Chapter 3
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Jawaharlal Nehru based his vision of “resurgent Asia” on friendship between the two largest states of Asia, his vision of an internationalist foreign policy governed by the ethics of the Panchsheel which he initially believed was shared by China, came to grief when it became clear that the two countries had a conflict of interest in Tibet, which had traditionally served as a geographical and political Buffer Zone and where India believed it had inherited special privileges from the British Raj.
However, the initial focus of the leaders of both the nations was not the foreign policy but the internal development of their respective states. When they did concentrate on the foreign policies their concern wasn’t one another but rather the United States of America and the Union of soviet Socialist Republics and the alliance systems which dominated by the two superpowers.
1950’s
On October 1, 1949, the People’s Liberation Army defeated the Kuomintang (Nationalist Party) of China in a civil war and established the People’s Republic of China. On August 15, 1947, India became an independent
dominion under British Commonwealth and become a federal democratic republic after its constitution came into effect on January 26, 1950. Mao Zedong, the Commander of the Liberation Army and the Chairmen of the Communist Party of China viewed Tibet as an integral part of the Chinese State. Mao was determined to bring Tibet under direct administrative and military control of People’s Republic of China and saw Indian concern over Tibet as a manifestation of the Indian Government’s interference in the internal affairs of the People’s Republic of China. The PRC sought to reassert control over Tibet and to end Lamaism (Tibetan Buddhism) and feudalism which it did by force of arms in 1950. To avoid antagonizing the People’s Republic of China, Nehru informed Chinese leaders that India had neither political nor territorial ambitions, not did it seek special privilege in Tibet, but that traditional trading rights must continue. With Indian support Tibetan delegates signed an agreement in May 1951 recognizing PRC sovereignty but guaranteeing that the existing political and social system of Tibet would continue. Direct negotiations between India and the PRC commenced in an atmosphere improved by India’s
mediation efforts in ending the Korean War (1950–1953). Meanwhile India was the 16th state to establish diplomatic relations with the People’s Republic of China and did so on April 1, 1950.

In April 1954, India and the PRC signed an eight-year agreement on Tibet that set forth the basis of their relationship in the form of the Five Principles of Peaceful Coexistence although critics called the panchshila naïve, Nehru calculated that in the absence of either the wherewithal or a policy for defense of the Himalayan region, India’s best guarantee of security was to establish a psychological buffer zone in place of the lost physical buffer of Tibet. Thus the catch phrase of India’s diplomacy with China in the 1950’s was Hindi-Chini-bhai-bhai. Up until 1959, despite border skirmishes and discrepancies between Indian and Chinese maps, Chinese leaders amicably had assured India that there was no territorial controversy on the border though there is some evidence that India avoided bringing up the border issue in high level meetings.

In 1954, India, published new maps that included the Aksai Chin region within the boundaries of India (maps published at the time of India’s independence did not
clearly indicate whether the region was in India or Tibet). When an Indian reconnaissance party discovered a completed Chinese road running through the Aksai Chin region of the Ladakh District of Jammu and Kashmir, border clashes and Indian protests become more frequent and serious. In January 1959, PRC premier Zhou Enlai wrote to Nehru, rejecting Nehru’s contention that the border was based on treaty and custom and pointing out that no government in China had accepted as legal the McMahon Line, which in the 1914 Simla Convention defined the eastern section of the border between India and Tibet. The Dalai Lama, spiritual and temporal head of the Tibetan people, sought sanctuary in Dharmsala, Himachal Pradesh, in March 1959, and thousands of Tibetan refugees settled in northwestern India, particularly in Himachal Pradesh. The People’s Republic of China accused India of expansionism and imperialism in Tibet and throughout the Himalayan region. China claimed 104,000 km² of territory over which India’s maps showed clear sovereignty and demanded “rectification” of the entire border. Zhou proposed that China relinquish its claim to most of India’s northeast in exchange for India’s abandonment of
its claim to Aksai Chin. The Indian government constrained by domestic public opinion rejected the idea of a settlement based on uncompensated loss of territory as being humiliating unequal.

1960s

Border disputes resulted in a short border war between the People’s Republic of China and India in 20 October 1962. The PRC pushed the unprepared and inadequately led Indian forces to within forth-eight kilometers of the Assam plains in the northeast and occupied strategic points in Ladakh, until the PRC declared a unilateral cease-fire on 21 November and withdrew twenty kilometers behind its contended line of Control. At the time of Sino-Indian border conflict, a severe political split was taking place in the Communist Party of India. One section was accused by the Indian government as being pro-PRC, and a large number of political leaders were jailed. Subsequently, CPI split with the leftist section forming the Communist Party of India (Marxist) in 1964. CPI (M) held some contacts with the Communist Party of China in the initial period after the split but did not fully embrace the political line of Mao Zedong.

Relations between the PRC and India deteriorated during
the rest of the 1960s and the early 1970s as Sino-Pakistani relations improved and Sino-Soviet relations worsened. The PRC backed Pakistan in its 1965 war with India. Between 1967 and 1971, an all-weather road was build across territory claimed by India, linking PRC’s Xinjiang Uyghur Autonomous Region with Pakistan; India could do no more than protest. The PRC continued an active propaganda campaign against India and supplied ideological, financial, and other assistance to dissident groups, especially to tribes in northeastern India. The PRC accused India of assisting the Khampa rebels in Tibet. Diplomatic contact between the two governments was minimal although not formally severed. The flow of cultural and other exchanges that had marked the 1950s ceased entirely. The flourishing wool, Fur and spice trade between Lhasa and India through the Nathula Pass, an offshoot of the ancient Silk Road in the then. Indian protectorate of Sikkim was also severed. However, the biweekly postal network through this pass was kept alive, which exists till today. During Indo-Pakistani War of 1965, China issued an ultimatum to India to demolish illegal structures build on Chinese territory opposite Sikkim, and also to return the
stolen yaks and sheep. Prime Minister of India offered a joint inquiry into the location of the controversial structures which were ignored. Meanwhile in Delhi some people had collected some of sheep and goats near the Chinese embassy and displaying placards stating: “Eat them but keep the peace in Asia”. Sinologist world over were in agreement that the China-India exchanges were just “typewriter war” meaning unintentional. Chinese extended the ultimatum by two days and then demolished the structure themselves announcing compliance.

