China and Indian Economic Relations: 21st Century and Impact of External Factors on It

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Abstract

In this modern interconnected world, states are relying on each other for their national interests in terms of economy and defense assistance. China and India are also relying on each other for their national and regional interests despite having border issues. In this research, China and Indian partnership have been view under the theoretical framework of the ‘theory of liberalism’ which highlights state relations to meet their national interests by using a descriptive research method. Also, explore the implications of external factors on the state relations, and their setbacks affect their relations under such circumstances how they will balance their relations, and gain maximum benefit from it.

Keywords: China and India relation, economic cooperation, trade, external factors, BCIM-EC, economic rivalry, border dispute, interdependence

Introduction:

China and India are the civilizations of the Asian region, and these civilizations shared a strong bond for two hundred years as a neighboring civilization but after World War II, the emergence of the new order and the formation of new states on the globe shaping the structure of the state relationships accordingly. There is a famous proverb in international relations by Henry Kissinger that “World has no permanent friends or enemies, only benefits.”¹¹Henry Kissinger is a former secretary of United States. He served in United
States office from 1973-2016 on different positions in different departments of United States. States in an international forum deal according to their national interests. World politics moves around this proverb and states deal with each other according to their interests. Looking into India-China’s diplomatic relations, one can see the best use of the proverb. However, India and China have border disputes, regional competition but despite issues both states having deep economic ties.

However, India and China shared decent diplomatic relations, but there is a rift between their relations in terms of ideological difference, hegemonic competition, and strategic cooperation with different blocs, and more importantly their border dispute at Tibet side. Despite all ongoing issues between China and India, both have great economic relations with each other in terms of trade and Bangladesh-China-India-Myanmar Economic Corridor (BCIM-EC), which they signed in 2013 when China announced its Belt and Road Initiative to connect the world through one road (Iyer, 2017).

Meanwhile, economic development is on its apex, cross border tension has been observed at disputed territory but high command officials doing their best to ease the tension and authorities agreed to resolve the dispute through peaceful bilateral agreement to maintain peace in the region (BBC, 2020).

In that case, if border dispute will not resolve, it will impact on the economic relations of the states which not only affect the bilateral relations but also slow down the economic growth as well which hurt the national interest of both states and India and China both do not want to spoil their relations as their national interest relies on mutual benefit as modern nation-states interests are interlinked with each other and increasing economic interdependence in 21st century will minimize the risk of confrontation due to shared benefits with one another.

This research article is an attempt to find out the economic relationship between China and India despite having a territorial dispute between these two countries, how they are managing their economic and diplomatic ties with each other for the sake of achieving mutual gains.

**Theoretical Framework:**

The theory of Interdependence is used in this research and shows how states collaborate to meet their maximum interests and minimizes the risk of collateral damage. Theory can be explained by the different scholars at their best. The main idea of the interdependence is to have economic and trade relationship with states to expand reliance on each other, which gives a boost to the economy and develop interstate relations more strongly as their national interests interlinked with each other.

Interdependence can be explained in simple words; dependence or reliance on each other (states) for mutual gains or benefits.

"Interdependence can be defined as the direct and positive linkage of the interests of states where a change in the position of one state affects the position of others and in the same direction. Interdependence, then, is measured both by the flow of goods between states." (Roger A. Coate, Jeffrey A. Griffin, and Steven Elliott-Gower, 2015)

The relation between China and India is the same alike. States are interlinked with each other for attaining maximum benefits from each other as India and China are two highly populates countries in the world and developing economies as well. To meet the needs and demands of the public they have to collaborate to satisfy the public. Where China is providing goods to the Indian market and India is giving vast market to Chinese goods. Despite having territorial disputes India and China have strong trade relations with others. Their economic interdependence minimizes the risk of escalation between the two. However, there is tension on the border between the two but an authority tries their level best to resolve the issue in peaceful manners to maintain peace in the region.

**Research Methods:**

The research is descriptive and analytical in nature. Primary and secondary data is used for the completion of the research. The sources which are used for the conduction of research are books, research articles,
newspaper source and internet.

