

China's Economic Diplomacy towards South Asia

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ABSTRACT: South Asian region is very vital in China's foreign policy. China shares common borders with three South Asian countries and both have historic good relations from the establishment of Han dynasty. China has good trade relations with all South Asian states and their relations are based on good neighboring policy. China's economic role in South Asia is beneficial for the economic development of the region. Among all South Asian states, India is on top in term of trading with China. Both are increasing their bilateral relations by taking different CBMs and are treating each others as Most Favored Nations. China's Bilateral trade with Pakistan is also highly significant and is on second after India. China is investing massively in Pakistan on different projects i.e. Gwadar port, Mekran Highway, Saindak project electricity projects and development of Railway system. Currently, bilateral economic relations between China and Bangladesh are not in favor of Bangladesh. China is taking different measures for increasing trade relations and investing massively in industrial sector for boosting trade. Sri-Lanka is on third in term of trade with China and both countries concluded many pacts for the development of trade. For fast supply of goods banking sectors of both countries signed agreement on the construction of Colombo-Katunayake Expressway. In Nepal, Maldives and Bhutan China is countering Indian influence. China is working on increasing economic ties with Nepal and Maldives while Sino-Bhutan relations are not good due to border issue between them. Presently, China is working on enhancing trade relations and countering Indian influence. On the other hand, Afghanistan as eighth South Asian nations is crucial for China in term of resources. China is increasing its economic influence in Afghanistan and participating in the reconstruction of war-torn country.

In contemporary scenario, South Asia reveals a vast attractive and sometimes painful picture. South Asia gives challenging contradictions of different religious beliefs, languages, civilizations, and races. However, as a region, it presents typical and apparent characteristics. Boundaries of South Asia are clearly defined due to vast chain of mountains. These mountains distinguish it from the western side from Afghanistan and Iran, on northern side from Tibet and Central Asia and on Eastern side from China and Burma.¹ In International Relations, South Asia is emerging as an important region. Globally, this region is most important for United States, Russia and China. Interests of United States and Russia are clear in this region but China's interests are very vital and everlasting. In terms of geography, Karakorum, Himalayas and Hindukush split it with whole of Asia. Due to strategic location of the region, many great powers not only show their interests in the region but also interfere in domestic affairs of many South Asian countries. It has its borders with East Asia and West Asia, which is further increasing great powers' interests in the region.² After gaining autonomy from colonization, South Asian region faced many wars in comparison with other regions. It is a living place of billions of people and consists of Seven Sister states: India, Pakistan, Bangladesh, Nepal, Bhutan, Maldives and Sri Lanka.³ In 2005, Afghanistan was included as eighth South Asian country. Many great civilizations of the world came into being in this region. In 1985, leaders of these seven sisters met in Dhaka and showed to the world that there exists a spectacular region, called South Asia.⁴ Among the world's great powers, China has the closest border with South Asia.⁵

China is a rising power having close borders with South Asia. Due to this close border contact, its policies have great impact on the region. China's peaceful rise, instead of regional hegemony, is making its relations better with small South Asian states. China's economic and military rise is not decreasing its role in South Asia.⁶ Sino-South Asia Historic Link

¹ Paramanand, *Political Development in South Asia*, (New Delhi: Sterling Publishers, 1988), p. 1.

² Ramakant, *China and South Asia*, (New Delhi: South Asian Publishers, 1988), pp. ix-xi.

³ V.A Pai Panandiker and Navnita Chadha Behera, *Perspectives on South Asia*, (New Delhi: Konark Publishers, 2000), p. 36.

⁴ *Ibid.* p. 12.

⁵ Makbool Ahmad Bhatti, "China and South Asia", *Strategic Studies*, Vol. XXIII, No. 1, Spring 2003, p. 90.

⁶ Makbool Ahmad Bhatti, *Great Powers and South Asia: Post-Cold War Trends* (Islamabad: Institute of Regional Study, 1996), p. 8.

