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# Historical Review of Sino-India Relation

*The Fact Sheet on India - China Relations.*

## ABSTRACT

*Sino-Indian relations are based on the five principles (Panchsheel) of peaceful co-existence. How this relationship will evolve as we enter the twenty first century, especially when China formally becomes the 143<sup>rd</sup> member of the World Trade Organization (WTO) is a strategic decision made by the Chinese Government, under the conditions of economic globalization. Marking the new stage of China's opening up this is an issue that has serious policy implication for India. It is possible that, given its size and growing economy, China may become India's major export market but it is also possible that, with its ambition to rapidly catch-up with the advanced economy of the world, China may soon challenge India's supremacy in technology and know how and become a rival instead of a partner. China has emerged as one of the Asia's most dynamic newly industrializing economies. In the decade following the reform China's real GNP grew at an annual average rate of 10 percent, up from an annual rate of 6.5 percent during 1970s. Although its economy slowed in the late 1980s due to the government anti-inflationary measures, it regained momentum in the early 1990s, achieving a 13.4 percent rate of growth in 1993. China's economy posted somewhat lower growth rate in subsequent year (nearly 12 percent) but not less than 7.8 percent even in the Asian crisis year of 1998. China has been a major recipient of foreign direct investment (FDI) with an inflow of 83437 cases worth US \$ 111 billion (on a contract basis) in 1993. The major investors in China were Hong Kong, Japan, Taiwan, Singapore and Korea. China is, in geographical and cultural sense with a potentially vast market for Indian products. Chinese Minister of Foreign Trade and economic co-operation, set a goal of 7 percent growth for China's total foreign trade volume in 2003. (Expected to hit 620 billion US\$ this year). This year China expected actual foreign investment to exceed 50 billion US\$. Minister also said that, about 400 out of the World's top 500 business giants had come to China adding that high-tech, capital intensive and service industries world luring more China's imports and exports one expected to increase three times to 2000 billion US\$ 2020.*

### 1. PREAMBLE

Although India and China had relatively little political contact before the 1950s, both countries have had extensive cultural contact since the first century A.D., especially with the transmission of Buddhism from India to China (see Buddhism, ch. 3). Although Nehru based his vision of "resurgent Asia" on friendship between the two largest states of Asia, the two countries had a conflict of interest in Tibet (which later became China's Xizang Autonomous Region), a geographical and political buffer zone where India had inherited special privileges from the British colonial government. At the end of its civil war in 1949, China wanted to reassert

- control over Tibet and to "liberate" the Tibetan people from Lamaism (Tibetan Buddhism) and feudalism, which it did by force of arms in 1950. To avoid antagonizing China, Nehru informed Chinese leaders that India had neither political nor territorial ambitions, nor did it seek special privileges in Tibet, but that traditional trading rights must continue. With Indian support, Tibetan delegates signed an agreement in May 1951 recognizing Chinese sovereignty and control but guaranteeing that the existing political and social system in Tibet would continue. Direct negotiations between India and China commenced in an atmosphere improved by India's mediatory efforts in ending the Korean War (1950-53).

When an Indian reconnaissance party discovered a completed Chinese road running through the Aksai Chin region of the Ladakh District of Jammu and Kashmir, border clashes and Indian protests became more frequent and serious. In January 1959, Chinese premier Zhou Enlai wrote to Nehru, rejecting Nehru's contention that the border was based on treaty and custom and pointing out that no government in China had accepted as legal the McMahon Line, which in the 1914 Simla Convention defined the eastern section of the border between India and Tibet. The Dalai Lama—spiritual and temporal head of the Tibetan people sought sanctuary in Dharmasala, Himachal Pradesh, in March 1959, and thousands of Tibetan refugees settled in northwestern India, particularly in Himachal Pradesh. China accused India of expansionism and imperialism in Tibet and throughout the Himalayan region. China claimed 104,000 square kilometers of territory over which India's maps showed clear sovereignty, and demanded "rectification" of the entire border.

Zhou proposed that China relinquish its claim to most of India's northeast in exchange for India's abandonment of its claim to Aksai Chin. The Indian government, constrained by domestic public opinion, rejected the idea of a settlement based on uncompensated loss of territory as being humiliating and unequal.

Chinese forces attacked India on October 20, 1962. Having pushed the unprepared, ill-equipped, and inadequately led Indian forces to within forty-eight kilometers of the Assam plains in the northeast and having occupied strategic points in Ladakh, China declared a unilateral cease-fire on November 21

and withdrew twenty kilometers behind its new line of control.

