during May 1998 provide an ideal case to crystal-gaze the overall impact and prospects of China-India economic engagement.

Very briefly, reinforcing the notion of their post-1998 economic cooperation as the most reliable pillar in China-India ties the trends in their bilateral trade during the last seven years have amply proved being the most potent catalyst in facilitating their post-Pokhran-II political initiatives towards mutual accommodation.

³⁴ "Statistical Communique of the People's Republic of China on the 1998 National Economic and Social Development", (Document), *Beijing Review* (Beijing), Vol.42 No.13 (March 29-April 4, 1999), pp. 35-50.

It was only during the period of strong political polemics of the initial period that witnessed some of their economic interactions being cancelled or postponed and Indian exports suffering a visible set back especially during the three or four months around India's nuclear tests in May 1998.

Nevertheless, their annual growth rate for entire year of 1998 did not crash land and only came down from an average of 9 per cent during the preceding year to 5.02 per cent for the whole of 1998. Moreover, this has since witness a boom though total volumes still remain small given their vast potential for cooperation. Seen in the backdrop of overall decline in China's exports, especially exports to its potent trade partners like Japan and South Korea as also its closest ally Pakistan, it did send very positive message to India's policy-makers. As a result even during those difficult months of 1998 summer, India signed agreements for 5 joint ventures (2 in China and 3 in Hong Kong) during 1998 involving an investment of \$8 million and other 6 joint ventures (1 in China and 5 in Hong Kong) during 1999 involving investment of \$ 1.9 million.³⁵

Thanks to their well-entrenched economic engagement, the two had already begun to address to this political fallout of India's nuclear tests before the end of the year 1998. China may have cancelled the China Commodity Fair in Mumbai during August-September 1998 and kept a visibly low-profile presence during New Delhi's India International Trade Fair during November 1998, which did create skepticism amongst the businessmen on both sides, yet, their bilateral trade had begun to normalize sooner than expected by most experts. There were also various academic exchanges and visits that were also very positive on not letting politics overshadow positive economic initiatives. Besides, when seen in the larger context of China's 9 per cent negative growth rates in

³⁵ *Indian Joint Ventures and Wholly Owned Subsidiaries Abroad Approved During 1999*, Indian Investment Center, New Delhi, p. 8 and 32; and *Indian Joint Ventures and Wholly Owned Subsidiaries Abroad Approved During 1998*, Indian Investment Center, New Delhi, p. 6 and 28.

their annual trade with Asia, a positive 5.2 per cent growth in Sino-Indian bilateral trade for 1998 seemed very positive for Sino-Indian ties.³⁶ Indeed, this period witnessed sluggishness at the global level as well. And, given the overall regional and international sluggish trends in trade and commerce, China-India economic interactions during 1998 were sure not the most discouraging slowdown around.

China's exports which were expected to grow at respectable 9 per cent (from heady 20 per cent growth during 1997) grew only by 0.5 per cent and its imports actually fell by – 1.5 per cent. China's exports with even its more stable Asian partners plunged sharply – South Korea by 31.3 per cent, Hong Kong by 11.5 per cent and Japan by 6.7 per cent. Against this scenario, Chinese exports to India grew by a respectable 8.9 per cent (though their growth during 1997 stood at 36 per cent). As a result, during 1998 – the year of India's nuclear tests – India indeed increased its share of China's international trade to 0.59 per cent from 0.56 per cent for 1997.³⁷ It has since risen to 0.9 per cent of China's overall foreign trade for 2003 and to 1.1 per cent for 2004. This clearly showed that India's nuclear tests and the political polemics and rhetoric had little impact on China-India economic interactions and in fact these economic interactions had much stronger impact and facilitated their political turn around which sure indicates positive prospects for their political ties.

Conclusion

Although India's software has become world famous and is attracting attention in most debates on China-India bilateral trade and commerce yet, given the labour-intensive nature their

³⁶ "Statistical Communique of the People's Republic of China on the 1998 National Economic and Social Development", (Decumbent), *Beijing Review* (Beijing), Vol.42 No.13 (March 29-April 4, 1999), pp. 35-50.

³⁷ for details see "China's Economy and China-India Trade", *Journal of The SICCI* (Southern India Chambers of Commerce and Industry, Chennai, India), July 1999, pp.12-14; also see *FIEO News*, 1st August 1999 p. 21, also at <http://www.fico.com>

economies, both remain ordained to eventually provide some competition to each other. No doubt, the two have so far handled their economic engagement deftly enough but their rise to capture global resources and markets is very likely to increasingly complicate their equations in the coming times. Given these strands of possible economic competition, the chances of trade also emerging as a stimulant for an eventual political conflict can not be completely ruled out which means that this second phase of their bonhomie also remains as yet pretty fragile and vulnerable to challenges that future may unfold.

To be sure, China today aspires to match India's success as an exporter of software and Taiwan's as an exporter of hardware. If India has advantage of language, China produces engineers three times that of India and Chinese companies like *Legend* are giving serious competition to other brands and it occupies 26 per cent of China's market. China's as yet nascent private sector has already emerged as the most promising and potent driving force in China's economic opening up exercise. During 1989-1997 period, China's private enterprises grew from 90,581 to 960,726 firms in number, which amounts to an annual increase of 34.3 per cent. The number of their work force has increased from 1.64 million to 13.49 million, an annual increase of 30.1 per cent and their capital has increased from 8.4 billion to 514 billion yuan an increase of 67.2 per cent.³⁸ These can no longer be ignored as mere paper tigers.

It is in this backdrop that the return of Hong Kong's to mainland has provided a push to building chemistry between businessmen from China and India. This has strengthened the confidence of India's business community, as Indian business has lived and thrived in Hong Kong for over one hundred years. The same has also been true of China's private enterprises that have

³⁸ "Private Sector Grows Fastest of All", *Beijing Review* (Beijing), Vol.42 Nos. 9-10, March 10-14, 1999, p. 4.

come to be the new brave force in China's foreign economic relations. These firms have been normally far more aggressive in exploring opportunities with each other. It is this private initiative that has now begun to provide steam to their political decision and gradually promises to emerge as an important force in moulding China-India political interactions.

In the end, given the multifaceted challenges for their economic engagement, the hope lies in two being able to continuously focus on more innovative approaches that remain sustainable as also build further on their evolving mutual understanding and confidence. It is in this context that their recent focus on evolving their border trade obtains vital significance. This not only reflects their increasing mutual confidence but also portends trade creating stronger mutual stakes and becoming a decisive force in moulding their long-term political equations.

Chapter IV

BORDER TRADE

Given the fact that their boundary dispute remains one most decisive factor defining the nature of China-India ties their border trade has been one most politically driven. But this also makes their border trade as one that promises to have critical impact on their political visions. However, given rapid changes in their mutual perceptions and policies during these last five decades this is one area that also remains open to bold initiatives and transformation.

Amongst the most visible changes in recent past, thanks to China's second revolution since 1979 and its booming foreign trade since early 1980s, once considered desolate and uncivilized peripheries of the Middle Kingdom – constituting China's land and maritime borders regions – have since come to occupy the center stage of rising China's drive to open up to the outside world including its immediate neighbours. As a result, with its surging border trade at its 120 inland towns and port cities, China's border trade with its neighbouring countries has today come to account for nearly half of China's whopping annual total foreign trade of over \$ 1 trillion.¹

And here, apart from using border trade as China's engine for rapid growth, it is the resultant piecemeal development in these remote and inaccessible border regions that has since made its border trade China's one most potent instrument for building confidence with its neighbouring countries. The 16th Party

¹ "Hu: Modernisation needs long uphill battle", *China Daily* (Beijing), 24 April 2004, p. 1; "Border trade fueling economy on China's frontiers", *China Daily* (Beijing), 16 April 2003, p.2; "China's foreign trade to exceed \$ 1 trillion in 2004", *China Newsletter* (Confederation of India Industries, Delhi), No. 5 (1 May 2004), p. 6. It is after several legislations that on 29th March 1996, China's Ministry of Foreign Trade & Economic Cooperation and China's Customs General Administration promulgated *Provisions of Administration on Border Trade of Small Amount and Foreign Economic and Technical Cooperation of Border Regions*. This 30-Article long documents has since been China's the most basic and most comprehensive guiding code for evolving specific border trade agreements with its neighbours.

Congress of 2002 had indeed expanded China's thesis of seeking peace on China's borders to seeking peace on China's border regions thus clearly reflecting China's expanding stakes in the peace and prosperity of its neighbours. Especially, China's initiatives vis-à-vis the newly independent states of Central Asia have since come to be recognised as symbol of success in applying border trade as tool for building political mutual confidence and for resolving border management problems including border demarcation.²

As for India, though in 1950s, New Delhi had started with a similar "give-and-take" proposition and signed their historic *Panchsheel* agreement on *Trade and Intercourse Between Tibet Region of China and India* on 29 April 1954 yet, its follow-up by continued negative interface with China was to push New Delhi towards more conservative and legalistic format-driven approach to the China-India boundary question.³

This was followed by deterioration of their bilateral relations and their border war in 1962 which was to result in a decade-long freeze in their diplomatic interactions. However, things were to change from early 1970 and, it is in this new context of China-India *rapprochement* that two sides have once again revived their border trade as their tool for building mutual confidence towards resolving their long-standing boundary question.

It is in this backdrop that their opening of one of the most critical border trade route through Nathu La (pass) since June 2003 clearly underlines their coming of age to recognising border trade as the most potent tool not only for achieving cost-effective

² Claes Levinsson and Ingvar Svanberg, "Kazakhstan-China Border Trade Thrives After Demarcation Treaty", *Central Asia-Caucasus Analyst*, (Biweekly Briefing), 16 February 2000.

³ Swaran Singh, "Three Agreements and Five Principles Between India and China", in Tan Chung (ed.), *Across the Himalayan Gap*, (New Delhi: Gyan Publishing House, 1987), pp. 505-518.

development in their generally inaccessible border regions in cis-Himalayas but also for using peace and tranquility so achieved for building mutual confidence and thereby facilitating the resolution of their long-standing boundary demarcation problem. Also, it is in this so called new second phase⁴ of much matured China-India *rapprochement* that this chapter makes an attempt to examine the economic, political and cultural dimensions of the opening of Nathu La border trade route and to highlight the potential of this new trade route and border trade in general in strengthening their resolve to deal with their complicated boundary question.

China's Border trade policies

China shares borders with 25 countries and historically border has been one common problem that China has had with most of its neighbours. In this, apart from China's 14,500 km coastline which links China's to the outside world through its maritime borders, China also has over 22,000 km of international land boundaries with 15 countries. While, China's trade through oceans remains subject to its own challenges and limitations, lack of clearly defined boundaries has been the main challenge to its cross-border trade and commerce which has also been subject to several other geographical and historical factors as well as to the fact that China's people in these border regions have often belonged to its minority nationalities and share language and customs with people across the border which has had its own advantages as well as pitfalls.

There is also this view that unlike the coastal provinces, whose major trade partners have been developed countries, the

⁴ This was the standard phrase that was used to explain the success of Indian prime minister's visit to China. Amongst others several Chinese experts were quoted in "Sino-Indian Ties Enter New Stage: News Analysis", *Renmin Bao* (Peoples Daily), (Beijing), 23 June 2003; or "A New Phase in China-India Relation", 30 July 2003, *Asia Source* at http://www.asiasource.org/news/at_mp_02.cfm?newsid=99520

land border provinces are generally trading with poor neighbouring countries. But the attraction for China also lies in the fact that with exception of China's southern neighbours and especially India, industries of China's border area have had significant comparative advantage in technology and productivity compared with its neighbouring states in general. The rising export demand, therefore, promises to induce further expansion of the manufacturing sector in its border provinces. In this light the border areas, once fully utilizing their potential markets in the neighboring countries, have obtained an exogenous growth engine to make border trade flourishing or at least sustainable.⁵

Secondly, China's development in its difficult, remote, and restive border regions has mainly benefited from its open-door policy and *rapprochement* with the neighbouring countries since the mid-1980s.⁶ Before this, the Sino-Soviet split and the containment policies of the West had been one factor in China following inward-looking policies. Though transactions through China's borders had never ceased to be yet it was only in year 1984, that China had formally promulgated the "Provisional Regulations for the Management of 'Small-volume' Border Trade" and later opened hundreds of frontier cities and towns to cross-country trade. In contrast to its much-hyped eastern coastal development which has been fueled mainly by FDI, China's inland frontier development has been characterised by cross-border trade.⁷

Particularly, inspired by Deng's Southern speech of 1992, China has embarked on a deeper outward-looking policy in an attempt to promote the development in the frontier regions of the four provinces of Heilongjinag, Yunan, Jilin, Liaoning and the four autonomous regions of Inner Mongolia, Xinjiang, Tibet and Guangxi.

⁵ Jun Ma, *The Chinese Economy in the 1990s*, (London: Macmillan, 2000), p. 131

⁶ Rongxing Guo, *How the Chinese Economy Works*, (London: Macmillan, 1999), p.130.

⁷ Ibid., p.131.

Since early 1990s, a series of other favourable and flexible measures to manage cross-border trade and economic cooperation have been granted to those frontier regions.⁸ All these efforts have proved very effective in undermining several cases of political dissent especially in these remote regions.

Lately some of these experiments have done exceedingly well in dealing with new threats like spread of small arms or drugs and other such criminal activities. In the border prefectures and counties in China's relatively backward Yunnan province, for example, where exports accounted for more than 30 per cent of China's total border trade in the late 1980s, border trade has come to be an example of the fastest growing regions in China's border areas.⁹ Similarly, northern China including Heilongjiang, Xinjiang, and Inner Mongolia, have been actively promoting trade with Russia and other former Soviet Republics that are experiencing shortages of consumer goods.

Formerly closed border trade between Tibet and India and between Guangxi and Vietnam had also been increased as bilateral relations improved since early 1990s. China's booming foreign trade has often been the single most decisive backdrop

⁸ Some of the major examples include (a) "Measures Concerning the Supervision and Favourable Taxation for the People-to-People Trade in Sino-Myanmar Border" of 25 January 1992, Office of Customs, PRC; (b) "Notification Concerning the Further Opening up of the Four Frontier Cities of Heihe, Shuifenhe, Hunchun and Manzhouli" of 1992, State Council; (c) "Notification Concerning the Further Opening up of the Five Frontier Cities and Towns of Nanning, Kunming, Pingxiang, Ruili, and Hekou" of June 1992, State Council; (d) "Some Favourable Policies and Economic Autonomy Authorized to the Frontier Cities of Heihe, and Shuifenhe" of June 1992, Heilongjiang; (e) "Resolution of Some Issues Concerning the Extension of Open-door and Promotion of Economic Development" of 20 April 1991, Inner Mongolia; (f) "Notification of Promoting Trade and Economic Cooperation with Neighbouring and East European Countries" of 9 February 1992, Xinjiang; (g) "Resolutions Concerning the Further Reform and Opening up to the Outside World" of 14 July 1992, Tibet; (h) "Provisional Regulations Concerning the Border Trade" of 1991, Yunnan province. Indicative compilation from *Bulletin of the State Council*, Peoples Republic of China series.

⁹ Jun Ma, *The Chinese Economy in the 1990s*, (London: Macmillan, 2000), p. 131

for its political initiatives with border trade often being its first step towards resolving border disputes. As regards its border trade with India, this has been part of its focus on western regions where China has tried to promote attention and investment in recent decades.

As regards China's border trade with India, it was pursuant of their *Memorandum of Understanding (MoU) on Resumption of Border Trade* signed on 13 December 1991 and several other related earlier Protocols and agreements on trade that China and India had opened their first two border trade routes through the mountain passes of Lepulekh and Shipki La passes (in Utranchal and Himachal Pradesh) during 1992-1993. (**See Map 4.1**) Since then their negotiations on border trade had come to a virtual halt in face of distrust and it was to take nearly a decade for them to finally sign an MoU opening their third border trade route between border trade markets of Changgu (in India's Sikkim) and Renqinggang (in China's Tibet) through the Nathu La Pass in the eastern sector of their border. This MoU was signed in Beijing during June 22-27, 2003 visit of Indian Prime Minister Atal Behari Vajpayee and was clearly seen as the most important achievement of this visit.¹⁰ (*See Appendix*)

¹⁰ Swaran Singh and Zhao Gancheng, "Vajpayee's China Visit", *SIIS Journal* (Shanghai), Vol. 10 no. 3, (August 2003), p. 23-28.

Map 4.1 : Lipulekh and Shipki La Border Trade points

Opening Trade Route through Nathu La

Having finally agreed to open the Nathu La route in June 2003, though the two sides have since become gradually reluctant yet, their initial enthusiasm had resulted in two sides taking several administrative decisions in quick succession. These included decisions like putting in place officials on both sides of Nathu La for supervising issuance of travel and trade documents to traders and pilgrims. This process was also facilitated by the fact that their enthusiasm about Nathu La had the advantage of their cumulative wisdom on their border trade and several glitches already overcome in their past experience. For example, Nathu La follows the same procedures that were evolved in case of their earlier two border trade points/routes

through Lipulekh (in Uttranchal) and Shipki La (in Himachal Pradesh). Also, the same 29 items of trade, that are permitted for duty-free exchange across their earlier border trade routes, will be the items allowed for trade through Nathu La. Amongst these, the items that are exported from India generally include agricultural inputs, tobacco, gur, mishri, fafer (a local wheat variety), blankets, tea, coffee, clothes, textiles, watches, shoes, canned food, tobacco, rice, dry fruit and match-boxes and such consumer items. And the items of import from China include goat skin, sheep skin, sheep wool, raw silk, yak tail, Chhirbi (butter), borax, china clay, raw silk, goat wool or *pashmina*, other clothes and so on.

Indeed, the governments of Indian provinces of Sikkim and West Bengal have already begun working together to develop Siliguri as a major transshipment port for Chhangu border post in Sikkim which would remain the terminating point for Chinese traders as of now.¹¹ Also, in addition to developing National Highway 31A between Siliguri and Gangtok, the Sikkim government also plans to put up check-posts, a health center, warehouses and a customs office in Chhangu as also strengthen their general infrastructure in rest of this region. All this was expected to result in a trade boom and increased tourist traffic from both sides of the border.