**Later skirmishes**

In late 1967, there were two skirmishes between Indian and Chinese forces in Sikkim. The first one was dubbed the “Nathu La incident”, and the other the “Chola incident”. Prior to these incidents had been the Naxalbari uprising in India by the Communist Naxalites and Maoists

In 1967, a peasant uprising broke out in Naxalbari, led by pro-Maoist elements. A pronouncement by Mao titled “spring thunder over India” gave full moral support for the uprising. The support for the revolt marked the end for the relations between CPM and CPI (M). Naxalbari-inspired communists organized armed revolts in several parts of India, and in 1969 they formed the Communist
Party of India (Marxist-Leninist). However as the naxalite movement disintegrated in various splits, the PRC withdrew it political support and turned non-committal towards the various Indian groups.

On 11 September 1967, troops of the Indian Army’s 2nd GRENADIERS were protecting an Engineering Company that was fencing the North Shoulder of Nathula, when Chinese troops opened fire on them. This escalated over the next five days to an exchange of heavy artillery and mortar fire between the Indian and the Chinese. 62 Indian soldiers, from the 2nd Grenadiers and the Artillery regiments were killed. Brigadier Rai Singh Yadav, the Commanding Officer, was awarded the MVC and Capt. P.S. Dagger was awarded a VRC (posthumous) for their gallant actions. The extent of Chinese causalities in this incident is not known.

In the second, on 1 October 1967, a group of Indian Gurkha Rifles soldiers (from the 7th Battalion of the 11th Regiment) noticed Chinese troops surrounding a sentry post near a boulder at the Chola outpost in Sikkim. After a heated argument over the control of the boulder, a Chinese soldier bayoneted a Gurkha rifleman, triggering the start of a close-quarters knife and fire-fight, which
then escalated to a mortar and HMG duel. The Chinese troops had to signal a ceasefire just after three hours of fighting but later scaled point 15450 to establish themselves there the Gurkhas outflanked them the next day to regain point 15450 and the Chinese retreated across the LAC. 21 Indian soldiers were killed in this action. The Indian government awarded Vir Chakras to Rifleman Limbu (posthumous) and battalion commander Major K.B.Joshi for their gallant actions. The extent of Chinese casualties in this skirmish is also not known.

1970s

In August 1971, India signed its Treaty of Peace, Friendship, and Cooperation with the Soviet Union, and the United States and the PRC sided with Pakistan in its December 1971, war with India. By this time, the PRC had just replaced the Republic of China in the UN where its representatives denounced India as being a “tool of Soviet expansionism”.

India and the PRC renewed efforts to improved relations after the Soviet Union invaded Afghanistan in December 1979. The PRC modified its pro-Pakistan stand on Kashmir and appeared willing to remain silent on India’s absorption of Sikkim and its special advisory relationship
with Bhutan. The PRC’s leaders agreed to discuss the boundary issue, India’s priority as the first step to a broadening of relations. The two countries hosted each other’s news agencies; a Mount Kailash and Mansarowar Lake in Tibet, the mythological home of the Hindu pantheon were opened to annual pilgrimages from India.

1980s

In 1981 PRC minister of foreign affairs Huang Hua was invited to India, where he made complimentary remarks about India’s role in South Asia. PRC premier Zhao Ziyang concurrently toured Pakistan, Nepal, and Bangladesh.

In 1980, Indian Prime Minister Indira Gandhi approved a plan to upgrade the deployment of force around the Line of Actual Control to avoid unilateral redefinitions of the line. India also increased funds for infrastructural development in these areas.

In 1984, squads of Indian soldiers began actively patrolling the Sumdorong Chu Valley in Arunachal Pradesh (formerly NEFA), which is north of the McMahon Line as drawn on the Simla Treaty map but south of the ridge which Indian claims is meant to delineate the McMahon Line. The Sumdorong Chu
Valley “seemed to lie to the north of the McMahon line; but is south of the highest ridge in the area, and the McMahon line is meant to follow the highest points” according to the Indian claims, while the Chinese did not recognize the McMahon Line as legitimate and were not prepared to accept an Indian claim line even further north than that. The Indian team left the area before the winter. In the winter of 1986, the Chinese deployed their troops to the Sumdorong Shu before the Indian team could arrive in the summer and build a Helipad at Wandung. Surprised by the Chinese occupation, India’s then Chief of Army staff, General K.Sundarji, airlifted a brigade to the region. Chinese troops could not move any further into the valley and were forced to move sideways along the Thag La ridge, away from the valley. By 1987, Beijing’s reaction was similar to that in 1962 and this prompted many Western diplomats to predict war. However, Indian foreign minister N.D.Tiwari and Prime Minister Rajiv Gandhi travelled to Beijing over the following months to negotiate a mutual de-escalation. After the Huang visit, India and the PRC held eight rounds of border negotiations between December 1981, and November 1987. These talks initially raised hopes that progress
could be made on the border issue. However, the 1985 the PRC stiffened its position on the border and insisted on mutual concessions without defining the exact terms of its “package proposal” or where the actual line of control lay. In 1986 and 1987, the negotiations achieved nothing given the charge exchanged between the two countries of military encroachment in the sumdorung Chu Valley of the Tawang tract on the eastern sector of the border. China’s construction of a military post and helicopter pad in the area in 1986 and India’s grant statehood to Arunachal Pradesh (formerly the North-East Frontier Agency) in February 1987 caused both sides to deploy new troops to the area, raising tensions and fears of a new border war. The PRC relayed warnings that it would “teach India a lesson” if it did not cease “nibbling” at Chinese territory. By the summer of 1987, however both sides had backed away from conflict and denied that military clashes had taken place.