Relations with China worsened during the rest of the 1960s and the early 1970s as Chinese-Pakistani relations improved and Chinese-Soviet relations worsened. China backed Pakistan in its 1965 war with India. Between 1967 and 1971, an all-weather road was built across territory claimed by India, linking China's Xinjiang Uygur Autonomous Region with Pakistan; India could do no more than protest. China continued an active propaganda campaign against India and supplied ideological, financial, and other assistance to dissident groups, especially to tribes in northeastern India. China accused India of assisting the Khampa rebels in Tibet. Diplomatic contact between the two governments was minimal although not formally severed. The flow of cultural and other exchanges that had marked the 1950s ceased entirely. In August 1971, India signed its Treaty of Peace, Friendship, and Co-operation with the Soviet Union, and the United States and China sided with Pakistan in its December 1971 war with India. By this time, Beijing was seated at the UN, where its representatives denounced India as being a "tool of Soviet expansionism."

India and China renewed efforts to improve relations after the Soviet Union invaded Afghanistan in December 1979. China modified its pro-Pakistan stand on Kashmir and appeared willing to remain silent on India's absorption of Sikkim and its special advisory relationship with Bhutan. China's leaders agreed to discuss the boundary issue—India's priority—as the first step to a broadening of relations. The two countries hosted each others' news agencies, and Kailash (Kangrinbogê

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Feng) and Mansarowar Lake (Mapam Yumco Lake) in Tibet—the mythological home of the Hindu pantheon—were opened to annual pilgrimages from India. In 1981 Chinese minister of foreign affairs Huang Hua was invited to India, where he made complimentary remarks about India’s role in South Asia. Chinese premier Zhao Ziyang concurrently toured Pakistan, Nepal, and Bangladesh.

After the Huang visit, India and China held eight rounds of border negotiations between December 1981 and November 1987. These talks initially raised hopes that progress could be made on the border issue. However, in 1985 China stiffened its position on the border and insisted on mutual concessions without defining the exact terms of its “package proposal” or where the actual line of control lay. In 1986 and 1987, the negotiations achieved nothing, given the charges exchanged between the two countries of military encroachment in the Sumdorung Chu valley of the Tawang tract on the eastern sector of the border. China’s construction of a military post and helicopter pad in the area in 1986 and India’s grant of statehood to Arunachal Pradesh (formerly the North-East Frontier Agency) in February 1987 caused both sides to deploy new troops to the area, raising tensions and fears of a new border war. China relayed warnings that it would “teach India a lesson” if it did not cease “nibbling” at Chinese territory. By the summer of 1987, however, both sides had backed away from conflict and denied that military clashes had taken place.

A warming trend in relations was facilitated by Rajiv Gandhi’s visit to China in December 1988. The two sides issued a joint communiqué that stressed the need to restore friendly relations on the basis of the Panch Shila and noted the importance

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

As the mid-1990s approached, slow but steady improvement in relations with China was visible. Top-level dialogue port call by a Chinese naval vessel.

Substantial movement in relations continued in 1993. The sixth-round joint working group talks were held in June in New Delhi but resulted in only minor developments. However, as the year progressed the long-standing border dispute was eased as a result of bilateral pledges to reduce troop levels and to respect the cease-fire line along the India-China border. Prime Minister Narasimha Rao and Chinese premier Li Peng signed the border agreement and three other agreements (on cross-border trade, and on increased co-operation on the environment and in radio and television broadcasting) during the former’s visit to

Beijing in September. A senior-level Chinese military delegation made a six-day goodwill visit to India in December 1993 aimed at “fostering confidence-building measures between the defense forces of the two countries.” The visit, however, came at a time when press reports revealed that, as a result of improved relations between China and Burma, China was exporting greater amounts of military matériel to Burma’s army, navy, and air force and sending an increasing number of technicians to Burma. Of concern to Indian security officials was the presence of Chinese radar technicians in Burma’s Coco Islands, which border India’s Union Territory of the Andaman and Nicobar Islands. Nevertheless, movement continued in 1994 on troop reductions along the Himalayan frontier. Moreover, in January 1994 Beijing announced that it not only favored a negotiated solution on Kashmir, but also opposed any form of independence for the region.

Talks were held in New Delhi in February 1994 aimed at confirming established “confidence-building measures” and discussing clarification of the “line of actual control,” reduction of armed forces along the line, and prior information about forthcoming military exercises. China’s hope for settlement of the boundary issue was reiterated.

