

India – China Trade Relations, 1991 - 2015

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By

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Declaration

I, Suchanda Adhikary, do hereby declare that the subject matter of this dissertation is the record of work done by me, that the content of this dissertation did not form basis of the award of any previous degree to me or to the best of my knowledge to anybody else, and the dissertation has not been submitted by me for any research degree in any other university.

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This is being submitted in partial fulfillment of the requirement for the degree of Master of Philosophy in the Department of Political Science, School of Social Sciences, Sikkim University.

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All the assistance and help received during the course of the investigation have been duly acknowledged by her.

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ABSTRACT

The two oldest civilisations India and China have coexisted together for a very long period of time in history. India was first non socialist country to establish formal diplomatic relations with the Peoples Republic of China in year 1950. In 1954, the five principles of peace and co-existence has laid down to develop the friendship and cooperation between India and China. It continued up to April 1955, however this positive phase ended in January 23, 1959 when China refused to accept McMahon line as the legal boundary between the two countries. This Tension reached its peak during Indo-Chinese war of 1962 and mistrust continued for about two decades. Since 1976, India and China gradually improved their relations with the swift development of trade and economic relations between them. China became one of biggest trade partners of India. Since both India and China had quite similar internal economic conditions, they could learn from the strength of each other and could overcome their own weaknesses in the fields of socio-economic development. It is well known that India's software and China's hardware are complementary to each other. China has developed friendly relations with both India and Pakistan in a separate way, while trilateral relations between China, India and the United States have maintained a general balance. These are conducive to stability in South Asia.

After 1981, both countries took positive steps to normalize this situation, for this India and China started regular dialogue at the level of Vice-Foreign ministers. Both countries realised that the boundary issue was too complicated for quick resolution. Thus, for the time being China and India might first develop friendly and cooperative relations in other fields for creating a better environment for a final settlement of the boundary question. Till 1988, there was impasse. This impasse was broken when Rajeev Gandhi visited Beijing in 1988 and passed a joint statement for restoration of friendly relationship on the basis of Panchsheel. Both countries agreed to broaden bilateral ties in various areas. Since then, India-China bilateral relations developed steadily and smoothly.

In this dissertation, India China trade relations have been discussed with some theoretical framework. Mainly the neo-realist and neo-liberal theories are used as the basis of theoretical framework. Through this study it can be observed that the economic gap between India and China has been widening day by day. In recent

years, both India and China have achieved a very decent economic growth. However, China's growth rate has been higher than India's growth rate, as a result the economic gap between the two countries is also gradually widening. The economic relations are very important for the international relations, because through economic relations countries share the stronger relations with one another. So that the other issues can be resolved peacefully, because after World war II the world realised the importance of peaceful co-existence. No country is self sufficient in the world or they need more growth and developed than they have. So for that they are being interdependent to one another.

In the 1st chapter, some theories are discussed. Those theories played a vital role in post World War II international politics. Dependency theory, liberalism, neo realism, balance of power, neo liberalism, complex interdependence: these are the theories which redefined the international relations. Here although these theories are discussed, main focus was on neo realism, balance of power, neo liberalism and complex inter dependence. In the context of India China trade relation these perspectives are more appropriate.

In the 2nd chapter, the background of India-China trade relation is discussed. The history of their relation is given briefly. Then the relation since 1950 is discussed. The economic reformation of both countries played the key role in their trade relation with each other. Before the economic reformation the foreign trade was not opened massively in both the countries. That reformation brought new dimensions in their foreign trade policy.

In the 3rd chapter the trade relation of India and China is discussed on the span of 1990-2015. Their foreign trade policy, import and export between these two countries, balance of trade etc is discussed here.

The 4th chapter consist of some issues between India and China and the India-China relations on the other sectors are discussed. The border issue, security issue, energy issue, nuclear issue all these topics are discussed here.

The 5th chapter is the conclusion. The trade relation of India and China is analysed on from the perspectives of neo-realists and neo-liberals. How the balance of

power theory and complex interdependence theory defines India-China trade relation that is discussed here. Some arguments for those theories are given here.

Between India and China various factors are there which are interrelated together instead of being different to each other. So that, time and effort will be needed for healing the scar and both sides should make optimistic view towards each other rather getting a wrong conclusion on the overall relations between the two countries. This study has shown the impact of economic and trade relations between India and China on their overall relations. Regarding the situation of India-China relations and with reference of historical context and experiences of the relations of China with some other countries if both In accordance with the situation of India-China relations and with reference to historical experiences of China's relations with some other countries, if both sides could make greater efforts.

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Acronyms

ASEAN – Association of Southeast Asian Nations

BIMSTEC – Bay of Bengal Initiative for Multi-Sectoral Technical and Economic
Cooperation

BAF – Bunker Adjustment Factor

BOT - Balance Of Trade

CBM – Confidence Building Measures

CIF - Cost, Insurance and Freight

CFR – Cost and Freight

CPCC - Chinese People's Political Consultative Conference

CPAFCC - Chinese People's Association for Friendship with Foreign Countries

DTA – Domestic Tariff Area

ECLA – Economic Commission for Latin America

ECLAC – Economic Commission for Latin America and the Caribbean

EOUs – Export Oriented Units

EPCG – Export Promotion Capital Goods

EPZ – Export Processing Zone

FDI – Foreign Direct Investment

FOB – Free on Board

FTZ – Free Trade Zone

GATT – General Agreement on Tariffs and Trade

GDP – Gross Domestic Products

IMF – International Monetary Fund

INS – Indian Navy Ships

L/C – Letter of Credit

MOU – Memorandum of Understanding

MRTP – Monopolistic and Restrictive Trade Practice Act

NPC – National People's Congress

SAARC – South Asian Association for Regional Cooperation

SEZ – Special Economic Zone

USA – United States of America

USSR – Union of Soviet Socialist Republic

WTO – World Trade Organisation

Chapter I

INTRODUCTION AND FRAMEWORK OF THE STUDY

I.1. Introduction

According to Adam Smith a proponent of liberalism, the national power which can be defined as the sum total of all the resources available to pursue the objectives of the state can be seen in the economic growth. The most important thing for economic growth is free trade. Free trade is trading of goods, services and investment without any bar across the globe. This theory argues that free trade is needed among the countries without government intervention. This theory argues for free trade among the countries and government intervention. The scholars of this theory argue that market should make the economic decisions but the government of states (Bell, 2014).

According to Adam Smith, international trade also has the same kind of has the same underlying cause as all kinds of trade. In *The wealth of nations*, trade is the consequence of the human propensity to truck, barter, and exchange one thing for another. That does not mean that trade has no selfish motive. On the contrary, whenever people trade with each other they pursue their own interests, not some altruistic ones. They must benefit from trade otherwise they would not pursue it. Thus, merchants carry on commerce internationally because they earn profits by it. However, Smith endeavours to show that not only single merchants but the society as a whole benefits from international trade.

I.2. Economic Nationalism

On the other hand Economic Nationalism theoretically criticised Liberalism. Alexander Hamilton and Friedrich List first coined the name and stated this theory. This theory is based on main three ideas: firstly, the states compete among them in economic sphere. Liberals argue that companies compete with one another across the world not states but Economic nationalists say that companies act as the elements of state's power. Secondly, only rich and more advanced states get benefits from the free trade. So that, free trade actually makes the rich richer and less wealthy states remain

less wealthy. Thirdly, less developed and poorer states need to search the alternative way to develop economically because free trade will only support the rich countries (Patterson, 1919).

I.3. Dependency theory

Hans Singer and Raul Prebisch published two papers in 1949 where they discussed about dependency theory for the first time (Ferraro, V. 2008). According to them, the developing countries export their primary commodities to the developed countries. Those developed countries then manufactured the products with those commodities and export them back to those developing countries. The ‘value added’ by manufacturing a usable product cost more than primary products. So that poorer countries never be able to earn enough from their exports to compensate the expenditure of imports (Ferraro, V. 2008). Many scholars of dependency theory also argue that the rich countries exploit the poorer countries. According to them, the problem is that poorer countries ultimately remain dependent on the rich countries. After colonialism although the poor countries became free from the colonial rulers their economies could not be able to be free from the dependency on the economies of the rich (Stein, 1979).

Theory of modernisation argues that once the developing societies came into contact with Western European and North American societies, they would be impelled toward modernisation and, eventually, would achieve the economic, political, and social features characteristic of the nations of Western Europe and the United States. However, by the 1960s it was apparent that the Third World was not passing through a stage of underdevelopment, as envisioned by modernisation theory, but remaining underdeveloped. Thus, a counterclaim was advanced—that developing countries today are structurally different from the advanced countries and so will have to develop along different lines. This claim became the core of the structuralism theory developed by intellectuals from Chile, Argentina, Brazil, and Peru brought together by the United Nations Economic Commission for Latin America (ECLA; today known as Economic Commission for Latin America and the Caribbean, ECLAC) (Stein, 1979).

The main theoretical tenet of ECLA's approach was that former colonies and non industrialised nations were structurally different from industrialised countries and, therefore, needed different recipes for modernisation. ECLA argued that colonisation restructured former colonies' economies so that they specialized in producing raw materials, cash crops, and foodstuff for export at low prices to the colonisers' home countries. These structures created a dynamic that was continuing to impoverish former colonies and to thwart their modernization. According to ECLA, the international division of labour created by colonization had separated the international economy into a centre, consisting of the industrialized countries, and a periphery, which included all the rest of the countries around the world outside of the socialist camp. Because the prices of manufactured goods bought by the periphery were rising faster than those of raw materials, cash crops, and foodstuffs sold by the periphery to the centre, international trade ensured the persistence of an unbalanced process of development. Thus, in contrast to modernisation theory, which emphasised the benefits of free trade, foreign investment, and foreign aid, these theorists argued that free trade and international market relations occur in a framework of uneven relations between developed and underdeveloped countries and work to reinforce and reproduce these relations. This perspective formed the basis of what came to be known as dependency theory. Dependency theory rejects the limited national focus of modernisation theory and emphasises the importance of understanding the complexity of imperialism and its role in shaping postcolonial states. Its main tenet is that the periphery of the international economy is being economically exploited (drained) by the centre. Building on ECLA's perspective, dependency theorists argued that colonialism recast economies in the Third World in a highly specialised export-producing mold, creating fundamental and interrelated structural distortions that have continued to thwart development. Once this reshaping was accomplished, market forces worked to perpetuate the relationship of dominance and exploitation between centre and periphery (Stein, 1979).

I.4. Neo-Realist theory

Scholars of Neo-realist theory argue that the struggle for power is not characteristic of human nature. Neo-realism emphasises on the survival, competition to secure the existence, balance of power and explains the international environment.

Scholars of neo-realism accept that the globalisation is now throwing various new challenges to countries across the world. But it can't be said the states are being replaced by that because states have various capabilities which can't be fulfilled by the non-state actors. Waltz has opined that globalisation is the inseparable theory of the 1990s.

The neo-realist theory says that by nature states are security-seeking actors. That means states are the rational actors which are keen to secure their existence. Waltz to mean that states can do everything to secure their survival. Waltz has stated in his book, *Theory of International Relations*, that states are not actually to be assumed as power maximisers, because states can only have idea or knowledge of another states' intentions and capabilities but the states cannot be security seeking and a power maximiser actors. If a state is assumed to be security seeking and international regimes are assumed not to exist, then that same state must logically also be a power maximiser. The fact is that the states seek only relative securities and compare to the other states. This perspective can be established by the examples of those alliances which are made on the basis of common enemies. This tendency of the states forces them to be apart from the international cooperation. For the neo-realist, a state will cooperate if state security is not placed at risk.

Neo-realism fails to account for much of the economic interdependence among nations. Waltz seems to indicate that nations should seek to be self sufficient, thus providing for their own security and other national needs. In this manner, a nation would not risk having food, arms, or other resources cut off by an enemy. Additionally, neo-realists tend to assign economic interdependence to the unit level. In truth, economic interdependence can affect the intentions and actions of international actors.