A warming trend in relations was facilitated by Rajiv Gandhi’s visit China in December 1988. The two sides issued a joint communiqué that stressed the need to restore friendly relations on their basis of the Panch Shila and noted the importance of the first visit by an Indian
Prime minister to China since Nehru’s 1954 visit. India and the People’s Republic of China agreed to broaden bilateral ties in various areas, working to achieve a “fair and reasonable settlement while seeking a mutually acceptable solution” to the border dispute. The communiqué also expressed China’s concern about agitation by Tibetan separatists in India and reiterated China’s position that Tibet was an integral part of China and those anti-China political activities by expatriate Tibetans was not to be tolerated. Rajiv Gandhi signed bilateral agreements on science and technology cooperation, on civil aviation to establish direct air links, and on cultural exchanges. The two sides also agreed to hold annual diplomatic consultations between foreign ministers, and to set up a joint ministerial committee on economic and scientific cooperation and a joint working group on the boundary issue. The latter group was to be led by the Indian foreign secretary and the Chinese vice minister of foreign affairs.

1990s
As the mid-1990s approached, slow but steady improvement in relations with China was visible. Top-level dialogue continued with the December 1991 visit of
PRC premier Li Pang to India and the May 1992 visit to China of Indian president R. Venkataraman. Six rounds of talks of the Indian-Chinese joint working group on the Border issue were held between December 1988 and June 1993. Progress was also made in reducing tensions on the border via confidence-building measures, including mutual troop reductions, regular meetings of local military commanders, and advance notification of military exercises. Border trade resumed in July 1992 after a hiatus of more than thirty years, consulates reopened in Mumbai and Shanghai in December 1992, and, in June 1993, the two sides agreed to open an additional border trading post. During Sharad Pawar’s July 1992, visit to Beijing the first ever by an Indian minister of defense, the two defense establishments agreed to develop academic, military, scientific, and technological exchange and to schedule an Indian port call by a Chinese naval vessel. Substantial movement in relations continued in 1993. The sixth-round joint working group talks were held in June in New Delhi but resulted in only minor development. However, as the year progressed the long-standing border dispute was eased as a result of bilateral pledges to reduce troop levels and to respect the cease-fire line along
the India-China border. Prime Minister Narasimha Rao and Premier Li Pang signed the border agreement and three other agreements (on cross-border trade and on increased cooperation on the environment and in radio and television broadcasting) during the former’s visit to Beijing in September. A senior-level Chinese military delegation made a six-day goodwill visit to India in December 1993, aimed at “fostering confidence building measures between the defense forces of the two countries”. The visit, however, came at a time when press reports revealed that as a result of improved relation between the PRC and Burma, China was exporting greater amounts of military materiel to Burma’s army, navy, and air force and sending an increasing number of technicians in Burma’s Coco Islands, which border India’s Union Territory of the Andaman and Nicobar Islands. Nevertheless, movement continued in 1994 on troop reductions along the Himalayan frontier. Moreover, in January 1994 Beijing announced that it not only favored a negotiated solution on Kashmir, but also opposed any form of Independence for the region.

Talking were held in New Delhi in February 1994, aimed at confirming established “confidence-building measures”
and discussing clarification of the “line of actual control” reduction of armed forces along the line, and prior information about forthcoming military exercises. China’s hope for settlement of the boundary issue was reiterated. The 1993, Chinese military visit to India was reciprocated by Indian army chief of staff General B.C. Joshi. During talks in Beijing in July 1994, the two sides agreed that border problems should be resolved peacefully through “mutual understanding and concessions.” The border problems should be raised in September 1994, when PRC minister of national defense Chi Haotian visited New Delhi for extensive talks with high-level Indian trade and defense officials. Further talks in New Delhi in March 1995 by the India-China Expert Group led to an agreement to set up two additional points of contacts along the 4,000 km border to facilitate meetings between military personnel. The two sides also were reported as “seriously engaged” in defining the McMahon Line and the line of actual control vis-à-vis military exercises and prevention of lair intrusion. Talks in Beijing in July 1995 aimed at better border security and combating cross-border crimes and in New Delhi in August 1995 on additional troop withdrawals from the border made
further progress in reducing tensions.
Possibly indicative of the further relaxation of India-China relations, at least there was little notice taken in Beijing was the April 1995 announcement, after a year of consultation, of the opening of the Taipel Economic and Cultural Center in New Delhi. The center serves as the representative office of the Republic of China (Taiwan) and is the counterpart of the India-Taipei Association in Taiwan; both institutions have the goal of improving relations between the two sides, which have been strained since New Delhi’s recognition of Beijing in 1950. Sino-Indian relations hit a low point in 1998 following India’s nuclear tests in May. Indian Defense Minister George Fernandez declared that “China is India’s number one threat”, hinting that India developed nuclear weapons in defense against China’s nuclear arsenal. In 1998, china was one of the strongest international critics of India’s nuclear tests and entry into the nuclear club. Relations between India and China stayed strained until the end of the decade.
2000s
Indian and Chinese officers at Nathu La. Nathu La were re-opened in 2006 following numerous bilateral trade
agreements. The opening of the pass is expected to bolster the economy of the region and plays a key role in the growing Sino-Indian trade.

With Indian President K.R. Narayanan’s visit to China, 2000 marked a gradual re-engagement of Indian and Chinese diplomacy. In a major embarrassment for China, the 17th Karmapa, Urgyen Trinley Dorje, who was proclaimed by China, made a dramatic escape from Tibet to the Rumtek Monastery in Sikkim, Chinese officials were in a quandary on this issue as any protest to India on the issue whole mean an explicit endorsement on India’s governance of Sikkim, which the Chinese still hadn’t recognized. In 2002, Chinese Premier Zhu Rongji reciprocated by visiting India, with a focus on economic issues. 2003 ushered in a marked improvement in Sino-Indian relations following Indian Prime Minister Atal Bihari Vajpayee’s landmark June 2003 visit to China. China officially recognized Indian sovereignty over Sikkim as the two nations moved towards resolving their border disputes.