The Sikkim government has already renamed its Department of Industry as Department of Commerce and Industry and this will be the nodal agency for handling the affairs of trade through Nathu La.¹² Besides, there was also talk about Nathu La being followed up by opening of Jelep La at the India-Tibet-Bhutan trijunction which had also been another famous trade route from

¹¹ Marcus Dam, "Sikkim, Bengal take steps to reopen Nathu La Pass", *The Hindu* (New Delhi), 20 October 2003, p. 13.

¹² "Passes likely for traders using Nathula pass", *The Hindu* (New Delhi), 23 October 2003, p. 8.

the past and can today connect Lhasa to Kalimpong in West Bengal. Actions, however, have slowed down since partly due to bureaucratic inertia and partly due to perennial issue of security considerations.

Nevertheless, recent years have witnessed the nature of China-India overall political and economic interactions changing for better. As a result, their border trade at their two earlier border trade points that had stayed in the vicinity of Indian Rupees 5 million with balance normally being in favour of China is expected to rise at least in the same proportion as their bilateral trade that has been growing exponentially during last few years.¹³ This is in view of the fact that earlier two routes had been opened primarily for enabling pilgrims to reach Kailash and Mansarovar and these had little significance for trade and commerce. As a result, even after decade long interactions through these border trade routes the focus on infrastructure development had remained negligible.

It is in this context that opening of the Nathu La is expected to completely transform the future profile of their border trade and strengthen its role in building mutual confidence between China and India. It is also only gradually that two sides have begun to visualize their border trade as possible tool for resolving their boundary question. Implementing this new vision will take its own due course and time.

Rising Economic Significance

For sure, the most visible image of China-India border trade has been one of poor infrastructure. Bad roads, bad weather and limited traffic that still depends on ponies and one-ton trucks for difficult tracks has been used primarily by the military men deployed

¹³ For details see website of the Indian Embassy in Washington DC at http://www.indianembassy.org/policy/Foreign_Policy/EAsia_FP_98-99.html

on border or by pilgrims to *Hindu* religious sites of Mount *Kailash* and *Mansarovar*.¹⁴ (See Map 4.2) Apart from mutual skepticism between China and India, this difficult nature of *Himalayan* terrain and poor infrastructure have both been cited as causes as also the consequence of continued official neglect so far. For example, these two older border trade routes in India's Central Sector (Uttranchal & Himachal Pradesh) remain active only between June and September. By comparison, the road through Nathu La is expected to remain open throughout the year. Nathu La has a much better infrastructure and is expected to handle far greater volumes of trade per annum including heavier traffic and trade in manufactured items.

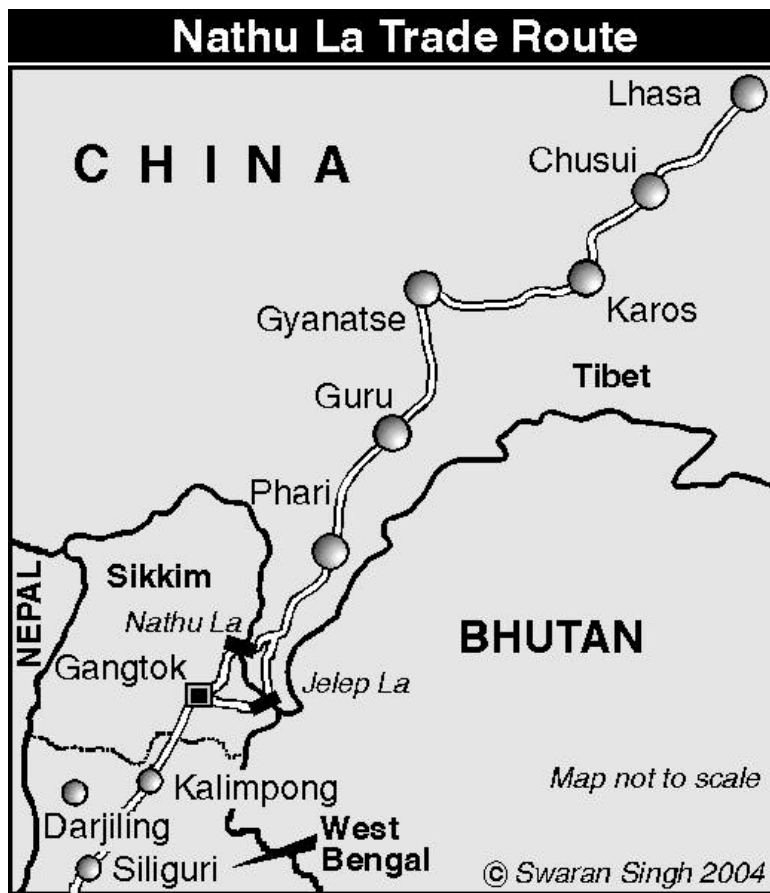
¹⁴ Mt *Kailash*, 6,740 m. high, is situated to the north Himalayan, wholly within Tibet. It is the spiritual centre for four great religions: Tibetan Buddhism, Hinduism, the Jain religion and the pre-Buddhist animistic religion - Bonpo. To Tibetans it is known as Khang Rimpoche (Precious Jewel of Snow) and they see it as the navel of the world. It is said that a stream from the mountain pours into a nearby lake (*Mansarovar*) and from where rivers flow in the four cardinal directions. Strangely enough, four major rivers do indeed originate near Kailash, the Indus, the Yarlung Tsangpo (Brahmaputra), the Karnali and the Sutlej. For the Hindus Mount Kailash is the earthly manifestation of Mt. Meru, their spiritual centre of the universe, described as a fantastic 'world pillar' around which all else revolves, its roots in the lowest hell and its summit kissing the heavens. On the top lives their most revered God, Shiva, and his consort Parvati. For the Jains, an Indian religious group, Kailash is the site where their first prophet achieved enlightenment. For the older, more ancient religion of Bon, it is the site where its founder Shanrab is said to have descended from heaven. Over the centuries pilgrims have constantly journeyed immense distances to achieve enlightenment or cleanse themselves of sin, braving enormous distances, particularly harsh weather and bandit attacks.

Map 4.2 : Mansarovar and Kailash route

Nathu La has historically been Tibet's ideal life-line to the outside world and Tibet's markets at places like Yatung, Gyantse, Phari, Gartok, Taklakot, Gyanima-Ebargo, Gyanima-Chakra, Ramura, Dongbra, Poling, Nabra, Xigaze and Tashigong had once been Tibet's thriving trade centers for its trade with much of South Asia through Nathu La (pass). (See Map 4.3) Other mountain passes in use also included those at Shiqli La, Mana, Niti and Kungri Bingri though traffic through these had always been very limited and seasonal. Accordingly, the enthusiasm about this revival of trade through Nathu La has already been displayed by both sides is expected to evolve the requisite infrastructure to revive their past

once again. The then Chief Minister of India's Sikkim, Pawan Kumar Chamling, had been one person most active as also most satisfied with the progress made so far.

Map 4.3 Nathu La Pass and Border Trade point



With the opening of trade through Nathu La, concerned officials and leaders have already begun to work towards reviving their glorious past when this used to be part of historic Silk Route network between Europe and Asia and this mutual trade used to be the main source of income in these regions. It is because of this inherent suitability of Nathu La in facilitating trade and

transactions between China's Tibet and India's northeastern region, that their new initiatives – like the building of railroad linking Golmud in Qinghai to Lhasa (expected to be ready by 2007) as also with the further expansion of 180-km long corridor between Gangtok and Siliguri – are expected to provide that critical missing link that would join world's two largest railway systems and provide China an alternative (and far more reliable) access to markets in India, Bangladesh and rest of South Asia and Indian Ocean rim region.¹⁵

Indeed, this Kalimpong-Gangtok-Lhasa trade route had been on agenda for much of the China-India interactions during the 1990s. Connected by a 575-km long motorable route, this route can (a) cut this journey-time from a fortnight as through earlier trade routes to just two days time and (b) carry heavy goods which had not been possible in their border trade so far. According to a study sponsored by Asian Development Bank (ADB) on impact of opening trade route through Nathu La – that provides China an ideal outlet to both South and Southeast Asia – this larger region is expected to experience an economic transformation with regional trade going up by over ten times.¹⁶ As for China-India border trade, according to India's Ministry of External Affairs official statistics for year 1998 – when India's nuclear explosions had resulted in China-India trade and ties reaching their nadir – their two border trade points at Lipulekh and Shipki La had accounted for trade of over Indian Rupees 5 million.¹⁷ Since then, following

¹⁵ Amit Baruah, "Taking a new road", *Frontline* (Chennai), Vol 20, Issue 14 (05-18 July 2003), p. 45; Boris Cambreleng, "China plans to build railroad to Tibet", *Mail and Guardian*, cited at Canada Tibet Network at http://www.tibet.ca/en/wtnarchive/2002/8/15_2.html; also "India China discuss border trade", *The Times of India* (New Delhi), 15 August 2002. For example, for long time after MoU was signed on border trade through Sikkim China's official sites continued to show Sikkim as "independent kingdom" as earlier.

¹⁶ Kalyan Chaudhuri, "Routes of promise", *Frontline* (Chennai), Vol. 20, Issue 14 (July 05-18, 2003), p. 47.

¹⁷ "India's Foreign Relations, 1998-99: East Asia" available at their website at [http://www.indianembassy.org/policy/Foreign/FP_1999/EAsia_FP\)98-99.htm](http://www.indianembassy.org/policy/Foreign/FP_1999/EAsia_FP)98-99.htm)

boom in China-India trade in general, their border trade has already witnessed a ten-fold increase reaching Indian Rupees 52 million for 2001.¹⁸

Put together with their allegedly flourishing unofficial trade (read smuggling) and the opening of Nathu La trade point China-India border trade is expected to reach anywhere around Indian Rupees 500 million (i.e. over \$ 100 million). In fact, institutionalizing border trade is also expected to cast death knell for all illegal trade which has intrinsic links with insurgencies and crime in general. As said earlier, the real significance of China-India border-trade lies in intangibles and its real significance must be viewed beyond trade statistics or profit motive. One commentator indeed outlines five-fold economic benefits that are likely to accrue from opening of Nathu La pass.¹⁹ These include –

- *Flourishing two-way trade:* The northeastern states and indeed the eastern states of India could tap the Chinese market for their products and look at it as a more effective land route. This must be done instead of being overtly concerned by the import of cheap Chinese goods. In this the states must leverage their own strengths.
- *Supplying Intermediate products:* India becomes a new sourcing point for intermediary products which could feed Chinese factories for production of manufactured goods. For example, Haldia Petrochemicals Ltd., which produces the raw materials for polymers and the plastics industry, could emerge as a ready sourcing point for manufacturers of plastic goods in China.

¹⁸ K. M. Yatra, "For Want of a Bank", *Times Agriculture Journal* (Delhi: Economic Times, March-April, 2002) at http://www.etaagriculture.com/mar_april2002/state1.html

¹⁹ Shehla Raza Hasan, "New route could nurture new Asian trade bloc", *Asia Times* (Hong Kong), 03 July 2003.

- *A fillip to agro exports:* This entire region is a region rich in agricultural and forest produce. Eastern India has five agro export zones, and one in the northeast in Tripura would have a whole new market to access for agro and agri-processed food and related agro-industries.
- *Accessing third markets:* Partnerships and joint-venture collaborations could help in accessing export marketing network to third countries. This could also be part of their emerging sub-regional cooperation network.
- *Tourism and Travel:* Tourism could thrive in this region with land routes readily available. This could be developed into an integrated international tourist circuit. The whole border region is no doubt picturesque.

However, all this remains easier said than done and there remain pockets of resistance, skepticism as well as serious technical pitfalls and very serious security considerations. In India for example, Siliguri railhead remains Indian military's the most critical link for ensuring defence of India's restive northeastern region. Moreover, amongst the regional actors, China's support to insurgencies remains a sensitive chapter in India's past.

Even during the opening of their first two border points in the Central Sector of China-India disputed border, India's Ministry of Defence had had reservations and many in armed forces still remain skeptical of allowing China such an easy access in this sensitive region of India known as 'chicken's neck' in military parlance. And now, seen in the context of China's recent defence pacts with Pakistan and Bangladesh, several commentators have been suggesting caution in granting such unmitigated access to Chinese in this sensitive region. This link to northeast also becomes far more important given India's projection to build rail links to entire Indo-China region and Myanmar as part of India's Look East policy of engagement.

This skepticism is also borne out of India's earlier experience in granting Nepal a land corridor to Bangladesh in this region that has already been ridden with controversies about its facilitating network amongst various insurgent and terrorist outfits in providing them with access to sanctuaries around India's northeastern region. This land corridor has been used by Pakistan's Inter-Services Intelligence (ISI) and Nepal's Maoists in spearheading their operations in these sensitive border regions of India, Nepal, Bhutan and Myanmar.

Apart from insurgencies and terrorism, this region has also been vulnerable to several other trade- and transit-related pitfalls that include drug-trafficking, refugees, and spread of AIDS and small arms.²⁰ All these have made this region highly vulnerable with corruption, misgovernance and economic stagnation writ large. There are also fears that, with Chinese cheap products invading this region, the local business will be facing difficulties or worse that Chinese might import raw materials from this region and return manufactured goods something that revives memories of British colonialism in this region.

Political Significance of Nathu La

As the above discussion shows, much beyond its long-term economic significance, it is the immediate political debate that provides much visible media glare on Nathu La – thereby keeping it high on China-India political agenda – alludes to their complicated political equations. The political baggage is likely, therefore, to continue to circumscribe their pure and simple economic calculus on their border trade potential through Nathu La. But this is exactly what makes opening of Nathu La such a symbol of building mutual confidence between China and India.

Also, the fact that Nathu La still remains mired in their political differences will continue to hinder their efforts to use the

²⁰ For details see Tara Kartha, *Tools of Terror*, New Delhi: Knowledge World, 1999).

full potential of their border trade related initiatives. For example, their MoU on opening Nathu La in 2003 had generated a whole range of comments from one end to another. To cite some of the shades that represent the whole spectrum of Indian views with regard to opening of Nathu La one may include the following as samples of broad divisions in popular media response –

- ♦ *Firstly*, most commentators felt that even when this MoU on the opening Nathu La appeared to be politically innocent, it actually remains one with vital political significance.²¹ This was clearly one most neutral position. For this group, this MoU in effect implied China recognizing Sikkim as part of India though this has come bit too late i.e. 28 years after Sikkim's merger with India in 1975. This group generally indicated to opening of Nathu La marking a new positive phase for China-India ties.
- ♦ *Secondly*, there were others who highlighted China's continued reluctance. They refer to incidents of Chinese intrusions and capture of group of Indian security personnel by Chinese guards right at the time of Indian Prime Minister's visit to China during June 2003. They also allude to several sharp comments by China's foreign ministry spokespersons with regard to status of Sikkim both at the end of Indian Prime Minister's visit to China and later when two prime ministers met again in Bangkok for ASEAN summit during October 2003.²²
- ♦ *Thirdly*, some commentators were to take a middle-path and believe that opening of Nathu La was only a tactical Chinese move necessitated by their focus on

²¹ Mira Sinha Bhattacharjea, "China-India ties: No longer hostage to the past", <http://www.rediff.com/news/2003/jun/27/guest.htm>

²² Mohan Malik, "India's Dragon delusions", *Asia Times* (Singapore), 17 October 2003 at http://www.atimes.com/atimes/South_Asia/

development of their western region. They allude to China's repeated failures in achieving desired results in development of their western region without opening it to its traditional links with India. However, in the changed new context, opening of Nathu La is suspected to obtain Beijing access to South Asia's markets for its cheap exports as also greater leverage in resolving the boundary question with India by raising India's stakes in early resolution.²³

- ♦ And *finally*, there were those who considered this MoU opening of Nathu La as unmitigated victory for China; that this has been a China-driven decision with India playing reluctant second.²⁴ They believed that having been triggered by China's loss of markets following financial crisis in East Asia, Beijing finally agreed to make this concession to obtain China a critical entry point into South Asia without *formally* recognising Sikkim (let alone Arunachal Pradesh) as part of India.

For sure, Beijing has been seriously focused on the development of its western and southwestern regions and this requires engaging countries on its southern frontiers beyond Nepal and Pakistan. Especially, the booming economy of India becomes a major attraction that can be hardly ignored. Accordingly, this becomes fully understandable that China will have its own motivations and that it has been contemplating opening more border trade points.²⁵

²³ Sheela Bhatt, "China keen on opening border with Sikkim: Analyst", <http://www.rediff.com/news/may/23sheela.htm> The language of MoU remains round about on the status of sikkim.

²⁴ Brahma Challeney, "Appeasers selling India short", *The Japan Times* (Tokyo), 28 June 2003.

²⁵ Wang Hongwei, "Sino-Indian Economic and Scientific Cooperation Promising", *Beijing Review* (Beijing), No. 10, 7 March 2002.

Indeed, there had been reports about China for long contemplating setting up free trade zones along Tibet's border with India, Pakistan and Nepal and attempts at exempting goods for free-transit and reduction of tariff are seen as part of that long-term vision.²⁶ China and India have already begun discussing these issues since early 1990s though it was their inhibitions about resolving their political differences on status of Sikkim that had halted progress in this endeavour so far. But given new context of opening of Nathu La route these negotiations on FTA have since been also revived.

However, several other internal and external trends have also been goading two sides to enhance their interactions. As first thing, with their booming foreign trade, both have also since come to recognize their border trade as an instrument of building mutual confidence. Also, amongst various external factors, the growing global trends of economic liberalization and aggressive trends of regional cooperation battering away parochial obsessions with territorial sovereignty and national borders have pushed the two sides to finally take a more positive approach to their border trade.