I.5. Balance of power

According to the realist theory, for the national security a state should only rely on its own capabilities. But sometimes a state is needed to make alliances with other states to create more influential and powerful place in international politics. A state can be forming an alliance strengthens its own national security by using its ally's resources, and thus be able to balance a more powerful state. Balancing by

forming alliances are called external balancing, and when a state balances another state by increasing its own military power, it's called internal balancing. This form of internal balancing is what will be applied to the India-China discussion, as both countries increase military spending each year. According to Waltz balance of power is natural, and he advocates that this is the most distinctive and important theory in international politics. The theory of balance of power further considers the states as concentrations of power in anarchy and it set them in a competitive environment. Waltz again argues that the constraints in the international system lead to the balance-of-power theory, where all states are confined in the international structure, which explains why a certain similarity in behaviour is expected by the theory.

I.6. Neo-Liberal theory

Alexander Rustow a German scholar coined the term neo-liberalism in 1938 (Hartwich, 2009). This theory argues that international cooperation should be analysed from the state-centric perspective. The scholars of neo-liberalism consider the world has anarchy system, it means the absence of any supreme authority in the international politics. It often takes the form of institutions, seeing how the institutions are the product of the state's self-interest. Neo-liberal scholars see states as rational and Unitarian actors who are the dominant in international politics trade and cooperation. Another aspect neo-liberalists establishes is that they consider states acts according to their self-interests and uses the cost-benefit analysis of choices (Saad-Filho, & Johnson, 2005). Neo-liberalism hold a greater faith in human beings and have the belief that cooperation and collective outcomes can promote, as well as, improve freedom, peace, prosperity. Neoliberals further suggest that states may view cooperation rather than force on key issues as a better way to survive and prosper in anarchy.

The scholars of neo-liberalism derive from the theory of liberalism. They believe that the market and market forces are separate from the factual production of goods and services. It has become an end in itself, and this is one reason to speak of neo-liberalism and not of liberalism. A natural characteristic of neo-liberalism is to seek for intensify and expand the market by increasing the formalisation transactions number, frequency and repeatability of the trade. The ultimate goal of neo-liberalism is a universe where every action of every being is a free market transaction, conducted

in competition with every other being and influencing every other transaction, with transactions occurring in an infinitely short time, and repeated at an infinitely fast rate.

I.7. Complex Interdependence

Complex interdependence is the most important theory of the neo-liberal theory. The theory of complex interdependence was introduced by Robert Keohane and Joseph Nye (1989) at their work, 'Power and Interdependence' for the first time. In the contemporary world, the term 'interdependence' is used very often. Now this is a situation in the international politics that all the states as well as non-state actors are dependent upon one another. In other words, "Dependence means a state of being determined or significantly affected by external forces. Interdependence most simply defined, means mutual dependence. Interdependence in world politics refers to situations characterized by reciprocal effects among countries or among actors in different countries" (Keohane & Nye.1977).

With this kind of mutual dependence and the relationships among all the actors involved, including state actors and other transnational actors, this theory has both cooperation and competition. In interdependence there are costly reciprocal effects of transaction among the actors. The policies and actions of one actor have profound impact on the policies and actions of the other actors and vice versa. Interdependence does not only mean peace and cooperation among actors, but a relationship between actors characterized by cooperation, dependence, and interaction in a number of different areas, and conflict as well. Complex Interdependence is a theory which stresses the complex ways in which as a result of growing ties, the transnational actors become mutually dependent, vulnerable to each other's actions and sensitive to each other's needs.

In the theory of 'Interdependence', states cooperate with one another because there is laying their common interests and as the direct result of these co-operations bring prosperity and stability in the international system. The neoliberal scholars believe that "states are not motivated solely by national interest defined in terms of power." (Genest,1996). Unlike realism, neoliberal scholars opine that international politics cannot be divided into 'high' and 'low' politics any more. Although high

politics like national security and military power still remain important and relevant for all the countries, the neoliberals argue that economic, social and environmental issues or low politics have become higher priorities on the international politics.

Another very significant aspect of the 'Complex Interdependence' is that it carries two opposite views. Actually it integrates both power politics and economic liberalism. It considers costs and benefits both of interdependence relationship. In the theory of 'Complex Interdependence', instead of the increasing economic cooperation and ecological interdependence among the countries, the probability of international military and security conflicts cannot be ignored. However, unlike the traditional power politics, in 'Complex Interdependence' this may not be the zero-sum game. "The politics of economic and ecological interdependence involve competition even when large net benefits can be expected from cooperation."(Keohane & Nye, 1977)

According to Robert O Keohane and Joseph Nye, interdependence should not be defined entirely as situations of 'evenly balanced mutual dependence'. They contend: "It is asymmetries in dependence that are most likely to provide sources of influence for actors in their dealings with one another. Less dependent actors can often use the interdependence relationship as a source of power in bargaining over an issue and perhaps to affect other issues."(Keohane & Nye, 1977).

They states in their work, that dependence means being sensitive towards external factors and interdependence means two actors are being mutually sensitive. Keohane and Nye also mention that there are two different types of interdependence, where interdependence is defined as being mutually dependent. The first type of interdependence is sensitivity, which can be social, political as well as economic. Furthermore, it points towards the immediate effects interdependence has and how external changes can affect the actor. The second type is called vulnerability interdependence, which points towards the long term effects interdependence can have. It means that an actor might suffer from external events even after certain policies have been adjusted. Keohane and Nye believe that neo-realism is appropriate at the structural level of systemic theory and neo-liberalism at the process level. In their argument, structure refers to the neo-realist emphasis on the distribution of capabilities and process refers to the pattern of interactions among states (Keohane & Nye, 1977). In the nature of India China economic relations, the potential for the low

politics of trade to transform a previously conflicted relationship can be explored. India and China have started on the road of complex interdependence.

In the post independent period India established formal diplomatic relations with the Peoples Republic of China in year 1950 (Pokharna, 2009). In 1954, the five principles of peace for co-existence were laid down to develop the friendship and cooperation between India and China which was known as Panchsheel (Das, 2006). It continued up to April 1955; however this positive phase ended in January 23, 1959 when China refused to accept McMahon line as the legal boundary between the two countries. The tension reached its peak during Indo-Chinese war of 1962 and mistrust continued for about two decades. After 1981, both countries took positive steps to normalize this situation, for this India and China started regular dialogue at the level of foreign ministers. Both countries agreed to broaden bilateral ties in various areas. Since then, Sino-India bilateral relations developed steadily. Since then bilateral trade between India-China has grown rapidly and picked up significantly after Chinese accession to World Trade Organisation (WTO) on 11 December 2001.

Prior to 1991, foreign trade of India suffered from strict bureaucratic and discretionary controls. After 1991, trade policy has been liberalist. Some liberalisation measures were taken to make export competitive in the international market. While some other liberalisation policies were taken due to pressure of international agencies like WTO. After joining WTO in 1995, India came under an obligation to strike down all quantitative restrictions on imports and reduce import tariffs in a phased manner so as to open up the economy to world trade. Trade policy reforms with the focus on liberalisation, openness, transparency and globalisation has provided an export friendly environment with simplified procedures for trade facilitation.

China's economy gained momentum in early 1990s. In this period, China tried to create a 'socialist market economy' with the continuity in the political system. It was the key task of 1990s. Ten years development plan saw the bolder reform in China's economy. During 1993, Chinese economic expansion was followed by the introduction of more than 2000 special economic zones (Das, 1999).

I.8. Trade relations between India – China

India and China started trade in 1951. The trade agreement was signed in 1954 by the governments of the two countries. After the India-China war in 1962 the trade relation was suspended for 14 years and they resumed trade officially in 1978. In 1984 India and China signed the Most Favoured Nation Agreement. During 1988 it was decided to extend the India-China relationship at various levels. Later in 1994, the two countries again signed an agreement to avoid double taxation. The bilateral trade between India and China grew rapidly with the trade volume which has been increasing and as well as variety of exchanging commodities also is gradually expanding and the communication between officials of the two nations is strengthening day by day.

I.9. Statement of problem

There is a concern in India relating to sustainability of mounting bilateral trade along with surging trade imbalance between them in the medium term. Some argue that India is an emerging country with a large demand for imports to enhance its exports and also to meet growing domestic demand for consumption including modernisation of its industrial sector (Das, 2006). While others argue that excess of consumption over production may lead to an unsustainable current account deficit (Dinello & Shaoguang, 2009). Both arguments assume that import from China is competitive to many other suppliers in the domestic market. This study will focus on the India – China economic relation if it is balancing or not.

I.10. Review of Literature

Mansingh, S. (1994). *India China Relations in the Post-Cold-War Era*.

According to author the relations between India and China have improved in late 1980s and early 1990s. It is generally accepted fact of contemporary International Relations that trade and build the most durable ties among the nations. The relations between India and China are still slight. The two governments have signed a series of trade protocols since 1984 when they replaced differential tariffs with most-favoured-nation terms for each other. A joint commission on bilateral cooperation in science

and technology and space was established in October 1989. However Russia's renegeing on an earlier contract for supply of cryogenic engines and launching technology to India did not automatically lead to China to fill gap. Beijing avoided open confrontation with Washington on the missile technology control regime and New Delhi declared its preference for self reliance. India and China are the most comparable countries in Asia. But all those issues like border issue, Tibet issue, balance of power, nuclear issue have led Indo-China relations in great dilemma. In this article author did not focus on India's perspective as well as Chinese perspective towards each other about cooperation.

Acharya, A. (1999). Sino Indian Relations since Pokhran II.

According to the author India-China relations deteriorated after India's nuclear explosion in 1998. China feels that the onus lies with India to make good the damage done. India expects China to be more sensitive to its security and strategic concerns. It is possible for the two countries to temporarily shelve problems which are intractable and improve bilateral relations by other means. It is not India or China's interest to have a hostile or antagonistic relationship. The questions of armament, force levels which could constitute a deterrent and so on, the Pakistan factor have become more and more complicated.

Panda, S. (2003). India-China Cooperation: Major Determinants.

Since 1990s the pace of friendship between India and China has accelerated. The paper discusses such areas and outlines the best possible effort for friendly India China Relationship. She observes main three determinants: border issue, Pakistan as third party and China-Pakistan relations and India-China-USA relations. India has to explore several channels like better relations with major powers of world, increase its credibility in South Asia and improve its economy and military power so that its concern will be taken care by the potential nations of the world. In her article she focused on mainly border issue and security issue. According to her India China cooperation is not building as well as expected but she did not suggested any way to improve it.

Acharya, A. (2005). India-China Relations: Beyond the Bilateral.

According to the author, both India and China acknowledge the changing global and regional dimension of diplomacy and both are equally convinced of each other's strategic concerns. This affords new hope to an amicable resolution of past disputes that have long mired in suspicious relation between two nations. The strategic dialogue between Chinese vice-minister of foreign affairs and the Indian foreign secretary apparently covered a range of national and international issues reflection areas of common interest and concern to both sides: international terrorism, non-proliferation, multipolarism, energy issue, Afghanistan, Iraq, North Korea, UN reforms, globalisation etc. She wanted to figure out multilateral relations of India – China but effect on Asia's economy and world's economy she did not discussed.

Mohanty, M. (2005). *Panchsheel Partners: A new beginning*.

According to the article India has gained in China's eye as a major player in the world arena. The discussion on the border dispute has moved on to a new political plane with a clear outline of a possible solution. The Panchsheel partners have made a new beginning to cope with world environment. India China relations had now acquired a global strategic character, the two sides agreed to establish a strategic and cooperative partnership for peace and security. Most significant advance made in India-China relations was recorded in the agreement on political parameters and guiding principles for settlement of the Indo-China boundary question. Besides that there has been much talk about economic forces now driving India-China relations. He discussed civilisation and power but the concept and aspect did cleared in the article.

Acharya, A. (2006). *A Partnership of Global Significance*.

In this article according to author, there is little doubt that India and China are moving on the path of normalisation of relations – albeit not quite with fluidity and ease. At the best they acquired a fair degree of political comfort and at the worst they are merely conflict-free, though suspicion-prone. They emphasises on economic ties. The vigorous thrust to economic ties and a determination to double the current bilateral trade by 2010 was announced by Chinese Resident Hu Jintao. He said India China have to work together to build a harmonious Asia. Now much would depend on

how India and China resolve the prevailing contradictory trends in the relationship today.

Boillot, J. & Labbouz, M. (2006). *India-China Trade: Lessons learned and projections for 2015*.