2004 also witnessed a gradual improvement in the international are when the two countries proposed opening up the Nathula and Jelepla Passes in Sikkim
which would be mutually beneficial to both countries. 2004 was a milestone in Sino-Indian bilateral trade, surpassing the $10 billion mark for the first time. In April 2005, Chinese premier Wen Jiabao visited Bangalore to push for increased Sino-Indian cooperation in high-tech industries. In a speech, Wen stated “cooperation is just like two pagodas (temples), one hardware and one software. Combined we can take the leadership position in the world.” Wen stated that the 21st century will be “Asian century of the IT industry”. The high-level visit was also expected to produce several agreements to deepen political, cultural, and economic ties between the two nations. Regarding the issue of India gaining a permanent seat on the UN Security Council, on his visit, Wen Jiabao initially seemed to support the idea, but had returned to a neutral position on the subject by the time he returned to China. In the South Asian Association for Regional Cooperation (SAARC) summit (2005) China was granted an observer status. While other countries in the region are ready to consider China for permanent membership in the SAARC, India seems reluctant.

A very important dimension of the evolving Sino-Indian relationship is based on the energy requirement of their
industrial expansion and their readiness to proactively secure them by investing in the oilfields abroad-in Africa, the Middle East and Central Asia. On the one hand, these ventures entail competition (which has been evident in oil biddings for various international projects recently) but on the other hand, a degree of cooperation too is visible, as they are increasingly confronting bigger players in the global oil market. This cooperation was sealed in Beijing on January 12, 2006 during the visit of Petroleum and Natural Gas Minister Mani Shankar Aiyar, who signed an agreement which envisages ONGC Vides Ltd (OVL) and the China National Petroleum Corporation (CNPC) placing joint bids for promising projects elsewhere. This may have important consequences for their international relations.

On July 6, 2006, China and India re-opened Nathula, an ancient trade route which was part of the Silk Road. Nathula is a pass through the Himalayas and it was closed 44 years prior to 2006, when the Sino-Indian War broke out in 1962. The initial agreement for the re-opening of the trade route was reached in 2003, and a final agreement was formalized on June 18, 2006. Officials say that the re-opened of border tare will help ease the
economic isolation of the region. In November 2006, China and India had a verbal spat over claim of the north-east Indian State of Arunachal Pradesh. India claimed that China was occupying 38,000 square kilometers of its territory in Kashmir, while China claimed that China the whole of Arunachal Pradesh as its own. In May 2007, China denied the application for visa from an Indian Administrative Service officer in Arunachal Pradesh. According to China since Arunachal Pradesh is a territory of China, he would not need a visa to visit his own country. Later in December 2007, China appeared to have reversed its policy by granting a visa to Marpa Sora, an Arunachal born professor in computer science. In January 2008, Prime Minister Manmohan Singh visited China and met with President HunJintao and Premier Wen Jiabao and had bilateral discussions related to trade, commerce, defense, military and various other issues.

Until 2008 the British Government’s position remained the same as had been since the Simla Accord of 1919, that China held suzerainty over Tibet but not sovereignty. Britain revised this view on 29 October 2008, when it recognized Chinese sovereignty over Tibet by issuing a statement on its website. The Economist stated that
although the British Foreign Office’s website does not use the word sovereignty official at the Foreign Office said “it means that, as far as Britain is concerned, ‘Tibet is part of China.” This change in Britain’s position affects India’s claim to its North Eastern territories which rely on the same Simla Accord that Britain’s prior position on Tibet’s sovereignty was based upon.

In October 2009, Asian Development Bank formally acknowledging Arunachal Pradesh as part of India approved a loan to India for a development project there. Earlier China had exercised pressure on the bank to cease the loan, however India succeeded in securing the loan with the help of the United State and Japan. China expressed displeasure at ADB for the same.

2010s

In April 2010, the second BRIC summit was held in Brasilia. Chinese Premier Wen Jiabao paid an official visit to India from Dec. 15-17 2010. At the invitation of Prime Minister Manmohan Singh he was accompanied by 400 Chinese business leaders, who wished to sign business deals with Indian Companies.

India and China are two very populous countries with
ancient civilizations, friendship between two countries have a time honored history, which can be dated back 2000 years back, since the establishment of diplomatic ties between our two countries, in particular the last ten year friendship and cooperation has made significant progress. In April 2011, the first BRICS summit was held in Sanya, Hainan, China. During the event, the two countries agreed to restore defense cooperation and China had hinted that it may reverse its policy of administering stapled visas to residents of Jammu and Kashmir.

**Border conflict**

The second half of the 20\textsuperscript{th} century began with India becoming independent and later a sovereign democratic republic, while China emerged out of civil wars with the communists in control proclaiming the People’s Republic of China. India was among the first to accord diplomatic recognition to the New China, sign an agreement (1954) embodying the doctrine of Panchsheel in international relations, and to support vigorously China’s admission to the UN.

But the Hindi-Chini bhai-bhai of the early 1950’s evaporated in no time as Communist China activated its borders (both the national McMahon line and the ill-
defined stretches “where not a blade of grass grow”), harboring suspicion against India in the wake of the Tibetan uprisings and the Dalai Lama’s escape and receiving asylum in India. And, finally the border war of 1962 froze Sino-Indian relations in a time warp.

India’s initiatives since the mid-1980’s with a visit to Beijing by Rajiv Gandhi to thaw out bilateral relations—economic and political—have continued but with little headway in resolving the border dispute or ushering in a new era of mutual confidence, trust and all-round cooperation. The President, Mr. K. R. Narayanan’s visit to China, soon after the 50th anniversary of the establishment of diplomatic relations between the two countries, was expected to impart a new momentum to the ongoing discussions in joint working groups to address the 40-year-old border problem. While Mr. Narayanan emphasized that the border issue should not be left to an “indeterminate future”, China maintains for dealing with a “complicated” problem—left behind by history – and arriving at a settlement based on mutual understanding and compromise.

**Sino-Pak axis**

Sino-Indian relations have to be viewed not only in a
regional or Asian context but also in the wider emerging international environment. Despite its commitment to non-proliferations China has long been assisting Pakistan in developing its nuclear and missiles capabilities, and has rejected American concerns over the breach of export controls. It tells India that the assistance to Pakistan is not directed against any country. China had denounced India’s nuclear tests in 1998 and wants it to give up weaponisation and sign the CTBT.