And here, rather than continuing as being disillusioned with small statistics of their border trade, the two sides have begun appreciating its huge political capital that they can draw from these transactions as also the impact it has for their complicated border situation. Moreover, the earlier two route have also had severe limitations. In fact, after the tragedy of 1998 at Kalpa village where hundreds of pilgrims had died in a massive landslide, Nathu La had always been projected as an alternative route for pilgrims to Kailash and Mansrovar which adds cultural dimension to their economic explanations.²⁷

²⁶ . S. M. A. Kazmi, "Very Special economic zone, 14,000 feet high", Indian Express at http://www.expressindia.com/kashmir/full_story/php?content_id=32404#; also "China-Pak Free Trade Planned", *China Newsletter* (Confederation of Indian Industries, Delhi), No. 5 (May 2004), p. 7.

²⁷ "India to ask China to open pilgrim route after landslide disaster", *AFP Report*, 29 August 1998 cited at *World Tibet Network News* at http://www.tibet.ca/en/wtnarchive/1998/8/29_1.html; also see "180 feared dead in landslide", *The Tribune* (Chandigarh, India), 19 August 1998.

Expansion versus Consolidation

Even now, apart from these political pitfalls, their ambitious posturing and enthusiasm about their potential for enhancing their border trade continue to face hard hitting ground realities at the operational level. This means that these attempts at expansion of border trade will have to be met by equal focus on consolidating their gains already made. On this, their track record remains a mixed one, if not completely dismal.

Any assessment of China and India exploiting their earlier two border trade routes leaves so much to be desired, even at the level of pure logistics that remain within the ambit of local administration. This must provide caution to their designing of their respective national expectations from the opening of Nathu La as their third border trade route. And, it is here that much beyond their rapidly improving statistics on border trade, both sides have begun to emphasise on the unique role of border trade as the strongest and most agreeable instrument for socio-economic development that will go a long way in building mutual confidence for resolving the boundary question.

To restrict ourselves to commenting on the Indian side of administrative neglect, the border town of Gunji – their first border trade post in operation for over 15 years – till date has no electricity or telephones expect that, during the months of Mansarovar pilgrimage, government has been lately putting up satellite phones at Gunji, Bondi and Gala. The months between June-October are also treated as the trade period for this trade post and though on paper the State Bank of India (SBI) has had a branch in Gunji since 1992, they have not been able to provide foreign-exchange or credit support facilities to Indian traders who continue to depend on Bank of China at Taklakot in Tibet.²⁸

²⁸ *Ibid.*

Officially, SBI Gunji branch operates only between June-October and remains closed for November-May period. In 1998, SBI had indeed declared their Gunji branch as economically unviable and proposed its closure which was turned down by the Government. Despite several attempts by SBI, Ministry of Commerce and Uttaranchal officials it has not been able to provide foreign exchange facilities. The standard pretext remains that border trade has traditionally been a barter trade. As a result much of the border trade continues to be conducted in Chinese currency which results in (a) increasing difficulties for Indian traders to repatriate their profits and (b) provide virtual monopoly to Chinese as far as currency exchange rates are concerned.²⁹

More than this, using this Lepulekh Pass route, both traders and pilgrims have still to tackle several patches of non-existent tracks and roads that shrink to just six feet width and of course suffer from wet weather and the landslides.³⁰ Malpa, the scene of the 1998 landslide disaster had killed over 200 of Kailash Mansarovar pilgrims yet, not much has changed on the ground. Even today, beyond Mangati Nallah, there is a steep climb on foot for seven kilometers till Gala (3,250 meter height) followed by a descent down a rocky pathway to Lakhampur – on the banks of Kali river – which is an equally precarious six feet wide pathway dotted by several waterfalls making this road slippery as travelers face gushing winds and cold weather. One has to depend on ponies and horses to tackle these most treacherous terrains of Pitthoragarh district or hitch ride with one-tone trucks of the Indo-Tibetan Border Police (ITBP) depending on one's location and weather.

But this is perhaps exactly what makes two sides so enthusiastic about the opening of this traditional route through

²⁹ n. 7.

³⁰ Sumanta Roy-Chowdhury, "Pilgrimage: Kailash Mansarovar Yatra", *India Travelogue* at <http://www.indiatravelogue.com/leis/pilg1.html>

Nathu La pass. Barring short patches on the border, this once mule track now runs a 575 km-long motorable road from Kalimpong to Lhasa.³¹ Given its historicity, this is also the route that traverses through most of Tibet's main population centers. Also, despite their continuing problems, China-India initiatives in evolving their border trade have shown that opening of Nathu La carries an advantage of a jump-start, positive political climate, and booming economies with rising economic interactions on all fronts.

Therefore, even in face of their far too complex historical legacies of mutual mistrust, China-India border trade has gradually picked up momentum and has made a decisive contribution towards building mutual confidence. And, as much of the ground work in outlining its administrative and logistical framework has already been put in place these trends will now be accelerated to enable Nathu La to facilitate the process of making their border trade far more promising and effective than ever before.

Back to the Future

To recall India's trade agreements of April 1954 had been allowed to lapse given the worsening of China-India ties during late 1950s. Their border trade interactions had come to a complete halt following their bloody 1962 border war and their diplomatic freeze that followed for the rest of 1960s. It was not until 1984 that the two sides signed their first trade agreement and their *Protocol for Resumption of Border Trade* was signed only in 1988. This was followed by their further three agreements during 1991-92 on technical aspects of setting up their first border trade route between Dharachula (in India's Pitthoragarh district of Uttranchal) to Purang (or Pulan in China's Tibet) passing through Indian border town of Gunji and the 5,200-meter Lipulekh Pass at the India-Tibet-Nepal

³¹ n. 5, p. 45.

trijunction.³² This was soon followed by the opening of their second border trade post in June 1993 at Jiuba (in China's Tibet) and Namgyal (in India's Himachal Pradesh) through the Shipki La Pass.³³

A third route through Nath La was agreed upon in 1992 in principle yet had remained under discussion until 2003 which clearly underlines the influence that political climate has on China-India economic interactions. Their stalemate on Nathu La had been the result of their political differences on status of Sikkim that had acceded to India in 1975. While India had been suggesting opening of a trade route through Nathu La pass but between Tibet and Sikkim, China had been evasive on this as it implied recognising Sikkim's accession to the Indian republic.

As an alternative, China had been suggesting a route be treated as one between Kalimpong (in Darjeeling District of India's West Bengal province) to Renqinggang in Tibet, though this route would still pass through Sikkim to Yatung in Chumbi Valley and through Nathu La pass. This was understood to have no connotation for China's position on Sikkim's status as the route was to be considered as one between two end-points both outside Sikkim. This was not acceptable to the Indian side though there have been several alternatives presented by various Indian groups as well. Especially the West Bengal Government had been pushing for opening of Jelep La pass in its Kalimpong district as an alternative.

³² These agreements included (a) *Memorandum between the Government of the Republic of India and the Government of the People's Republic of China on Resumption of Border Trade*, 1991; (b) *Protocol between the Government of the Republic of India and the Government of the People's Republic of China on Custom Regulation, Banking Arrangements and Related matters for Border Trade*, 1992; and (c) *Protocol between the Government of the Republic of India and the Government of the People's Republic of China on Entry and Exit Procedures for Border Trade*, 1992.

³³ *Protocol between the Government of the Republic of India and the Government of the People's Republic of China for Extension of Border Trade across Shipki La Pass*, 1993.

It is in this backdrop that last few years had seen China-India ties gradually evolving an altogether new tenor with several new initiatives including those for building joint strategies in areas of countering terrorism, strategic dialogue and especially enhancing their bilateral trade – including their border trade – as instrument for building mutual confidence. China has also lately revived its strategy of settling territorial disputes by making mutual concessions which are seen as part of building trade links and ensuring peaceful environment essential for its modernization. As asserted earlier, this had been India's strategy to begin with in 1950s yet, war with China had changed India's views on this subject making India far more reluctant and circumspect about engaging China.

It was only gradually that with the rise of mutual trust and self-confidence on both sides that India become far more forthcoming since 1990s. In case of Sikkim-Tibet border trade route as well, it is their rising self-confidence and the resultant strengthening of their *rapprochement* that was to finally bring the two sides to signing their MoU for opening their third border trade route through Nathu La during Prime Minister Atal Behari Vajpayee's visit to China during June 2003 has since been projected as having heralded 'a new phase' of their ties.³⁴ With this both sides seem to be returning to what had been agreed in their agreement of April 1954, though their interactions today have altogether different connotations.

Conclusion

To conclude, therefore, as China and India are today recognised as world's fastest growing economies it is their bilateral trade where the growth rates have become phenomenal; almost an autonomous force unto themselves. In more recent years, for example, China-India trade has gone up from being \$4.9 billion for 2002 to \$ 7.6 billion for 2003 to now \$ 13 billion for 2004. This clearly lends credence to these ambitious projections for their future.

³⁴ "Text of declaration on border trade", *The Hindu* (New Delhi), 25 June 2003, p.12

Both China and India have also been evolving strong trading ties with Asian Tigers (or the ASEAN) and both plan to have free trade area with ASEAN respectively by 2010 and 2012 which should make it world's largest free trade area and facilitate China-India mutual trade and investment.

All this has to be seen along with China's increasing focus on improving their western and southwestern regions that borders India and where links with India are seen as integral part of their development. During these first three years of 21st century, for example, China has spent US\$ 85 billion over its much-talked about western region development program.³⁵ As a result, even in these poorer regions of China per capita incomes have been rising by 5 to 7 percent per annum and these increasingly prosperous regions have since been seeking outlets for their import and export requirements.³⁶

This realisation about the inevitability of enhancing China-India border trade has been emerging amongst India's decision- and opinion-makers as well though level of reluctance remains yet quite high and this arises from their security concerns as also administrative hiccups and inertia. Though no one any longer questions the suitability of border trade for resolving their problems yet there remains strong sense of keeping caution in giving China too much access and influence in India's volatile yet strategically critical regions like Nathu La. Thus, while both sides remain convinced on the methodology of using border trade as a potent tool for development and peace in their border regions, their current pace of progress remains slower than what is desired. But, in the end, the fact that passage of time has added momentum to their mutual initiatives lends hope for their future.

³⁵ "Their West, Our North", 04 September 2003, at <http://www.asiasource.org/trade/one>

³⁶ China's western development programme was launched with great fanfare in 2000. It covers 11 administrative units which include 5 autonomous regions of Inner Mongolia, Tibet, Guangxi, Xinjiang, and Ningxia; 5 provinces of Gansu, Guizhou, Shanxi, Sichuan and Yunnan and the Chongqing municipality. These constitute 70 percent of China's territories but account for only one-third of China's population. Their significance, however, lies in their being resource-rich and home for much of China's minority-nationalities.

Appendix

Memorandum between the Government of the Republic of India and the Government of the People's Republic of China on Expanding Border Trade

The Government of the Republic of India and the Government of the People's Republic of China (hereinafter referred to as the two sides),

With a view to promoting the development of friendly relations between the two countries and two people's,

Pursuant to the Memorandum between the Government of the Republic of India and the Government of the People's Republic of China on the Resumption of Border Trade signed on 13 December 1991, and Protocol on Entry and Exit Procedures for Border Trade signed on 1 July 1992,

Desirous of opening another pass on the China-India border and setting up an additional point on each side for border trade,

Have agreed as follows:

Article I

The Indian side agrees to designate Changgu of Sikkim state as the venue for border trade market; the Chinese side agrees to designate Renqinggang of the Tibet Autonomous Region as the venue for border trade market.

Article II

The two sides agree to use Nathula as the pass for entry and exit of persons, means of transport and commodities engaged in border trade. Each side shall establish checkpoints at appropriate locations to monitor and manage their entry and exit through the Nathula Pass.

Article III

All the provisions of the Memorandum on the Resumption of Border Trade signed between the two Governments on 13 December 1991 and the Protocol on Entry and Exit Procedures for Border Trade signed between the two Governments on 1 July 1992 under the Memorandum shall also be applicable to the border trade through the Nathula Pass.

Article IV

This Memorandum may be amended or supplemented by agreement in writing between the two sides.

Article V

This Memorandum shall come into force as from the date of its signature and shall be valid during the validity of the Memorandum on Resumption of Border Trade signed between the two Governments in New Delhi on 13 December 1991.

Done in Beijing on 23 June 2003 in two originals each in the Hindi, Chinese and English languages, the three texts being equally authentic.

For the Government For the Government of the of the Republic of India People's Republic of China

Chapter V

BUILDING CONFIDENCE

In view of the role that China-India bilateral trade and commerce have played in reviving and strengthening their *rapprochement* following India's nuclear tests of May 1998, their bilateral economic engagement has finally established its credentials as the most agreeable as also the single most reliable pillar amongst China-India confidence building measures (CBMs). It is this largely apolitical interface that is seen emerging as the most decisive force that underlines China-India *rapprochement* so assiduously evolved over last three decades, or more.

No study about the progress in China-India trade and commerce can confine itself to studying it purely as a profit driven exercise between their businessmen or even as the proverbial cause as well the consequence of Sino-Indian political *rapprochement*. It is in the realm of China-India political ties and political economy that the impact of their economic engagement remains far more critical, effective and lasting. Accordingly, a study on China-India economic engagement must highlight this larger picture as also evolve a more complex matrix highlighting various multilayered and multifaceted contours of this ever expanding interface thereby making this economic engagement one most reliable barometer for measuring the strengths and weaknesses of their mutual trust as also reliable basis for crystal gazing their future direction.

It is in this context that this chapter tries to underline these ever expanding political implications of China-India economic engagement and to highlight its potential in taking the lead in strengthening China-India *rapprochement* in the immediate and in providing a lead in building China-India strategic partnership in the coming years. Particularly, it is in the realm of these political implications of China-India border trade that an attempt will be made in examining the contribution of trade and commerce in changing the atmospherics around their complicated border problem on which two sides have been negotiating for over a quarter-century,

and more. Apparently, this is one area where bilateral trade and commerce can have such a direct impact in insuring peace and tranquility in the immediate and thereby facilitating gradual evolution of some kind of a package deal with both sides agreeing to finally demarcate their 4,000 km-long plus treacherous international boundary. Starting from here, their economic engagement can lead to China-India cooperation at several other bilateral, regional and even global levels strengthening their partnership as a major force in the 21st century world politics.

Economic Engagement as CBM

Starting from early 1990s, China's foreign trade has since come to be Beijing's most potent tool for dealing with its more difficult inter-state relationships. The metal of its trade and commerce has already been proved in China's relations with its arch adversaries like the United States, Japan and Taiwan and the same has also come to be the highlight of China-India relations. In China-India relations, this change had begun much before it showed its impact. It has since become part of public discourse which is now tilting toward obtaining popular endorsement to this thesis of economic engagement emerging as the strongest CBM in China-India *rapprochement*.

According to China *State Statistical Bureau* statistics for 1979-1997, for instance, while China's total trade had gone up by 14 times, their trade with India had gone up by 16 times during the same period. Such statistical projections, no doubt, have their own inherent vulnerabilities of being misrepresented or projected out of context. Especially, such projections suffer from severe limitations when it comes to demonstrating the proportionate political impact of these statistical projections. However, given the complicated historical legacies of these two countries, even the existence of an economic engagement underlines a major step forward let alone the progress that has been witnessed in their economic ties in last few years. All this sure represents stronger intent for cooperation

and this carries critical connotations for their capacities to overcome hurdles and this particularly promises to transform their relations in the coming years. This explains why efforts must be made to highlight the centrality of China-India economic engagement and why gauging the political impact of it needs to become the primary focus of any analysis of China-India relations.

Given the complicated nature and legacies of these two countries, it is the positive trends in any segment of their relationship that reflects their intentions and these elude to the direction of their future policies. These sectors, accordingly, must obtain precedence over the much complicated reality of their past as is reflected in their continued mutual skepticism and consequent low trade volumes and slow moving investments that have stayed on the margins. Of course, compared to their booming foreign trade, the volume of their bilateral trade remains still very small yet, it is the political impact that promises to make huge difference. It is in this special context that their problematic ties obtain their bilateral trade so much importance. It is these intangible returns in terms of its political impact that must become the focus of their official interactions and academic enquiry. It is these intangibles like friendship, peace and tranquility, mutual trust and understanding that remain an essential imperative if bilateral trade and commerce have to take root and flourish and in turn facilitate their political *rapprochement* including their economic ties.

Some Major Watersheds

The most visible watershed in terms of its political impact on China-India trade has been India's successful undermining – and to certain extent mitigating – the impact of India's lingering suspicions about China's special ties with Pakistan. It was in the year 1993 that India had become China's largest trading partner in South Asia, surpassing China's long-standing ally and India's arch adversary Pakistan. Not only India has stayed in the lead ever since but between 1993 and 1999 while Pakistan's share in South

Asia's bilateral trade with China declined from 44 per cent to 26 per cent, India's share increased from 35 per cent to 46 per cent between 1993 and 1996 from where it had crossed 65 per cent by 2003 (**See Pie Chart in Chapter 3**). Given the fact that 1999 had been a bad year for China-India economic ties, and that China-India trade has nearly quadrupled in last four years, India is likely to stay on lead in China's trade with South Asia. This confidence also comes from the fact that China-India trade remains as one most balanced while with exception of Bangladesh, China's trade with other South Asian countries has virtually become one-sided which means that chances of their progress have saturated.

The second most critical watershed was to occur following the nuclear tests of May 1998 in Pokhran (India) and Chagai Hills (Pakistan). Following this, even in face of primary anti-India political polemics, while Pakistan's trade with China registered a sluggish growth rate, India's trade with China was to rapidly regain its speed and strength. This formulation of trade being their strongest CBM was to be particularly vindicated once again following this pioneering role that bilateral trade was to play following India's nuclear tests of May 1998 which had pushed China-India relations to their nadir. Given their already evolved tenor, trust and mutual stakes, China-India trade was to surprise even experts by bouncing back to its normal pace before end of that year.

These positive indicators were to play a critical role in breaking ice between India and China and to lead the way for revival of China-India official interactions. Since then their overall *rapprochement* during the recent past has been clearly led by and premised on the rapid progress in China-India trade ties. In many ways period since then has indeed seen their overall interactions bounce back and clear several cobwebs that may not have been possible in the piecemeal manner of yesteryears. All this provides a great psychological boost for those who prescribe CBMs as the only panacea for resolving all imagined or real difficulties between New Delhi and Beijing.