The article describes the dynamic opening up of trade between India and China since the early 1990s. It then addresses the question of the trends which might emerge by 2015 and their implication for the future configuration of world trade. From southern Asia point of view China is proving to be an increasingly essential partner since the opening up of trade with South Asia in 1990s and progressive political normalisation with India. Authors interpreted Indo-China bilateral trade relations by three economic phenomena: the attraction of two big markets with rapid growth, geographic proximity (gravity models) and sector wise specialisation. He made an comparison between projection of “Chindia” and “China and India”.

Srinivasan, T. (2006). *China India and world Economy*.

Among countries with at least 10 million people in 2003, China and India have been growing very rapidly since 1980. China is integrated greater extent than India with the world economy. India has succeeded in becoming a major determination of global outsourcing and in export of IT. India’s advantage over China lies in its vibrant democracy and the legal and financial system. The paper concludes that whether or not India overtakes China in the next decade, its clear that both the countries will be economic powerhouses in the medium term and undoubtedly their growth will have significant impacts on world economy.

Hong Z. (April 2007). *India and china: Rivals or partners in Southeast Asia?*

Zhao Hong pointed in his article, India and China’s approaches to the economic cooperation in Asia. In the Post World War II era, after independence India as the second largest country in Asia played an active role as promoter of Asian regionalism. However, as the cold war ended in the early 1990s and China’s influence increased in Southeast Asia, India again realized ASEAN’s importance in terms of politics, diplomacy and consequently launched look east policy, the focus of which

was how to become actively engaged in Southeast Asian affairs in post cold war era. According to the author there are good indications that such cooperation has already begun. Indeed, Chinese as well as Indian leaders have made concerted efforts not only to widen and deepen their interaction beyond political issues but also to seek out new avenues of potential cooperation in Asia and elsewhere. Balance-of-Power politics will continue to inform Sino-India rivalry in Myanmar, Vietnam and other ASEAN countries. With greater transparency and clearer identification of shared interest in Southeast Asia, there is scope for even better relation and constructive engagement among China, India and ASEAN. This study has discussed the balance of power of two countries but it has not discussed the trade relations of the two since 1995. After establishment of WTO overall are the trade relations are not discussed here.

Christopher, J. R. & Karthika, S. (2007). *India China: From Trade to Peace*.

Christopher J. Rusko and Karthika Sasikumar focused on economic coexistence of two countries India and China. The leaders in both Beijing and New Delhi continue to focus on economic advancement as the primary goal, stability and peace in the Sino Indian relationship will trend to be maintained. In other words its not so much the quality and quantity of economic intercourse between Beijing and New Delhi that will mitigate their mutual security vulnerabilities, but rather conscious policy choices in each country to avoid military entanglements during this period of domestic economic consolidation. This study has focussed more on the goal and dialogue between two countries not on the trade relations which has been done and their deficits.

Acharya A. (2007). *India-China Relations: Towards a “Shared Vision”*.

According to the author, after a considerable gap, the contentious border has taken the back seat not entirely unsurprisingly or even without reason. It is not fairly evident that border issue is not only complex, but also very complicated. Both have agreed to maintain peace. The commitment at the highest level to normalise relations has helped, even as the relationship has weathered a fair share of storms. Both India and China are also simultaneously involved in the process diversifying their relationships, expanding their options and taking advantages of flexibility afforded by

the post-cold war environment to have multidimensional engagements with all major powers. This inevitably generates complexities, which will need to be handled in a straightforward manner. But despite the border issues and other disputes she shows the relations of India and China are being normal but at the end it is very vague what exactly she wanted to mean by people to people exchange and creativity.

Randol S. (2008). *How to Approach the Elephant*.

According to Shaun Randol the twenty first century has potential to be known as Asian century. India and China are simultaneously gaining salience in international relations. He said, geopolitical conflict has dominated relations between India and China. Economics dominates the conversation between India and China relationship. The results are as complex as the relationship itself. India is referred here as Elephant, but such a confined analysis left the gap in the holistic understanding of their interstate relations.

Acharya, A. (2009). *Whither India- China Relations*.

According to the author, the recent extraordinary outpouring of public animosity in India and China towards each other should give us pause and encourage introspection. When the only space that India China seem to be focused on occupying is the geopolitical, when the dynamics are mainly about power balancing, when only higher growth and trade statistics are at stake and when vital issues are bandied about cynically as card in a great game, the structure of two of the oldest civilisations in the world is immeasurably lowered. Here she discussed about military pronouncement and negotiations but about cooperation she didnot discussed clearly.

Pokharna, B. (2009). *India – China Relations: Dimension and Perspective*.

The book examines India-China bilateral relations from various angles including regional and global dimensions and also examines age-old cultural exchanges, shared percept ions during freedom, struggles and post independence. The book also highlights about the restrictive factors in smooth bi lateral relations. Further the book suggests some valuable solution of these problems. Current trends and prospects of Indo-China relations are discussed in this context. In this study author

discussed India china trade relations in general. But the analysis of bilateral benefits and deficits are missing here.

Sali, M. (2009). *India – China Relations*.

Author focused on the origin of conflict, issues and changing nature of bilateral relations, from ancient period onwards. The author, while dealing with the changing nature of India-China relationship, has tried to analyse the strategic and tactical scenario of India-China border area. This work deals with the comparative aspects of an economic and military power of India and China. Though these two Asian giants are on the path of emerging as the major Asian Powers, nevertheless the success will depend upon how they overcome their internal challenges. But here author did not focus how will these two countries overcome the conflicts and establish the cooperation.

Dingli S. (2010). *Building China India Reconciliation*.

According to this article, despite having long ago agreed coexist on the basis of peaceful coexistence, border dispute have marred their relationship. Two countries have declared a strategic interaction; but they suspect each other on a range of issues besides their border , such as the Dalai Lama, nuclear, proliferation, and the policies of Pakistan and the US. This article suggests way to moderate Sino-Indian tensions by offering some non-realist approaches. It suggests how Beijing and New Delhi may forge a constructive partnership, a process they have already started. Although this article discussed about various issues but it very much focused on India-China-USA trilateral relations and balancing of power of those three countries but it overlooked bilateral relations of India and China.

Zhu Z. (2011). *China-India Relations in the 21st Century: A Critical Inquiry*. According to Zhiqun Zhu one of the greatest events in the first decades of the 21st century is the simultaneous emergence of China and India as economic powers. Indeed, China and India have become the twin engines for global growth today. He focused on the cooperation of two countries, expanding bilateral trade, increasing global cooperation, sources of tension, conflicting issues, border issue, the third party

on the relationship. It is an overall analysis of India China relations. The Economic and Trade relations and the trade deficit are not discussed clearly.

Devadason, E. (Fall 2012). Enhancing China – India Trade cooperation: complementary Interaction?. The article assesses the massive untapped potential for border economic cooperation between China and India specifically in trade in manufactures. First, both the countries have diversified trade structures particularly from the export perspective. Second, the low Intra-Industrial trade (IIT) shares in China-India bilateral trade with each other. Third, the contrasting differences in quality of products traded by both economies reveal that competition in the manufacturing sector is limited. These differences if exploited may give rise to complementary trade. But in this article author did not discussed the limitations of bilateral trade between India and China i.e. reason behind the differences in trade between the two countries.

The above review of literature shows that there are many studies on the India-China trade and economic relations. Different aspects of Indo-China relations has been analysed by researchers ranging from comparative study of India-China economic growth rate, trade relations, investment relations to political relations. The overview of the literature on the trade relations between India and China, one may observe that the stress of the researchers has been on the historical background of the Indo-China trade relations during the cold war era, but not many studies had been done purely on trade relations in the present era and specifically on Indo-China trade relations since 1991. With the establishment of WTO in 1995, world trade has entered a new era of expansion and growth. China also became member of WTO in 2001. In the post WTO era India-China trade has shown growth trends. Earlier studies have focused on growth prospects only. This study focuses on analysing India-China trade in 1991-2015 especially upon identifying future trade potential between the two nations and major constraints in achieving them. Previous studies highlighted only general constraints in Indo-China trade but here effort has been made to identify specific problems facing individual sector, product groups and finding out ways to overcome them, so that a sustainable long - term mutually beneficial trade expansion may become possible.

I.11. Scope for the Study

This study will focus on the details of trade relationship between India and China from 1991-2015. This period seems to be very important for India's economic relations with China. In 1991 Indian economic reformation happened and in 1995 it entered into WTO. India introduced new foreign trade policies with the liberalisation of the economy which brought various changes to India's foreign trade. WTO also played a key role in India's foreign trade by introducing Free Trade Area agreements and controlling import and export tariff. The study will examine how the bilateral economic relations are making the bonding between India and China. The study will also focus on the trends on trade and economic relationship, trade deficit between India and China and the impact of bilateral trade arrangement on both the countries from 1991-2015.

I.12. Objectives of the Study

The following are the objectives of the present study.

1. To study the trends in the trade between India and China from 1991-2015.
2. To examine basic problems in trade between India and China.
3. To look into the regional and global perspective on India – China trade relations.
4. To identify the competitive and complementary aspects of the economic relations between the two countries.

I.13. Research Questions

From the above understanding the following questions are aroused:

1. What are the trends in the trade between India and China from 1991-2015?
2. What is the impact of India - China trade relations on the political, foreign policy and strategic relations of the both countries?
3. How much trade deficit is there in the trade relations of the two Countries?
What are the reasons behind it?

I.14. Methodology

The study is analytical and descriptive in nature and covers a period of 25 years (1991-2015). The study portrays a detailed view of India's trade with China along with the statistical analysis of bilateral exports and imports of trade. In order to understand the India and China trade relations after India's economic reforms and the impact of WTO on the bilateral economic relations, the study will discuss the bilateral trade before and after India's entry into WTO and also after China's joining of WTO. The primary sources will be used are the Govt. Publications, ministry publications, department publications, the annual reports, foreign affairs reports, report from Indian Embassy in China as well as Chinese Embassy in India. Secondary data will be collected from journals, Newspapers, dictionaries, various relevant websites.

I.15. Chapterisation

Chapter I: Introduction and Framework of study

In the first chapter there will be Introduction, statement of problem, theoretical framework review of literature, Objectives, scope and research methodology.

Chapter II: Overview of Economic Relations between India and China

In this chapter brief history of economic relations of the two countries has been discussed generally from 1950 when the two countries formally established diplomatic relations. The chapter has also looked into the issues, trade pattern; problems between two countries, contemporary economic relations between two countries have been discussed.

Chapter III: Analysis of India-China bilateral trade since 1991 to 2015

In this chapter trends of bilateral trade has been discussed and analysed since 1991 to 2015. The commodities of imports and exports are discussed. The trade deficit and reasons, competitive and complementary aspects are also discussed here.

Chapter IV: Impact of India – China Trade Relations

This chapter has looked into the impact of India China trade relations on the political, foreign and strategic relations of India and China.

Chapter V: Conclusion

In the fifth chapter the Conclusion along with the theoretical assessment are given. Relevant references will be given

Chapter II

OVERVIEW OF ECONOMIC RELATIONS BETWEEN INDIA AND CHINA

II.1. Introduction: India-China Relations

India and China have a very long history of relationship. The exchange of culture and trade had been started in the early part of the first millennium A.D. China's Eastern (later Han) dynasty (25-225 A.D.) established the extensive trade network with India's Kushan empire which is known as Silk route or Silk road (Singh, 2005). Through exchange of items and ideas started between China and South Asia. India spread Buddhism to China and China introduced India with silk, porcelain etc. The exchange of Pilgrims, explorers, and traders increased during China's Tang dynasty (618–907A.D.) (Singh, 2005) and it continued till the Mughal Empire came to India in the 16th century they turned the focus of India to the middle east Asia.

British ruled over India in the eighteenth century did not encourage the India-China relations. Colonial-era tensions with Russia and China created buffer states like Bhutan, Nepal and Sikkim. China's Qing (Manchu) dynasty leadership also expanded into Tibet to protect the Chinese heartland from external aggression and continued to shut China off from the international trading system, apparently remaining content with China's cultural and material superiority. In the early 19th century, the British rulers used Indian Opium as weapon and soldiers from East India Company to penetrate and exploit the China market which is known as Opium War (1839-1842). Any official boundary was never been negotiated between India and China, but the government of India claims a boundary in the western sector the Johnson Line of 1865 and on the other hand Chinese government claims the line similar to the McCartney-Mc Donald Line of 1899 as the border (Pokharna, 2009).