**Historical Perspective:**

India and China are civilizations and have 200 years old relations with each other before the partition of the sub-continent and Chinese civil war. After partition, India and China started their diplomatic relations with each other in the 1950s. In 1954, India and China signed an agreement on Tibet; this agreement was historic in the history of China and India for trade and bilateral relations. There as five points in this agreement this is also called a Panchsheel agreement in which it is stated as:

1- Mutual respect for territorial integrity and sovereignty

2- Mutual non-aggression

3- Non-interference in internal affairs

4- Equality and mutual benefits

5- Peaceful co-existence

This agreement is made on the demand of the international situation and to make a better place to live in (Das, 2013) and Prime Minister Nehru promotes the slogan of “Hindi-Chini Bhai-Bhai” (Today, 2016).

All is going well between India and China but a sudden escalation of war disrupts their diplomatic and trade relations in 1962. The war fought on the point of Aksai Chin nearest point of Assam, the reason behind the escalation was an undefined border of both sides as both states have their respective maps and they believed that these are right, which creates the disharmony between the two states and in the result, China troops attack the Ladakh and invaded it on Oct 22, 1962, and this war lasted for one month (Today, 2016).

**Border Dispute**

India and China shared the border of 3488 km along with Indian occupied Kashmir from the Indian side and it linked up with the Xinjiang province of China (satp.org, 2008). The area of Tibet came under the debate between India and China as both of them claims as to their territory, which leads to the escalation of war between India and China in 1962.

The rift between two started when China used force to repress Buddhists in Tibet, forced them to leave to their native place in 1959. On the contrary, India supports them and grant asylum to the Dalai Lama, Indian gesture of humility breach the Panchsheel agreement while interfering internal affairs of China, which affects the relation of India and China and leads to the border conflict. The India and China Shares 125,000 sq km of the disputed border from the three different sectors; 1- the Aksai Chin Plateau which is on the western side of the Xinjiang province and claimed by both India and China both, 2- the second sector was the borderline of McMahon where India claims the boundary and China had reservations, 3- and the third sector belong to the Tibet dispute with Indian provinces of Himachal and Uttar Pradesh (Siddiqi, 2012).

The humanitarian act by Indian administration towards Dalai Lama people lands into huge trouble as diplomatic relations between India and China start worsening whereas, Pakistani President Ayub Khan offers joint defense agreement to India to counter China, but Nehru turns down Pakistan’s offer as in his opinion China will not escalate the war but when Chinese Liberation Army attacked India from Tibet border and took control over the region which left India in the state of shock (Siddiqi, 2012).

However, the tension between China and India intensifies when China successfully tests its nuclear test in 1964 and India also strives for the acquiring nuclear, and in 1974 they successfully tested it. During this period, India acquires its military capability in which they were lacking; they showed their military capability in the 1971 war with Pakistan. In 1976 China and India re-established the diplomatic ties, but in Mc Mohan Line 1986, Chinese intrusion had been observed by New Delhi, at the Surnudorong Chu valley, near Mc Mohan Line; and they strongly condemn Chinese development activities in the disputed territory. Whereas, China did not accept the accusation of India and in 1988, Rajiv Gandhi and Deng sign the deal agreed upon the
tranquility of the border by both sides can be observed. Since 1975, there was no bullet fired on the border but India claimed that China intervene in Indian Territory on several occasions (Das, 2013).

**Economic Co-operation**

China and India are regional competitors as well they belong to two different ideological blocs, both of them striving hard to achieve maximum economic goals to have hegemony over the region, whereas India goes for the private sector to achieve economic reforms and on the other hand China opt for industrial development and facilitating foreign trade to build up economic industry, China and India acquire their economic growth with different approaches but they also learned from each other’s experiences too (Zhao, 2007).

However, after one-decade rivalry, China and India restored their diplomatic relation in 1976, soon after when India tested their nuclear weapon. At this time, China and India were striving to acquire economic growth and sustainability. In 1978, China changes its economic and foreign policies while opening up towards the world and introduced economic services to the world (Marelli & Singorelli, 2011). This was the time China and US ally together against soviet invasion in Afghanistan with Pakistan. India did not support this venture as this seems to be a forceful intervention in Afghanistan’s sovereignty. Meanwhile, Pakistan started acquiring nuclear capability with the help of the US and China which India object but both states would not accept this as they reply it’s for a peaceful purpose (Zhao, 2007).