Talking of the more specifics of trends in China-India trade following India's nuclear tests of 1998, the principle commodities exported from India to China then included mineral products, prepared foodstuffs, lakh and resins, inorganic chemicals, textiles and textiles articles, precious and semi-precious stones, granite and articles of stone, organic chemicals etc. Amongst these, the category of prepared foodstuffs were to show the largest growth of 11,251 per cent during 1996-1998. Similarly, the top items in China's exports to India had once included chemicals and allied products, which constituted nearly 33 per cent of their total exports to India. Of these the organic chemicals are mostly used for India's vast pharmaceutical industry. The second largest item is mineral products, which constitutes 15 per cent of China's exports to India and bulk of this includes metallurgical coke. The other items also include raw silk and silk yarn, pulses, mercury and antimony, fresh water pearls, pig iron and newsprint. Not all sectors of their bilateral trade, therefore, were equally vulnerable to the negative impact of their political polemics of this period.

The third most visible watershed in their bilateral trade operating as the strongest CBM lies in its emerging as a catalyst in building mutual trust and understanding and tranquility on the China-India border. Despite being such a low-profile subject China-India border trade has since achieved irreversible strides which can not be measured in tangible form of border trade statistics. Their border trade has most substantially increased the free flow of both goods and people across borders thus expanding mutual transparency and solidifying their mutual confidence in their disputed border regions that had once seen two countries fight a shooting war in October 1962 and maintain strict vigil ever since.

In fact, the situation on the border has since been so completely transformed that two sides have since been negotiating on creating a Free Trade Area between these two countries. Especially, compared to the India-Pakistan border where shelling remains a normal routine, China-India border has remained peaceful

since their last skirmishes during in 1986-1987. In anything, troops now cross China-India LoAC only to participate in each other's national day ceremonies. As a result, their border trade may represent extremely low percentage of their bilateral trade volume yet, considering the freedom and interaction that it generates amongst the people in border regions, it has greatly facilitated their lives in these difficult high-altitude regions providing hope for a possible solution to China-India dispute about their boundary demarcation.

And finally, in terms of pure statistics, in the wake of India's nuclear tests annual trends were also to prove the strength of China-India economic engagement. No doubt while the growth rates of their annual bilateral trade which had witnessed a boom period since mid-1990s with annual growth rates between 20 to 30 per cent, this had dipped to 0.5 per cent and 0.34 per cent for 1998 and 1999 yet, it was to soon begin witnessing a steady rise of 4.7 per cent for 2000 and an impressive 37 per cent for 2001 but was to witness 42 per cent growth for 2002 and still impressive 54 per cent growth for 2003 and 62 per cent for 2004.

For year 2004 this was expected to grow by another 32 per cent which augurs very well for their economic integration. In more specific terms, the given the fact that starting from April 1999 two sides had revived their direct flights and that in 2002 China declared India as preferred tourist destination and Premier Zhu later talked of India and China together becoming the information technology superpower during his India visit sure displays power of their economic ties. Since then the two sides have been talking of 'strategic partnership' and even of extending it to the Russia-China-India strategic triangle.¹ All this reflects their new mutual confidence building.

¹ "China and India launch first strategic dialogue", *China Daily* (Beijing), 24 January 2005; "China, India hold strategic talks", *China Daily* (Beijing), 25 January 2005.

Impact on Border Communities

Amongst, their major initiatives with regard to border trade, both China and India had started negotiating from early 1990s by opening two trade points in the central sector and by allowing free exchange in 15 local items amongst border communities which showed critical impact in the daily lives of local communities.² Since then the number of such border trade points has reached three and exempted items has been expanded to 29 and much more remain under discussion amongst officials. However, since none of these items are capital intensive, statistics can not express their actual contribution as also the political significance of allowing a direct economic intercourse amongst these overlapping communities in these remote border regions.

Also, much of their border trade remains in barter format and therefore unaccounted making the monetary value of border trade very low when it comes to statistics. But, as its most visible outcome, this expanding border trade has not only brought peace and stability amongst these communities in border regions but also greatly facilitated better and cost-effective border management activities by both countries' personnel deployed for maintaining peace and tranquility on the border regions.

To give specific example of the impact of encouraging border trade between India-China, even with an extremely limited success of first two border trade routes, the 1990s had witnessed revival of various cottage industries in various regions in the Central Sector of China-India border. In Pitthoragarh district of Uttranchal (India), for example, this had resulted in the whole sale revival of carpet-weaving industry which had been simply shut down following the 1962 war as it depended entirely on Tibetan wool supplies which had stopped after 1962 war.³

² These include wool, goat skin, yak tail, yak hair, goat, sheep, horses, salt, borax, China clay, butter, silk and Szaibel yite.

³ Rajesh Kadian, *Tibet, India and China: Critical Choices, Uncertain Future*, (New Delhi: Vision Books, 1999), p. 176.

Similarly, the revenue generated by the silk transactions from both sides has also since changed the very nature of their century old barter trade between the tribals of Vyas valley in the higher Himalayas and their Tibetan counterparts. Indeed, this lure of making fast money through this duty-free Silk barter trade today attracts adventurous traders from Indian big cities from West Bengal, Rajasthan, Haryana, and Uttar Pradesh. So much so that this seems to have created panic in India's Central Silk Board that has repeatedly requested the Central Government to take anti-dumping measures against such transactions.⁴

Indeed, there have been complains that this influx of outsiders in general have diluted the spirit of this traditional 'barter-trade' of border communities and misuse of duty-exemptions has led to corruption. But invariably, it is not the Chinese but Indian traders to have been involved in much of these transactions bringing cheap Chinese goods into India. According to Indian Trade Officer on Lipulekh Pass, during year 2002, while only three Chinese traders were issues pass, 367 trade passes were issues by Chinese officials for Indian traders, helpers and porters.⁵ Similarly, dumping debate has also been unusually vigilant when it comes to China, while serious studies do not portray China to be the worst example.

At the bottom line, however, with all its political and administrative pitfalls, the recent opening of Nathu La pass for border trade seems to hold promise for China-India economic ties. Besides, this recent boom in China-India border trade has had its trickle-down effect and brought some prosperity on both sides though things could be managed better. Apart from bringing prosperity to these communities in border regions, border trade

⁴ K. M. Yatra, "For Want of a Bank", *Times Agriculture Journal* (Delhi: Economic Times, March-April, 2002) at http://www.etagriculture.com/mar_april2002/state1.html n. 13.

⁵ *Ibid.*

has also greatly facilitated peace thereby making border management easier and more hospitable for the personnel deployed for maintaining peace and tranquility in India-China border regions. These rising mutual stakes and mutual confidence has ensured that, in tune with their decision to open Nathu La, both sides will continue making efforts to expand their border trade in the coming years.

Border Trade and Border Dispute

Apart from the fact that opening of Nathu La is expected to provide a new boost to their border trade, the impact of opening Nathu La from June 2003 has already begun to be seen in terms of this facilitating resolution of China-India border dispute in the long run. Amongst others, border trade through Nathu La is expected to have direct impact in transforming the life of communities in these border regions this has since created a new zeal amongst people of this entire eastern region of India, especially amongst traders. This is also expected to indirectly create fertile ground for peace and tranquility and facilitate confidence building between China and India. Indeed in both academic and official debates, their bilateral trade and especially their border trade has come to be recognised as the most reliable as also the most agreeable pillar of their *rapprochement*.⁶ Therefore, major strides of their border trade have begun to be viewed beyond the limited canvass of their tangible trade statistics.

Indeed, both sides have since begun to underline its intangible outcomes like providing new atmospherics for resolving China-India boundary question. As a result, the two sides have, of course, since accelerated the pace of their border

⁶ For details see Swaran Singh, *China-South Asia: Issues, Equations, Policies*, (New Delhi: Lancers Books, 2003), pp. 141-144; also Swaran Singh, "China-India Border Trade: A Tool for Building Confidence", in Isabelle Saint-Mizard and James K. Chin (eds.) forthcoming title from Center for Asian Studies, The University of Hong Kong, 2005.

negotiations with view to evolving a political deal on their boundary question.⁷

At the most visible level, China-India border trade has already substantially increased the free flow of both goods and people across these problematic borders thus enhancing mutual transparency in these high-altitude and isolated regions that had witnessed a bloody war in October-November 1962. From that point of view, border trade has had its share (and stakes) in making this India-China Line of Actual Control (LoAC) completely peaceful. Besides, this institutionalizing of border trade is also expected to allow better monitoring and administration of border regions and to discourage smuggling and dumping as also help stop proliferation of drugs and small arms which has been bane of China-India interface in some of these sensitive border regions in the eastern sector of the China-India border regions.

But amongst the first piecemeal positive processes resulting from the opening of their border trade routes, the pilgrims being permitted to visit holy sites of Mount *Kailash* and *Mansarovar*, the significance of which can not be measured in statistics, though this has been seen as a precursor of a more lucrative tourism trade that is likely to follow from the opening of more mountain passes like Nathu La pass.

It is also important to note that their remains inherent limitations amongst both sides to afford isolation and evolve peace and prosperity without accepting their inherent inter-dependence. For instance, all the goods and services that these people of border regions seek to exchange are neither high technology nor capital intensive and therefore can not easily be provided by their respective major industrial and population centers that lie far behind making

⁷ Another major breakthrough success of Indian prime minister's visit to China during June 2003 was appointment of special representatives (Brijesh Mishra and Dai Bingguo) to provide 'political perspective' and speed to border negotiations. This had since ignited speculations about some package deal being under negotiations.

transportation and logistics expensive affair. This is perhaps especially true of China where Tibetan plateau and Kuen Lun mountain ranges have been a challenge from ancient times. Accordingly, both sides find it uneconomic to keep their borders closed on each other and to supply to their respective border communities.

Besides, most of their trade in border regions also includes items that remain specific to these high mountain ranges and in many cases final products require ingredients from both sides of the border. Therefore the criticality of border trade for building peace and development amongst these border communities can not be cost-effective if provided exclusively by respective countries; nor can these links be fully appreciated if understood only in terms of their monetary value or trade statistics. Therefore, more porous border seems to suit both sides. There are also intense socio-cultural links that become active in promoting sustainable peace and development once normal intercourse is allowed amongst these communities in these otherwise remote isolated border regions.

Especially, the monetary values of goods exchanged also remain under-represented because, apart from being items that are low in price, these exchanges are often carried out on barter basis or most of these fall in duty-free category where no statistics or custom records are available for their transactions. Then there is also unaccounted transactions which continue to thrive in the absence of formal legal channels. This necessitates that the value of China-India border trade must be assessed not in trade statistics alone but on the basis of their contribution to overall political stability and social development and to the maintenance of peace and tranquility in these border regions. A true assessment of the political significance of China-India border trade, therefore, must also include resource allocations saved due to the downsizing of border deployments and the consequent reductions in respective budgets and human sufferings involved in border security management as its profits.

Future of China-India Partnership

Much of this focus on border trade will of course continue to operate within this larger picture of their bilateral trade and commerce and will surely need continued boom in trade to sustain this evolving new goodwill towards treating border trade as tool for resolving their border dispute. And here, amongst the most likely future trends in the China-India economic partnership, it is India's growing expertise and presence in the global market of computer software that seems to offer Beijing the strongest incentives to build economic engagement with New Delhi.

From China's perspective, the whole information technology sector can specially strengthen China's hands in dealing with its intellectual property rights (IPR) related problems which often become problematic given Western countries' motives and their anti-China campaigns. Other uncharted areas for future economic engagement between China and India where India can offer incentives to Chinese business can include joint development and manufacture of aircraft and other aviation technologies (for civilian needs to start with), ship-building and repairs, railway equipment and several sectors in agriculture and mining technologies etc.⁸ Some discussion have occasionally taken place in these sectors and these interactions are likely to be consolidated further in the coming years.

Lately, such interactions have also witnessed China and India occasionally taking concrete steps and these can become the critical building blocks in their gradual movement towards expanding co-operation in more advanced and critical sectors and technologies. China, for instance, had supplied enriched nuclear fuel for India's Tarapore nuclear power plant during January 1996. China has also shown increasing interest in collaborating in other high-technology areas like joint production of 100-seater civilian aircraft

⁸ Jasjit Singh, "Future of Sino-Indian Relations", *Strategic Analysis*, Vol.xvi No.11 (February 1994), p.1512.

or participating in India's ambitious Light Combat Aircraft project.⁹ These are areas which will provide India strong incentives to build economic partnership with the Chinese. These are also areas cooperation in which remains premised on mutual trust and understanding and such intercourse only further strengthens politico-strategic bonding and partnership.

Indeed, the momentum of cooperation has really picked up speech during the last few years. Until end of 1990s, for instance, Indian business was known for its reluctance in investing in Chinese market and India had only 5 Joint Ventures in China and about a dozen other Indian companies have opened their representatives offices in various part of China and the CII had closed its office from Shanghai finally in August 1999. But especially after their nuclear explosions of 1998, Indian government had taken several initiatives in promoting this relationship and, in June 1999, the Consulate General of India, in collaboration with the Ningbo Foreign Trade and Investment Commission and the Ningbo Foreign Affairs Office had organised the fourth in the series of 'Seminars on Trade and Investment in India' in Ningbo (Zhejiang Province) which was to provide a boost to dampening economic ties during these difficult times. The earlier three such seminars were held at Hangzhou, Nanjing, and Shanghai.

The picture has entirely transformed ever since. Indian companies like Ranabaxy (a pharmaceutical company) and NIIT (in information technology education) are today on the lead in their respective fields and they have invested in China extensively. Others like Wockhardt and Sun Pharmaceuticals are in the process of setting up Joint Ventures. Confederation of Indian Industries has itself has been very active and it has since re-opened an office in Shanghai and this venture has proved very successful in coordinating

⁹ Vivek Raghuvanshi, "China Asks to Develop LCA Fighter with India", *Defense News (USA)*, 15-21 August 1994; also "India, China and South Korea will form consortium: Plan to Build Passenger Plans", *The Times of India* (New Delhi), 28 August, 1995.

Indian companies' trade and investment in China. In fact, negotiations for third country joint ventures amongst these companies has already been on the anvil for quite some time.

Sub-Regional Perspective

It is sometimes ago that India had moved from viewing their border question from a legalistic-holistic perspective to a more pragmatic regional perspective of three sectors, trying to resolve the easiest sector first. Viewing China-India economic engagement from this regional and sub-regional perspective, India and China have been playing a major role in regional initiatives as also regional economies. To begin with, economic forums have provided them the platform to strengthen their mutual confidence and dynamism in ever expanding their economic partnerships. Amongst these, China-India have already been working together several formal forums like the Economic and Social Council for Asia-Pacific (ESCAP), the Asia-Pacific Economic Cooperation (APEC) Caucus or Asian Development Bank (ADB) and even in several other more flexible and informal multilateral efforts for regional and sub-regional cooperation.

One such informal and regional forum that has had critical political agenda and impact in ensuring peace in this troubled region called the 'golden triangle' involving upper Myanmar and parts of India's northeast and China's southwest and also Bangladesh has been the Kunming Initiative of 1999. This forum remains focused on building economic cooperation – and infrastructural connectivity amongst these four countries for that purpose – and it holds four nation annual conferences involving experts, official and business people. It also seeks to highlight the special needs of China's southwestern provinces, India's northeastern states, Burma and Bangladesh that represent one of world's one least developed and conflict prone regions. Especially, given the nature of their problems – that include spread of small arms, drug-trafficking, AIDS, insurgencies refugee migrations, and related cross-border crime –

economic engagement can inject tremendous mutual confidence between these countries which remains one essential pre-requisite if they have to make effective all their efforts at development and peace for this region. China-India economic engagement has been both cause as well as consequence of such regional initiatives and it promises to help promote such initiatives.

The peace and stability of this larger region remains vital for the peace and stability of all four nations as also for their mutual relations. If all four nations are able to use their trade and commerce that can provide a lead in their working together in this regional framework, this region has tremendous potential to offer itself as a bridge rather than as barrier for China-India ties. Simply, by exploiting its mineral resources, forests, fertile lands and favourable weather and human resources this region can bring prosperity which underlay the strength of China-India relations from antiquity. Indeed, until the liberation of new republics of India, Burma, China and Bangladesh, this region had had an excellent transport and communication network during the late British period.¹⁰ The political differences amongst these newly independent countries not only made it difficult to take any joint initiatives for common development of this region but actually resulted in encouragement of various insurgencies and other anti-state activities.

Some progress have, no doubt, been made during these more recent years yet their cooperation in promoting projects like Asian Highway or Trans-Asian Railway still leaves much to be desired.¹¹ And here, opening of Nathu La obtains special significance in view of these evolving larger linkages. Some of

¹⁰ But even the British never used these facilities to promote the social welfare of local people of this region. Instead, they used it to expand their British Indian empire.

¹¹ For details seen Swaran Singh, "Myanmar: The 'Strategic Hub' of the 21st Century Asia", *USI Journal* (New Delhi), Vol. CXXVIII, No. 532 (April-June 1998).

the stereotype mindsets have though continued to influence policies. However, the intensity of their mutual skepticism has often depended on the nature of ruling regimes and in some cases smaller issues have been allowed to become bigger for gains in political populism.

In such a scenario, various proposals for river navigation and gas pipelines have been floated yet continue to be unattended given political differences or low national priorities attached to these regional and even global perspectives which have repeatedly halted progress in cooperation amongst these regional economies. But this new tenor of China-India ties should mean change in atmospherics for regional level initiatives and this in turn is bound to have its echo for China-India economic ties and to their positive political implications.

Regional/Global Perspectives

Looking at the larger region, Southeast Asia has been particularly region of China-India collaborative activism though China has been particularly successful in promoting economic engagement with countries like South Korea and Japan to stabilize their politico-strategic equations. Similarly, China has also been active in almost all Asian regions, regional efforts at building soft-security frameworks evolving CBMs as first critical step towards resolving their long-standing and deep-rooted disputes.