II.2. India-China Diplomatic Relations since 1950

On 1st April 1950 India had become first non-Socialist country who established diplomatic relations with China. From the year 1950-1958 India and China witnessed a friendship phase but unfortunately it deteriorated rapidly after

1959. India-China boundary issue, Tibet issue, and many internal and international complicated issues affected the bilateral relations between the two and it resulted as India-China war 1962 (Ruisheng, 2010).

In 1954, when Chinese Premier Zhou Enlai visited to India, both the countries established the “Five Principles of Peaceful Coexistence” which is known as Panchsheel. It was supposed to be the Guidelines for India-China relations. At the end of that year, Indian Prime Minister Nehru paid a visit to China, holding talks with Chairman Mao Zedong and Premier Zhou Enlai. In 1956, Chinese Premier Zhou Enlai again visited to India. All these events uplifted very much the relations between India and China. During this time India had given up the special privileges in Tibet. India and China was sharing a cooperation in International affairs. As an example, we can refer the Bandung Conference in 1955. Both India and Burma (now Myanmar) took very strong stand that China would take part in the Conference. At the conference Nehru made various efforts to support Zhou Enlai and tried to give the helping hand to New China which just had ascended the international stage.

The tension aroused on territorial boundaries in Aksai Chin along with Kashmir and China’s Xinjiang Province and Arunachal Pradesh along with India’s Northeast and Tibet’s South part. These border issues led to deterioration in relations (Michel & Bajpayee). On the contrast of previous period the deteriorated relations of India and China and the confrontation between the two countries from 1959 to 1976 induced huge amount of losses. The India-China border conflict in 1962 brought very severe damages the bilateral relations of India and China and created long term suspension of trade and other exchanges between these two countries. The Long term conflicts of these two countries badly affected the resources of the both sides and negatively affected the peaceful development of both the countries. However, in 1959, after the Tibet rebellion, both countries gave special preference on their differences on the Tibet issue followed by the boundary issue and failed to give first preference to cooperative relations which could secure both economies.

Since 1976, India and China gradually improved their relations with the swift development of trade and economic relations between them. China became one of biggest trade partners of India. Since both India and China had quite similar internal economic conditions, they could learn from the strength of each other and could

overcome their own weaknesses in the fields of socio-economic development India's software and China's hardware are complementary to each other. China has developed friendly relations with both India and Pakistan in a separate way, while trilateral relations between China, India and the United States have maintained a general balance.

II.3. History of India-China Bilateral Trade:

Since 1976 India-China Trade became prominent in global trade. Before 1980, balance of trade (BOT) of India-China trade was in surplus in favour of India, but since 1980 it became in deficit against India. In 1976-77 surplus was INR 150 million which became INR 90.7 million in 1977-78. In 1979-80 it was INR 10 million.

Table 1
Balance of Trade of India China Trade (1977-1990)

(in INR)

Year	Export to China	Import from China	Balance of Trade
1976-1977	17,42,66,766.00	1,65,06,557.00.00	15,77,60,209.00
1977-1978	1,92,82,583.00	94,96,410.00.00	97,86,173.00
1978-1979	NA	NA	NA
1979-1980	20,66,13,316.00	18,90,79,019.00	1,75,34,297.00
1980-1981	23,63,03,385.00	81,98,35,769.00	-79,62,05,384.00
1981-1982	32,88,09,067.00	78,26,30,385.00	-45,38,21,318.00
1982-1983	14,97,52,663.00	NA	NA
1983-1984	7,93,52,591.00	81,84,13,174.00	-73,90,60,583.00
1984-1985	6,32,68,619.00	72,56,14,664.00	-63,23,79,045.00
1985-1986	29,20,23,667.00	1,44,86,79,831.00	-1,15,66,56,164.00
1986-1987	9,20,17,689.00	1,79,79,98,500.00	-1,44,94,39,500.00
1987-1988	18,89,01,029.00	1,54,14,57,189.00	-1,35,25,56,160.00
1988-1989	66,33,46,265.00	1,41,93,81,506.00	-75,60,35,241.00
1989-1990	37,76,23,492.00	66,52,91,012.00	-28,76,67,520.00

*source: DGCI&S report (SFTI)

Figure 1 explains that since 1980, BOT became in deficit for India in its trade with China. In 1980-81 this trade deficit was about INR 79 crores which came down in 1981-82 at about INR 45 crores. Then in 1983-84 it was about INR 74 crore and in the very next year trade deficit reduced by about INR 100 million which stood at

about INR 63 crores in 1984-85. But just after that we can observe a drastic increase in trade deficit by more than INR 520 million. Trade deficit in 1985-86 was INR 115 crores and in 1986-87 it raised to about INR 144 crores. Then in 1987-88 deficit stood at about INR 135 crores. Again trade balance improved in 1988-89 and 1989-90. In 1988-89 trade deficit declined by INR 600 million which stood for about INR 75 crores. That improved more in the very next year 1989-90 by about INR 470 million and to the amount of about INR 28 crores. If we look at the trend of export to China from India it can be observed that in 1976 it started and the curve of export at the very next year it was dropped at INR 10 million. Then again it lifted up in 1980 to 1982 but in 1983 to 1985 the export curve went down but it became in 1985 to 1987. The export was highest in 1988 to 1989.

II.4. China's Economic Reforms

China's economy was unorganised before 1949. The national income, GDP, growth rate, and the capital formation were very poor (Howe, 1978). The industrial and agricultural sectors collapsed very badly (Howe, 1978).. Then the economic reformation had implemented in the country. The economic reformation of China can be discussed in few phases.

In the 1st phase, before 1949 the agricultural economy was dependent on the feudal lords and land lords. In 1949 the economic reformation started with land reformation. In the land reformation the land assets of the feudal lords were distributed to the mass people and peasants (Howe, 1978). Rural population got the power over the agricultural economy. After that China planned and implemented the complete economic reformation (Howe, 1978).

The 2nd phase of economic reformation of China started from the year 1952. During this time the economic reformation had increased the growth rate of the country (Jonathan, 1991). The great Leap Forward policy (1958-1959) was introduced at that time. Besides that the 1st Five year Plan (1953-1957) was also introduced (Jonathan, 1991).. They emphasised on the industrial sector. The technological development and the development of the large scale industries were the main objectives (Jonathan, 1991). Because of the large scale industries the small scale

industries were also growing rapidly as they were complementary to the large scale economy (Jonathan, 1991).

In the 3rd phase (1959 to 1961) economic growth declined. It described that collapse in industrial and agricultural sector and the explosion of population was responsible the crisis. Mao started doing reformation in 1960s. But it was not proper economic reformation. He started changing the fundamental economic characteristics of the state.

In the 4th phase in the year 1965, China's self-sufficiency in oil was achieved. China cleared the debt of USSR. It boasted China's economy. But the political situation remained the same. Mao started Cultural Revolution in 1966. This Cultural Revolution gave China a new dimension towards development. The complications of ideology were being clear by this. It shows that there is no rivalry between socialism and economic development. It helped to open the door for the foreign trade for China in international trade.

In the 5th phase (1970-1979), the growth rate of China was increased. The main focus was in expanding trade in every sector domestic as well as foreign. During that China was becoming eager to enter to the global economy (MacFarquhar, 2006). They emphasised on controlling the import and make them self-sufficient. China established a good diplomatic relation with USA (MacFarquhar, 2006). In 1978 China made reformation in every sector. The agriculture, industry and service all sector were reformed massively. The rural development also happened there in this period (Perry, 1985). The prices were increasing in the agro-products. Agricultural sector had started making massive profit as well as the industrial sector. So that the service sector especially the banking sector was also growing rapidly (Perry, 1985).

The government of China introduced new policy. China was trying to develop the growth of GDP and besides that interested in foreign trade (MacFarquhar, 2006). So that, to increase the GDP China emphasised on the foreign trade. In the decade 1980-1990 this policy was massively adopted by China government to resolve the domestic problem (MacFarquhar, 2006). Because economic development was very much needed for resolving all those socio-economic issues. China wanted a mix economy, wanted to connect the market with the government. So open market was

needed and China was agreeing with that concept. Per capita income as well as national income, both were increasing in this period (MacFarquhar, 2006).

In the year 1981 peasant were becoming more powerful. During this period rural development policies were being taken by the government . the peasant were taking part in the decision making (Perry, 1985). The power of the state authority was reducing. More private activities were being entertained by this time. The private authority over land and property was increasing. The urban society was combining and connecting to the rural society (Gabriel, 1998). The urban development and rural development both were being integrated after year 1984. China's self-sufficiency had been increase. At that time China's main objective was to enter massively in global economy and this reformation was helping to that (Groves, 1994).

The market was opened to the private sector also. Those sectors were increasing rapidly. The state was encouraging them to make the competition with the state governed industries (Jao, 1987). Thus competition increased. The strong competition was helping China's market to be more efficient. The service sectors were increasing. State's authority was reduced (Groves, 1994). The compulsions for the industries were being reduced. Many policies were taken for those activities. Tax system was introduced during this time. The agricultural products were being developed. Industrial production also increased very much. In food production China got self-sufficiency (Groves, 1994). China's GDP was increased, with per capita income was also increased. In rural areas rural people and peasant were involving with it. Many SEZ were established during 1978. In this period the FDI entered to the China's economy (Jao, 1987).

During the year 1980 FDI increased massively. Many coastal regions, coastal cities were developed by FDI (Groves, 1994). China was looking to the development in the market and production. Increasing the national income was the main focus in this time. Economic reformation was roaming around market (Groves, 1994). The centralisation was reduced, central rules and regulations were becoming less rigid towards the market. But during 1989 China concentrated on centralising again (Ge, 1999).

During 1990s, China adopted ‘Socialist Market Economy’ policy (Ge, 1999). At that time the economy of China developed notably. In this decade that was main objective. This decade witnessed strong development in the economy of China (Ge, 1999). Establishment of Special Economic Zone (SEZ) was the biggest feature of this time. In 1993 many SEZ were established in China (Ge, 1999). The number was more than 2000. China’s economic growth rate increased rapidly in 1996 by 9.5% which was declining after 1996 (Ge, 1999). Those years again was creating struggle for China. Asian Financial Crisis of 1997 was the basic reason behind it. In the year 2000 this growth little increased (Ge, 1999). After that China had massive growth in the economy. That was very impressive and helpful to China to concentrate on the exclusive and inclusive development (Ge, 1999).

Before economic and trade reforms China’s economic growth was very poor. At that time Chinese economy had some distinctive features. The whole trade used to be conducted under completely centralised planning system and the foreign trade was also very much controlled and limited. During that system more than 90% import used to be controlled by the import commission. Government only used to import those commodities and capital goods which were essential for development. Similarly, export system was also very limited and comprehensive. At the very minimum level export was encouraged to increase the foreign exchange earnings. Earning of foreign exchange is important for all developing countries, so that it can be used for imports. Export licenses exclusively provided by the government for those provinces which run foreign enterprises. In the open market foreign exchange was not allowed to be traded freely. Hence, pre-reform foreign trade of China was an extraordinary example for inward looking policy.

During that period China’s foreign trade had not good contribution in economic development. Economic reforms of China were initiated through massive and radical transformation in national economic policy. A centralised closed economy transformed into open market economy. Agriculture based economy encouraged the manufacturing and services. This large movement of economy started on one principle which is stated by Deng Xiaoping : “Poverty is not socialism”.

The economic reforms of China are roughly discussed into three phases:

The 1st phase was from 1978 to 1987, which is described as 'experimental stage' of trade reform. This phase introduced the decentralisation of administrative control over market and foreign trade systems. The rigidity of planning system was changed. State was encouraging and guiding the market but not controlling completely. Before 1978 most of the commodities used to be controlled by the state authority and governed by state planning (Lu,1995). But from 1979 situation had been changed. The state's command was reducing day by day. The many export import commodities were not under state's planning. The foreign trade was opening massively. China was accepted globalisation and open market system. Trade was coming from outside also randomly (Yin, 1993).

According to World Bank Report in 1986 40% import and 60% export were under state control in China (World Bank 1993). Gradually state was taking control over the market again. As a result market was falling down. The industrial production and agricultural production were collapsing this time. Then tension was started among state authority, private sectors and local committees. The local committee and private sectors were demanding decentralisation. Against state they were opening their own companies. For the closed market the manufactured products were not being export and necessary raw materials also were being imported. So ultimately the productions were becoming limited. The GDP, national income, per capita income, growth rate everything was declining. Although local committees and private sectors were trying very hard against state government but most of the products still remained under state control.