The above-given graph shows the trade ration between China and India. From the late 1970s, India’s export and trade increased with China. India shared intensive trade relations with China till 2008, which was the peak of their trade afterwards imports from China slowdown due to expanding trade deficit between two, and by 2015, a trade they had a minimum trade deficit between two. The main reason behind the cutting off trade with China was the exports of Indian goods with China which remain low in terms of trade and import ratio always remain high. Which also devalues the Indian domestic industry? So, India somehow shifted her trade relations with the US as this is discussed in heading under economic cooperation in the 21st century.

**Changing world order Post-Cold War**

World order changes with the disintegration of the USSR, the bi-polar world turns into a unipolar world and the US emerges as a sole superpower of the world. On meanwhile, India and China emerge as economic powers in the world from the third world countries (Miller, 1992). However, India and China turn into regional rivals and economic competitors as well but despite all rivalry, India turns out to one of the largest trading partners in terms of imports from China. China invests its capital in a heavy industry where India promotes the private sector. China and India emerge as a prominent economic hub in the region and they started to acquire dominancy in the region of competing for one another by influencing other developing countries in the region.

Where China and Pakistan shared economic and defense relation to encounter Indian influence from Asian region and also Pakistan and China have a border dispute with India and Pakistan perceive a serious threat from India. So that India becomes the main reason behind the close ties of Pakistan and China as there is a famous saying, “enemy of your enemy is your friend” that is proven by Pakistan and China. Despite having a common enemy, China and Pakistan had cooperation in the development of heavy industry in Pakistan which brings Pakistan and China more close which alienates India. So, India started its economic influence on its neighboring countries such as Bangladesh, Sri Lanka, and Bhutan (Myanmar).

During this scenario, China and India had exchange high official visits to develop friendly relations but the element rivalry remains there. But the decades of 1980-1990 proves to be an economic boost for China and India where China establish industry, special economic zones and introduce modern technologies in agriculture but India excels in information technologies (IT), software, pharmaceuticals and service industries which benefits the people of India and China but volume in trade boost tilts towards China as compare India (Siddiqi, 2012).

**Economic Cooperation in 21st Century**
Where China and India were engaged to achieve maximum economic benefits and started their trade relations along with the globe where the event of 9/11 happened and the war on terror comes out as output of attack. It also shaped the world economy where at one point Asian countries achieving maximum economic goals on the other side, of Asia war on terror was fought on the ground of Asia (Afghanistan). The whole world stands together against terrorism, which also destabilizes the economic growth of the region at that time. War on terror broke out in 2008 when the world faces an economic recession which crashed the world economy.

In meanwhile, China and Pakistan started their joint ventures in the deployment of heavy industry in Pakistan, and most importantly they signed a strategic partnership with each other. On the parallel side, India and the US started joint ventures together to curtail Chinese hegemony from the region.

After the global economic recession, China emerges as an economic power on the globe which poses threat to the US hegemony as the US was involved in a war on terror in Afghanistan, which shakes the US economy badly and this was the time when China overtook the world market (Friedberg, 2011). There are few points which need to be highlighted that how China take over market globally, China attracts global industry towards itself with its cheap labor, marketing policies, being a workaholic which turns the table in the favor of China, the world starts getting goods in cheaper rates than the actual price, indigenous and domestic industries were getting closed by the countries on the name of environment protection. This reduces the labor cost but increased the unemployment in the countries which automatically burdened the state economy. The US was one of those countries that shut down their industry and start exporting goods from China. So, the US perceives a hegemonic threat from China and its marketing strategy which captures the global market.

By 2013, Chinese Premier Xi Ji Ping announced Belt and Road initiative (BRI) which consisted on six economic corridors which linked world through road links BCIMEC is one of the first projects which announce with the Bangladesh-China-India-Myanmar whose initial budget is USD 22 billion which will beneficial for over 440 million people of the region, and the funding will be done through multilateral development partners (Karim & Islam, 2018).