China has also viewed with misgivings the qualitative change in Indo-American relations during the US President, Mr. Bill Clinton’s visit. However much it may disclaim hegemonic ambitions, China would certainly not like India to contend for a major role in Asia—political or economical – which would in any way impinge on it authority.

So long as the border issue remains unresolved, and there can be no military solutions between two nuclear powers, it is to China’s distinct advantage, even if the two countries proceed to develop cooperation through expanded trade and technology flows and in international fora. Nor has China come out strongly against international terrorism, thereby giving comfort to
Pakistan which provides the base for terrorist groups in South Asia sending out armed militants into the Kashmir Valley.

**Global diplomacy**

China has been forging ahead of India in building relations with the rest of the world, with its inherent strength acknowledged by the US and major industrial nations and large parts of the developing world.

Given China’s military might and growing economic clout, the US has been following a policy of engagement giving up its containment theory of the earlier decades both in the interest of peace and security in Asia, where it has a strong military presence, and to tap the potential of a vast market opening up steadily.

Next only to Japan, the No.2 economic superpower, China accounts for the largest output in Asia and is part of ASEAN 3, the most powerful grouping in East Asia, which includes Japan and South Korea.

China is also in the Asia pacific Economic Forum (APEC), which bring together North America, Asia and the Pacific for a free trade area by 2020. Developments in East and south-east Asia point to the evolution of an East Asian free trade grouping, which would have a tremendous
impact on world trade. An Asian Monetary Fund, proposed by Japan, is widely supported in the region. Once in place, both developments would tend to refuse the power and influence that the US and Europe have enjoyed in Asia. India does not figure in any of these grouping.

**WTO status**

The impending admission of China to the world Trade Organization (WTO), ardently supported by the US, which concluded a deal with Beijing in November 1999 for greater market access at lower tariffs, will considerably enhance China’s importance and facilitate its integration with the world trading system. As the Singapore leader, Mr. Lee Kuan Yew, said recently, China’s entry into the WTO will would have “profound economic and geo-political implications for China and the World”. It will make China one of the most important players in the global exchange of goods, services, capital and talent in the 21st century. China has promised to fulfill the onerous obligations which WTO membership entails, even if it meant going through a period of painful adjustments. The Clinton Administration has been trying to persuade the congress
to vote for grant of permanent normal trading status for China, which has agreed to bring down its tariffs from 24 percent to 9 percent by 2005 and eliminate licensing and quotes. China has enacted legislation to protect intellectual property rights, but is yet to clean up scores of domestic laws and make institutional reforms, required to remain in conformity with WTO obligations.

China is currently among the world’s 10 largest exporters. Its shipment of goods to the US alone is worth around $60 billion – more than one-and-a-half times India’s total exports – and has a trade surplus of some $40 billion. China is strong in labor-intensive manufactured products in the coming decade.

**China’s modernization**

Ahead of India, China began transforming its economy from 1978 when the then supermo, Deng Xiaoping, launched the modernizations programmed and proclaimed the transition from total state control to “Socialism with Chinese characteristics”. The explosive growth rates of the first 15 years saw a four-fold expansion of the economy. Already among the “Bid Five” (permanent members of the UN Security Council), china
began commanding international attention not only as an economic powerhouse in Asia but also a world power. India lanced its liberalizations and structural reforms drive in 1991, and by the end of the decade, it was also reckoned as a growing regional power. China’s growth rate averaged 10-11 percent between 1980 and 1998 against India’s 5.8 percent in the 1980s and 6.1 percent in the 1990’s. By 1998, China’s per capita income had risen to $750 against India’s $440. Its exports have been growing at 12 percent in volume and 17 percent in value and exceeded $180 billion, with a current account surplus of $30 billion. Its international reserves of $152 billion is surpassed only by Japan. China has been the largest recipient of foreign direct investment (FDI) among the developing countries, with annual inflows at $40-45 billion since 1995. The boom in exports and FDI flows has helped China build its reserves year after year.

India has, however, taken long to realize the important of exports for growth and employment. It is now trying to adopt the Chinese model of special economic zones. Whilom India’s population is projected to overtake China’s in the next four decades; it will still trail behind
its giant neighbor in economic performance

**Path ahead**

Growth projections for China and India underline the many challenges both have to overcome in sustaining high growth rates and accelerating the reform process without social disruptions. Unlike China’s authoritarian regime, India’s democratic machinery moves slowly and broad political consensus is not easily achievable for essential reforms.

The prospects of India and China forging closer links for common causes will depend on China’s willingness to settle the border dispute speedily and become even-handed in relations with its South Asian neighbors’. As long as the border dispute persists, normalization of relation becomes difficult. And India cannot give up its pursuit of a nuclear deterrent in the face of proliferation of destructive weapons in its neighborhood.

For Asia’s two large economies, cooperation and complementarily should be the principal objectives. Their coming together to advance peace and stability and strive for the establishment of an equitable economic order will have a profound impact on the world as a whole. Will they grasp the nettle and fashion the future?
By a policy decision by the political leadership of both sides to focus on improvement of bilateral relations and keep the border issue aside has helped in forging better political relations between the two countries. To a great extent, high-level political exchanges at regular intervals between the two sides have also helped to bring down their differences on major bilateral issues and global issues. Witness, for example, China’s new world map which shows Sikkim as part of India or its toned down rhetoric on Pakistan. Similarly, India’s position on Tibet is more accommodative to Chinese demands.