The 1993 Chinese military visit to India was reciprocated by Indian army chief of staff General B.C. Joshi. During talks in Beijing in July 1994, the two sides agreed that border problems should be resolved peacefully through “mutual understanding and concessions.” The border issue was raised in September 1994 when Chinese minister of national defense Chi Haotian visited New Delhi for extensive talks with high-level Indian trade

and defense officials. Further talks in New Delhi in March 1995 by the India-China Expert Group led to an agreement to set up two additional points of contact along the 4,000 kilometer border to facilitate meetings between military personnel. The two sides also were reported as “seriously engaged” in defining the McMahon Line and the line of actual control vis-à-vis military exercises and prevention of air intrusion. Talks in Beijing in July 1995 aimed at better border security and combating cross-border crimes and in New Delhi in August 1995 on additional troop withdrawals from the border made further progress in reducing tensions.

Possibly indicative of the further relaxation of India-China relations—at least there was little notice taken in Beijing—was the April 1995 announcement, after a year of consultation, of the opening of the Taipei Economic and Cultural Center in New Delhi. The center serves as the representative office of Taiwan and is the counterpart of the India-Taipei Association in Taiwan; both institutions have the goal of improving relations between the two sides, which have been strained since New Delhi’s recognition of Beijing in 1950.

The world’s two largest democracies - India and the US - go to the polls this year. But when it comes to political rhetoric about free trade and jobs, the contrasts are stark. While both Republicans and Democrats fret about the deracination of white collar America, Indian Prime Minister Atal Bihari Vajpayee launched an election campaign called “India is Shining”. Based on India’s stunning 8% economic growth in the last quarter of 2004, the campaign is characterised by its feel-good factor. Outsourcing plays a role in both elections.

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## 2. A BRIEF ON INDIAN ECONOMY

### Indian Fact Sheet

- | Largest democracy in the world population (billion +)
- | Liberalized policy regime
- | Large market and well developed distribution channels
- | Second largest GDP
- | Well developed, independent judiciary
- | Investment protection Agreements
- | Foreign Investment Implementation Authority

### Main Economic Highlights

- | Economy growing at 6% + for last 7 years
- | Average industrial growth f over 7% per annum in last 7 years
- | Gross domestic savings rate of 22%
- | Exports growing currency at 2-% and imports at 8%
- | Foreign currency reserves at \$40 billion

### Philosophy of Economic Reforms

- | Integration with the global economy
- | Welcome FDI
- | Dismantle controls
- | Undertake technology development

### Economic Reforms Initiatives

- | Privatization – large public sector
- | Market orientation – quality & price competitive
- | Financial sector reforms – banking, stock market & insurance
- | Regulatory authorities – telecom, banking, insurance
- | FDI encouraged

### Fdi Policy

- | 100% Automatic route for FDI
- | 100% FDI permitted in manufacturing, infrastructure & services like power, roads, highways, ports, hotel tourism, mining, film industry, warehousing,

- | consulting & management
- | automatic repatriation of capita and/or dividend

### Trade Reforms

- | Exim policy liberalized
- | Very few items under restricted / negative list
- | Average peak rate of tariff brought down to 35%
- | No more quantitative restrictions (QRs) on imports
- | Tariff reduction commitments ahead of schedule

### Indian Industry's Response To Increasing Competition

- | Changing mindset – learning to be competitive
- | Restructuring
- | Expanding and exploring new business lines (ICE, Airlines retailing)

### Growth Sectors

- | Information technology
- | Telecommunications
- | Hospitality/Tourism
- | Infrastructure – roads, ports
- | Energy – power, thermal, hydro, wind
- | Pharmaceuticals
- | Agro processing
- | Biotechnology
- | Financial services

### Why Invest in India?

- | Diversified resource base
- | Vast domestic market – 1 billion + people, the consumer class of up to 300 million
- | Well diversified industrial base
- | Well diversified infrastructure
- | Vibrant capital market
- | Fast expansion of consumer spending
- | Conducive foreign investment environment that provides freedom of entry investment, location, choice of technology import and export

**Trends in consumer Spending :**

- | Most important driver of growth
- | Consistent demand for consumer durables
- | Sustainable demand in the short term and expected to row in the medium term
- | Rural incomes expected to grow – will pump rural demand

**3. INDIAN ECONOMY AT A GLANCE**

**GDP:** \$576 bl.(2003); \$648 bl.(2004 est.).

**Real growth rate:** 8.2% (2003).

**Per capita GDP:** \$543 (2003); \$602 (2004 est.).

**Natural resources :** Coal, iron ore, manganese, mica, bauxite, chromite, thorium, limestone, barite, titanium ore, diamonds, crude oil.