In the 2nd stage of economic reforms held during 1988 to 1991, it shifted the producing firms and foreign trading companies by implementing a contract responsibility system. Gradually these firms became more responsible and more independent about their profits and losses which helped in tightening the economy. During the early 1992 18.5% and 15% of import-export were done by the mandatory planning (World bank, 1993). But during this year license, tariff etc were introduced and adopted which were the non-mandatory measures. Since then license and tariff became the vital in the trade of China. Various licensed products were increasing in the trade. The most of the trading products gradually were coming under the licensing

system. In the average 45% products came under the license system (World bank, 1993). Most of the products which were coming under tariff and license were used to be imported as the raw material for the products which used to be exported (Yin, 2004). So that it did not put very strong influence on the economy (Yin, 2004).

At the 3rd stage of trade reform of China started in 1991. During this time, government of China adopted the policy of reducing the trade barriers. Since then almost every year, tariff, and licenses were reduced. Command plans for both export and import were abolished. In the year 1994, the government of China reformed law of foreign trade. From the year 1994 all laws, rules and regulations, and the process of foreign trade became well organised. China's foreign trade reforms entered into the international trade largely with the joining to World Trade Organization (WTO). The tariff rate was reduced by China. By the year 2005 it was supposed to abolish the Non-Tariff barriers. Besides that the market in national level was open and the service sector also opened. Average tariff rate was decreased during the year 2004. The average tariff rate in agricultural sector was 15.6% and in industrial sector it was 9.4% (Yin, 2004). Simultaneously China was looking to the changes of their foreign exchange system and various modifications were brought to that (Yin, 2004).

II.5. Economic Reforms in India

The developmental strategy was introduced in the year 1950. The principal objective of that planning was the establishment of heavy industry and industry based economy. On the other hand planning commission and policy makers also gave emphasise on the small scale industry and self reliance of the country. The strategy was adopted by government to develop India's Industry, machinery and reliance on planned economy with agricultural self sufficiency with help of public sector participation.

In the year 1956-1957 to 1977-78 the policy of import substitution was taken by the government of India to protect the infant and small scale industries. Import substitution policy had an important role in the industrialisation and development of economy at the initial stage. Government also supported to small scale industries. Those industries got subsidies on excise duty, sales tax etc.(Dutt & Sundaram, 2003). This subsidy induced more burdens on the very weak economy of India. In order to

protect labourers or workers from the exploitation of the employer wages and working hours of workers were fixed in organised sector which affected productivity. Labour was separated from the market fundamentals. However, the inward looking policy was followed by Indian government to enhance the domestic economy through agriculture and the industries along with the cottage industries. (Dutt & Sundaram, 2003).

The 2nd Five Year Plan was introduced with the emphasis on the heavy industry under the government of India. But gradually it was realised by the Govt. that foreign exchange is very important to maintain the economic development and industrial maintenance.

In the 3rd Five Year Plan (1961-66) India concentrated on export promotion measures.

But the focus still was on the self-sufficiency and the development of industrial sector especially heavy industry (Dutt & Sundaram, 2003).

In the 4th Five Year Plan (1967-74), the government of India was expecting that India will develop the self-sufficiency and the export cost will be decreased (Dutt & Sundaram, 2003).

The 5th Five Year Plan the government of India emphasised on certain sectors. The engineering, garments, marine products, leather products manufacturing sector were encouraged in this period, because those items were the vital export commodities of India (Dutt & Sundaram, 2003).

The 6th Five Year Plan was held in the period of 1980-1985. International oil price hike occurred in 1979. So as a result India faced massive current account deficit (Dutt & Sundaram, 2003).

The importance of participation of private sector has been realised by the government of India in the mid 1980s, because the result and performance of various public sector undertakings were not being very much satisfactory. The public sector undertaken industries were facing heavy losses.

Open market policy was entering to India, because open market can be a perfect competitive market. The competitiveness was needed, because, through competitiveness efficiency and competency can be earned to Indian economy. The private sectors were coming to the market openly. Privatisation became a significant decision which was made by the government of India. The service sector witnessed massive growth. Private sectors were performing faster than the public sector. So that, public sectors also boasted up and both were integrated to Indian economy. So that, India growth rate and GDP also increased.

In 1991 in the process of privatisation, only eighteen specific industries which were related to security and strategic areas got compulsory licenses (Prasad, 2005). At present in India there are only four industries which are under compulsory licensing. The Monopolies and Restrictive Trade Practices Act (MRTP) was removed during this period. To increase the resources and to encourage participation of private sector disinvestment was done in PSUs in favour of mutual funds, financial institutions, workers and general people. Now only four industries are there which are exclusively reserved for public sector (Prasad, 2005) All these exercises at the government level were related to the changing economic scenario, where privatisation would certainly create an environment conducive for the induction of the latest technology and would unleash both entrepreneurship and innovation, which is expected to have a multiplier effect on other industries (Prasad, 2005).

Prior to 1991, foreign trade of India suffered from strict bureaucratic and discretionary controls (Guruswamy, 2005). After 1991, trade policy has been liberalised substantially (Guruswamy, 2005). Some liberalization measures were taken to make export competitive in the international market (Nagesh, 2005). While some other liberalisation policies were taken due to pressure of international agencies like WTO. After joining WTO in 1995, India came under an obligation to strike down all quantitative restrictions on imports and reduce import tariffs in a phased manner so as to open up the economy to world trade (Nagesh, 2005).

To enhance the export of India government took various steps towards this. The export profit was subsidised for the income tax. Export Oriented Units and Export Processing Zones were subsidised and were given many facilities. Incentives were also given to them. In 1993 EOU-EPZ policy increased and 50% DTA sales

were allowed to them. Under EPCG policy exporters got various facilities and subsidies. Ultimately the FTZ policy was adopted by the government of India. In the year 1994 a hardware technology park was planned in EPZ. In this decade the foreign trade as well as Indian economy had faced a large amount changes (Guruswamy, 2005)

Chapter III

ANALYSIS OF INDIA-CHINA BILATERAL TRADE SINCE 1991- 2015

III.1. Introduction: India's Foreign Trade Policy

Trade is very important for economic growth. The foreign trade policy is also very important for every country. It is the main way to development and growing in the economic sphere. The earning of foreign exchange is the main goal of the foreign trade. For India foreign trade is very important to enter into the global economy and make a stable place with its large size and population. So that right foreign trade policy is the vital issue in this scenario. India is the largest democracy and demographically the 2nd largest country in the world. Being a third world country it has many issues to be solved. Poverty, unemployment, and undeveloped socio-economic structure, these are the main issues. So India is struggling with the balance of trade. India has to increase export and reduce its imports (Prasad, 2005).

III.2. Import Policy

India adopted the import policy according to the economic purpose. The requirement of the country's economy and consumer's demand are the moving factor of the import policy of India. India wants to make consuming products more available for betterment of the economy. The raw material or the parts and tools of technical machineries which are used in the factory of India can be imported easily (Nagesh, 2005).

Simplification of licensing and tariff system is another vision of India's import policy. The complicated tariff and license system reduce the flow of international trade towards the country. So, India tries to simplify this system (Nagesh, 2005).

On the other hand India observes that it should not completely dependent on imported products. So India emphasises on the self-sufficiency and the establishment of the import substitute policy (Nagesh, 2005).

There are few products animal rennet, wild animals, tallow fat and unprocessed ivory: they are not permitted to be imported (Nagesh, 2005). On the ground of conserving the environment, security issue, climate issue, health issue etc some products come under the restricted list. To conserve the small scale industries and cottage industries some products are not being encouraged to be imported (Guruswamy, 2005).

III.3. Export Policy of India

Export policy is another vital part of foreign trade policy. India also has focused on the foreign policy. India's foreign policy is mostly open (Dutt & Sundaram, 2003). Most of the good can be export to all the foreign countries. But good are there are restricted because scarcity. The small scale industries of India need raw materials but most the time they can't afford to import those items. So that, those industries have to rely on the domestic market, and its natural resources (Dutt & Sundaram, 2003). Another point is environmental concern. Some goods are important for conserving environment and for that they limited for export. Export profit is also subsidised for income tax (Dutt & Sundaram, 2003).

The EPZ, SEZ and EOUs are having some special facilities, because they manufacture the products to be export (Dutt & Sundaram, 2003). They get subsidy on raw materials and monetary sides. They get special facility to import their raw materials also (Dutt & Sundaram, 2003).

Export Promotion Schemes (Dutt & Sundaram, 2003)

Followings are some export promotion schemes:

- i. Vishesh Krishi Upaj Yojana for Agro-Exports.
- ii. Served from India Scheme.
- iii. Additional flexibility scheme under EPCG.

- iv. Import of fuel under DFRC entitlement allowed to be transferred to marketing agencies authorized by Min of Petroleum and Natural Gas.
- v. The DEFB scheme will be continued.
- vi. EOUs must be exempted from the Service Tax in proportion to their exported goods and services.
- vii. A scheme to establish Free Trade and Warehousing Zone is introduced to create trade-related infrastructure to facilitate import and export with freedom to carry out trade transactions in free currency.

III.4. Import Export Policy of China

China has adopted certain trading policy for the export and import of their products. Mainly state decides the commodities which are going to be export and import. Some products are open to be export and import but there some products which are restricted by the state to be import or export (Yin, 1993).

For money transaction on import China prefer to follow FOB system. But there are few import which are happened with CIF system. Most of the time payment is done through the L/C system (Lu, 1995).

For the export most of the time the transaction is done by CIF or CFR system and then those countries get the L/C (Lu, 1995). This system is quite complicated but most of the time China prefers this. For very few products China follows the BOF policy in the case of some countries which have special agreements with China regarding this (Lu, 1995).

Table 2

India's Exports and Imports to China 1990-2015

(Value: US\$

million)

Year	Export to China	Import from China	Balance of Trade
1990 – 1991	614.70	196.6	418.1
1991 – 1992	662.5	127.1	535.4
1992 – 1993	906.3	296.4	609.9
1993 – 1994	1,528.70	490.7	1038

1994 – 1995	1,771.60	1047.8	723.8
1995 – 1996	2,154.10	1200	954.1
1996 – 1997	614.8	756.91	-142.11
1997 – 1998	717.95	1,112.05	-394.1
1998 – 1999	427.16	1,096.71	-669.55
1999 – 2000	539.04	1,282.89	-743.85
2000 – 2001	831.3	1,502.20	-670.9
2001 – 2002	951.95	2,036.39	-1084.44
2002 – 2003	1,975.48	2,792.04	-816.56
2003 – 2004	2955.08	4,053.21	-1098.13
2004 – 2005	5,615.88	7,097.98	-1482.1
2005 – 2006	6,759.10	10,868.05	-4108.95
2006 – 2007	8,321.86	17,475.03	-9153.17
2007 – 2008	10,871.34	27,146.41	-16275.07
2008 – 2009	9,353.50	32,497.02	-23143.52
2009 – 2010	11,617.88	30,824.02	-19206.14
2010 – 2011	12,168.86	43,479.76	-29310.9
2011 – 2012	18,076.55	55,313.58	-37237.03
2012 – 2013	13,534.88	52,248.33	-32713.45
2013 – 2014	14,824.36	51,034.62	-36210.26
2014 – 2015	11,934.25	60,413.17	-48478.92
2015 - 2016 (Apr-Jan)	7,516.10	51,811.23	-44295.13