However, BCIM-EC was the byproduct of constant efforts of Chines administration from 1998, despite investing US treasury bonds, Chinese efforts turn into reality under the leadership of Prime Minister Manmohan Singh of India in 2004. Under the leadership of Prime Minister Manmohan, India and China have cherish friendly relations and their trade relations also had boost at that time, as Indian Prime Minister believe in regional prosperity and mutual benefits for all but during this mutual cooperation, the world faced economic recession which economies very hard and break down of war on terror destabilize the regional badly and for stable economy regional cooperation was needed. In 2013, China and India announced mutual cooperation project BCIM-EC, in China’s perspective BCIM would generate a large level of growth along the corridor and this was an attempt to maintain peace between the countries along with mutual benefits, respect, interest, equal shares, and building consensus (Jinchen, 2016). Moreover, BCIM has the potential to generate trade, investment, and communication among the member states. There were three T’s where were prioritize under the BCIM which comprised Trade, Transport, and Tourism (TTT), with time evolved as TTE (Trade, Transport, and Energy). Although, in Boao forum back 2013, formally announced BCIM as part of their BRI and BRI turns out to be to the center of Chinese foreign, economic and geo-political-strategic policy under the President Xi’s leadership (Karim & Islam, 2018). Behind the Initiative of BRI, its Chinese approach to revive old silk and maritime route to expand its trade and reshape their geopolitical relations and it will automatically boost Chinese economic growth and influence in the region.

The clash between China and India has been witnessed when Pakistan-China announced China-Pakistan Economic Corridor (CPEC) in 2015, which passes through the disputed territory of Pakistan Occupied Kashmir (PoK) and protests over it (Rajan, 2015) and assumed ditched by China and also perceived that China's BRI initiative as a trap to overtake the regional hegemony and global market. India and Bangladesh presented alternative special zones to have an economic boost, as in their perspective China wants to develop railway and road links for the development of Kunming province. On the other hand, India had announced “Kaladan Multi-Modal Transit Transport (KMMTT)” sponsored by Japan to connect Calcutta with Sittwe port of Myanmar (Karim & Islam, 2018) while Bangladesh proposed alternative corridor of BCIM which
includes Chittagong—Yangon—Kunming, and Thailand—Malaysia—Singapore. So far, India wants to curtail on-going Chinese influence from the region as China is developing Gwadar port as an investment in Pakistan, so India started investment in Central Asia via developing Chabbar port in Iran and wants to develop transit route to Afghanistan which pass through Pakistan by overpassing China from it. Despite having a rivalry with China, India is one of the largest trading partners of China. On the parallel side, India extended her trade relation with the US while shifting her dependence from Chinese goods to meet the trade deficit as well meet the demand of public goods (Paterson, 2019) and this was the effort to cut off Chinese influence from the region.

Rise of India and China since 1980 to 2017

As shown in the below-given graphs, this represents China’s and India’s economic growth in terms of per capita and overall GDP growth. These graphs represent the economic growth of China and India from the past five decades. China achieves world highest per capita by providing cheap labor and services to the world to attract their industry towards China these all are Chinese economic policies and strategies to gain maximum benefit while moving to GDP of China, China becomes the economic hub developing heavy industry, exporting arms to the world and at domestic level industry China excel in agricultural reforms and manufacturing cheap domestic goods at cheap prices which results the dependence of world manufacturing industry on China because of manufacturing of reasonable goods at low market prices.

However, India excels in the private sector as mention above, they only keep the focus on modern technology in the field of IT and pharmaceuticals which boost their GDP (Fan, 2011) but cannot overtake China’s economic growth nor become regional hegemon but maintain stronghold East South Asia through economic supremacy and military power and now expanding its influence in Central Asia investing in Chabbar port in Iran and reconciliation of Afghanistan economy with the US (Rehman, 2011), as the US and India fear that China will overshadow their presence in Central Asian region through regional stability via economic investment in terms of development. India started doing investment in Afghanistan to stabilize its economy and counter Chinese influence from the region.