Starting from its particularly critical role during the East Asian financial crisis of 1997 China has since launched itself into engagements with much of Asia except for West Asia which remains far too chaotic as also exclusively within US influence. Especially, China's success in its new initiatives vis-à-vis several Central Asian and ASEAN states have generated special interest in this approach across Asia and beyond. China's growing focus on staying out of local conflicts and on emphasizing on their economic dynamism in their inter-state relations seems to be the

new flavour of China's South Asia policy.¹² To some extent, the same also remains true of India.

Along with other regional countries, these joint initiatives by India and China at various bilateral, regional and global forums, promises to have direct positive impact on India's overall profile including its trade and commerce. There are several issues on which Beijing's interests coincide with those of New Delhi. From India's point of view these may include (a) further liberalizing trade in textiles; (b) liberalizing the movement of skilled workers across national borders; (c) resisting attempts to give multinationals the automatic right to invest in any country etc. Some of this jointmanship has been visible in China-India cooperation at successive WTO meetings.

India may be far more dependent on its goodwill in the West and for remittances from non-resident Indians but the number of Chinese working abroad has also been increasing. May more issues of common interest continue to be explored to evolve joint strategies at all bilateral, regional and global forums for economic enterprise. In view of their ever growing mutual engagement and mutual stakes and common interest various new avenues can also be explored and exploited and such prospects augur well for strengthening their mutual trust and goodwill to work together.

From the global perspectives, rise of China during last two decades has since provided Beijing a clear global perspective where it sees its core national interests intertwined with other players in international community. And in this, more dynamic societies like India naturally attract greater notice. One major issue attracting both Chinese attention and global attention about China was the long-drawn process of China's entry into World Trade Organization (WTO). China is not only the largest exporter amongst the

¹² for details see Swaran Singh, *China-South Asia: Issues, Equations, Policies*, (New Delhi: Lancers Books, 2003), especially chapter 14 "China's Posture of Neutrality"

developing countries but also the one that generally enjoys huge trade surpluses with countries like Japan and the United States – the two largest exporters themselves. It was interesting to follow the arguments around the world talking about how WTO had been incomplete without China and how, from the point of view of developing countries, China and India are seen as the only countries that can make a real bargain at global trade talks.

It is from this global perspective that China has since promoted initiatives like the *Boao* Forum for Asia which seeks to become Davos (World Economic Forum) of the east in the coming years. This initiative goes back to October 1999 when then Vice Chairman, Hu Jintao had discussed this idea with several Asian leaders which had resulted in their first meet at Boao (in China's Hainan province) during February 26-27, 2001. Since then it has been having its annual meet which receives several heads of State and Government from Asian countries. Again, India has been an enthusiastic participant at this annual meet though its official participation has not yet been at the very highest level.

India's Future Challenges

Rise of China since 1990s and China-India economic partnership from late 1990s has also had its flip side. While this new closeness may have resolved some of their older issues and skepticism or at least provided hope for evolving solutions for these lingering political problems, this has also generated at least few new challenges for India's policy makers and interlocutors. New Delhi has to deal with these to ensure continued success of its confidence building with Beijing.

China's piecemeal entry into World Bank, IMF, IDA and later into the ADB and WTO, for example, have shown their dislocative effects on India's borrowings. As one World Bank director once lamented, given their similar strengths and weaknesses, "India has borne the burdens almost exclusively

for Chinese membership.”¹³ Whereas until early 1980s India use to procure upto 40 per cent of IDA loans, in the Eighth Replenishment in 1981 India and China were to share equally a total of 35 per cent of IDA loans.¹⁴ All these have only enhanced China’s competitiveness in international market as also in all other sectors. And though it has supported China’s entry into all these international institutions yet, each time India has also been anxious about the consequences of China’s entry into these bodies.

Then there are challenges that have not even surfaced into open debates. Several Chinese experts, for instance, believe that China’s economic reforms and open-door policy may be the beginning of China’s transition towards Western style democracy that proceeds from economic and social arenas to constitutional and political arenas.¹⁵ Indeed, China’s democratic transition might have already been set in motion and China’s democracy, therefore, may come much earlier than Deng Xiaoping had predicted.¹⁶ But once so established this will also rob India of its credentials of being the largest democracy of the world; a reality that is not yet seriously contemplated but will be difficult to deal with. Such a situation is bound to exacerbate the irritants that get ignored in their current bonhomie.

¹³ Harold K. Jacobson and Machel Oksenberg, *China’s Participation in the IMF, the World Bank, and the GATT: Towards a Global Economic Order*, (Ann Arbor: The University of Michigan Press, 1990), p. 136-37.

¹⁴ Harold K. Jacobson and Machel Oksenberg, *China’s Participation in the IMF, the World Bank, and the GATT: Towards a Global Economic Order*, (Ann Arbor: The University of Michigan Press, 1990), p. 137.

¹⁵ Yanlai Wang, *China’s Economic Development and Democratization*, (Burlington, USA: Ashgate Publishing House, 2003), p. 231.

¹⁶ When Deng was holding talks with members of the Drafting Committee of the Hong Kong Basic Law on 16th April 1987, he said that national free election on Mainland China could come after the first half of the 21st century. See Deng Xiaoping, *Selected Works of Deng Xiaoping – Book Three*, (Beijing: People’s Press, 1993), p. 220.

Some of the more conventional challenges that India's economic engagement of China will continue to face may include, amongst others, the following –

- ♦ *Language* apparently seems to one most visible barrier and has often been a hurdle in at least initial business negotiations and in reading and writing of necessary documents which often makes it cumbersome to conduct efficient business with China. This remains noticeable problem though China has been increasingly publishing documents in foreign languages.
- ♦ *Banking* links remain slow and sluggish and need to be built and further strengthened. State Bank of India and Bank of India need to upgrade their offices in Shanghai and Senzhen and other banks should also open offices. The situation of bank support has been particularly wanting in case of India's border trade posts and this does not appear to be going in the short run.
- ♦ *Standardisation* of quality and payments remains a problem and this often happen to only re-enforce their underlying skepticism of each other. Also, there is strong need for codification of new regulations and creating a level-playing field for foreign investors which does not seem getting rectified.

Similarly, Indian side has its own hiccups and stories of Chinese businessmen frustrated can be equally discouraging. But India also has some inherent strengths that will keep China interested in building bridges with New Delhi as also equip India in dealing with rising power of China. Even when India may not be on par with China in economic terms, there will be areas where India feels stronger than China. For one, India does not have the kind of ideological discrimination against its own indigenous private firms that China has had though it is being rectified rapidly.

It is no coincidence that India today claims to be home to several world-class firms – owned and managed by Indians themselves – even though its economy is only half the size of Chinese economy and India began its current phase of reforms a full decade later than China. In software, Infosys and Wipro operate on a global scale to provide low-cost and high-quality products and services. In the pharmaceuticals and biotechnology industries, firms such as Cipla, Ranbaxy Laboratories, and Biocon compete head to head and are beginning to win fierce competition with MNCs in certain product segments.

Also, while India's current growth rate stand at about about 80 per cent of China's, India has been achieving this growth rate on the basis of about half of China's savings rate and less than 10 per cent of China's FDI inflows.¹⁷ This is an indication that capital utilization in India may be more efficient and makes India increasingly more attractive to be engaged by the outside world, including by the Chinese.

Conclusion

To conclude, therefore, though India-China politico-strategic equations will continue to have their impact on the potential of their economic integration, their interactions in trade and commerce – especially border trade – have evolved their own strong fundamentals that remain poised to withstand their occasional political polemics. Also, there is no denying the fact that broadly guided by their politico-strategic equations some skepticism will continue to affect Sino-Indian economic interactions for long time to come. To give one example, it is often argued that given the fact that the Chinese goods are cheaper, there should be nothing wrong with India buying them directly and that India need not overreact and let Chinese goods flood Indian market as long as the larger political promise makes

¹⁷ Yasheng Huang, *Selling China: Foreign Direct Investment During the Reform Era*, (Cambridge: Cambridge University Press, 2003, p.332.

it cost-effective in view of cost-benefit analysis based on the political impact of China-India economic engagement.

But this represents only part of the truth as this definitely does not represent the opinion amongst India's businessmen, especially those from the affected sectors and from India's northeastern region. Several chambers of commerce and industry and other manufacturing sectors have often been up in arms at this trend of cheap Chinese goods virtually invading Indian markets.¹⁸ In January 2005, twenty Chinese Silk manufacturing companies have since formed a group to 'watch and coordinate' silk exports to India and to cater to India's anti-dumping issues.¹⁹ Their continued protestations have in fact resulted in Government of India initiating increasing number of anti-dumping investigations against smuggled or under-voiced Chinese imports and, on 11 November 2000, India's Customs Department had carried out major crackdown on such Chinese products across major Indian cities.²⁰

In sum, however, such continued skepticism in trade practices can hardly provide any promise for a mutually convenient and sustainable economic proposition. A lasting economic integration has to be based not only on both sides appreciating each other strengths but also being able to appreciate each other's limitations. There is definitely need, therefore, for all confidence-building strategies to continuously take stock of the nature and composition of their bilateral trade and commerce and to explore into fresh investment opportunities.

¹⁸ T.K. Bhaumik, "Facing the Chinese Competition", *Economic Times* (New Delhi), 1 November 2000, p.10.

¹⁹ Anil Joseph, "China's Silk majors form group to protect against anti-dumping", *PTI News*, 25 January 2005, at <http://www.ptinews.com/>

²⁰ Prasenjit Bhattacharya & Sahir Anand, "Nationwide raids on Chinese goods", *Economic Times* (New Delhi), 12 November 2000, p.1.

Chapter VI

FUTURE TRENDS

Predicting or even crystal-gazing futures can be a perilous exercise. This remains especially true of China and India that represent unique and complicated experiments in more than one ways and remain vulnerable to numerous challenges as future unfolds known and unknown factors and forces. Their bilateral economic engagement remains especially suspect as their new found bonhomie remains as yet fragile and any threats to their well being can push both sides to quickly fall back to their parochial and myopic visions goaded by their past rather than future.

On the positive side, however, rising China – with integration of Hong Kong and Macao and expectations about return of Taiwan to mainland – promises to make Greater China as the most important player in Asia-Pacific region as also biggest trading partner of India¹. Similarly, India's growing curb of improving growth rates ensures that India will be able to make best of available opportunities and that it is more likely that China and India will stay on course and contribute to their mutual peace and progress as also to the stability and peace of this larger region.

It is in this perilous and uncertain specter that this concluding chapter tries to project trends in China-India relations when it comes to their economic engagement emerging as the strongest positive force in mending their political ties and resolving their political differences.

Competitive vs. Complimentary debate

To deal with the one most oft-repeated description of China-India economic engagement, their future course has been often painted as one pushing them to become natural competitors in labour-intensive low-technology exports. Given their

¹ N. Vidyasagar, "China to be India's No. 1 trade partner", *The Times of India* (New Delhi, 10 Feb 2005, p. 1

problematic political legacies, this argument is often extended to connote a zero-sum game situation for China-India equations where success for one must directly result in loss in opportunities for the other. Then there are those who underline their current trends of *rapprochement* yet believe that their continued robust economic dynamism will inevitably result in their turning into strong competitors at some future date. No doubt there remains certain validity to this line of argument yet, given the track-record of managing their economic interactions during last two decades or more, even the most conservative estimates reflect a positive picture about the future prospects of China-India economic engagement.²

To begin with, there prevails a near consensus on the argument that India's reforms and opening up have been positively supported by the precedence of China's experiments with reforms and restructuring of its economy and especially by the atmospherics created by the success of China's economic reforms. For India, China today stands as the nearest example of success of a large sized developing Asian country with similar strengths and limitations. But apart from being identical and, therefore, competitive, there remain several fundamental divergences that also make them – and will continue to make them – complementary in several sectors and in terms of several new methodologies. This optimism is especially reflected in their recent experience that elude to their ingenuity in expanding areas of their cooperation by evolving new opportunities in both manufacturing and services sectors.

Even in its labour intensive export sectors India's organizational structures, business culture, and new consumer technologies remain quite different and are not identical to that of the Chinese which have since become relatively advanced but

² K. Subrahmanyam, "Befriending the Dragon: An Objective Approach to Sino-India ties", *The Times of India* (New Delhi), 5 August 2004, p. 16.

increasingly less cost-effective.³ India by comparison has its own advantage of having a much younger workforce for the coming decade or more. Also, Given their rising income levels labour is increasingly becoming expensive in China.⁴ As a result, the current phase of India's liberalization may have begun more than a decades after one launched by Beijing yet both remain contemporaries in staking claims to new opportunities in their socio-economic development and to their rising stakes in regional and global decision-making. This has and will continue to generate its own economic logic compelling China and India to explore and devise joint strategies in dealing with new trends of globalization in international political economy.

No doubt, it appears now that the sheer economic logic, therefore, will continue to bring China and India closer yet, the credit for taking critical initial steps for their *rapprochement* primarily goes to their bold political initiatives. China-India economic ties are now rapidly entering a phase where they are beginning to complement, if not lead or determine the nature of their political equations and initiatives. This promises to provide their economic engagement with both leverages and incentives to sideline their political differences and evolve joint strategies to deal with not only their bilateral problems but also to deal with regional and even global challenges with regard to West dominated global decision-making on matters of international trade and commerce as well as international politics. And, it is in this area that two have begun to project some linkages between some

³ Ross Garnaut, "India and China: Reforming Giants", *Asia-Pacific Magazine* (Canberra, Australia), No.2, May 1996, pp.11-16 at <http://coombs.anu.edu/SpecialProj/APM/TXT/garnaut-r-02-96.htm>

⁴ *Human Development Report 2004* (calculating on ppp terms) puts China's per capita income at \$ 4,580 per annum where China's official figure describes it as \$ 1,087 for year 2003. "How is China's per capita GDP of US\$ 4,580 calculated?", *Peoples Daily Online*, at http://english.peopledaily.com.cn/200408/05/eng20030805_151944.html

common thinking on coordinating their responses if not yet building joint strategies.⁵

The evolving clearer shape of Russia-China-India strategic triangle – that now have institutionalized regular meetings of three foreign ministers – and the recent strategic policy shift in China finally extending its support for India's candidature for the permanent seat at the UN Security Council provide strong indicators of such positive trends in China-India ties.⁶ Indeed, during the December 2004 visit to New Delhi by Russian President Vladimir Putin, his joint statement with Indian Prime Minister, Manmohan Singh, had devoted a full paragraph on this evolving Russia-China-India strategic triangle relationship expressing "their conviction in favour of progressive increase in the trilateral cooperation" symbolizing their expanding agenda.⁷

It is the contention of this author that all attempts to portray China-India ties based purely on past experience remain inherently flawed with limitations. Given the ingenuity of their recent interface and depending on how these two Asian giants visualize their own future profiles, the coming times can offer several new opportunities for their cooperation that may not have been even contemplated by past studies. The whole new approach of opening up their interactions without first resolving boundary dispute, of thinking of evolving Free Trade Areas and cooperative strategies in engaging the larger Asia-Pacific, and especially of using their

⁵ Swaran Singh, "China-India ties: Beyond the Bilateral", *World Focus* (New Delhi), Oct-Nov-Dec., 2004, pp. 37-40.

⁶ Indrani Bagchi, "China backs India for Security Council seat", *The Times of India* (New Delhi) 21 October 2004, p. 1; Vladimir Radyuhin, "India reaffirms resolve to advance strategic ties with Russia", *The Hindu* (New Delhi), 26 June 2004, p. 11; P. S. Suryanarayana, "Wen calls for China-India harmony", *The Hindu* (New Delhi), 29 June 2004, p. 11.

⁷ *Joint Declaration by the Russian Federation and the Republic of India*, 3 December 2004, available at Government of India, Ministry of External Affairs' website page <http://meaindia.nic.in/speech/2004/12/03jd01.htm>

bilateral and border trade as instrument for resolving their political problems remains such examples of fresh thinking from both sides. Similarly, steady evolution of Russia-China-India strategic triangle can be cited as another example of their initiatives at the regional level which sure has global connotations but also promises to facilitate and strengthen China-India partnership in the coming times.⁸

Economics driven Politics

China's transformation into a dynamic private sector-led economy and its rapid integration with the world economy, through both trade and financial linkages, are likely to prove landmark events in global economic history. With per capita income crossing \$ 1,000 per annum, China now ranks sixth largest economy in the world at market exchange rates. In terms of purchasing power parity (PPP), its per capita income is all set to cross \$ 5,000 per annum and China has long been recognized as the second largest economy of the world with the US being on the lead. India has also been often cited as being in close league and in fact rapidly closing in though its politics driven economic reforms remain subject to occasional hiccups and slowing down if not complete derailing.⁹

Indeed, building and exploiting databases and especially decentralization of approval powers are some of the lessons that experts in India believe India will have to learn from the Chinese.¹⁰

⁸ for details see Gilles Boquerat and Frederic Grare (eds), *India, China, Russia: Intricacies of an Asian Triangle*, (New Delhi: India Research Press, 2003) especially Chapter 4, Swaran Singh, "Strategic Triangle and Ballistic Missile Defence" ; also Siddharth Vardarajan, "India, Russia, China for UN Reform", *The Hindu* (New Delhi), 22 September 2004, p. 13; Vinod Sharma, "United Against Terror: India, China, Russia close ranks", *Hindustan Times* (New Delhi) , p. 1.

⁹ C. Raja Mohan, "India and China: a shifting paradigm", *The Hindu* (New Delhi), 29 July 2004, p. 10.

¹⁰ M. R. Narayana, "Foreign Direct Investment and Inter-regional Growth in China: Lessons for India", *China Report* (New Delhi), Vol. 40 No. 1 (January-March 2004), pp. 13-14.

However for China as well, a number of structural problems will have to be dealt with in order to make this high rate of growth sustainable.¹¹ Especially, this sustainability of this high growth rate remains critical for China's political stability and peace. India, however, does not face similar pressures and uncertainties though it has its own share of difficulties. Amongst some of the critical pitfalls that China may face in coming decades, its financial sector may prove to be unusually weak and vulnerable to outside forces and trends. Therefore, despite having advantage of stable and determined politics, China also remains vulnerable to several global economic trends and power politics.