Historically, China's people considered themselves as superior and thought of their country as Middle Kingdom. They called aliens as barbarians. In the second century, when Han dynasty came into power in united China, it developed business relations with South Asia with Jibin (Kashmir). These relations were established via Central Asia. This Han dynasty gave the idea that the areas of Upper Burma, Kashmir and Assam shaped the portion of Chinese ethereal empire. After a period of insecurity and uncertainty, formal relations were observed when, in India, Gupta Dynasty came into power in 428 AD.⁷

China and South Asia historically enjoyed good relations and are positioned at the junction of many other regions. Silk Route, along with many alternatives paths, has developed business, commercial and societal relations between China and South Asia. Along with this, development of Bodhidharma in China was another vital side of these relations. China welcomed Buddhist and after some time China supported Buddhist from India to flourish in China. In 4th and 5th centuries, another beckon came from India and China's response to it largely enhanced cooperation and interaction between two regions. Approximately for thousand years, this factor, culturally affected history of the world and these effects were also felt in adjoining regions. The way of life and the civilization of Asian people were an important factor in bringing Chinese people and South Asian people so close and with the passage of time their relations became profound. Historically, China and South Asia are linked with three land routes i.e. Central Asia, Kashghar and Pamirs. These are important routes for political and commercial relations between China and South Asia. Population of China and South Asia is more than 40 percent of entire world's population, having some common borders, strong economic relations, same historic culture, usually exchangeable trade and the like. China and South Asia relations can be understood in terms of South Asia strategic location. It is understandable that future of world power will be in Asia. Therefore, every powerful country follows the same policy to enhance cooperation and gain influence over this region.⁸ China shares its borders with many South Asian countries i.e. India, Pakistan, Bhutan and Nepal. Historically, both shared most of their culture which is the cause of interaction between two parts of the world's heavily populated neighbors in many ways.⁹ China and South Asia have historical interactions and their ancient relations may track back to the spread of Buddhism. After passage of time, Islam also reached China and also Western part of China has traditional links with Muslim states of South Asia, Central Asia and West Asia. Modern interaction developed between two regions, after World War II. In 1947, many South Asian countries got sovereignty and PRC emerged on the map of world in 1949, after civil war.¹⁰

China's Economic Diplomacy towards South Asia

China's economic role in South Asia will be beneficial for the progress and consistency of South Asian region. China's massive economic growth will give much space to South Asian goods in Chinese markets.¹¹ China's policy towards South Asia can be understood through its periphery strategy which focuses on different changing atmospheres and on progress in bordering areas. In 2002, when new government came into power its basic strategy was to maintain peace in the country and to develop friendly relations with neighbors. Currently, China is making a fast development in terms of economy, which is favoring its neighbors and this development also relies on neighbors. Due to two reasons, South Asia is important for China. Firstly, China wants stability within state along with peace in bordering areas. Secondly, China's interaction with neighboring states is necessary in order to enhance trade. China's vital interest is to maintain peace and consistency in South Asian region, because without it no further interest can be gained. In the present scenario and competitive South Asian environment, China adopts comprehensive strategy to advance its role in South Asia and better engagement with its neighboring countries. For that purpose, there is a necessity to look from historical experience because any change in South Asia would greatly affect China's policy towards South Asia.¹²

South Asia can play a vital role, being China's trade route, for China has a border link with South Asia. In 2001, China's trade with other countries, through western border, was estimated to be 15.29 billion dollars which was 3.3 percent of China's total trade. Due to strategic significance of Western region, China can improve its trade link with South Asia and other countries. Other than this, through this area, China can find viable markets for its products in the world. South Asian region has capacity to provide a big market to Chinese

⁷ Maqbool Ahmad Bhatti, "Evolving Chinese Perceptions towards South Asia", *Regional Studies*, Vol. XII, No. 4, Autumn 1994, p. 4.

⁸ Muhammad Ramzan Ali, "China-South Asia Relations in A Changing World", *Regional Studies*, Vol. XXII, No. 4, Autumn 2004, pp. 77-78.

⁹ Maqbool Ahmad Bhatti, "Evolving Chinese Perceptions towards South Asia", op.cit. p. 3.

¹⁰ Maqbool Ahmad Bhatti, "China and South Asia", op.cit. p. 90.

¹¹ Hu Shisheng, "China's South Asian Policy and its Regional Impact", *Institute of Regional Studies*, (South Asia and Major Powers) 2004, p. 321.

¹² Zhao Gancheng, "China's South Asia Policy: Balancing and Stability", *Current Affairs*, January 2006, pp. 18-19.

products. Currently South Asia has the population of 1.3 billion and among them 200 million is belonging to middle class. Chinese goods have cheap price in comparison with other countries' products and are within the buying power of many people. This fact is attracting many Chinese businessmen to enhance their business in South Asia, because South Asia has sufficient space for Chinese goods. In the early period of 2002, China's export towards South Asia was measured to be 42.6 billion dollars, whereas South Asia's export towards China was 22.80 billion dollars. During that period, China gained benefit of 30 percent more than its requirement.¹³ China's economic role was actively observed in South Asia in 2008 after international economic recession as compared to the past.