Both countries have also resorted to strategic dialogue to discuss in detail all issues pertaining to bilateral regional and global importance. Two rounds have been concluded so far: January 2005 and January 2006. Issues such as globalization, democratization of international relations, UN reforms, non-proliferation and regional cooperation were discussed in both these rounds. The issue of terrorism is being discussed separately. On all these issues; the two countries share a common vision and approach. The differences, however, do exist on the specifics, particularly where India and China are the parties. For example on the Security Council reforms,
while Wen Jiabao did sympathize with India, China opposed tooth and nail the claim of G-4 that included India and Japan. In fact, China’s vociferous opposition to its Asian rivals’ may well mow be the major obstacle to the realization of their aspirations. Similarly, while India and China have got “observer” states in Shanghai Cooperation Organization (SCO) and South Asian Association for Regional Cooperation (SAARC) respectively, China was not comfortable when India was invited at the East Asian Summit (EAS) in December last year. Its discomfort was visible once again when the Indo-US nuclear deal was signed. Without being openly critical, China gas sounded a cautious note appealing India to give up its nuclear weapons programme and joins the Nuclear Non-proliferation treaty (NPT) as a non-nuclear state.

COMPARATIVE POLITICAL ECONOMY
India and China are two of the oldest and still extant civilizations. For Europeans they were legendary seats of immense wealth and wisdom right up to the eighteenth century somewhere between the mid-eighteenth century and early nineteenth centuries, both these countries became, in the European eyes, bywords for stagnant,
archaic, weak nations. For China, this happened between the adulation of Voltaire and the cooler judgment of Montesquieu; in India’s case, it was the contrast between Sir William Jones’s desire to learn things Indian and James Mill’s dismissal of Indian history as nothing but darkness. Twentieth century brought nothing but a deepening of the perception of the two countries as bywords for misery and the perceptions were not too far behind actual conditions of the two countries. In 1820, they had a combined population in excess of half a billion and by 1900, 700 million. Within the twentieth century, their population had trebled. But they were also two of the poorest countries, typically thought of as locations of famine, disease, backwardness and superstition, of women with bound feet and men with long pony tails untouchables beyond the pale and myriads of gods with many heads and limbs. In mid-twentieth century, particularly in the 1960’s, the fortunes of these two countries seemed to have reached their nadir. They were independent republics supposedly launched on their path of development, but both suffered devastating famines. China’s famine was hidden, perhaps more from China’s own ruling classes than from its people or the world, but
it had followed swiftly upon the debacle of Great Leap Forward, a memorable piece of policy making by fantasy. India’s double harvest failure in 1965 and 1966 brought India to its proverbial knees in terms of foreign policy and dependence on US food aid. These two countries were “basket cases” in the then fashionable terms of international diplomacy. Within the following forty years we are discussing China and India not as failures nor for their ancient wisdoms, but as dynamic modern economies. The Economist has to write editorials to tell the world not to be afraid of China’s economic power. American legislators pass laws to prevent their businesses outsourcing work to India’s software and telecommunication services. China ranks as the second largest economy in terms of GNP in PPP dollars. Together the two countries account for 19.2% of world GDP – China 11.5% and India 7.7%. This is still below their share of world population 37.5% with China 21% and India 16.5% National income estimates covering a long period are, by their nature, broadly indicative rather than precise. In whose debt the profession is for making these calculations his life time work, gives the shares of world GDP and population of China and India for two earlier dates in the 20th century.
as follows GDP%

population

<table>
<thead>
<tr>
<th>Year</th>
<th>China</th>
<th>India</th>
<th>China</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>8.9</td>
<td>7.5</td>
<td>26.4</td>
<td>17.0</td>
</tr>
<tr>
<td>1950</td>
<td>4.5</td>
<td>4.2</td>
<td>21.7</td>
<td>14.2</td>
</tr>
<tr>
<td>1998</td>
<td>11.5</td>
<td>7.7</td>
<td>21.0</td>
<td>16.5</td>
</tr>
</tbody>
</table>

[Madison (2001)]

The table above succinctly describes the course of the two economies over the 20th century. They start with the share of income below that of population. Over the previous century they had slightly different trajectories. India’s per capita income is estimated to have grown from $533 in 1820 to $673 in 1913 while China’s per capita income declined from $600 in 1820 to $552 in 1913. [All money sums in 1990 international dollars, hereafter Madison dollars-M$] but during the first half of the twentieth century both countries saw a decline in their per capita incomes. India from M$673 in 1913 to M$619 in 1950 and China from M$552 in 1913 to M$439 in 1950. This says two things; India and china both suffered a declining per capita income and a rising population during the first half of the 20th century, but that India was slightly better off than China between 20% [Kumar] and
40% [Madison]. By 1998 this is reversed. Both countries are better off, but China is much better off than India. China’s per capita income was $3,117 while India’s was $1,760. Thus, while India roughly trebled its income, China increased it sevenfold. In earlier periods China, while more populous than India, was not noticeably richer. In terms of GDP the two economies were of roughly similar size. Ratio of China’s was 19131.18 (241/204); 1950 1.08 (239/222) but in 1998 it was 2.28(3873/1702) [Figures in parentheses billions of M$ GDP]. So one theme of this paper is the contrast between the economic performance of China and India and its proximate causes. But there also a lot of similarities between the two both in the path to modernization and, as we shall see later, the future prospects for their economies

HISTORICAL LEGACIES

(A)Political:
While both India and China have a long histories are very different. China has been by and large a stable, centrally run state through its history with limited periods of instability and lack of a single authority, India’s history has been exactly the reverse. The periods when a single
king or political authority ruled over even the major part
of India’s territory can be counted on fingers of one hand.
In China’s case there was a deep desire for unification of
the country as a driving force of nationalism in the 20th
century. But it was called reunification. Thus at the onset
of World War II, China was divided and Jonathan Spence
expresses the drive for nationalists as follows

“The solidification of such a group of new states would return
China to the situation that had prevailed before the Qin
conquests of 221 B.C., during the so-called Warring States
period when ten major patterns of authority and alliances that
China’s history from the third to sixth century A.D., and again
from tenth of the thirteenth.” [Spence (1999) p.426]        

In India’s case there never was any authority which
has ruled over all of India; indeed not culture for
millennia, but its borders have been fixed only in the late
19th century ruled over much of North India – the Maury
and Gupta dynasties just before and after between the
years of Akbar’s maturity in 1570 and Aurangzeb’s death
in 1707. Their empire extended to Kabul but did not take
in all of South India. The British could be said to have
ruled over two thirds of India between 1875 and 1947,
with the remaining third native princes under their
paramount but not direct rule. In 1947 India was partitioned and thus even what is now called India is not what Nehru in 1946 wrote about in his The Discovery of India. [Nehru (1946)]. Indian system of kindly power was not so much like a pyramid, but like a multi-tiered cake. It was flatter and while there was a top and a bottom plus layers in between, the power of the top king over his vassals below was not absolute. Loyalty though owed by the lower tiers to the top, was always negotiable and there had to be some give and take. The British were perhaps the first rulers to try a more absolute and hierarchical structure of power under the limitation of oversight by a democratic parliament back in London.