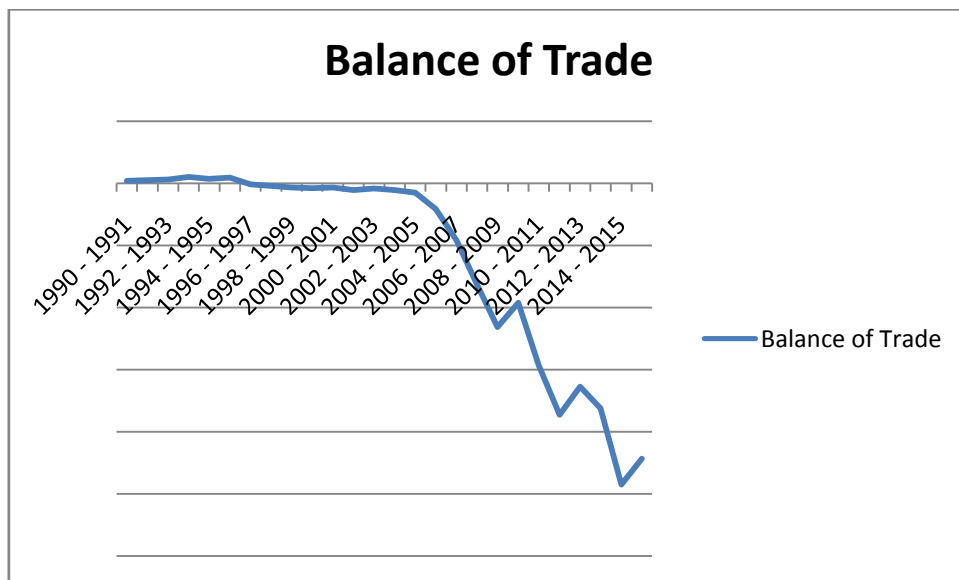
Source: MEA, Department of Commerce, Import-Export Data Bank

In 1994, the two countries signed an agreement so that they can avoid double taxation (MEA). The bilateral trade of India and China developed rapidly and trade volume was continuously increasing. Variety of commodities was increasing gradually and for that the communications between two countries officials were being stronger (MEA). According to Indian Department of Commerce, Export Import Data Bank report – since 1991, the two-way trade between India and China has been increasing steadily and by a big margin as in 1991 it amounted to US\$ 265 million while in 1995, it reached to US\$ 1162 million. In 1997, the bilateral trade registered US\$ 1830 million. India-China bilateral trade which was as low as US\$ 2.92 billion in 2000 reached US\$ 41.85 billion in 2008. It has further developed since 2006 when border trade started through Nathu La. In 2009 bilateral trade volume was US\$38.91 billion; India's export to China was US\$10.13 billion while import from China was US\$ 28.78 billion and the trade deficit for India was US\$ 18.65 billion. In 2010

bilateral trade was US\$ 56.84 billion, India's export to China was US\$ 14.58 billion and import was US\$ 42.26 billion, trade deficit increased to US\$ 27.68 billion. In 2011, bilateral trade stood at US\$ 69.37 billion. India's total exports to China for 2011 were US\$ 16.54 billion and China's exports to India reached US\$ 52.83 billion. Trade deficit for India for year 2011 stood at US\$ 36.28 billion. China's trade with India for year 2012 reflected the trends of the global economic slowdown, marked by lower consumption and slower growth in trade volumes. India-China total trade in goods for 2012 stood at US\$ 66.75 billion, recording a decline. India's exports to China for 2012 reached US\$ 14.87 billion whereas imports touched a total of US\$ 51.88 billion, recording a decline over the figure for 2011. Trade deficit for India in 2012 stood at US\$ 37.01 billion. India-China bilateral trade for 2013 stood at US\$ 65.9 billion. India's exports to China touched US\$ 14.50 billion whereas China's exports were US\$ 51.38 billion, resulting in a trade deficit of US\$ 36.88 billion. In 2014, bilateral trade was US\$ 70.25, India's export to China was US\$ 11.98 billion and import from China was US\$ 58.27, trade deficit stood for India US\$48.92 billion.

Figure 1

Trade Deficit for India



Here the graph is going down radically from year 2004-2005. Trade deficit is increasing with a huge gap. If we analyse the scenario then we can see that some issues were related with the economic relations. According to the World Bank report China's export is far more than India's Export to the global trade. China's

manufacturing rate is quite higher than India's manufacturing rate. Difference of GDP is also not ignorable, which is a big disadvantage for India. So, when Nathula Pass opened the trade increased automatically, but on the same time India could not be able to maintain the trade balance. There are various issues, but the biggest was Chinese trade policy towards India. Although China entered to global trade but its import policy is not opened up. On the other hand India accepted the globalisation theory, so that it has opened to the trade for the import and export both. FDI was invited by India hugely in the last two decades. According to complex interdependence theory and Balance of power theory India and China both wanted to create better trade relations. In International Relations no countries are permanently friends or enemy. Usually times the relations become stronger with the economic entity with the other countries. After World War II all the countries of the world realised the destructive result of the conflict and end of the day every country's goal is the development and prosperity. So that, all over the world every country gradually looking to the complex interdependence theory, because no country is self-sufficient itself. India and China also not held the different views. After the 1962 war both realised that war is not the solution of the conflicts rather the massive loss of both human and material resources.

The border issues were discussed in 2003 at the level of diplomats from the both sides. FDI was invited by India from China. Thus gradually warm relations between two countries established. But, the balance of trade is increasing because of liberal foreign trade policy of India. It is the largest democracy in the world, so democratic attitude is also reflected in its foreign trade policy.

III.5. Important Commodities export to China from India:

In 1997-1998 the highest export was meat and edible meat offal on the amount of US\$ 0.08 million. The highest export was ores, slag and ash in 2004-2005 with the amount of US\$ 2,927.8 million, but in the year 2014-2015 Cotton became the highest export commodity US\$ 2,277.87 million. From the last two decades the few highest commodities which were exported are ores, slag and ash; cotton, organic and chemicals; iron and steel; plastic and articles thereof; salt, sulphur, earth and stones, plastering materials; animal and vegetable fats and oil; nuclear reactors, boilers, machinery etc.

III.6. Important Commodities imports from China

In the year 1997-1998 the highest imported commodity was products of animal origin amount of US\$ 1.90 million. In the year of 2005-2006 the highest imported commodity from China was electrical machinery sound recorder, television etc for the amount of US\$ 2,773.86 million which was the highest in the year 2014-2015 and increased at US\$ 16,738.41 million. The few highest imported commodities of two decades are electrical machinery, television etc; nuclear reactor, boilers etc; organic chemicals; fertilisers, iron and steel articles, plastic and articles thereof; optical, photographic cinematographic parts etc; ships boat, floating; vehicles other than railway; silk etc (Ministry of External Affairs).

Chapter IV

IMPACT OF SOME ISSUES ON INDIA-CHINA

TRADE RELATIONS

IV.1 Introduction: Border issue

The border issue between India and China is primarily based on the conflict regarding validity of McMahon Line between India and Tibet. India and Tibet made an agreement on border issue and accepted McMahon Line as the aligning border in 1914. According to the Simla Convention in 1914 this McMahon Line was decided. China challenges the validity of this agreement which was done at the colonial era whether India accept this for the territorial settlement. China says it was done by the local government without proper process and at the absence of any treaty making authority. After India-China war in 1962 due to border conflict, bilateral relations remained frozen on disputed territory for several decades. China's construction of a military post and helicopter pad in the area in 1986, and India's grant of statehood in February 1987 to Arunachal Pradesh (formerly the North-East Frontier Agency), of which China claims 11 of the 15 districts, caused both sides to deploy additional troops to the area, raising fears of a new border war. However, bilateral relation on border issue was improving on the basis overall bilateral relationships were started at various levels in the late 1980s especially the trade relation resumed again. New border agreements were signed in 1993 and 1996 (Wenxuan, 1994).

During the 1990s, both countries have agreed to discuss on the border issue but they both did not want any conflict over that issue due to disagreements. Even a rumour came that India was giving up its claim to Aksai Chin and on the other side China was giving up its claim to Arunachal Pradesh (Wenxuan, 1994). However, both the countries have established Confidence Building Measures on the border issue, including mutual settlement, regular meetings with military heads are used to be held to maintain the peaceful and cooperative relations.

IV.2. Energy Issue:

In the sphere of energy, India-China relation is competitive in manner rather than being cooperative. Both the countries compete with each other for hold the oil assets of Myanmar, Angola, Ecuador, Kazakhstan. In every case China bided at higher level than India. Chinese companies always were more interested in joint ventures with major western companies rather than aligning with the very next neighbour India. Both India and China have joined forces to earn and develop their energy assets in Sudan, Syria, Iran and Columbia. In the year 2006, India and China have signed five memoranda of cooperation regarding the energy sector. These cover the pipeline projects, research and development, unconventional sources of energy, and environmental protection matters. They have been agreed for multilateral forums such as the Asia-Pacific Partnership for Clean Development and Climate. It was launched in January 2006. Both the countries also have a common interest in the security of the sea-lanes for the safety of their growing oil imports. These sea-lanes are very vulnerable to obstruction along maritime choke points from the Persian Gulf to the Strait of Malacca, through these 80% of China's oil imports and more than 50% of India's trade passes.

IV.3. Security Issue:

Other than border issues these two countries scared over nuclear weapon power. Both the country test a weapon and that triggered as mistrusts. Both the countries are acknowledged nuclear power. Formally they talk about the nuclear issues and their other engagements but beside that they keep looking consciously to each other's nuclear activities.

IV.4 The Nuclear Issue:

India-China nuclear relation is very complicated. China could not accept India as a nuclear power state while China itself is a nuclear power state. China is the member of NPT. Both the countries agreed to share a friendly relation. India's nuclear power is acknowledged in the world openly. It was important to India to have a nuclear weapon to maintain a balanced position in International politics.

According to nuclear doctrine both the countries agreed to no First Use. They don't talk formally to each other about the nuclear weapon. Both countries have maintained the non-proliferation and arms control.

They must avoid the mistrusts about nuclear weapon. India and China should concentrate on non-proliferation. They should have clarity about non-proliferation and they should give very much importance on it. It is very important for disarmament and peace in international relations. USA also pressurised India to sign the NPT. Before signing that other countries were not allying with India for peaceful nuclear use, because other countries were not agree to make any conflict with USA.

IV.5. Impact of Pokhran Nuclear Test

After the end of cold war India tried to maintain the friendly and cooperative relationship towards China. On the other hand China was also trying the same. Both were going through the economic reformation. So that no one wanted to take any risk at the economy. But as soon as the nuclear test was held in Pokhran by India, China's attitude towards India changed overnight. That test created some mistrust between them. China started doubting India. The relations between them became cold. The dialogues were also not held for some times. Economic and trade relations collapsed drastically.

In 1996, India approached China saying that "India seeks a relationship of constructive co-operation with China.". Government of India further said that India and China shares the friendship which needs to be considered from perspective of logic of history and needs of the present. This friendship will bring the peace and cooperation in regional and international level as well.

India-China relation started growing since 1999. Both the countries were aware of their national interest and profits. It was important to make good relation to each other because they two were the biggest rising stars of Asia. So they realised that the economic relations are the only way to cooperation to each other.

They would know that in this region rather in the world these countries are going start a new dimension of international politics and economy. India is consider as elephant and China is considered as Dragon generally. So if they two stay together they will be unbeatable but if they grow conflict with each other it will be the biggest massacre in the world.

Beijing joined Un Security Council members in passing Resolution No.1172. that resolution condemned the nuclear test by India and Pakistan (Acharya, 2005)

IV.6. Importance of India-China War 1962

There is very much mistrust between India and China. The suspicious mentality occurred because of the war of India and China in 1962. The Indian diplomatic and stragic think consider China as the biggest threat to India as well China is also looking at India's activity. Whenever India's movement was doubtful to China it affected India-China relations. For example we can say the nuclear test of Pokhran by India was considered doubtful to China. This mentality was induced by that war. So both the countries are very much aware of these activities and get overly concerned about it. INS Arihant was also a matter of concern to China. On the other side the expansion of of Chinese military always was been the reason India's sleepless nights. China has stronger military and naval power than India that is also a matter of concern for India. All these things creates some mistrust and fear of the war again.

IV.7. Some Dialogues between India and China

Indian President K. R. Narayanan's visit to China

In 2000 Indian President K.R. Narayanan's visited to China. In 2001 Li Peng's visited to India. Both India and China ignored the controversial talk. It was a pleasant friendly meeting for both sides. They did not talk about even the nuclear issue which created the coldness between India China. They did not talk about the Agni II ballistic missile. That was tested at that time only. China said although this the sign of arm race in this region but they did criticised it openly.

Indian Prime Minister Atal Bihari Bajpai's visit to China

Visiting India and China by the both head of nations is always the focused issue even in the International politics. All the countries look at those meetings. Indian Prime Minister Atal Behari Bajpayi visited China in 2003. In that visit they talked about alignment of LAC between India and China.