An important goal of China's foreign policy towards South Asia is to create peace through which it can maintain its economic growth. Like other regions in South Asia, China is using different forums on common issues like ASEAN, SCO and SAARC etc. On broader level, major objective of China foreign policy is to increase cooperation in all areas, especially in economic, military and political dimensions. In China's foreign policy, friendly relations with South Asian countries are necessary not only to secure itself from hostile neighbor but also to secure its economic and political objectives.¹⁴

Presently, China is maintaining highest economic growth in the world, which shows that China is economically stable. According to many scholars, China's economic growth is giving its positive perception to the world. Regarding its massive development and relations with North and South-east countries, China is stressing on peaceful regional situation because it is important for China's economic growth. To maintain this, there is a need of proper strategy to find new global markets for more goods and gain control over more energy and raw materials. One aspect of China's Western development strategy is to maintain good relations with South Asia, to fulfill economic targets. In western side, China has close border with some South Asian countries: like Xinjiang has close border with Pakistan and Afghanistan and from Tibet side China has border with India, Nepal and Bhutan. China's western part is economically backward and development of this part forces China to develop warm friendly relations with South Asian countries.¹⁵ Despite having border conflicts with almost all South Asian states, China has enhanced its bilateral economic ties with regional countries with respect to peaceful co-existence principle.

China and South Asia Economic Ties

India is the largest country of South Asian region. India is an economic giant in region which has attracted the USA and China as well. Therefore, China and India have strong strategic partnership in terms of strong economic ties. Despite territorial dispute India is among first ten China's trading countries. In the early years of 21st century, trade between two countries rose continuously up to 30% per year. Currently, China is on first in terms of trade with India and both have signed many bilateral trade agreements for improvement in relations.¹⁶ Both countries are members of World Trade Organization and treating each other as Most Favored Nations. Both are focusing on Free Trade Area. Along with this, border import and export has appeared as a main Confidence Building Measure in their relations. In 2005, India's asset in China was measured to be 339 million dollars which shows better economic relations between India and China.¹⁷ A group study was organized in 2004 on bilateral business and economic collaboration. It was the best effort for restoring Confidence Building Measures and in the report of this group there were many practical proposals for facilitation of trade. Many state owned companies of both countries are working in each other's country and strengthening bilateral economic relations.¹⁸

Furthermore, China is extending its economic influence with small countries of South Asia to mitigate Indian hegemonic designs. Pakistan is the second biggest and Bangladesh is the 3rd major trading countries for China in this region currently. Pakistan and Bangladesh were two parts of a country only before 1971. On the first hand, having well diplomatic ties with Pakistan, economic bilateral relations started after signing first trade agreement in 1963. In the 1980s, both exchanged business cooperation after one sided China's economic assistance to Pakistan. Bilateral trade grew tremendously during first quarter and later in 1997, Pakistan's 53 percent trade was with China amounted to 338 million dollars. Trade between two countries was increasing 1

¹³ Hu Shisheng, op.cit. pp. 310-312.

¹⁴ Muntazir Ali, "China as a Factor of Stability in South Asia: Problems and Prospects", *Pakistan Horizon*, Vol. 63, No. 3, July 2010, p. 69.

¹⁵ Parama SinhaPalit, "China's Soft Power in South Asia", S. Rajaratnam School of International Studies Singapore, (8 June 2010) pp. 11-12, Available on <http://www.rsis.edu.sg/publications/WorkingPapers/WP200.pdf> Access on 7-10-2012.

¹⁶ Hu Shisheng, op.cit. pp. 317-318.

¹⁷ Swaran Singh, "China-South Asia: Changing Contours", pp. 2-3. Available on <http://www.ndu.edu/inss/symposia/pacific2006/singhpaper.pdf>. Access on 7-10-2012.

¹⁸ Parama SinhaPalit, op.cit. pp. 12-13.