With China's banking systems due for opening up by 2007 (under WTO accession commitments), China's banks have been plagued by traditions of non-performing loans (NPLs) that has been sustaining bulk of China's SOEs all these years. According to an analysis prepared by Institute of International Economics, China's accession commitments to WTO exceed those of India, a member since 1947.¹² Under the WTO accession terms, China is obliged to eliminate all import quotas by 2006 and significantly scale down its tariff protection on industrial imports.¹³ For example, all foreign firms will have to be allowed up to 50 per cent FIEs in telecom and insurance sectors. India continues to go slow and in some ways has relative advantage of rigorous political debate and slow moving reforms.¹⁴

¹¹ Eswar S. Prasad, "Growth and Stability in China: Prospects and Challenges", *Economic and Political Weekly* (Mumbai), Vol. 39 No. 20 (15 May 2004), p. 89.

¹² Daniel H. Rosen, "China and the World Trade Organization: An Economic Balance Sheet", *International Economic Briefs*, June 1999.

¹³ Yasheng Huang, *Selling China: Foreign Direct Investment During the Reform Era*, (Cambridge: Cambridge University Press, 2003, p. 330.

¹⁴ "Cabinet hikes aviation FDI cap to 49%: Industry not happy As Foreign Airlines Can't Buy Equity In Domestic Carriers", *The Times of India* (New Delhi), 21 October 2004, p. 17; "FDI issue: differences in BJP", *The Hindu* (New Delhi), 14 August 2004, p. 17.

Similarly, if one adds China's rural underemployment – estimated to be about 150 million – it appears pretty staggering and makes it look quite similar to India's much debated unemployment situation. All this will increasingly pushing China and India to appreciate their common stakes and evolve common strategies. Some of this economic logic has even begun to drive their political interactions and initiatives where coordination seems to become an increasingly visible common theme between New Delhi and Beijing.

Future of Bilateral Economic Engagement

It is also generally believed that advent of nuclear weapons in South Asia has forever altered China's thinking and policies towards India. What is not sufficiently highlighted is how nuclear tests of 1998 had been preceded by strong positive trends of stable coalition politics and rising growth rates in economic performance. This was then followed by India's assertive diplomacy of series of security dialogues which together made all the difference to India's new power profile. The two have since initiated a new 'Strategic Dialogue' that reflects their growing mutual confidence as also their growing regional and international influence.¹⁵

It is though not entirely a new phenomena that China has come to view India as a partner post – 1998. Indeed, India had always been on China's mind even before its nuclear tests of 1998. But at the same time a more militarily capable and economically emergent India, with growing maritime interests, and increasing engagement in Southeast Asia has gradually made India amongst the top considerations amongst China's foreign and security policies pundits. Of these new trends of mutual appreciation and understanding, their ever growing bilateral economic engagement remains the one most conspicuous for their

¹⁵ "China and India launch first strategic dialogue", *China Daily* (Beijing), 24 January 2005; also "China, India hold strategic talks", *China Daily* (Beijing), 25 January 2005.

positive influence.¹⁶ India today is contemplating importing coal from China as also for joint bidding for oil and gas fields and pipelines.¹⁷

Interestingly, many more Chinese (and Indian) experts believe in China-India economic engagement emerging as the most potent solution for their political problems. To quote a Chinese expert, Sun Peijun, the professor at the Chinese Academy of Social Sciences (CASS) and also president of the Chinese Association of South Asian Studies, “The tightening economic ties between China and India can help ease the potential political conflicts caused by border disputes and other thorny issues.”¹⁸ Indian commentators also talk now about the need “to cultivate friendship with China on the basis of realistic expectations, and not history.”¹⁹ All this new thinking has resulted in many more avenues and increased traffick from both sides. This has also generated increased patronage from both sides to promote institutionalizing of China-India interface in all different sectors and at different levels enhancing the stature of their mutual engagement in their respective national priorities.

Specifics of the Border Trade

Though China-India border trade continues to be a negligible part of their bilateral trade, China-India border trade has been particularly effective in improving their politico-strategic equations in those remote and problematic border regions. The border trade, which has enabled free flow of both goods and services across their disputed borders, has since revived historical, cultural and

¹⁶ Swaminathan S. Anklesaria Aiyar, “Peace pipeline to China”, *The Times of India* (New Delhi), 13 February 2005, p. 14; “China coal for power board”, *The Hindu* (New Delhi), 13 February, 2005, p. 6.

¹⁷ Joint Economic Committee, Congress of the United States, *China's Economic Future: Challenges to U.S. Policy*, (New York: M. E. Sharpe, 1997), p. 325.

¹⁸ “Likely Sino-Indian FTA Conducive to Nation”, *China Business Weekly* (Beijing) 12 April 2004, p. 1

¹⁹ n. 2.

social linkages amongst some of these border minorities/communities and this has greatly facilitated lives amongst people both inhibiting as also manning these sensitive regions thereby solidifying their overall mutual confidence and peace.²⁰

As its most immediate outcome, this has reduced their border management expenses and contributed to the scaling-down of their military deployments and scaling-up of their freedom of movement and economic engagement. But their most lasting advantage has come to their local populations that remain isolated from their respective national mainstreams and very unsteadily connected to the urban and industrial centers of their respective countries.

Especially, given the nature of Himalayan terrain, the location of these communities, they have historically developed strong sense of autonomy over centuries of their evolution which must be appreciated. This understanding seems to have gradually dawned upon China-India leaders. As a result, the more recent interactions between China and India mark a clear shift from their parochial narrow militaristic and legalistic approaches to border management towards evolving a common appreciation for the needs of their border communities as also for State forces and other personnel deployed in these difficult conditions. Therefore, any assessments on China-India border trade that continue to be made in the conventional inter-state mode of national sovereignty and in the framework of profit driven trade remain outdated and out of sync with this evolving new thinking between New Delhi and Beijing.

No doubt, in monetary terms, China-India border trade remains extremely low and same remains equally true of the share of their border trade in their booking bilateral trade. During these last ten years since the two sides officially resumed their border

²⁰ Gurudas Das and R.K. Purkayastha, *Border Trade: North-east India and Neighbouring Countries*, (New Delhi: Akansha Publishing House, 2000), p. 14.

trade during December 1991, the monetary value of this has stayed less than \$1 million per annum. This also remains far too low compared to India's border trade with either Bangladesh or Myanmar. China-India border trade was estimated to be \$ 0.125 million for the year 1999, though many estimates have also tended to put this figure much higher by including their unofficial transactions in certain border regions.²¹ But even here the evolving new trends of recent years have become positive and encouraging. Also, there are a variety of other factors that explain why these low figures in China-India border trade extremely high potential to achieve better results as also why it remain high in terms of their actual political impact in China-India ties.

- ♦ *Firstly*, the items exchanged across China-India border are traded largely in barter. These include items that are not capital intensive value-added manufactured goods of any kind. For example, goods that are traded from the Chinese side to India include wool, goat cashmere, goat skins, sheep skins, yak tail, horses, salt borax, saizabel yite, china clay, butter and silk. Similarly, items that move from Indian side to China include agricultural implements, blankets, copper products, clothes, textiles, cycles, coffee, tea, barley, rice flour, dry fruit, dry and fresh vegetables, vegetable oil, gur and misri, tobacco, saunf, cigarettes, canned food, agro-chemicals, local herbs, dyes, spices, watches, shoes, kerosene oil, stationery, utensils, and wheat. However, growing institutionalization and infrastructure development can transform this profile completely.
- ♦ *Secondly*, their border trade also remains seasonal and even during few operational months it remains vulnerable to the vagaries of nature and other weather conditions as it is generally on human-back and mules that these traders

²¹ Rajesh Kadian, *Tibet, India and China: Critical Choices, Uncertain Future*, (New Delhi: Vision Books, 1999), p. 176. This author has put the at \$ 337,349 for 1992 and \$ 554,000 for 1994. The formal border trade had opened since July 1992.

carry their goods through these precarious tracks in the Himalayas. Accordingly, their border trade can fluctuate like it has during these last three years. It was Rs.9 million for 1997, Rs. 5.8 million for 1998 and Rs.6.4 million for 1999. Apparently, given the cultural/religious orientation of first two trade points their monetary was never strongest contribution their border trade made to the evolution of China-India economic integration. In this, opening of Nathu La pass for border trade, which is known to have better infrastructure, is likely to make all the difference in coming times.

- ◆ And *finally*, both India and China have allowed free trade in very low-cost 29 local items that do not form part of annual official statistics by their respective custom departments.²² And then there also remains extensive network of unofficial trade (read smuggling) which has often been described as substantive. All this has had a trickle-down positive impact of encouraging border transactions between China and India. The early 1990s had witness revival of various cottage industries in border regions. Pithoragarh district in India's Uttaranchal province, for example, has revived its carpet-weaving cottage industry that had been virtually closed as it depended entirely on Tibetan wool. There are many examples of how border trade can change the way we study China-India boundary question.

Experts have suggested at least three more border points in the eastern sector that may be opened up in the coming years creating better channels and transparency in China-India border trade ties. These include Zemithang/Khinzemane in Twang district, Gelling in Upper Siang district and Kibithoo in Lohit district of

²² These include wool, goat skin, yak tail, yak hair, goat, sheep, horses, salt, borax, China clay, butter, silk and Szaibel yite.

Arunachal Pradesh. But, given the fact that territorial claims of China include whole province of Arunachal Pradesh and India continues to assert it claims to the McMahon Line, border posts in this region continue to be only a distant hope and may not happen in near future.

In the immediate, of course, India's security considerations about its volatile northeast as also its ambitions to use this region as its springboard to launch India into Southeast Asian region continue to prescribe caution in allowing China an uninterrupted access and influence in these border regions in India's east. The same can also be true of the western sector which remains further complicated involving Pakistan's claims on Kashmir, Pakistan's transfer of parts of Kashmir to China and China's own occupation of the Aksai Chin region as also China-Pakistan dispute on K-2 peak in their boundary in Jammu and Kashmir province. As a result, near future may continue to have much of this border trade confined to the middle and eastern sector of China-India borders though their border trade is sought to be expanded by both the sides. Thus the need for bold political initiatives can never be over-emphasized in this and there lies the key to making much of this economic logic effective until China-India economic engagement completely autonomous.

Conclusion

China and India have a unique advantage of being able to view their ties in a long term perspective spanning centuries. And here, historically, the China-India ties had been clearly fabricated on the woof-and-warp of their strong cultural and commercial interactions with political issues remaining generally on the margins. This was possible partly because these interactions remained generally confined to their smaller kingdoms around their border regions and only rarely involved stronger and expanding kingdoms directly. In such situations, it was their sense of flexible frontiers – rather than rigid territorial borders – that ensured that such interface

never created any clash of their vital interests. It was not until the late 19th century that British Indian and Chinese empire came face to face and the British expeditions to Tibet introduced an imperial orientation into China-India ties. Before this, it was only pilgrims and traders who had ventured into interiors of each other.

It was as late as during the early 15th century (1403-1404), that the first-ever large Chinese trade mission had visited India through the seas (to Cochin).²³ Until then much of their interface had been through what happens to be today their disputed borders. This contact through the seas though had lasted only for few years and this was followed soon by the European expeditions to the Indian subcontinent that was to completely change the future history of both China and India. What would have been the tenor of China-India ties in absence of European expeditions leaves all discussions to the endless ifs and buts of history. Similarly, even the 1962 China-India war has come under revision with both sides coming to more candid conclusions about their mistakes.²⁴ However, the influence of that period remains decisive nevertheless and should provide lessons.

By the time the China and India liberated themselves from their colonial subjugation the two had come vary far and moved in different directions which were to complicate their efforts at evolving their political equations and especially their bilateral economic interactions. Especially now, as both these most dynamic Asian societies now prepare to face the 21st century world order, increasing economic cooperation has become all the more

²³ Haraprasad Ray, "Cochin (Kochchi) and China before the European 'discovery' of the East", *Journal of Indian Ocean Studies* (New Delhi), Vol.5 No. 1 (November 1997), p. 37.

²⁴ Amit Baruah, "Chinese, India diplomacy in 1962 was immature", *The Hindu* (New Delhi), 7 August 2004, p. 9; or Brahma Chellaney, "Forever Shanghaied", *The Hindustan Times* (New Delhi), 29 July 2004, p.10; "Hindi Chini Bhai Bhai (Interview with Wang Jinzhen, Assistant Chairman of China Council for Promotion of International Trade), *The Times of India* (New Delhi), 7 August 2004, p. 16.

imperative – and indeed the most potent tool – for materializing their visions of peace and prosperity between themselves and by extension in this larger region. China and India have special responsibility to contribute Asian wisdom and experience into the making of future world orders which have remained generally West-led for at least last three hundred years, if not more.

Notwithstanding this nascent enthusiasm and new thinking, there is no denying the fact that some skepticism still continues to affect China-India economic ties. There may even remain some questions on the endurance and sustainability of this visible political impact of their economic engagement which remains vulnerable to forces outside control of New Delhi and Beijing. But there is also a lot that remains in their control and results of this have been visible in recent past. At the most visible level, the two sides have begun to notice their growing interdependence as also each other's strengths and weaknesses, towards achieving their common objectives.

There is definitely a far stronger need today to encourage such fresh thinking in their mutual policy initiatives. In this their bilateral trade and commerce has been one area where this new thinking has been most effective. Therefore, it is only imperative that one must let their economic engagement provide the lead to their mutual interactions and policies. And there is still greater need then to rectify imbalances and to help promote each others role and contribution in building sustainable peace and prosperity for themselves and for the larger region.

Chronology of Agreements/MoUs Signed between India and China

1954: Agreement between the Republic of India and the People's Republic of China on Trade and Intercourse between the Tibet region of China and India. (Note: The Agreement was valid for eight years and lapsed in 1962).

1954: Trade Agreement between the Republic of India and the People's Republic of China. (Note: The Agreement was valid for two years, with the provision that it could be extended. It lapsed in 1962)

1984: Trade Agreement between the Government of the Republic of India and the Government of the People's Republic of China.

1988: Protocol between the Republic of India and the People's Republic of China on Resumption of Border Trade between the Tibet region of China and India.

1991: Memorandum of Understanding between the Ministry of Aero-Space Industry of the People's Republic of China and the Department of Space of the Republic of India on Co-operation in the Peaceful Application of Outer Space Sciences and Technology.

1991: Memorandum between the Government of the Republic of India and the Government of the People's Republic of China on Resumption of Border Trade.

1991: Trade Protocol between the Government of the Republic of India and the Government of the People's Republic of China for the Calendar Year 1992.

1991: Consular Convention between the Republic of India and the People's Republic of China.

1992: Protocol between the Government of the Republic of India and the Government of the People's Republic of China on Custom Regulation, Banking Arrangements and Related matters for Border Trade.

1992: Protocol between The Ministry of Human Resource Development Department of Education, Government of India and The State Education Commission of the People's Republic of China on Co-Operation in the Field of Education for 1992-1993.

1992: Memorandum of Understanding on co-operation in the field of Civil Services, Personnel Management and Public Administration between the Ministry of Personnel, Public Grievances and Pensions of the Government of the Republic of India and the Ministry of Personnel of the People's Republic of China.

1992: Memorandum of Consultation in the field of Social Welfare.

1992: Protocol between the Government of the Republic of India and the Government of the People's Republic of China on Entry and Exit Procedures for Border Trade.

1992: Memorandum of Understanding between The Office of the Comptroller and Auditor General, Republic Of India and The Audit Administration, People's Republic of China.

1992: Memorandum of Understanding on co-operation in Agriculture between the Ministry of Agriculture of the Republic of India and the Ministry of Agriculture of The People's Republic of China.

1993: Protocol between the Government of the Republic of India and the Government of the People's Republic of China for Extension of Border Trade across Shipki La Pass.

1993: Agreement between the Ministry of Information and Broadcasting of the Republic of India and the Ministry of Radio, Film, Television of the People's Republic of China on Radio and Television co-operation.

1993: Memorandum of Understanding between the Government of Republic of India and The Government of the People's Republic of China on co-operation in the Field of Geology and Mineral Resources.

1993: Agreement on the Maintenance of Peace and Tranquility along the Line Of Actual Control in the India-China Border areas signed in Beijing on September 7, 1993.

1993: Agreement on Environment Co-operation.

1994: Memorandum of Understanding on simplifying the Visa Procedures between the Government of the Republic of India and the Government of the People's Republic of China.

1995: Memorandum of Understanding between Ministry of Metallurgical Industry of the Government of the People's Republic of China and the Ministry of Steel of the Government of the Republic of India.

1996: Agreement between the Government of The Republic of India and the Government of the People's Republic of China on Confidence Building Measures in the Military Field along the Line Of Actual Control in the India-China Border Areas.

1996: Agreement between The Government of the Republic Of India and The Government of the People's Republic of China concerning the Maintenance of the Consulate General of the Republic of India in the Hong Kong Special Administrative Region of the People's Republic of China.

1996: Agreement on co-operation for combating illicit trafficking in narcotic drugs and psychotropic substances and other crimes between The Government of the Republic of India and The Government of the People's Republic of China.

1996: Agreement on Maritime Transport between the Government of the Republic of India and The Government of the People's Republic of China.

1997: Protocol on co-operation between the Ministry of External Affairs of the Republic of India and the Ministry of Foreign Affairs of the People's Republic of China.

2000: Memorandum of Understanding signed during the 6th Joint Economic Group Meeting in Beijing on February 21-22, 2000 on co-operation in the field of steel between India and China.