- **Agriculture :** 22.7% of GDP. Products—wheat, rice, coarse grains, oilseeds, sugar, cotton, jute, tea
- **Industry:** 26.6% of GDP. Products—textiles, jute, processed food, steel, machinery, transport equipment, cement, aluminum, fertilizers, mining, petroleum, chemicals, computer software.
- **Services and transportation :** 50.7% of GDP.
- **Trade :** Exports—\$62 billion; agricultural products, engineering goods, precious stones, cotton apparel and fabrics, gems and jewelry, handicrafts, tea. Software exports. Imports—\$76 billion; petroleum, machinery and transport equipment, electronic goods, edible oils, fertilizers, chemicals, gold, textiles, iron and steel. Major trade partners—U.S., EU, Russia, Japan, Iraq.

<b>China : The Fact Sheet</b>	
Capital	Beijing
Geography	China is located in the Eastern Asia. Mountains, plateaus and deserts in west to plains, hills and deltas in the east.
Population	1,284,303,705 (July 2002 est.) Growth Rate - 0.87% (2002 est.)
Languages	Standard Chinese or Mandarin, Yue, Wu, Minbei, Minnan, Xiang, Gan, Hakka dialects & minority languages
Area	9,596,960 sq km. China is the world's fourth largest country.
Natural resources	Coal, iron ore, petroleum, natural gas, mercury, tin, tungsten, antimony, manganese, molybdenum, vanadium, magnetite, aluminum, lead, zinc, uranium, hydropower potential (world's largest)
Currency	1 Yuan = 10 jiao
Exchange rates	Yuan per US\$1 – 8.2767 (January 2002)
GDP – real growth rate	7.3% (2001 est.)
GDP – composition by sector	Agriculture 17.7% Industry : 49.3% Service: 33% (2001 est.)
Industries	Iron and steel, coal, machine building, armaments, textiles and apparel, petroleum, cement, chemical fertilizers, footwear, toys, food processing, automobiles, consumer electronics, tele communications Production growth rate – 9.9% (2001 est.)
Inflation rate (consumer prices)	0.8% (2001 est.)
Unemployment rate	Urban unemployment roughly 10%
Labor force	706 million (2000 est.)
Labor force – by occupation	Agriculture : 50% Industry : 23% Services : 27% (2001 est.)
Agriculture – products	Rice, wheat, potatoes, sorghum, peanuts, tea, millet, barley, cotton, oilseed, pork, fish
Exports	\$262.1 billion (f.o.b., 2001 est.) Machinery and equipment, textiles and clothing, footwear, toys and sporting goods, mineral fuels
Exports – partners	US 21% Hong Kong 18%, Japan 17%, Germany, South Korea, Netherlands, UK, Singapore, Taiwan (2000)
Imports	\$236.2 billion (f.o.b., 2001 est.) Machinery and equipment, plastics, chemicals, iron and steel, mineral fuels
Imports – partners	Japan 18, US 10%, Taiwan 11%, South Korea 10%, Germany, Hong Kong, Russia, Malaysia (2000)
Debt – external	\$169 million (June 2002 est.)

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#### 4. KEY ECONOMIC INDICATORS

Although China is still among the developing countries with a relatively low per capita income, it has experienced tremendous economic growth since the late 1970s. After stagnating for two decades under the rigid authoritarianism of early communist rule, China now has the world's fastest growing economic. In a recent report of Asian Development Bank, China's growth rate for the coming 2-3 years is predicted to be 8.5% and above. China's Gross National income according to world bank sources was 14116 US\$ bl. in 2003.

#### CHALLENGES FACING CHINA

China's challenge in the early 21st century will be to balance its highly centralized political system with an increasingly decentralized economic system. Also, China's economy, though strengthened by the more liberal economic policies of the 1980s and 90s,

continues to suffer from inadequate transportation, communication, and energy resources. However, since the 1980s, China has undertaken a major highway construction program and China is working hard on building up a world-class infrastructure. China's poor human development index highlights the economic disparity between urban China and the rural hinterlands. Human rights campaigners continue to criticize China for executing hundreds of people every year and for failing to stop torture. Other critical problems include corruption, which affects every level of society, and the growing rate of HIV infection. Another long-term threat to continued rapid economic growth is the deterioration in the environment, notably air pollution, soil erosion and steady fall of water table in the north. Tensions between a highly centralized political and an increasingly de-centralized economic system is also a cause of worry.

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