billion dollars per year and Joint Economic Commission conducted their meeting on regular basis in the capital of both countries.¹⁹ Basic objective of China's economic assistance was the industrial development of Pakistan. After dismemberment of Pakistan in 1971, China gave massive economic aid to Pakistan and developed good ties with Bangladesh as well. In the post-Cold War era, China itself developed economically but its economic ties with Pakistan declined as compared to defense relations. China has heavily invested in different projects in Pakistan. For instance, in 2001, after top level exchange of visits in 2001, China gave 1 billion dollars assistance to Pakistan for the development of "Gwadar port, Mekran Highway, Saindak project electricity projects and growth of Railway system". Since 2000, China announced 90 billion dollars infrastructure project for its Western Xinjiang region development aimed China will develop a road link with Central Asia and Pakistan through this region.²⁰ In the field of trade relations, trade of 7 billion dollars was observed in 2008. Free trade agreement, which was signed in 2006, provided a greater opportunity to all Pakistani goods in China. Pakistan is expecting from China an investment in electric supply sector to meet the demands of power. In terms of business, China invested 500 million dollars to introduce Zong trademark and 1.7 billion dollars in mobile sector for telecommunication development and production of job opportunities to Pakistani citizens. Currently more than 10,000 Chinese are working in different departments of Pakistan, doing their business which is a clear example of strong economic interaction.²¹ China is providing technical and training assistance in agriculture sectors to Pakistani peasants by signing various agreements. Pakistan is also exporting marble, cotton and steel to China. As the result of Global recession of 2008, China faced 13.9% fall in its global trade as whole but its trade with Pakistan fell only to 2.9% in 2009. China's overall export fell to 16% but only 7.7% with Pakistan. Due to Free trade Agreement, China's imports with Pakistan increased to 25.3% more during the same period.²² From 2002 to 2011, Pak-China annual trade rose from 1.9 billion dollars to 6.9 billion dollars and both sides are expecting to reach 15 billion dollars, in 2014.²³

Table 1 China's Trade with Pakistan

Year	Value of Exports In million dollars (\$m) OR billion rupee (br) OR in billion dollars (\$b)	Value of Imports In million dollars (\$m) OR billion rupee (br) OR in billion dollars (\$b)	Total Value In million dollars (\$m)) OR billion rupee (br)
1990-91	1.36 br	9.9 br	11.26br
1992-93	1.80 br	10.92 br	12.72br
2005	3427 \$m	833 \$m	4260\$m
2006	4239 \$m	1007 \$m	5246\$m
2007	5780 \$m	1105 \$m	6885\$m
2008	5974 \$m	1006 \$m	6980\$m
2009	3779 \$m	1258 \$m	5037\$m
2010	5.5 \$b	1.3 \$b	6.8\$b

Sources: Maqsudul Hasan Nuri, "China and South Asia in the 21st Century", *Regional Studies*, Vol. XVII, No. 4, (Autumn 1999), pp. 3-5; China's trade to Pakistan in 21st century, Available on http://www.issi.org.pk/publication-files/1299822989_45060000.pdf; Adnan Rehmat, "Sky Wars: Pakistan, India and China", *The Dawn*, May, 24-2012

On the other hand, China-Bangladesh bilateral trade was estimated to be 55.5 million dollars in 1996-97 whereas trade declined in 1998-99 up to 11 million dollars due to high trade deficit. Different levels of discussions between two countries were arranged to study reasons of this deficit, but required results were not attained because of less practical steps.²⁴ After successful experience of 2002 trade relations, in 2004, China's exports to Bangladesh increased to 42.8% more than 2003 amounted of 1.9 billion dollars. Moreover, in the same period, Bangladesh's exports to China were increased to 70.7% reached 57.01 million dollars. In 2005,

¹⁹ Maqsudul Hasan Nuri, "China and South Asia in the 21st Century", *Regional Studies*, Vol. XVII, No. 4, (Autumn 1999), pp. 3-5.

²⁰ Maqbool Ahmad Bhatti, "Pakistan's Perspective on China's South Asia Policies and Their Impact on Regional Security and Economic Development", in *Major Powers and South Asia*, (Islamabad: Institute of Regional Studies, 2004), pp. 364-365 (Seminar Proceedings).

²¹ Parama SinhaPalit, op.cit. pp. 13-14.

²² Ismat Sabir, Pak-China Trade Relations Reaching New Heights, *The News*, March, 22-2010.

²³ Adnan Rehmat, "Sky Wars: Pakistan, India and China", *The Dawn*, May, 24-2011.

²⁴ K. Santhanam and Srikanth Kondapalli, *Asian security and China, 2000-2010* eds., (New Delhi, Shipra Publication, 2004), pp. 337-339.