2000: Memorandum of Understanding on co-operation in the field of Information Technology. (July)

2000: Memorandum of Understanding on co-operation in the field of Labour (Employment services, vocational training and social security). (September)

2002: MOU on the Application of Phytosanitary Measures between the Ministry of Agriculture of the Republic of India and the State General Administration of the People's Republic of China for Quality Supervision and Inspection and Quarantine (AQSIQ). (January)

2002: MOU between ISRO and the China National Space Administration on Cooperation in the Peaceful Use of Outer Space. (January)

2002: MOU between Department of Science and Technology of the Republic of India and the State Administration of Foreign Experts Affairs of People's Republic of China on Exchange of Personnel between India and China. (January)

2002: MOU between Department of Science and Technology of the Republic of India and the Chinese Academy of Sciences of the People's Republic of China on Cooperation in Science and Technology. (January)

2002: Agreement between India and China on Cooperation in the field of Tourism. (January)

2002: MOU between the Ministry of Water Resources of India and Ministry of Water Resources of China upon provision of hydrological information of the Yaluzangbu / Brahmaputra river in flood season by China to India. (January)

Source: Official Website of China's Ministry of Foreign Affairs, March 2002

BIBLIOGRAPHY

Primary Sources

A Status Report on China-India Trade & Investment 1998, (Confederation of Indian Industries, Shanghai, November 1998)

Bulletin of the State Council, Peoples Republic of China series, Beijing.

China Statistical Yearbook (Annual Series) China Statistical Press, China National Bureau of Statistics, Peoples Republic of China

Government of India, *Economic Survey 2002-2003*, (New Delhi: Ministry of Finance and Company Affairs, Economic Division) (Annual Series).

Indian Joint Ventures and Wholly Owned Subsidiaries Abroad Approved During 1998, Indian Investment Center, New Delhi

Indian Joint Ventures and Wholly Owned Subsidiaries Abroad Approved During 1999, Indian Investment Center, New Delhi

Joint Economic Committee, Congress of the United States, *China's Economic Future: Challenges to U.S. Policy*, (New York: M. E. Sharpe, 1997)

Key Indicators 2003: Education for Global Participation, (Asian Development Bank, Manila, 2003)

Ministry of Finance, Government of India, *Economic Survey*, (1997-1998, 1998-1999, 1999-2000, 2000-2001, 2001-2002)

Protocol between the Government of the Republic of India and the Government of the People's Republic of China for Extension of Border Trade across Shipki La Pass, 1993

R. K. Jain, (ed.) *China-South Asian Relations 1947-1980*, Radiant Publishers, Vol. 1: India, Compilation of Official Documents.

World Trade Organisation, Draft Protocol on the Accession of the People's Republic of China, annex 7, WT/ACC/SPEC/CHN/1/rev.8 (Geneva, July 31, 2001)

Books

A.J. Sargent, *Anglo-Chinese Commerce and Diplomacy*, (San Francisco: Chinese Materials Center Inc., 1975)

A.S. Bhalla, *Uneven Development in the Third World: A Study of China and India*, (HoundMills: MacMillan Press, 1992)

Albert Feuerwerker, *Studies in the Economic History of Late Imperial China: Handicraft, Modern Industry, and the State*, (Ann Arbor: The University of Michigan, 1995)

Alexander Eckstein, *Economic Development in India and China: A Study in Comparative Pattern*, (New Delhi: Institute of Constitutional and Parliament Studies, 1967)

Anjan Chakrabarti and Stephen Cullenberg, *Transition and Development in India*, (New York: Routledge, 2003)

B. R. Tomlinson, *The New Cambridge History of India Vol. III: The Economy of Modern India 1860-1970*, (Cambridge: Cambridge University Press, 1993)

Beatrice Leung and John D. Young (eds.), *Christianity in China: Foundations for Dialogue*, (Hong Kong: Center for Asian Studies, 1993).

Billy K. L. So, *Prosperity, Region, and Institutions in Maritime China: The South Fukien Pattern, 946-1368*, (Cambridge, Mass: Harvard University Press, 2000)

Brian Davey, *The Economic Development of India: A Marxist Analysis*, (Nottingham, UK: Spokesman Books, 1975)

- Chang Hsing-lang, *Chung-his chiao-t'sung shih-liao hui-pien*, Vol. 6, (Taipei: Shih-chieh shu-chu, 1962)
- Chi-Keung Leung and Steve S.K. Chin (eds.), *China in Readjustment*, (Hong Kong: University of Hong Kong, 1983)
- D. E. Owen, *British Opium Policy in China and India*, (New Haven, 1934)
- Daniel Burnstein and Arne De Keijzer, *Big Dragon - China's Future: What it means for Business, the Economy, and the Global World Order*, (New York: Simon & Schuster, 1998)
- Deng Xiaoping, *Selected Works of Deng Xiaoping – Book Three*, (Beijing: People's Press, 1993)
- Dharma Kumar, *The Cambridge Economic History of India, Vol. 2: c. 1757-c. 1970*, (Cambridge: Cambridge University Press, 1983)
- Dietmar Rothermund, *An Economic History of India: From Pre-Colonial Times to 1986*, (New Delhi: Manohar, 1988)
- E. H. Warmington, *Commerce between the Roman Empire and India*, (Cambridge: Cambridge University Press, 1928)
- Earl H. Pritchard, *Anglo-Chinese Relations during the Seventeenth and Eighteenth Centuries*, (New York: Octagon Books, 1970)
- F. Hirth, *China and the Roman Orient: Researches into their Ancient and Medieval Relations as Represented in Old Chinese Records*, (Lipzig, 1885)
- Feng-hwa Mah, *The Foreign Trade of Mainland China*, (New York: Aldine, 1971)
- Frank B. Tipton (ed.), *The Rise of Asia: Economics, Society, and Politics in Contemporary Asia*, (Honolulu, USA: University of Hawai'i Press, 1998)

- G. P. Deshpande and Alka Acharya, *50 Years of India China: Crossing a Bridge of Dreams*, (New Delhi: Tulika, 2001)
- G. William Skinner, (ed.), *The City in Late Imperial China*, (Stanford: Stanford University Press, 1977)
- Ganeshwar Chaturvedi, *India-China Relations: 1947 to Present Day*, (Agra: M G Publishers, 1991)
- Gene T. Hsiao, *The Foreign Trade of China: Policy, Law, and Practice*, (Berkeley: University of California Press, 1977)
- Gerald Segal and Richard H. Yang (ed.), *Chinese Economic Reforms: The Impact on Security*, (London: The Routledge, 1996)
- Gurudas Das and R.K. Purkayastha, *Border Trade: North-east India and Neighbouring Countries*, (New Delhi: Akansha Publishing House, 2000)
- Harold K. Jacobson and Machel Oksenberg, *China's Participation in the IMF, the World Bank, and the GATT: Towards a Global Economic Order*, (Ann Arbor: The University of Michigan Press, 1990)
- Harry Harding, *China's Second Revolution: Reforms after Mao*, (Washington DC: The Brookings Institution, 1987)
- Himanshu P. Ray, *The Winds of Change: Buddhism and the Maritime Lines of Early South Asia*, (Delhi: Oxford University Press, 1994).
- Immanuel C.Y. Hsu, *The Rise of Modern China*, (New York: Oxford University Press, 1970)
- Irfan Habib, *Essays in Indian History*, (New Delhi: Tulika, 1995)
- J. N. Dixit, *Across Borders: Fifty Years of India's Foreign Policy*, (New Delhi: Picus Books, 1998)
- Jagdish Bhagwati, *India in Transition – Freeing the Economy*, (Oxford: Clarendon Press, 1993)

- Jim Rohwer, *Asia Rising: Why America Will Prosper as Asia's Economy Boom*, (New York: Touchstone, 1996)
- Joe Studwell, *The China Dream: The Elusive Quest for the Greatest Untapped Market on Earth*, (London: Profile Books, 2004)
- John Fairbank (ed.), *The Chinese World Order*, (Cambridge, Mass: Harvard University Press, 1970)
- Joseph C. H. Chai (ed.), *The Economic Development of Modern China: Vol.III: Reforms and Opening Up Since 1979*, (Cheltenham, UK: An Elgar Reference Collection, 2000)
- Joseph C. H. Chai, *China: Transition to a Market Economy*, (Oxford: Clarendon Press, 1997)
- Joseph Fewsmith, *China Since Tiananmen: The Politics of Transition*, (Cambridge: Cambridge University Press, 2001).
- Jun Ma, *The Chinese Economy in the 1990s*, (London: Macmillan, 2000)
- Kishor Sharma (ed.), *Trade Policy, Growth and Poverty in Asian Developing Countries*, (London: Routledge, 2003)
- Laurence J. Brahm, *China's Century: The Awakening of the Next Economic Powerhouse*, (Singapore: John Wiley and Sons, 2001).
- Lawrence C. Reardon, *The Reluctant Dragon: Crisis Cycles in Chinese Foreign Economic Policy*, (Hong Kong: Hong Kong University Press, 2002)
- Lee Lai To, *The Structures of the Trade Union System in China*, (Hong Kong: University of Hong Kong, 1984)
- Ligang Song (ed.), *Dilemmas of China's Growth in the Twenty-First Century*, (Canberra : Asia Pacific Press, 2002).
- Liu Xinru, *Ancient India and Ancient China: Trade and Religious Exchange AD-1-600*, (Delhi: Oxford University Press, 1997)

- Lu Aiguo, *China and the Global Economy since 1840*, (New York: Mcmillan, 2000)
- M. Greenberg, *British Trade and the Opening of China 1800-12*, (Cambridge: Cambridge University Press, 1951)
- M. P. Charlesworth, *Trade-Routes and Commerce of the Roman Empire*, (Cambridge: Cambridge University Press, 1924)
- M. Rasgotra and V D Chopra (Eds.), *India's Relations with Russia and China: A New Phase*, (New Delhi: Gyan Publishing House, 1997)
- Mao Tse-tung, "The Identity of Interests between the Soviet Union and All Mankind", *Mao Tse-tung hsuan-chi* (1966)
- Neil Charlesworth, *British Rule and the Indian Economy 1800-1914*, (London: Macmillan, 1982)
- Nicholas R. Lardy, *China in the World Economy*, (Washington DC: Institute of International Economics, April 1994)
- Nicholas R. Lardy, *Integrating China into the Global Economy*, (Washington DC: Brookings Institution Press, 2002)
- Nimmi Kurien, *Emerging China and India's Policy Options*, (New Delhi: Lancer Publishers and Distributors, 2001)
- O. P. Jain, *Regional Cooperation for Trade in Asia*, (New Delhi: Commercial Publications Bureau, 1973)
- Pamela Shurmer-smith, *India: Globalization and Change*, (New York: Oxford University Press, 2000)
- Prakash Charan Prasad, *Foreign Trade and Commerce in Ancient India*, (New Delhi: Abhinav Publications, 1977)
- Peter Houward Corne, *Foreign Investment in China: The Administrative Legal System*, (Hong Kong: Hong Kong University Press, 1997).
- Prem Shankar Jha, *The Perilous Road to the Market: The Political Economy of Reforms in Russia, India and China*, (New Delhi: Rupa & Co, 2002)

- R. C. Majumdar, *The Age of Imperial Unity (600 BC to 320 AD)*, (Bombay: Bhartiya Vidya Bhavan, 1960),
- R.C. Majumdar, *An Advanced History of India*, (London, 1963)
- Rajesh Kadian, *Tibet, India and China: Critical Choices, Uncertain Future*, (New Delhi: Vision Books, 1999)
- Richard Baum, *Burying Mao: Chinese Politics in the age of Deng Xiaoping*, (Princeton: Princeton University Press, 1994).
- Richard E. Eeinberg, John Echeverri-Gent and Friedmann Muller, *Economic Reform in Three Giants: US Foreign Policy and the Policy and the USSR, China and India*, (New Brunswick: Transaction Books, 1990)
- Rongxing Guo, *How the Chinese Economy Works*, (London: Macmillan, 1999)
- S. Ambirajan, *Classical Political Economy and British Policy in India*, (Cambridge: Cambridge University Press, 1978)
- S. G. Chitnis, *Proceedings of Seminar on the Emerging China: Political, Economic and Military Implications for India*, 22-23 November, (Pune: Centre for Advanced Strategic Studies, 1994)
- Sam Dzever and Jacques Jaussaud (eds), *China and India Economic Performance and Business Strategies of Firms in the Mid-1990s*, (London: Macmillan Press, 1999)
- Shri Prakash, *Impact of Japanese Investment and the Trade in China and India during the 1980s and the 1990s: A Comparative Analysis*, (Japan: Daito Bunka University, 1994)
- Shri Prakash, *Studies in the Political Economy of Contemporary India and China Part II*, Occassional Paper Series 7, (New Delhi: Jamia Milia Islamia, 1993)
- Sir Henry Yule, *Cathay and the Way Thither*, Vol.1, (London, 1915)

Sir M. Aurel Stein, *Serindia*, Vol. 2, (Oxford: Oxford University Press, 1921)

Sir Robert Eric Mortimer Wheeler, *Rome Beyond the Imperial Frontiers*, (London: Penguin Books, 1955)

Subramanian Swamy, *Economic Growth in China and India 1952-1970: A Comparative Appraisal*, (Chicago: University of Chicago Press, 1973)

Subramanian Swamy, *Economic Growth in China and India: A Perspective by Comparison*, (New Delhi: Vikas Publishing House, 1989)

Subramanian Swamy, *Economic Reforms and Performance: China and India in Comparative Perspective*, (Delhi: Konark, 2003)

Sudhir Naib, *Disinvestment in India: Policies, Procedures, Practices*, (New Delhi: Sage Publications, 2004)

Susumu Yabuki and Stephen M. Harner, *China's New Political Economy*, (Boulder, Colorado: Westview Press, 1999)

Swaran Singh, *China-South Asia: Issues, Equations, Policies*, (New Delhi: Lancers Books, 2003)

T. J. Hughes and D. E. Luard, *The Economic Development of Communist China*, (London: Oxford University Press, 1961)

T. N. Srinivasan and Suresh D. Tendulkar, *Reintegrating India with the World Economy*, (Washington DC: Institute of International Economics, March 2003)

Tapan Raychaudhury and Irfan Habib (eds.), *The Cambridge Economic History of India, Vol. I: c.1200-c.1750*, (Cambridge: Cambridge University Press, 1982)

Tim Write, *The Chinese Economy in the Early Twentieth Century*, (London: Macmillan, 1992)

Ts'ui-jung Liu and John C. H. Fei, *The Public Granary Institution of the Ch'ing Dynasty (1644-1896)*, Yale University:

Economic Growth Centre Discussion Paper no. 299,
(October 1978)

Vera Anstey, *The Economic Development of India*, (London: Longmans, Green And Co., 1929)

W. E. Willmott, *Economic Organisation in Chinese Society*, (California: Stanford University Press, 1972)

W. W. Tarn, *The Greeks in Bactria and India*, (Cambridge: Cambridge University Press, 1938)

Wei Wei Zhang, *Transforming China: Economic Reforms and its Political Implications*, (London: Macmillan Press, 2000)

Wu Wen-liang, *Ch'uan-chou tsung-chiao shih-k'e*, (Peking: K'o-hsiung chubanshi, 1957)

Xiao-guang Zhang, *China's Trade Patterns and International Comparative Advantage*, (London: Macmillan Press, 2000)

Xinru Liu, *Ancient Indian and Ancient China: Trade and Religious Exchanges AD 1-600*, (Delhi: Oxford University Press, 1988)

Yanlai Wang, *China's Economic Development and Democratization*, (Burlington, USA: Ashgate Publishing House, 2003)

Yasheng Huang, *Selling China: Foreign Direct Investment during the Reform Era*, (Cambridge: Cambridge University Press, 2003)

Yeh-chien Wang, *Land Taxation in Imperial China, 1750-1911*, (Cambridge: Harvard University Press, 1973)

Yen-p'ing Hao, *The Commercial Revolution in Nineteenth Century China*, (Berkeley, 1986)

Ying-shih Yu, *Trade and Expansion in Han China: A Study in the Structure of Sino-Barbarian Economic Relations*, (Berkeley: University of California Press, 1967)

Zheng Peiquan, *jiangming xiandai zhongguo jinji shi (A Concise Modern History of Chinese Economy)*, (Beijing: Beijing Normal University Press, 1993)

Zhuang Guo-tu, *Tea, Silver, Opium and War: The International Tea Trade and Western Commercial Expansion into China in 1740-1840*, (Xiamen: Xiamen University Press, 1993)

Chapters in Books

A Rahman, “Pre-Colonial Links with China, Central and West Asia”, in Confederation of Indian Industry’s *Footprints of Enterprise: Indian Business Through the Ages*, (Delhi: Oxford University Press, 1999)

Asiya Siddiqi, “The Business World of Jamsetjee Jejeebhoy”, in Asiya Siddiqi (ed.), *Trade and Finance in Colonial India 1750-1860*, (Delhi: Oxford University Press, 1995)

Charles R. Chittle and Kyoo H. Kim, “Foreign Direct Investment in China and India: The economic environment”, Sam Dzever and Jacques Jaussaud (eds), *China and India Economic Performance and Business Strategies of Firms in the Mid-1990s*, (London: Macmillan Press, 1999)

Deepak Lal, “Ideology and Industrialization in India and East Asia”, in Helen Hughes (ed.), *Achieving Industrialization in East Asia*, (Cambridge: Cambridge University Press, 1988)

John D. Langlois Jr., “Pressures on China from the Asian Financial Crisis”, in Sylvia Ostry, Alan S. Alexandroff, and Rafael Gomez (eds.), *China and the Long March to Global Trade: The Accession of China to the World Trade Organization*, (London: Routledge, 2002)

Neil Charlesworth, “The Peasant and the Depression: The Case of the Bombay Presidency, India”, in Ian Brown (ed.), *The Economies of Africa and Asia in the Inter-war Depression*, (New York: Routledge, 1989)

- Pradeep Agarwal, "Economic Impact of Foreign Direct Investment in South Asia", in Aditya Mattoo and Robert M. Stern (eds.), *India and WTO*, (Washington DC: The International Bank for Reconstruction and Development, 2003)
- Ramon H. Myers, "The World Depression and the Chinese Economy 1930-6", in Ian Brown (ed.), *The Economies of Africa and Asia in the Inter-war Depression*, (New York: Routledge, 1989)
- Ross Garnaut and Yiping Huang, "China and the future of the international trading system", in Peter Drysdale and Ligang Song (eds.), *China's Entry to the WTO: Strategic issues and quantitative assessments*, (London: Routledge, 2000)
- Simon Digby, "Maritime Trade of India" in Tapan Raychaudhuri and Irfan Habib (eds.), *The Cambridge Economic History of India, Vol. I, c.1200-c.1750*, (Cambridge: Cambridge University Press, 1982)
- Swaran Singh, "Strategic Triangle and Ballistic Missile Defence" in Gilles Boquerat and Frederick Grare (eds.), *India, China, and Russia: Intricacies of an Asian Triangle*, (New Delhi: India Research Press, 2003)
- Swaran Singh, "Three Agreements and Five Principles between India and China", in Tan Chung (ed.), *Across the Himalayan Gap*, (New Delhi: Gyan Publishing House, 1987)
- T. G. Arun and F. I. Nixon, "Privatization in India: "Miles to Go...?" in Nicholas Perdikis (ed.), *The Indian Economy: Contemporary Issues*, (Singapore: Ashgate, 2000)
- Tan Chung, "The Silk Road and India", in Confederation of Indian Industry's *Footprints of Enterprise: Indian Business through the Ages*, (Delhi: Oxford University Press, 1999)
- Wang Hongyu, "Sino-Indian Relations: Present and Future," in Jasjit Singh (Ed.), *India-China and Panchsheel*, (New Delhi: Sanchar Publishing House, 1996)

Yan Shi Jing, "India and Foreign Capital", in Surjit Mansingh (ed.), *Indian and Chinese Foreign Policies in Comparative Perspective*, (New Delhi: Radiant Publishers, 1998)

Research Articles

A.K. Coomaraswamy, "Hindu Sculptures of Zayton", *Ostasiatische Zeitschrift*, Vol. 9 (1933)

A.S. Bhalla, "Recent Economic Reforms in China and India," *Asian Survey*, Vol. 35 No. 6, June 1995

A.S. Bhalla, "Sino-Indian Growth and Liberalisation: A Survey," *Asian Survey*, Vol. 42 No. 3, May-June 2002

Aman Memon, "Sino-Indian Rapprochement: An Appraisal," *Regional Studies*, Vol. 22 No. 3, Summer 2004

Amiya Kumar Bagchi, "Transition from Indian to British systems of money and banking, 1800-1850," *Modern Asian Studies*, Vol. 19, no. 3, 1986.