Chinese Premier Wen Jiabao's visit to India

In April 2005 Chinese Premier Wen Jiabao visited to India. Wen Jiabo considered that visit as historical. President Hu Jinato visited India in December 2006. They talked to at various levels. They talked to the heads and their India counterparts as well as they interacted with various ministerial and political persons.

Chinese President Hu Jintao's Visit to India

In December 2006 Chinese President Hu Jintao visited India. This visit was very much significant for India-China relations. He showed very positive attitude towards India. He was talking about the cooperative relations between India and China. He also said that this relation will bring the peace to international relations.

Indian Prime Minister Manmohan Singh's visit to China in 2008

In 2008 Prime Minister of India Manmohan Sing visited to China. That visit can be observed as an important visit. National Congress Party's Chairperson Sonia Gandhi visited China in 2007, which was also very important and notable. In this visit Indian Prime Minister Manmohan Sing and Chinese Premier were trying to tie bilateral ties and tried to create stronger bonding.

Indian President Pratibha Patil's Visit to China in 2010

In May 2010, The President of India Pratibha Patil visited China. She talked to Chinese President Hu Jintao and with NPC Chairman Wu Bangguo. Chinese Premier Wen Jiabao and CPPCC Chairman Jia Qinglin also talked with her. She and Chinese Vice President Xi Jinping celebrated the 60th anniversary of diplomatic relations of

India and China which was held by CPAFFC. Buddhist temple, which was gifted to china by India, was visited by Pratibha Patil. She inaugurated a Tagore bust.

Indian Prime Minister Narendra Modi's visit to China 2015

Indian PM Narendra Modi visited to China and met China's President XI Jinping in 2015. 24 agreements were signed at that time. Those agreements were mostly on the economic ground.

The following agreements/MOU/ protocol have been signed between India and China since 1995 (Indian embassy, Beijing, China):

Table 3

Agreements/MOU/ protocol signed between India and China since 1995 to 2015

No.	Name of the Agreement/MOU/Protocol	Place/Date
1	Agreement between India and China on Maritime Transport	29-11-1996
2	Agreement of Cooperation between Doordarshan of India and China Central Television	2-6-1997
3	Memorandum of Understanding on Cooperation in the field of Steel between GOI and PRC	22-02-2000
4	Memorandum of Understanding on co-operation in the field of Information Technology	2000
5	Memorandum of Understanding on co-operation in the field of Labor (Employment services, vocational training and social security)	2000
6	MOU on the application of Phytosanitary Measures between M/o Agriculture, Rep. Of India and State General Administration of the PRC for Quality Supervision and Inspection and Quarantine	14-1-2002
7	Agreement of the Rep. Of India and the Govt. of PRC on cooperation. in the field of Tourism	14-1-2002
8	(MOU) on the "Implementation Plan for Organized Group Travel by Chinese Citizens to India" on December 8, 2002	8-12-2002
9	MOU between the government of the Republic of India and the	23-06-2003

	Government of the PRC on Expanding Border Trade	
10	Protocol of Phytosanitary Requirements for Exporting Mangoes from India to China between the Ministry of Agriculture of the Republic of India and the General Administration of Quality Supervision Inspection & Quarantine of the PRC	23-06-2003
11	MOU between Ministry of Information and Broadcasting of the Republic of India and the State Administration of Radio, Film & Television of the PRC	21-07-2004
12	Report of India-China Joint Study Group on Comprehensive Trade and Economic Cooperation	11-04-2005
13	MOU on the launch of the India-China Financial Dialogue	11-04-2005
14	Protocol of phytosanitary requirements for the export of Grape from India to China	11-04-2005
15	Protocol of phytosanitary requirements for export of bitter gourds from India to China	11-04-2005
16	Agreement on Mutual Administrative Assistance and cooperation in customs matters	11-04-2005
17	MOU on Civil Aviation	11-04-2005
18	Protocol on India-China Film Cooperation Commission	11-04-2005
19	MOU between The Ministry of Land and Resources of the PRC and The Ministry of Mines of the Rep. of India on Cooperation in Mining Sector	15-09-2005
20	MOU for Enhancing cooperation in the field of oil and natural gas	12-01-2006
21	MOU on Cooperation between the Ministry of Agriculture of the PRC and The Ministry of Agriculture of the Republic of India in the Field of Agriculture	28-03-2006
22	Protocol on Phytosanitary Requirements for Exporting Rice from India to China	21-11-2006
23	MOU on Inspection of Export Cargo (Iron Ore)	21-11-2006
24	MOU between the Indian Council of Agricultural Research and the Chinese Academy of Agricultural Sciences	21-11-2006
25	MOU between Forward Markets Commission of India and China	21-11-2006

	Securities Regulatory Commission regarding Commodity Futures Regulatory Cooperation	
26	Agreement on Bilateral Investment Protection and Promotion	21-11-2006
27	MOU on undertaking Joint exploration and Production and acquisition of Oil and Natural Gas Resources in Third Countries	17-12-2006
28	MOU for Cooperation between the Planning Commission of India and National Development and Reform Commission of the PRC	14-01-2008
29	MOU on Cooperation between Ministry of Railways, India and Ministry of Railways, PRC	14-01-2008
30	MOU between Ministry of Housing and Urban Poverty Alleviation of India and Ministry of Construction, PRC	14-01-2008
31	MOU on Scientific Cooperation between Geological Survey of India and China Geological Survey in Geosciences	14-01-2008
32	MOU between NABARD and Agricultural Development Bank of China on Mutual Cooperation	14-01-2008
33	Protocol of Phytosanitary Requirements for the Export of Tobacco leaves from India to China between the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and the Ministry of Agriculture of the Republic of India	14-01-2008
34	MOU of the Joint Economic Group between the Ministry of Commerce and Industry, Govt. of Rep. of India and the Ministry of Commerce, Govt. of the PRC on Expansion of Trade and Economic Cooperation	19-01-2010
35	MOU between Reserve Bank of India and China Banking Regulatory Commission	16-12-2010
36	MOU between Export Import Bank of India and China Development Bank Corporation	16-12-2010
37	Agreed Minutes of the 1 st India-China Strategic and Economic Dialogue	

Source: Indian Embassy, Beijing.

In 2014 India – China exchanged 12 documents, including one on five years economic and trade development plan. Indian Prime Minister Narendra Modi had invited Chinese investments especially in infrastructure. China had committed to invest US\$ 20 billion in 5 years. In 2015, 24 agreements have been signed between India and China worth over US\$ 10 billion (NDTV. 2015).

Those are following agreements:

- i. Protocol for establishment of consulates in Chengdu and Chennai (NDTV. 2015).
- ii. Cooperation in vocational education and skill development and setting up of Mahatma Gandhi institute on skill development in India (NDTV. 2015).
- iii. Consultative mechanism on cooperation in trade negotiations (NDTV. 2015).
- iv. Cooperation between Foreign Ministry and and Central Committee of Communist Party of China (CCCPC) (NDTV. 2015).
- v. Action plan between national railway administration of China and Indian Railways (NDTV. 2015).
- vi. Memorandum of Understanding on education exchange programme (NDTV. 2015).
- vii. Cooperation in the fields of mining and minerals (NDTV. 2015).
- viii. Space cooperation outline (NDTV. 2015).
- ix. Safety regulations on importing Indian rapeseed meal (NDTV. 2015).
- x. Broadcasting agreement between CCTV and Doordarshan (NDTV. 2015).
- xi. Agreement for cooperation in the field of tourism (NDTV. 2015).
- xii. Memorandum of Understanding on establishing India-China think tanks forum (NDTV. 2015).
- xiii. Memorandum of Understanding between NITI Aayog and Development Research Centre (NDTV. 2015).
- xiv. Memorandum of Understanding on cooperation in earthquake science and engineering (NDTV. 2015).
- xv. Memorandum of Understanding on cooperation in ocean sciences, climate change and cryosphere (NDTV. 2015).
- xvi. Memorandum of Understanding on cooperation in geo sciences (NDTV. 2015).
- xvii. Memorandum of Understanding on establishment states/provincial leaders' forum (NDTV. 2015).

- xviii. Cooperation between states and municipalities - establishment of India-China state leaders forum (NDTV. 2015).
- xix. Agreement on the establishment of sister states Sichuan and Karnataka (NDTV. 2015).
- xx. Agreement on the establishment of sister cities between Chennai and Chongqing (NDTV. 2015).
- xxi. Agreement on the establishment of sister cities between Hyderabad and Gingdao (NDTV. 2015).
- xxii. Agreement on the establishment of sister cities Aurangabad and Dunhuang (NDTV. 2015).
- xxiii. Memorandum of Understanding between ICCR and Fudan University for establishment of centre for Gandhian studies (NDTV. 2015).
- xxiv. Memorandum of Understanding for the establishment of Yoga college in Kumning (NDTV. 2015).

IV.8. Regional Relations:

i) India-China and South Asia:

China's rise in South Asia can be considered as the most significant incident in this region in the decade 1990s. China's influence in ASEAN, interests and capability is the major concern for India. In the 21st century, India has created very good strategic relation in the South Asian region as well China is also growing rapidly and entering to this area. So that automatically it became a matter of concern for both countries. China's relations with Pakistan are another concern for India. In Nepal, Sri Lanka, Pakistan and Bangladesh China has done massive Investments. Countries like Nepal, Sri Lanka were the good entity of India from very beginning, but gradually China is exploring those countries with the economic power.

India's vulnerable relations with some countries in South Asia are the plus point for China. With Sri Lanka In April 2005 China signed a agreement about the accessing the prize ports of Colombo. China is entering to the SAARC countries actively in recent years. In Bangladesh China established a naval Port. In Pakistan also China has build a naval port. In Chittagong India also wanted to build a naval port but China grabbed the opportunity. India and Bangladesh shares a tremendous

historical and nostalgic relation. But there also China is entering more strongly than India. The balance-of-power politics is very relevant in India-China relation about Myanmar. Myanmar is a buffer state between India China. China gave military assistance to Myanmar.

In the year 2000, the Mekong-Ganga Project was initiated by jointly India and ASEAN-5: they are Vietnam, Cambodia, Myanmar, Laos and Thailand. India is the member of BIMSTEC also and is involved in various activities with them. These projects are promoting cooperation in various sectors other than the trade. Tourism, culture, and education are being the medium of cooperative relations with India and South Asia. Gradually India is becoming the hub of soft power in South Asia. Indian culture is relating India to the most of the countries in South Asia. In September 2004, India declared that with ASEAN India will build a railway from New Delhi to Hanoi through Myanmar, Thailand, Laos, and Cambodia. India and ASEAN started joint military ventures also. With the strategic relation India started joint naval exercise with Vietnam, Japan, and South Korea. In 1991, India introduced look east policy. It was not only for economic concern rather it was also for security concern. China has an extraordinary military power and the relations of India and China is cold enough. On the other hand, India shares a continuous disturbing relation with another very next neighbour Pakistan and that is also on the territorial issue. China and Pakistan are two next door neighbour of India which shares a controversial relation with India. China strategically allies Pakistan so that they both can create the balance of power with India.

ASEAN's success is somehow bringing India and China nearby. Because may be because of competitiveness these two countries are involving in some common areas and sharing the common benefits of it. So that, they are also having some common liabilities and responsibilities for some areas. Both countries have the significant role in south Asia so both are very concerned about that. In these days no country very adopt any aggressive policy rather they prefer diplomatic relations in international relations. It applies on India-China relations also.

ii) India China and Taiwan

In 1950 India was involved with China and Taiwan issue. Taiwan was exiled from People Republic of China. In recent years Taiwan's government has spoke to India's leaders, government and nongovernment communities. but New Delhi has largely been focused on economic issues. India's trade mission in Taiwan was established in 1995 which is known as India and Taiwan founded the India-Taipei Association. The retired government officials were appointed to run that association .

Taiwan-India Cooperation Council was established in 2006. It was established with the intention to increase and encourage the Taiwanese business in India. It was observed that the software of India and the hardware of Taiwan were incredibly complementing each other.

Indian decision makers reject any notion of using the Taiwan issue as a way to distract or exercise leverage against China. They do note, however, that peaceful resolution of the Taiwan issue will be an important indicator of China's future direction as a peaceful international actor and have linked the way China deals with Taiwan with the way it will handle Tibet, an issue of more direct salience for India.