China was the largest importer for Bangladesh.²⁵ Additionally, China invested in industrial sector of Bangladesh. It gave massive aid to fulfill trade deficit, sent different business delegations to Bangladesh and also promised for purchase of different goods. In contrast with India and Pakistan, China's economic relations with Bangladesh are not very good.²⁶ According to an official of Bangladesh, both countries are working together to increase trade by solving issues jointly. In 2006, bilateral trade increased to 28.5% in comparison with last year and reached on high level of 3.19 billion dollars. Both did a trade of more than 53 million dollars to escalate economic ties.²⁷ China is top trading country for Bangladesh. From 2002 to 2008, the trade between two countries increased from 1.1 billion dollars to 4 billion dollars. Bilateral balance of trade is in the favor of China.²⁸ China is among those countries which gave economic support and interests free loan to Bangladesh. In 2000, China gave assistance of 140 million dollars for development of industry. China also showed its willingness to help in different water projects. In 2002, China provided assistance of 7.25 million dollars for the construction of bridges. Over many years trade between China and Bangladesh is increasing rapidly.²⁹ Moreover, China assisted for the construction of China-Bangladesh Centre in Dhaka by the loan of 25 million dollars and six bridges in different areas of Bangladesh including Munshiganj Bridge amounts of 20 million dollars. In 2002, after visit of Bangladesh's Prime Minister to China, both countries signed different agreements in the fields of electricity, agriculture and telephone exchanges. China showed its willingness for providing loans for the construction of a 250 megawatt project in Khulna. Many Chinese companies invested in the business of fruit, paper, cloth, fist and etc. Bangladesh showed a friendly behavior for all these Chinese investments.³⁰

Sri Lanka is the third largest exporter country of China presently but trade interaction between two countries is not on high level. At regular basis, China-Sri Lanka economic ties had been started since 1952 by signing an agreement under which China imported rubber from Sri Lanka and in response Sri Lanka imported rice from China. This agreement was signed at a critical time when the delivery of strategic material along with rubber was prohibited by many states. Two more economic agreements were concluded in 1982 and 1984 respectfully under which two combined groups were shaped as Sri Lanka-China Joint Commission and the purpose of this commission was to increase bilateral trade and economics. With Sri Lanka 390 labor services pacts were concluded which amounted to 387 million dollars from 1982 to 2001.³¹ In 1990, bilateral trade was measured to be 125.6 million dollars which was doubled in one decade and in 2000, it reached to 256.2 million dollars. While in 2008, bilateral trade grew with the increase of 1.1 billion dollars and total bilateral trade was estimated to be 1.67 billion dollars after gradual increase. For fast delivery of goods, an agreement of construction of Colombo-Katunayake Expressway and an airport was signed between the banks of both countries amounted of 284.2 million dollars in August 2009. For the construction of container port, 361 million dollars agreement, with soft term interests, was signed between companies of two governments. For the construction of Hambantota and different other projects Sri Lankan government requested for help from China and China accepted the request.³²

Despite historical contacts since 5th century, China and Nepal established diplomatic relations on 1st August, 1955 and both enjoyed friendly relations on five principles of Peaceful Co-existence. After resolving their territorial conflict in 1961, both countries share 1414 km border. Both countries supported each other on several international matters with the passage of changing political environment. In 2002-03, both countries' officials visited each other and signed different political and economic agreements. In economic ties, their trade is increasing every passing year. China is investing in Nepal to reduce Indian influence and extend its own. Many Chinese capitalists showed their interests in investment like in readymade garments (pashmina),

²⁵ Urvashi Aneja, China-Bangladesh Relations: An Emerging Strategic Partnership? IPCS Special Report 2006, pp. 5-6, Available online: http://www.fairbd.net/Files/1635130748IPCS_Special_Report_33.pdf Access on 9-10-2012.

²⁶ Urvashi Aneja, op.cit. pp. 6-7.

²⁷ China Grants over USD 10 mn Aid to Bangladesh, *The Economic Times*, 23 July, 2007 Available on <http://economictimes.indiatimes.com/china-grants-over-usd-10-mn-aid-to-bangladesh/articleshow/2226462.cms>. Access on 7-10-2012.

²⁸ Khaled IqbalChowdhury, "Bangladesh-China Relations: A Summit Preview", BIPSS Special Report, pp. 3-4, Available online http://www.bipss.org.bd/download/bsr_bcr.pdf Access on 9-10-2012.

²⁹ K. Santhanam and Srikanth Kondapalli, op.cit. pp. 336-337.

³⁰ Sreeradha Datta, op.cit. pp. 765-767.

³¹ Nishchal Nath Pandey, "China's Core Interests, Policies and their Impact on S. Asia Countries (A Nepalese Perspective)", in *Major Powers and South Asia*, (Islamabad: Institute of Regional Studies, 2004), p. 334.