Yet in one sense it was British rule which gave India its definitive territorial extent, fixed its boundaries and gave it a structure of provinces and central government with an administrative "steel frame". The British gave India their language which facilitates even today India’s access to global markets as do the legal system of property rights and western orientation of its elite. India’s independence movement was critical of the economic ruin the British has caused—de-industrialization drain of treasure, deskilling and diversion of agriculture
into commercial crops away from food crops etc. but India began to acquire railroads and modern industry a quarter of century earlier than China in 1850’s rather than 1870’s. More foreign capital per capita was poured into India than in China; in 1913 India had $6.9 per capita foreign capital while China had $3.7 [Madisonp.99]

There is however another much less mentioned benefit that India derived from British rule. Of course, it might have been better for India to have never suffered foreign rule, and united under a native King or republic. But between 1500 and 1800, India had several foreign trading companies vying for control – the Portuguese, the Dutch, the French, the Danes and of course the English. As a counterfactual of history, it is possible to imagine what we call India today and take for granted as a single country being made up of several different 'countries' in west, south, east and north with different foreign languages being spoken along with local languages. Thus the Tamils could have been French speaking and the Maharashtra’s Portuguese speaking and so on. Thanks to the religious wars of Europe in the 17th century and British victories in European wars in the 18th century, India ended up with a single foreign power, and thus the
idea of India as a single country developed with its modern nationalism. This is not entirely fanciful since South East Asia with a population and extent not dissimilar to India’s was ruled by the Dutch (Indonesia), the French (Indo-China) and the British (Burma, Malaysia and Singapore) with Thailand being independent. What is more, the hegemonic political ideology of the nationalist movement – liberal democracy was also borrowed from the foreign rulers the India we talk today is a 19th century product in more than one sense.

China, by contrast, never suffered foreign rule over majority of its territory. There were foreign concessions in ports and later in interior towns extracted by several foreign powers in circumstances the Chinese found humiliating. But until 1931 when the Japanese invaded Manchuria and later in 1937 when they occupied large chunks of Eastern and Central China, China had not suffered classic imperial rule. Yet China’s attitude to foreigners was and is much more hostile than driving force for China. For India, the hostility to things foreign except perhaps for foreign private capital melted like snow in spring soon after independence. If anything
Indian in its early days after independence sought foreign capital from public rather than private sources and from a variety of countries rather than merely its old colonial masters. China after 1949 relied on one country, the USSR, and soon came to regret its connection. China’s problem unlike that of India was the multiplicity of foreign powers gnawing at its sides with no single hegemonic ruling ideology as India had with liberal democracy from Britain. It had German, Japanese, American, French and British jostling not so much for rule over Chinese minds as over their cash boxes. There was some missionary input, more than in India, but eventually China had to forge its own ideology of modernity. It had to struggle to confront Confucianism against Western ideologies liberalism, Fascism, Communism.

These historical legacies shaped both the politics and economics of the two countries. For India, the problem was achieving unity in diversity, accommodating various languages and religions in a political structure that would give its center power enough to maintain its territorial integrity but its regions enough room to develop their diversities. India had a problem of articulating a single
vision of Indian nationhood since it has been a nation only since mid nineteenth century and even this was asserted against the foreign rulers saying India was not a single nation but a motley collection of races and religions. [Desai (2000)] India thus chose a federal polity with a strong center able to alter state boundaries, split up states or create new ones. India even then is a soft state in Myrdal’s famous description where the government has to work consensually and exert control sparingly and only against serious threats to national integrity. India’s fear is break up of its territorial unity as happened in the Partition [Myrdal (1968)]

China has always had a vision of itself as a nation. Though much of its history, there has been a strong central power, and China has been run as a unitary polity. Indeed Sun Yat Sen and his communist supporters viewed the prospect of federalism as akin to feudalism. [Spence, p. 315] the language is the same for an overwhelming majority of the Chinese. China is thus a unitary hard state which can pursue a single goal with determination and mobilize maximal resources in its achievement. But anticipating somewhat later themes, strong states can also be brittle states while soft states are difficult to
smash and break since they are pliable. India has through its history been ruled by many authorities and sometime none, but it had a social stability which is remarkable. In India’s case the enveloping unity was provided by the Hindu social structure, especially the caste system which determined the basis on which interregional mobility could be conducted. Indeed the caste system proved to be so powerful that even among the Muslims and Christians a caste hierarchy took root and developed. While the concept of the Asiatic Mode of Production is much derided nowadays, its essence was about a society in which the state was epiphenomenal and the peasant society went on impervious to changing rulers.

(B) ECONOMIC:

Both India and China were a highly urban civilization by the 18th century, though of course the bulk of the population lived in rural areas… China was much advanced in science and technology, with gunpowder, printing, paper and paper currency as its inventions. China’s scientific and technological achievements are known to us thanks to the monumental efforts of Joseph Needham. India was known for its mathematics and its
philosophy. The Chinese gave the world the wheelbarrow and bureaucracy; India gave the world the Zero, decimals and Buddhism. Both were major exporters of fine textiles, silks and muslins; their ships sailed around the world and indeed dominated the seas till 1500. As India declined in power under the Mughals, Indian shipping begins to be conducted increasingly on a private basis rather than a state sponsored one. The control of the seas passed to a series of western European countries. Yet the two countries remained economically vibrant till the last 18th century.