US-China rivalry and impact on its relationship with India

US supposed to be a bottleneck between China and India’s economic and diplomatic relations as both India and the US find China as their economic competitor but both have trading relations with China. The exports from China always remain high as compared to imports which increased the trade deficit between these countries. However, the Barack Obama administration took the Chinese BRI project as an economic development project but President Donald Trump administration perceives a serious threat to US hegemony (Nordin & Weissmann, 2018). Soon after joining the office, President Trump demands to cut off trade deficit with China as it increased so high as well Trump announced to have a close economy to counter China global market hegemony and revive their economy as well because the increasing ratio of unemployed persons in US and war on terror and Iraq war damage US economy so hard. The emergence of China as a global market and one of the world largest economy portray threat to the US hegemony. For instance, India and the US collaborate by boycotting Chinese goods, shifting their trade relations, and expanding their investment in Afghanistan to counter Chinese influence from the Asian region. As if China, holds economic control on the Asian region then the US loses its military dominance and India will never become a regional hegemon. However, India and the US strategy slowdown the trade with these two countries but will not affect the global image of China, but the sudden attack of pandemic COVID-19 paralyzed the global economy which the world economy so hard. In this chaotic situation President, Trump is playing blame games by blaming China for the pandemic which demeans his national image as well and his racist policies make the US against him and the world is appreciating China for her strategies to tackle pandemic.

Galwan Valley Dispute June 2020

India and China have strong diplomatic relations despite of having border issues of Tibet since 1962 and US plays vital role to ceasefire the dispute, which turns down their diplomatic relations till 1975, but their diplomatic relations resumed in 1976. India and China signed the agreement in the late 1980s, in that
agreement they declared the Galwan region as ammunition free zone. So, whenever conflict abrupt in the region, it will not affect the nature of the region. Moreover, after the ceasefire on border, both states did not violate the agreement but the border dispute again started in 2016, which is still going on. Recently Indian forces violate the Line of actual control on June 15, 2020, from Galwan valley side; this incident happened after one week of the meeting of high military officials from both sides agreed on the peaceful bilateral agreement to resolve the border issue (BBC, 2020). Mr. Zhao said that “once again crossed the Line of Actual Control for deliberate provocation when the situation in the Galwan Valley was already easing” (BBC, 2020). Whereas China accused India of violating its territory, on the other hand, India blames China for violating its border sovereignty first.

However, it was reported in news that no single fire was fired, but more than a dozen soldiers died in this hand-to-hand scuffle in Galwan Valley. Soon after the tension started after one week, India announced to ban 59 Chinese apps and restaurants from India due to the security of the state and public affairs. Moreover, after the China-US trade war initiated, India also cut off its trade relations with China and shifted its tilts toward the US as discussed before. It seems that Galwan valley tension might be deliberately initiated by India and the US to ban Chinese goods and firms, as soon after India’s announced to ban Chinese, the US also announced to ban Huawei and Chinese firms. To curtail the Chinese market influence and shift their trade dependence from Chinese goods.

**Conclusion**

Despite of having border rift between these two civilizations, both states share strong bilateral and diplomatic ties in terms of economic relations post-cold war era. However, China and India are regional competitors and having disrupted border issues. But still, India remains the largest trading partner of China, and it also provides a huge market to Chinese goods. Although the strategic partnership and strategic cooperation with the US and Pakistan create certain binaries between India and China. Ultimately, the ongoing trade rift between China and the US affects trade relations of India and China due to their close strategic cooperation between India and the US but somehow, China maintains a balance between its terms with India and Pakistan (Malik, 2012). Most importantly, China never intervenes between India and Pakistan affair. But in a current situation, where border issue again abrupts between India and China at one side, and on the other side, they are trying to resolve the border dispute to maintain peace. It seems Indian does not want to resolve the issue as last year, PM Narendra Modi, abolish article 370 and 35 (A), and announced Indian Occupied Kashmir as a part of India it might be possible that Indian administration wants to take over that disputed area as well (Farooq & Javaid; 2020). This dispute might slow down the pace of trade between two but does not harm their diplomatic relations much as China believes in economic development and expanding its market broadly. Moreover, China keeps its national interest first and foremost and India cannot cut its ties with China as the world is relying on Chinese goods if they will cut their diplomatic and trade relations with China, but they cannot meet the public demand and don’t have industry as well. In this modern world, for survival, it’s an obligation to have diplomatic ties with neighboring countries as you cannot survive alone in this world. Especially, when you are surrounded by rivals and you have be to more diplomatic towards them.