³² Nilanthi Samaranayake, "Are Sri Lanka's Relations with China Deepening? An Analysis of Economic, Military, and Diplomatic Data", *Asian Security*, Vol. 7, No. 2, (2011), pp.123-127.

restaurants, civil construction, electronics, hotels, nursing home, hydropower, radio paging services and etc. Good environmental condition of Nepal and China serves their will for further investment. According to Federation of Nepalese Chambers of Commerce and Industry, unofficial cooperation between Nepal and China is also encouraging Chinese investments.³³

Table 2 Bilateral trade between China and Nepal

Fiscal Year	Value of Exports in Thousands Rs (tR)	Value of Imports in Thousands Rs (tR)	Balance of Trade in Thousands Rs (tR)
2005/06	108168	6635507	-6527339
2006/07	54507	12514258	-12459751
2007/08	736405	22255845	-215119440
2008/09	1847934	32852910	-31004976
2009/10	1008696	39218203	-38209507

Source: <http://www.fncci.org/text/all.pdf>

In the past bilateral relations between China and Nepal were not as high as desired. The balance of trade was not in the favor of Nepal. There are four factors of it. First, government of Nepal imposes strong rules on Businessmen of Nepal, regarding opening business relations with China. It is because of poor and insecure road link which is a problem in-time supply of products. Secondly, personal or autonomous trade is not encouraged between Nepal and Tibet except proper business trade. Third, Nepali businessmen are reluctant to trade because of communication problem along with no insurance policy. Fourth problem the Nepali businessmen are facing is high taxes on import and export from North and they need permission for trade with Tibet from government. Officials of both countries signed different agreements for enhancing bilateral trade through borders and in order to increase trade, both countries are discussing alternatives ways.³⁴

Maldives (Chinese called Maldives as Liushan Guo or Liuyang Guo) got independence from British rule with the help of China. After establishment of diplomatic relations on 14th October 1972, senior officials of both countries visited each other. In 1981, both countries started their cooperation in the fields of technology and business. Both established direct trade relations in 1982 and after that, different Chinese companies signed different projects with Maldives. According to an estimate, in 2001, total cost of Chinese different projects in Maldives was 46.37 million dollars and their income was 40 million dollars. Trade and economic cooperation between two countries is not significant. China's major export to Maldives consists of rice and the goods of regular use. Major China's trade with Maldives is through Hong Kong and Singapore routes.³⁵ Both states support each other on political issues as well. On China's policy towards Taiwan, Maldives is supporting China and both have same view on maximum regional and international issues. On the other side, China is supporting Maldives in the field of economics, technology, education, house building projects, construction of Foreign Office, national museum, massive support after tsunami disaster and culture etc. After development of economic relation till 2002, trade between two countries was not significant and their trade volume was 2.977 million dollars. Trade between two countries was increased when China's imports from Maldives were increased and reached the total of 17.354 million dollars and export reached 0.584 million dollars. Trade balance between two countries is in the favor of China. In past few years, an increase in exchange of trading activities was highly observed.³⁶

Due to Bhutan's strategic location, it plays an important role in developing Chinese and South Asian business relations. In the South of Himalayas, Bhutan is a small state with little interests in other countries. Along with Cultural Revolution, China's military involvement in Tibet was the cause of Bhutan's developing relations with India and disturbing relations with China. China-Bhutan border agreement faced trouble due to China's suspicion of India's enlargement strategies along with racial ills of Bhutan. First conflict on border between China and Bhutan rose in 1966, when Chinese military claimed on 300 square mile area of Bhutan. Later on, Bhutan wanted to settle this issue with India's involvement but China diplomatically wanted a bilateral settlement of this issue without the involvement of India. In 1971, China, as recognition of Bhutan as a sovereign state, gave vote for Bhutan membership in United Nations. This friendly response of China did not affect Bhutan and the latter supported India in favor of Bangladesh which disturbed Sino-Bhutan relations. In spite of Bhutan's favor for India, China supported Bhutan. Along with this, to break Bhutan ties with India,

³³ <http://www.mofa.gov.np/bilateralRelation/nepal-china.php>. Access on 8-10-2012.

³⁴ K. Santhanam and Srikanth Kondapalli, op.cit. pp. 323-325.

³⁵ Embassy of the People's Republic of China in the Democratic Socialist Republic of Sri Lanka, <http://lk.china-embassy.org/eng/Maldiveseng/t173943.htm>. Access on 9-10-2012.

³⁶ Embassy of Maldives in China, <http://www.maldivesembassy.cn/Maldives&china.asp> Access on 9-10-2012.

China supported some groups of insurgents who were against Bhutan's policies towards India. In 1984, Chinese government was successful in conducting direct bilateral talk with Bhutan's government on boundary issue.³⁷ Both countries initiated talks on border issues but still diplomatic relations could not be developed between the two and bilateral trade is very low.³⁸ Presently, China is struggling not only to maintain strong influence in Bhutan but also working to take it out of its historic dependence on India.