China had a higher productivity in its agriculture the iron tipped plough having been in use at least half a millennium before it made its appearance in India. Thus Needham attributes the animals drawn plough to the period of the Warring states, while Habib says that the iron plough came to India in the first century AD. Chinese irrigation systems were bigger and better than any in India

Madison’s estimate of $600 per capita income for China and $533 for India in 1820 is roughly the right sort of relative difference. By 1950 India had caught up with China. In 19th century
India did enjoy a rising per capita income. India was a land surplus rather than a labor surplus country in the 19th century. It became for a while agriculture exporter rather than industrial exporter but still managed a trade surplus. By late 19th century India began to acquire modern infrastructure and industrial country but their history drove both China and India to define industrialization rather than economic development as their prime goal. Even within industrialization, the strategy was one of concentrating on basic good such as steel and machinery-Department goods in Marxian terminology. Both countries were inspired by the example of the USSR and its planning achievements.

CHINA’S INDIAN PROVOCATIONS PART OF BROADER TREND

Over the last few years, tensions have been brewing between India and China over their long held border disputes. The source of the tensions is multi-faceted but driven in large part by China’s concern with an emergent India and Beijing’s desire to consolidate its position on Tibet. While military conflict between the two Asian giants is unlikely any time soon, recent Chinese moves
illustrate a broader trend of muscular diplomacy from Beijing over its various territorial claims.

In order to guard against a variety of threats, including a potentially hostile China, Indian will continue to pursue a robust military modernization program and closer diplomatic ties with other Asian nations. The U.S. should keep close tab on the simmering Sino-Indian border friction and continue with plans to enhance U.S.-Indian defense trade deals that assist India in accessing advanced military technology.

**Unresolved Issues**

While trade and economic ties between India and China are improving (bilateral trade has increased from around $5 billion in 2002 to over $60 billion in 2010), both sides continue to harbor deep suspicions of the other’s strategic intentions. In recent years, China has increasingly pressured India over their disputed borders by questioning Indian sovereignty over Arunachal Pradesh.

China lays claim to more than 34,000 square miles of this northeast Indian state and since 2007 has focused on building up its military infrastructure in areas close to the Arunachal Pradesh border, as well as expanding a
network of road, rail, and air link. India has sought to match the Chinese moves and to reinforce its own territorial claims by augmenting forces including the raising of two mountain divisions and placing of two squadrons of Sukhoi-30 fighter near the state- and constructing several roads on its side of the border in Arunachal Pradesh.

In response to China’s refusal to grant General B. S. Jaswal, chief of Northern Command a visa, India cancelled a visit by Chinese officers to India and postponed indefinitely any further defense exchanges with China.

Nonetheless, New Delhi would view with consternation the possibility of Chinese troops being stationed on both the eastern and western borders of Indian Kashmir since the 1999 Kargil border conflict between India and Pakistan. Beijing’s position on Kashmir seemed to be evolving towards a more neutral position. During that conflict, Beijing helped convince Pakistan to withdraw forces from the Indian side of the Line of control following its incursion into the Kargie region of Jammu and Kashmir. Beijing ma clears its position that the two sides should resolve the Kashmir conflict through bilateral negotiations not military force.
Any Chinese backtracking from this neutral position on Kashmir would likely be met with subtle moves by India that increasingly question Chinese sovereignty over Tibet.

**Pattern of Chinese Pressure**

China’s recent actions are increasing pressure on many of its neighbors. In April 2010, Chinese naval forces engaged in exercises in the East China Sea and more recently have held live-fire exercises in the Yellow Sea. More recently, the Chinese also planted a flag on the floor of the South China Sea to reinforce their claims to that entire area. Meanwhile Chinese naval vessels made a port call in Burma, marking the first time Chinese naval combatants have called on that nation.

China’s growing assertiveness is supported by a range of increasingly sophisticated military capabilities. This year’s report on Chinese military power from the U.S. Department of Defense highlights China’s ever more effective air and naval forces, as well as ongoing investments in both space and cyber operation.

**U.S. Reaction**

With regard to China’s maneuvering in South Asia the U.S. should:
Continue to build strong strategic ties to India and encourage India to play a more active political and economic role in the region. To help India fulfill that, Washington should continue to seek a robust military-to-military relationship with New Delhi and enhance defense trade ties.

Collaborate more closely with India on initiatives that strengthen economic development and democratic trends in the regions and work with India to counter any Chinese moves that could potentially undermine such trends in orders to ensure the peaceful, democratic development of South Asia.

Cooperate with India in matching Chinese presence in the Indian Ocean region. Given the substantial Indian naval capabilities, U.S. naval forces should increase their interaction with their Indian counterpart both to improve Indian naval capabilities and to signal Beijing that its moves will be matched jointly by New Delhi and Washington.

**Border conflict**

The second half of the 20th century began with India becoming independent and later a sovereign democratic republic, while China emerged out of civil wars with the
communists in control proclaiming the People’s Republic of China. India was among the first to accord diplomatic recognition to the New China, sign an agreement (1954) embodying the doctrine of Panchsheel in international relations, and to support vigorously China’s admission to the UN. But the Hindi-Chini bhai-bhai of the early 1950’s evaporated in no time as Communist China activated its borders (both the national McMahon line and the ill-defined stretches “where not a blade of grass grow”), harboring suspicion against India in the wake of the Tibetan uprisings and the Dalai Lama’s escape and receiving asylum in India. And, finally the border war of 1962 froze Sino-Indian relations in a time warp.

India’s initiatives since the mid-1980’s with a visit to Beijing by Rajiv Gandhi to thaw out bilateral relations—economic and political—have continued but with little headway in resolving the border dispute or ushering in a new era of mutual confidence, trust and all-round cooperation. The President, Mr. K. R. Narayanan’s visit to China, soon after the 50th anniversary of the establishment of diplomatic relations between the two countries, was expected to impart a new momentum to the ongoing discussions in joint working groups to
address the 40-year-old border problem. While Mr. Narayanan emphasized that the border issue should not be left to an “indeterminate future”, China maintains for dealing with a “complicated” problem—left behind by history – and arriving at a settlement based on mutual understanding and compromise.