

INDIA AND CHINA: FORGOTTEN HISTORIES, COMPLEX PRESENT

Relevant for: International Relations | Topic: India - China

Trade ties between India and China, snapped after 1962, resumed in 1978

There are two faces to India-China relations, one involving a historical, civilizational dimension that linked our border regions with those on China's periphery, Xinjiang and Tibet, and the second a modern dimension largely devoid of emotional or humanistic context, but tied to present imperatives.

To illustrate the first dimension, 1954, the year when Panchsheel made its much-heralded debut, marked the conclusion of the Agreement on Trade and Intercourse between India and the Tibet Region of China, and also the first bilateral trade agreement between India and China. The Tibet Agreement, which was the first international agreement signed in Hindi, in addition to Chinese and English, entailed our relinquishing privileges inherited from British India, in Tibet and the creation of trade agencies for India in Yatung, Gyantse and Gartok in Tibet. An Indian consulate replaced the political mission in Lhasa. Six passes along the India-China frontier were specified as crossing points for border trade and pilgrimage. Border trade was significant to India-China relations at the time, even if there was no mutually agreed border. All this, of course, ended with 1962. The 1954 agreement on Tibet was buried even before the conflict. Border trade was revived, minimally, in 1991, but it is a pale shadow of its former self.

The tragedy in the Galwan River Valley besides signifying the diminution of bilateral trust also brings to mind what we have lost, over the decades, in terms of the ecosystem of human-level contact between our Himalayan regions and Chinese Xinjiang and Tibet. Once upon a time, Ladakh's contiguity with Central Asia and Tibet, made its capital Leh, the emporium of cross-border trade between India, Tibet, Central Asia and Afghanistan.

Caravan routes converged on Leh, and its connection with the Silk Route and Yarkand, Kashgar and Khotan in Xinjiang was through the Karakoram Pass, "the most important and long-established thoroughfare between India and Central Asia." (Warikoo, 1989). Kashmiri Muslim traders settled in Ladakh, monopolized trade with Tibet and Swedish explorer Sven Hedin was astonished to see their enormous wealth during a visit to Leh enroute to Tibet in 1906.

Trade with Xinjiang died out in 1949-50 with the entry of the People's Liberation Army. Ladakhi trade with Tibet was affected with the Chinese take-over of the region in 1950-51 and petered out by 1959. The border dispute between India and China has subsumed all else, with the additional complications created by China-Pakistan relations from 1963 onwards.

Trade ties between India and China, snapped after 1962, resumed in 1978. China's economic reform and opening up to the world brought phenomenal change within the country and generated huge global impact.

By 2010 it had become India's largest trading partner in goods (it has been overtaken by US and is at second position now). Trade volumes epitomize diversification of relations beyond the historical and political. It is for this reason that Galwan, even though a turning point, cannot be a breaking point. The Chinese ingress is not just across the Line of Actual Control, they have come into various sectors of the economy. A disentanglement, far less a decoupling, presents its challenges. A sober assessment is called for before we cut any Gordian knot.

The frustrations with China are not new. Our trade relationship is grossly imbalanced, coupled with justified grievance about China's reluctance to open sectors like IT and pharmaceuticals to Indian companies and its non-tariff barriers. Our imports from China in 2018-19 amounted to \$70.3 billion while our exports to China were \$16.7 billion for the same period. In a study for the Brookings Institute, China scholar and journalist, Ananth Krishnan notes that the growth of Chinese investments into India since 2014 has changed the nature of the transactional trade relationship. In his estimation, "total current and planned Chinese investment in India has crossed \$26 billion".

The sectors involved include manufacturing, infrastructure, energy, automobiles, consumer goods, and real estate. Starting 2016, Chinese capital has entered the technology sector through investments and acquisitions of Indian startups. Chinese tech giants Alibaba (in Paytm, Snapdeal, BigBasket, Zomato) and Tencent (Ola, Flipkart, Byju, Swiggy) are some entrants. Mobile phone company Xiaomi is another big investor. This points to a strategy of long-term presence and a significant stake in the Indian market, Krishnan notes.

These investments, driven by market compulsions, have escaped the scrutiny of the sort they are subjected to in the West. Chinese investment in critical sectors that impinge on national security deserves special scrutiny. A Gateway House study states: "Chinese funding to Indian technology startups is making an impact disproportionate to its value, given the deepening penetration of technology across sectors in India... China is embedded in Indian society, economy and technology ecosystem that influences it."

The dependence on Chinese goods is huge in India. Our Make in India revolution has not gathered critical velocity. Relocation of substantive supply chains, given the fact that these are located closer to final demand markets and China is a major such demand market, may not happen soon.

Bringing investment into manufacturing in India will be really successful only if we upgrade our infrastructure including ports, and improve labour productivity and ease of doing business. Our exit from negotiations to conclude a Regional Comprehensive Economic Partnership, at a time when we want to be a hub and work with countries in the region to relocate supply chains, creates a new set of complexities.

The trend toward economic nationalism within the country is another contradiction. There is need for more coherence, credibility and less of a muddling through in the building of our capacities. The slowing down of the economy and the special stress created by the pandemic are points to ponder. Whatever the outcome, we cannot stand to lose more than we gain in any steps we take to address the agitated public mood in the wake of the recent confrontation. Act with reason and with full awareness of the consequences.

The India-China relationship straddles a wide spectrum. A land border, among the longest in the world, remains to be mutually agreed upon between the two countries, and spells a protracted contest. The closed-door approach of the Chinese that has cut off all ties between our Himalayan regions and Tibet, ties that were people-centered, has compromised the historical, geo-civilizational dimension of these relations. On the other hand, the phenomenal growth of trade and investment ties is the modern, impersonal, face of this relationship.

The stakes involved impact India's economic well-being but national security concerns cannot be ignored. The choices to be made are not easy, but difficult times such as these should spur the national resolve to make the necessary adjustments and craft rational responses.

Nirupama Rao, Former Foreign Secretary & Ambassador to China

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