In 2005, Afghanistan is included among seven South Asian countries which is extremely under-developed country with extreme poverty, unemployment and unfortunate infrastructure. Currently, more than 90 percent of Afghan budget is based on foreign assistance. In 2001, after the creation of political government in Afghanistan, China emerged as a major player in the redevelopment of war-torn country. Initially in January 2002, China promised to give the aid of \$150million for the reconstruction of Afghanistan.³⁹ In the beginning, China gave economic assistance to Afghanistan on different projects which include 10 million dollars for Parwan irrigation project and for a hospital in Kabul. Moreover, China gave human resource training to more than 800 different officials of Afghanistan and also gave technical training to local Afghan people in different departments. In 2003, China gave the grant of \$15 million after signing Economic and Technical Cooperation Agreement.⁴⁰ Later on, China emerged as a vital economic player in Afghanistan. Then in 2009, it provided 75 million dollars as economic aid.⁴¹ From 2002 to 2010, China gave economic assistance of 205.3 million dollars and 19.5 million dollars as debt to Afghanistan. In 2011, China gave free aid of 23.7 million dollars to Afghanistan⁴².

In 21st century, China emerged as the biggest trading partner of Afghanistan and in its first nine years bilateral trade between two countries reached \$250 million from \$25 million. This was considered to be a very strong trade development yet it was mediocre and unilateral. Majority of official trade comprised of Chinese electrical products. These were offered on cheap prices. But as far Afghanistan, its official export to China was recorded to be only 2.235 million dollars in the year of 2009.⁴³

Afghanistan's government is interested in enhancing bilateral trade with China, importing technological items. It is expected that this would boost up after the stabilization of Afghanistan.

Table-3 Trade between Afghanistan and China, 1999-2008

Year	Chinese Exports value in Million Dollar (\$m)	Chinese Imports value in Million Dollar (\$m)	Total
1999	16.68	2.90	19.58
2000	19.89	5.40	25.29
2002	19.92	0.08	19.99
2003	26.45	0.61	27.06
2004	56.97	0.95	57.92
2005	51.21	1.56	52.77
2006	100.47	0.19	100.66
2007	169	2	171
2008	152	3	155

Source: Avinash Paliwal, "Silent Game: China's Engagement in Afghanistan", *Observer Research Foundation*, Issue Brief no. 31, (August 2011), p.3.

³⁷ Swaran Singh, "Sino-South Asian Ties: Problems and Prospects", *Strategic Analysis*, (25 April 2008), pp. 44-46.

³⁸ <http://www.state.gov/r/pa/ei/bgn/35839.htm> Access on 9-10-2012.

³⁹ Zhao Huasheng, "China and Afghanistan: China's Interests, Stances and Perspectives", *Center for Strategic & International Studies*, (March 2012), p. 5.

⁴⁰ <http://www.fmprc.gov.cn/eng/wjz/zjg/yzs/gjlb/2676/t15822.htm>. Access on: 11/8/2012.

⁴¹ Avinash Paliwal, op.cit., p. 3.

⁴² Zhao Huasheng, op.cit., p. 6.

⁴³ Jeff Reeves, "Does China's Afghan Foreign Policy Constitute a Grand Strategy?", *Defense Concepts*, Vol. 5, Ed.4, (2010), pp. 30-31.

From 1999 to 2008, trade between China and Afghanistan reached \$155 million from \$19.58 million, which makes China the biggest trading partner of Afghanistan.⁴⁴ While in 2011, bilateral trade was estimated to be about \$234 million, Afghanistan's export being just \$4.4 million.⁴⁵ In such a short period of time, this was considerably a huge improvement. But, it remains minimal, being only one sided. China's export consists of cheap electronic items.⁴⁶