IV.9. Strategic Relations:

India and China both are the giant power of Asia and rising power of the world. They already have started to influence the international economy and international political affairs. Mutual understanding is growing day by day. China's GDP is larger than India's GDP. India and China are cooperating each other to acquire the massive economic growth. After 1962 war the relations between two were quite cold but gradually with the time they are running towards interdependence with each other.

Being the largest developing countries India and China shares various common interests. They have some common problems also in domestic and international sector. They both are growing rapidly, so that they are facing various problem to which they are not so familiar. Both have the problems like poverty, unemployment, economical misbalances etc. So that they both are not so much interest

in any conflict. Both want to concentrate on national development and economic growth. And besides that they want to acquire the international importance in regional and global both areas. In Asia undoubtedly they share the best positions but in global area they are little behind. For the regional importance both economic and strategic they want to cooperate with the countries of Asia as many as possible. In regional affairs they are eager to make good relations with all the neighbouring and collaborative countries.

India and China signed a joint declaration in 2003. It was bunch of Principles for Relations and Comprehensive Cooperation. India and China have cooperated in the creation of the G33 bloc at the World Trade Organization and promoted the cooperation in international trade.

Relations in Military Sphere:

In the military sphere, exchanges of senior military officials have become more regular. A naval exercise was held in East China Sea by Chinese and Indian navy in 2003 and 2005. A joint mountaineering training was also held in 2004. This was followed by joint mountaineering training in August 2004.

The then Defence Minister Pranab Mukherjee's visited to China 2006. A Memorandum of Understanding (MOU) was signed at that time about defence cooperation.

The opening of Nathu La pass in 2003 was a big decision. That worked as enzyme to India-China relations. By this decision the trust between the two countries increased rapidly. Indian pilgrims were obliged by this decision. At the both side of Nathula Pass in India and China some officials also appointed to maintain the communication of trade and pilgrims. This enthusiasm of both the countries effected positively to their realations. India government is already working in Tsomgo border by NH 31A. The West Bengal and Sikkim Government is working on it. Sikkim Government even took decision to make health centre, check post in Tsomgo. Tobacco, sugar, blankets, tea coffee, dry fruit, textiles, canned food, watches are the products which are traded through Nathula Pass. There was discussion on opening Zuluk La which had great

importance to connect Siliguri Kalimpong and Lhasa. For administrative delay this idea was slow down.

IV.10. Economic Significance of Border Trade

India-China border trade is the victim of bad communication and transportation. Tough climate is the very big reason for border trade crisis. Himalayan extreme nature is the hurdle for the mass people to trade. It is very tough to create good road communication at that region. The ponies are very much used as the carrier. The place is mainly accessed by military and Hindu pilgrims of India. For these reason the trade of this region is very poor. The negligence of the officials is another reason of it. This area is not normally used by the mass people for its extreme nature, for that trade is also not so much promoted here like other place which easy for transportation.

Yatung, Gyantse, Phari, Gartok, Taklakot, Gyanima-Ebargo, Gyanima-Chakra, Ramura, Dongbra, Poling, Nabra, Xigaze and Tashigong these market places of Tibet were connected by Nathula in the past (Baruah,A. 2003). Other mountain passes were seasonal. So that Nathula Pass was very crucial for trading from the early days. T is important to both sides and that is always proved from the past history. So the opening of Nathula Pass created various nostalgia, and expectation to the people of both the countries.

From history the Silk Rout was very important for trading of India and China. According to India's Ministry of External Affairs official statistics for year 1998, when the nuclear explosion in Pokhran was done by India the border trade of India and China was badly affected but after that gradually India China border trade was increased by INR 52 million.

One commentator indeed outlines five-fold economic benefits that are likely to accrue from opening of Nathu La pass. These include –

- a. **The two-way trade:** The North-East India is most suitable area through which India-China border trade can be improved and flourished.

- b. Supply of Intermediate products:** India has become a new hub of intermediate products for China. India's raw materials are very much important for china's production of plastic, polymer etc. So these area can be focused by both India and China.

- c. Exports of Agricultural products:** This region is agricultural zone. The agricultural and forest products are dominant here. So that improvement in agro products trading is very important here. Agro-industry is the most suitable for this region.

- d. The third-world markets:** Partnerships and joint-venture collaborations are very helpful to the third world countries. The regional cooperation also improves by that.

- e. Tourism and Travel:** Tourism in this region is the main attraction. Because of the natural beauty and Himalayan grace the tourism is the most accessible business here.

Chapter V

CONCLUSION

V.1. A neo-realist assessment on the Political and Economic Relations

In the India china relationship territorial issues were very crucial like Arunachal Pradesh. Both the countries showed strong deterrence to make the relation stable. In neo-realist aspect military assets creates uncertainty rather the stability. According to neo-realist scholars this security dilemma about Arunachal Pradesh is a matter of concern. Both India and China have the tendency to keep deterrence at that point. Although these things are happening India and China still are the threat to each other. This is one of the reason of uncertainty of their relations. Uncertainty induces the security dilemma. Many times it is reported that there was some tensions at the India China border which effects the relations of India and China. Regarding this military based security balance always is big concern because single mistake of any of them can cause big scar in the bilateral relation of the two countries.

The probability of war is always there and for that the military power is settled there very tightly by both the countries. In that case economic power can't go beyond military power, and military power became stronger between them.

Many perspectives of India-China bilateral relations prove the relevance of Balance of Power theory. Firstly, the competition in South Asia and other regions between India and China, and they both try to make better relations with the countries of this region. As more allies they can have they will be stronger than other. According to neo-realism this is a zero-sum game, capability can change the structure.

Both the countries are interested in agreements. According to Neo realism this is risky. Because a violation of the agreement can make a big problem to both and India-China War 1962 is the biggest example of that. Over laws and morality the states are always keen to seek power in international politics. India and China can never trust completely to each other so they prefer to depend on the agreements.

The trade relations between India and China have a big importance to keep the peaceful environment. According to the scholars of neo-realism the India-China relations are competitive rather than cooperative toward each other. If we analyse India-China relations from every aspect like border issues, security issues it can be observe a big amount of mistrust. According to neo-realism states always struggle for power. So that India and China both have their own strategies to build the capabilities. Balance of power theory suggests that India and China should consider them as rivals to each other.

V.2. A neo-liberal assessment on the Political and Economic Relations

According to neo liberals a mutual interdependence is growing between India and China which has created misbalances. But it is not like the usual tendency towards each other. By nature there not cooperative to each other like for oil diplomacy they are apparently competitor to each other but in Sudan they making cooperative and complementary relations. For both of them this is quite to maintain the friendship. A complex interdependence is The gradually taking place between them.

The attitude of the political leaders both India and China is changing. They arguing in favour of mutual benefits. The achievements on economic sphere are more important any other issues. Both the countries are keeping behind the conflicted areas from the discussion. They are more keen to make complementary relation with each other. They both have realised that the using force is neither any solution of problems nor the good for any country. So they going on way of negotiations and cooperation. They started believing the peaceful coexistence with each other. Various CBMs are the evidence of that.

The scholars of neo-liberalism observe the relation of India China as more cooperative than competitive in nature. Multiple settlements, mutual discussion, collaboration with various joint venture with India, the investments in India, foreign trade – these thing say that day by day India and China are involving with each other in the economic relations. The good will, diplomatic relations are very important for both them. India and China are the largest in Asia so they are eager to maintain the

rapprochement with the neighbouring countries through economic, diplomatic and strategic relations.

V.3. Analysis

The trade and economic cooperation have played very important role in the India-China relations. It cannot be said that to what extent trade and cooperation have made a change or abolished all the issues between India and China, but it is also true that it boosted both the countries and institutional progress, as well as encouraged to establish goodwill of solving issues.

India-China trade and economic relations have a huge contribution on the success of the 2003 and 2005 agreements. Those agreements are considered as the landmark in the India-China border dispute, and for the other relations as well.

According to neo-realist theory India-China relations over emphasises on the negative aspects of their relationship but the neo-liberal scholars look at this relationship from the positive perspective. The main differences between the interpretations by the two theories show the competitive and complementary relation between them. Neo-realism emphasises shows the perspective of competitive and conflicting nature of India-China relation whereas neo-liberalism shows the perspective of complementary and cooperative nature of India-China relation. Neo-realism emphasises on the important factors like border issue, but sometimes over emphasises the negative perspective. Neo-liberalists see the India-China relations as more cooperative rather than competitive in nature, as they argue for the change in attitude which is embraced by interdependence. This is a more appropriate observation of the India-China relations on the basis of the most recent developments.

V.4. Conclusion

This research has showed that neo-realist perspective is not being able to give account to change and not looking at positive processes of the relationships. This thing makes neo-realist perspective of current India China relationship is weak. This makes the neo-realist interpretation of the current India-China relationship is weak. It highlights that various prominent issues are there between India and China. The

relations are very vulnerable between India and China. The cold attitude towards each other is still remaining. The security issue, nuclear issue, border issue these are the area about what both the countries are very sensitive. appropriately addressed the trend and characteristics of the India-China relationship. It argues that India-China trade relation is more co-operative and complimentary with the mutual benefits. The Neo-realistic perspective wants to avoid the changes and pictures the competitive relationship. The border issue still exists as a constant disturbance in the relations between India and China and this is the most accurate analysis by neo-realist theory about India-China.

The economic cooperation is the main factor to prevent and reduce the focus from security related issues. It rather can be better with the establishment of various Confidence Building Measures. Many mutual interests are there between India and China. Trade is the most prominent among all these relations. Trade relations can compensate the previous bitterness.

It is difficult to say if economic relations have prevented any security issues from being raised or the trade directly reduced the probability of any other conflicts. However it is very clear that economic relations played a major role in stabilising India-China relationship. Thus this conclusion shows that the trade works as a platform which enhances a process which has a positive influence on India-China relations. Further in the India-China trade relationship is now moving to the friendly relations. They both have realised the positive side of the peaceful coexistence. But for that they are being too conscious to each other that they are avoiding all the conflicting issues. This is not a good decision for the future. This is only the short term solution. The scholars of neo-liberal theory say that interdependence will help to make a positive decision to each other.

With the common efforts of both sides, the main trends of India-China relations are running quite good in recent years. However, the mistrust between the two countries has still been quite an alarming problem with certain negative impact on their relations. The inadequacy of mutual trust between India and China has been manifested through the fact that the “China threat” theory has been raised once again in India in recent years. There are various factors are influencing the inadequacy of mutual trust between India-China. Some of them are the questions left over from the

past history while some are related to contemporary real politics. Thus, the situation has become badly complicated.

On the India-China border issue no major settlement has been achieved. From many years lots of visits and meeting happened between India and China. But that issue was untouched always. The effect of the India-China war is still remaining in the minds of both sides. Both have some mistrust and suspicion in their mind regarding the war especially on the border conflict. There is always resides a security issue between India and China.

Another matter of concern is economic gap is increasing rapidly. There obviously occurred a question of balancing of relations. The GDP, economic growth rate, the economic development are much larger in China than India. Trade balance is also increasing rapidly day by day. So that there is a natural concern comes before India. Although the trade gap is huge in figure but because of this the warmth between two countries is increasing and after all no country can be isolated in this era of globalisation so its better to have mutual relation with the strongest neighbour.

The matter of geopolitics is also very important in this context. Geo-politics play a vital role in India China relations. China is the largest in Asia and the very next neighbour of India. India and China both are concerned with the nuclear issue. China has stronger military and naval power than India and this is the matter of concern for India. On the other hand the nuclear weapon of India and nuclear tests create anxiety for China.

All those factors which are discussed above are interrelated together instead of being different to each other. So that, time and effort will be needed for healing the scar and both sides should make optimistic view towards each other rather getting a wrong conclusion on the overall relations between the two countries.

If both the countries give equal effort to make a warm relation to each other the cooperation between two countries will be definitely embraced. India-China relations have grown up in every aspect and that also in a very matured way. After that drastic war they two were detached for sometime but again they met very maturely and shared a stronger relation than before. Unlike India –Pakistan relations

India-China relation has growing up very positively and rapidly. It can be expected that in very near future the unresolved and conflicted issues will be sort with a healthy discussion between two countries. And they will make the stronger relation in every sector with love and faith on each other.

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