Amrita Shah, "Farmland Capital Construction in China and India: Incentives and Outcomes under Changing Policy Scenario," *China Report*, Vol. 36 No. 4, October-December 2004

Atul Sarma, "Prospects for Trade and Investment in India and China," *International Studies*, Vol. 39 No.1, January-March 2002

B. M. Jain, "India-China Relations: Issues and Emerging Trends," *Round Table*, Vol. 93 No. 374, April, 2004

David Hale and Lyric Hughes Hale, "China Takes Off", *Foreign Affairs* (New York), Vol. 82 no. 6 (November-December 2003)

Eswar S. Prasad, "Growth and Stability in China: Prospects and Challenges", *Economic and Political Weekly* (Mumbai), Vol. 39 No. 20 (15 May 2004)

G. Balachandirane et al, "Basic Education and Economic Development: A Comparative Study of Japan, China and

India, *International Studies*, Vol. 38 No. 3, July-September 2001

Guljit K. Arora, "Economic Development in China and India: A Comparative Study," *Strategic Analysis*, Vol. 18 No. II, February, 1996

Haraprasad Ray, "Cochin (Kochchi) and China before the European 'discovery' of the East", *Journal of Indian Ocean Studies* (New Delhi), Vol.5 No. 1 (November 1997)

Ian Seckington, "China's reforms: A mixed legacy for a new generation", *Asian Affairs*, Vol. 33 no. 3 (November 2002).

Jasjit Singh, "Future of Sino-Indian Relations", *Strategic Analysis*, Vol.xvi No.11 (February 1994)

M. R. Narayana, "Foreign Direct Investment and Inter-regional Growth in China: Lessons for India", *China Report* (Delhi), Vol. 40 No. 1 (January-March 2004)

Madhu Bhalla, "India China Economic Relations," *World Focus*, Vol. 24 No. 7, July 2003

Nagesh Kumar, "Industrialisation, Liberalisation and Two Way Flows of FDI: Case of India", *Economic and Political Weekly* (Bombay) 16 December 1995

Richard Kraus, "China in 2003: From SARS to Spaceships", *Asian Survey*, Vol. 44 no.1 (January-February 2004)

Shekar G. Raj and Others, "India and China as Emerging Giants in the Global Economy: A Comparative Outlook," *Foreign Trade Review*, Vol. 32 No.1-2, April-September, 1997

Shri Prakash, "Japanese Aid and Trade with China and India," *Strategic Analysis*, Vol. 18 No. 9, December 1995

Shri Prakash, *Potential of India-China Economic Relations, Contemporary India*, Vol. 2 No. 4, October-December 2003

Swaran Singh and Zhao Gancheng, "Vajpayee's China visit", *SIIS Journal* (Shanghai), vol. 10 no 3, (August 2003)

Swaran Singh, "Myanmar: The 'Strategic Hub' of the 21st Century Asia", *USI Journal* (New Delhi), Vol. CXXVIII, No. 532 (April-June 1998)

Wang Gungwu, "The Nanhai Trade", *Journal of the Malayan Branch of the Royal Asiatic Society*, Vol. 31 part 2 (1958)

"China's Economy and China-India Trade", *Journal of the SICCI* (Southern India Chambers of Commerce and Industry, Chennai, India), July 1999

Articles in Magazines

Amit Baruah, "Taking a new road", *Frontline* (Chennai), Vol 20, Issue 14 (05-18 July 2003)

Claes Levinsson and Ingvar Svanberg, "Kazakhstan-China Border Trade Thrives After Demarcation Treaty", *Central Asia-Caucasus Analyst*, (Biweekly Briefing), 16 February 2000

Ding Ying, "Sino-Indo Links in Good Shape" (Interview with Indian Ambassador to China), *Beijing Review*, Vol. 47 no. 23 (10 June 2004)

Kalyan Chaudhuri, "Routes of promise", *Frontline* (Chennai), Vol. 20, Issue 14 (July 05-18, 2003)

Lin Hai-yun, "China's Growing Foreign Trade", *Peking Review* (Beijing), no. 1 (1965)

Wang Hongwei, "Sino-Indian Economic and Scientific Cooperation Promising", *Beijing Review* (Beijing), No. 10, 7 March 2002

Yu Yi, "RMB to Remain Stable", *Beijing Review* (Beijing), Vol.42 No.11 (March 15-21, 1999)

Zheng Xinli, "Supporting Points for Economic Growth in the Coming 20 years", *Beijing Review* (Beijing), Vol.42 No.12 (March 22-28, 1999)

"China, India to settle border Issue", *Beijing Review* (Beijing), Vol.43 no.24, 12 June 2000

“Foreign Investment continues to go up”, *Beijing Review* (Beijing), Vol.43 no.24, 12 June 2000

“HK Expects 0.5% Economic Growth”, *Beijing Review* (Beijing), Vol.42 No.12 (March 22-28, 1999)

“Private Sector Grows Fastest of All”, *Beijing Review* (Beijing), Vol.42 Nos. 9-10, March 1014, 1999

“Statistical Communique of the People’s Republic of China on the 1998 National Economic and Social Development”, (Decumbent), *Beijing Review* (Beijing), Vol.42 No.13 (March 29-April 4, 1999)

Newspapers

“India, China and South Korea will form consortium: Plan to Build Passenger Plans”, *The Times of India* (New Delhi), 28 August, 1995

“180 feared dead in landslide”, *The Tribune* (Chandigarh, India), 19 August 1998

“Border trade fueling economy on China’s frontiers”, *China Daily* (Beijing), 16 April 2003

“China’s foreign trade to exceed \$ 1 trillion in 2004”, *China Newsletter* (Confederation of India Industries, Delhi), No. 5 (1 May 2004)

“China-Pak Free Trade Planned”, *China Newsletter* (Confederation of Indian Industries, Delhi), No. 5 (May 2004)

“Hu: Modernisation needs long uphill battle”, *China Daily* (Beijing), 24 April 2004

“India China discuss border trade”, *The Times of India* (New Delhi), 15 August 2002

“India’s World’s 4th Largest Economy: World Bank”, *The Indian Express* (New Delhi), 16 June 2004

K. Subrahmanyam, “Befriending the Dragon: An Objective

Approach to Sino-Indian Ties”, *The Times of India* (New Delhi), 5 August 2004, p. 16.

“Likely Sino-Indian FTA Conducive to Nation”, *China Business Weekly* (Beijing) 12 April 2004

“Likely Sino-Indian FTA Conducive to Nation”, *China Business Weekly* (Beijing) 12 April 2004

“New Government for Closer Ties with US, China: Natwar Singh”, *The Indian Express* (New Delhi), 17 May 2004

“Passes likely for traders using Nathula pass”, *The Hindu* (New Delhi), 23 October 2003

“Sino-Indina Ties Enter New Stage: News Analysis”, *Renmin Bao* (Peoples Daily), (Beijing), 23 June 2003

“Text of declaration on border trade”, *The Hindu* (New Delhi), 25 June 2003

“Unctad sees New Foreign Investment Boom in China”, *The Hindu Business Line* (Chennai, India), 5 October, 2000

Amit Baruah, “Foreign Policy Not Tied to Doctrine or Dogma: Natwar Singh”, *The Hindu* (New Delhi), 25 May 2004

Brahma Challeney, “Appeasers selling India short”, *The Japan Times* (Tokyo), 28 June 2003

Daniel H. Rosen, “China and the World Trade Organization: An Economic Balance Sheet”, *International Economic Briefs*, June 1999

David Ignatius, “Is China’s Economy Overheating”, *Washington Post* (Washington DC), 21 April 2004

Jia Hepeng, “Likely Sino-Indian FTA conducive to Nation”, *China Business Weekly* (China Daily, Beijing), 12 April 2004

Keith Bradsher, “In China, Signs of an Overheating Economy”, *The New York Times* (New York), 15 April 2004

Marcus Dam, “Sikkim, Bengal take steps to reopen Nathu La Pass”, *The Hindu* (New Delhi), 20 October 2003

Michael Lev, “7,000 Chinese Workers Unite in Daring Protest”
Chicago Tribune (Chicago), 13 March 2002

Murray Scot Tanner, “Protests Now Flourish in China”,
International Herald Tribune (Hong Kong), 2 June 2004

Prasenjit Bhattacharya & Sahir Anand, “Nationwide raids on
Chinese goods”, *Economic Times* (New Delhi), 12
November 2000

Robert J. Samuelson, “The China Riddle”, *The Washington Post*
(Washington DC), 30 January 2004

Shehla Raza Hasan, “New route could nurture new Asian trade
bloc”, *Asia Times* (Hong Kong), 03 July 2003

Swaminathan S. Aklesaria Aiyar, “Peace pipeline to China”, *The
Times of India* (New Delhi) 13 February, 2005

T.C.A. Ramanujam, “India and China – a Study in Contrast”, *The
Hindu Business Line* (Chennai, India), 12 October 1999

T.K. Bhaumik, “Facing the Chinese Competition”, *Economic Times*
(New Delhi), 1 November 2000

Vivek Raghuvanshi, “China Asks to Develop LCA Fighter with
India”, *Defense News* (USA), 15-21 August, 1994

Wu Feng, “Jan-June foreign trade hits \$ 158 billion”, *China Daily*
(Hong Kong), 14 July 1999

Zou Huilin, “Foreign workers flocking to Shanghai” in *China Daily*
(Beijing), 14 May 2004

Websites and Website Articles

“A New Phase in China-India Relation”, 30 July 2003, *Asia Source*
at [http://www.asiasource.org/news/
at_mp_02.cfm?newsid=99520](http://www.asiasource.org/news/at_mp_02.cfm?newsid=99520)

“Beijing Establishes joint venture in India”, *Xinhua* (in English),
cited in *Foreign Broadcast Information Service-China-
93-013*, 22 January 1993

“China, India Makes Progress in Bilateral Economic, Trade Cooperation”, *The People’s Daily* (Beijing) 23 June 2003, at http://english.peopledaily.com.cn/200306/22/eng20030622_118702.shtml

“China’s Foreign Trade Rises Some 30 Times in 24 years”, *People’s Daily* (Beijing), 30 December 2002, at http://english.peopledaily.com.cn/200212/30/eng20021230_109285.shtml

“China’s foreign trade to grow 17 % in ‘04”, *The Economic Times* (New Delhi) 22 May 2004, at <http://economictimes.indiatimes.com/articleshow/691302.cms>

“Greenspan: China’s economy may be overheating”, *The Peoples Daily* (Beijing) 23 April 2004, at http://english.peopledaily.com.cn/200404/22/eng20040422_141190.shtml

“Hong Kong Budget: No Surprise”, *Economic Forum*, 11 March 2004, at <http://www.tdetrade.com/econforum/dh/dh040301.htm>

“How is China’s per capita GDP of US\$ 4,580 calculated?” *Peoples Daily Online*, at http://english.peopledaily.com.cn/200408/05/eng20030805_151944.html

“India to ask China to open pilgrim route after landslide disaster”, *AFP Report*, 29 August 1998 cited at World Tibet Network News at http://www.tibet.ca/en/wtnarchive/1998/8/29_1.html

“India’s Foreign Relations, 1998-99: East Asia” available at their website at http://www.indianembassy.org/policy/Foreign/FP_1999/EAsia_FP98-99.htm

“Their West, Our North”, 04 September 2003, at <http://www.asiasource.org/trade/one>

Boris Cambreleng, “China plans to build railroad to Tibet”, *Mail and Guardian*, cited at Canada Tibet Network at http://www.tibet.ca/en/wtnarchiee/2002/8/15_2.html

Director General Foreign Trade webpage at <http://dgft.delhi.nic.in/>

Eva Cheng, "China" Constitution change to promote private property", *Green Left Weekly* online at <http://www.greenleft.org.au/back/2004/574/574p21.htm>

<http://www.fico.com>

http://www.indianembassy.org/policy/Foreign_Policy/EAsia_FP_98-99.html

K. M. Yatra, "For Want of a Bank", *Times Agriculture Journal* (Delhi: Economic Times, March-April, 2002) at http://www.etagriculture.com/mar_april2002/state1.html

K. M. Yatra, "For Want of a Bank", *Times Agriculture Journal* (Delhi: Economic Times, March-April, 2002) at http://www.etagriculture.com/mar_april2002/state1.html

Mira Sinha Bhattacharjea, "China-India ties: No longer hostage to the past", <http://www.rediff.com/news/2003/jun/27/guest.htm>

Mohan Malik, "India's Dragon delusions", *Asia Times* (Singapore), 17 October 2003 at http://www.atimes.com/atimes/South_Asia/

Ross Garnaut, "India and China: Reforming Giants", *Asia-Pacific Magazine* (Canberra, Australia), No.2, May 1996, at <http://coombs.anu.edu/SpecialProject/APM/TXT/garnuat-r-02-96.htm>

S. M. A. Kazmi, "Very Special economic zone, 14,000 feet high", *Indian Express* at http://www.expressindia.com/kashmir/full_story/php?content_id=32404#

Sheela Bhatt, "China keen on opening border with Sikkim: Analyst", <http://www.rediff.com/news/may/23sheela.htm>

Sumanta Roy-Chowdhury, "Pilgrimage: Kailash Mansarovar Yatra", *India Travelogue* at <http://www.indiatravelogue.com/leis/pilg1.html>

World Development Indicators Database, World Bank, July 2004, at http://www.worldbank.org/data/databytopic/GDP_PPP.pdf

CHINA-INDIA ECONOMIC ENGAGEMENT

Building Mutual Confidence

SUMMARY

With their annual GDP growth rates hitting respectively at 9.1 and 8.5 per cent for 2003 and at 9.5 and 6.9 per cent for 2004, China and India have since come to be recognized as the two largest as also the fastest growing economies of the 21st century. Thanks, however, to their colonial and cold war legacies, this economic boom had, for long, remained mutually exclusive exercise. It is only rather recent that their political initiatives at confidence building have begun to develop areas of mutual engagement which remains premised on their new *mantra* of mutual accommodation and mutual benefit. Their economic engagement as a result has since come to be the most reliable as also most agreeable instrument of China-India *rapprochement* so assiduously evolved during last three decades or more.

Especially in the last few years, China-India economic engagement has picked up its own momentum with a steak-of-autonomy to say the least. From being once driven by their bold political initiatives, their economic engagements today symbolizes as the most decisive force that promises to potentially circumscribe (and direct) their mutual policy initiatives. It is in this context, that two sides have since come to appreciate how to use their economic engagement to deal with their long-standing political concerns and difficulties. Border trade, for one, has clearly earned the epithet of being an ideal approach to building atmospherics that can help resolve their boundary dispute, though this will take its own time. Also, given several powerful domestic, bilateral and regional dynamics, their new-found bonhomie remains as yet fragile and this calls for caution and serious planning on part of both Beijing and New Delhi.

ABOUT THE AUTHOR

Dr. Swaran Singh is Associate Professor at School of International Studies, Jawaharlal Nehru University (New Delhi) and is Academic Consultant at Centre de Sciences Humaines (New Delhi). Dr. Singh has been formerly of the Beijing University, Shanghai Institute of International Studies, Center for Asian Studies (Hong Kong University) and Institute for Defence Studies and Analysis (New Delhi). He is author of China-South Asia: Issues, Equations, Policies (2003) and China's Changing National Security Doctrines (1999) and Limited War (1995). He was Asia Fellow during 2001-2002. He has traveled and written extensively on China's foreign and security policy issues with special focus on China's equations with India as also on India's foreign and security policy issues.

CENTRE DE SCIENCES HUMAINES

2 Aurangzeb Road, New Delhi - 110 011, INDE

Tel. : (91 11) 30 41 00 70 Fax : (91 11) 30 41 00 79

E-mail : public@csh-delhi.com <http://www.csh-delhi.com>