Table 4 China's Bilateral Trade Relations with Major South Asian Countries

Bilateral relations	Trade concessions given by China to South Asian Countries	Products of exchange	Important Measures to improve relations	Problems in bilateral trade Relations
China-India	Being the largest trading country in India, China reduced India's taxes on trade from 400 to 87 percent from 2000 to 2005.	India's exports raw materials etc while China is exporting regular use products, industrialized products and electric products.	Many institutions made efforts for the promotion of friendly bilateral relations. 2006 was declared the year of friendship and 2007, the year of tourism. They have also signed many trade agreements.	Trade deficit and low price of Chinese products in Indian markets is threatening Indian business
China-Pakistan	Free Trade Agreement provides an opportunity for peaceful settlement of problems regarding trade products. There is a Free Trade Zone between both countries which will provide an opportunity to increase their import-export and their foreign investment.	In the 21 st century, Pakistan is exporting steel, marble, chromites and cotton, in return, China is exporting heavy machinery and many other things to Pakistan	China is showing great interest in mining and agricultural sector of Pakistan. China has signed different agreements with Pakistan to providing support in different fields	Through Karakoram Highway and Gawdar Port, China has important position to further increase its economic presence in Pakistan along with benefit.
China-Bangladesh	China gave tax free access to 84 products of Bangladesh. In Asia-Pacific Free Trade Agreement, China lifted trade tax on importing products from Bangladesh and received the good news of an aid of \$ 10.5 million from China. She provided Bangladesh with loans for the construction of a factory, a research centre, a hand-crafted cloth industry, a plastic industry, water plants and telephone exchanges with digital technology and a container port.	China's exports to Bangladesh are plastic, mineral products, communication parts, aircrafts, vessels and related equipments, textile products, rubber, arms, and vehicles. Bangladesh's exports to China comprise of leather, shrimps, fish, raw jute and jute yarn, camera parts.	China is improving bilateral business relations with Bangladesh. China supports Bangladesh in the building of infrastructure like roads, electricity plants, irrigational reserves and several natural gas plants. China provided Bangladesh a help of 60 million dollars to build Diammonium Phosphate plant	Trade Deficit
China-Sri Lanka	The biggest Chinese investment in Sri Lanka estimated to be \$ 1.4 billion, with soft term loans, is the construction of Hambantota's seaport and electricity plant in Puttalam.	Sri Lanka exports mainly ready-made garments, natural rubber, tea, sea foods, precious and semi-precious gems	Chinese investment in Sri Lanka was the development of Mirigama Exclusive Economic Zone with the amount of 28 million dollars in June 2009.	Trade Deficit

Sources: Sudhir Kumar Singh, *Sino-Indian relations: Challenges and Opportunities for 21st Century*, eds., (New Delhi: Pentagon Press, 2011), p. 380. Maqbool Ahmad Bhatti, "Pakistan's Perspective on China's South Asia Policies and Their Impact on regional Security and Economic development", in *Major Powers and South Asia*, (Islamabad: Institute of Regional Studies, 2004), pp. 364-365 (Seminar Proceedings), K. Santhanam and Srikanth Kondapalli, *Asian security and China, 2000-2010* eds., (New Delhi, Shipra Publication, 2004), pp. 337-339; China grants over USD 10 mn aid to Bangladesh, *The Economic Times*, 23 July, 2007 Available on <http://economictimes.indiatimes.com/china-grants-over-usd-10-mn-aid-to-bangladesh/articleshow/2226462.cms>. Access on 7-10-2011; Sreeradha Datta, "Bangladesh's Relations with China and India: A Comparative Study", *Strategic Analysis*, Vol. 32, No. 5, (September 2008), pp. 765-767; Nilanthi Samaranyake, "Are Sri Lanka's Relations with China Deepening? An Analysis of Economic, Military, and Diplomatic Data", *Asian Security*, Vol. 7, No. 2, (2011), pp. 123-127.

⁴⁴ Jeff Reeves, op.cit., p. 30.

⁴⁵ China's Hu sees regional role in Afghanistan, Available at: <http://www.reuters.com/article/2012/06/06/us-china-russia-hu-afghanistan-idUSBRE85504T20120606>, Access on: 12/8/12.

⁴⁶ Jeff Reeves, op.cit., p. 30.

In sum, China is economically developing with a want to continue its economic growth. China is giving importance to South Asia in its foreign relations. Both have their ancient time relations and are interacting with each other. Due to China's economic development and peaceful rise, China has become important for South Asian states. China is developing economically; its industry is growing tremendously and leading all the industries of the world. So, in order to fulfill growing demand of its industry, China is trying to look towards South Asian states. China wants to exploit natural resources from this region to continue its industrial growth. In the near future, China and South Asia will collaborate through regional organization to promote economic interdependence and integration.

China's policy towards South Asian region is based on five principles of peaceful coexistence. China is trying to resolve all issues with all South Asian nations through peaceful means. Basically, China wants stability in its neighborhood because secure borders can support economic growth of the country. Moreover, China is giving different kinds of assistance to South Asian nations for increasing of trade relations. China is also participating in different projects of South Asian nations. Presently, China is an observer in SAARC and through this forum South Asian nations can improve their economic condition with the help of China. In addition, China can also improve political relations with these nations through SAARC.

In current international environment, China is emerging as power which is giving challenge to US hegemony in the world. In South Asian region US has cordial relations with India in South Asian region and it is giving support to India for countering China's progress. In many South Asian states, India has its influence which is disturbing China's relations with these states. In spite of this, China has good trade relations with India because China wants to develop cordial relations with India which is one of the purposes of its foreign policy.