

**CHINA'S BORDER TRADE WITH SOUTH ASIAN COUNTRIES,
1991-2012**

*Dissertation submitted to Jawaharlal Nehru University
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DECLARATION

I declare that the dissertation entitled China's Border Trade with South Asian Countries, 1991-2012 submitted by me for the partial fulfilment of the requirements for the degree of Master of Philosophy of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this University or any other University.

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*Dedicated to
My dear Jogam, Mark, Marmeen their Ayo, Ato and
my Nyite kaken*

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Basar



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List of Abbreviations

TAR- TIBET AUTONOMOUS REGION

XUAR-XINJIANG UIGHUR AUTONOMOUS REGIO

US- UNITED STATES

WDP-WESTERN DEVELOPMENT PROGRAMME

PBWM-PROPEROUS BORDERS WEALTHY MINORITIES

PRC-PEOPLES REPUBLIC OF CHINA

SCO- SHANGHAI COOPERATION ORGANISATION

ASEAN- ASSOCIATION OF SOUTH EAST ASIAN COUNTRIES

Chapter 1

Introduction

I. Background:

The rise of China in the 21st century has been one of the most salient features of International Relation (Yufan and Chou, 2011: 2) and her rise to a position of international wealth and influence is being felt nowhere more immediately than along her borders. As China today is consolidating its land borders and beginning to turn outward (Kaplan: 2010: 22-41), there is a marked process of nation building to the outer limits of its territorial sovereignty and extend its trade-oriented model for economic growth (Freeman, 2011: 2).

As China has a diverse geography, being both land power and sea power (ibid: 2). It is one of the longest combined land border in the world, measuring 22,147 km (13,743 miles). China shares its border's with 14 nations compared to more than any other country except Russia, which also share its borders with 14 other countries (refer map.1). China extends across much of East Asia, bordering Myanmar, Vietnam and Laos in Southeast Asia; India, Bhutan, Nepal and Pakistan, Afghanistan in South Asia; Tajikistan, Kyrgyzstan and Kazakhstan in Central Asia; Russian Altai and Mongolia in Inner Asia; and the Russian Far East and North Korea in Northeast Asia (Stephen Kotkin: 2012: 3-10). The geographical proximity, habits, customs and religious beliefs and similar languages show that social and economic exchanges along her borders go as far back as 2000 years and have undergone a complicated process of development (ESCAP/UNDP Report RAS/92/035:3).

China has been advocating that 'peace' and 'stability' in the world in general, and in its neighbourhood in particular are crucial for her growth (White paper on China's foreign trade, December, 2011). To address these issues China had been endeavouring 'good neighbourhood policy' since 1950s with 'five principles of peaceful coexistence'. In the 1990s as well, this policy had been revived as an instrument in its 'soft power diplomacy' and intended as a cushion to the hard rise of China in its neighbourhood. So in order to actualise this process since the 1990s,

China has been entering negotiations to resolve its disputed land borders, usually by offering concessions and accepting less than half of the disputed territory with each party (Fravel and Medeiros, 2003: 26). China has been fairly successful in her endeavour of formalising her land borders with neighbours, only remaining land border dispute with India and an undefined border with Bhutan remains to be completed (Elleman and Schofield, 2013: 4).

Nevertheless, for creating conditions of domestic stability and building a 'well off society' by 2020, China is now advocating Peaceful Development Model (PDM) (as the 16th Party Congress resolved in 2002 and continued in seventeenth Party Congress in 2007). As such there is now better understanding among the Chinese leaders that due to geographic and historic reasons the economies of border areas have been underdeveloped and the living standards of the people remain low especially in the western region of China. So they are advocating that border areas ought to evolve and become frontiers and conduits that absorb the economic energy of emerging neighbours and thus started the strategy of balanced development known as '*Xiaokang*' (UNDP and CCETE/MOFCOM Project report 2006-2010: 3). China's policy discourse now puts more emphasis on cooperative and peaceful intentions (Ingrid d' Hooghe, 2010: 19) by stressing common prosperity, common development or win-win cooperation with her neighbours (Newman and Morgenstern, 1944). In this context, a new glaring component of China's new foreign policy is economic diplomacy with developing countries especially among her land bordering neighbours.

This chapter examines the rationale and scope of the study and provides an analytical framework of the study. The chapter emphasize on the Chinese as well as international views on the border trade issues and study various trade theories to explain interdependence among different countries. The chapter details the review of the literature which is organised in a thematic structure, the hypothesis, methodology adopted and the outline of the dissertation.

Map No. 1 China and Her Neighbouring Countries



Source: Maps of Asia, University of Texas Libraries, University of Texas, USA.

II. Literature Review

There are abundant literatures available on China's relation with her neighbours. The border disputes and consequent impact on its bilateral relation with her neighbours especially with India, then Soviet Union and Vietnam have been extensively written. While there are limited number of literatures on trade with smaller neighbours like Nepal, Bhutan, Laos, and Central Asian nations etc. Also, there is abundant literature available; how cross border influences and factors are affecting its domestic politics especially in the peripheral provinces. For instance, the activities of the separatists (XUAR and TAR) which are based in the neighbouring countries like the Uighur insurgents groups, the Tibetan movements led by the exiled leaders etc. But there is dearth of literature which may indicate how these factors may be a factor in the border trade dynamics. In addition to this, there is lack of literature to prove how China's 'good neighbourly policy' initiatives are translated in terms of border trade engagements as much of the current literature on Chinese foreign policy and interdependence is based on qualitative research. Though studies showcase rich analyses of how interdependence shapes and constrains Chinese foreign policy, but do

not unearth a systematic relationship between the levels of interdependence and political relations between China and her neighbours.

Nevertheless, the available literature provides wholesome picture of the entire gamut of China's engagement with her neighbours. As the focussed analysis on her domestic and international challenges and opportunities vis-a-vis her geostrategic dynamics, helps us to comprehend the present trend of China's policy formulations towards her periphery. For the purpose of this study, the literature review has been organised in a thematic structure.

However, David C. Kang (2003) reminds us that several of the theories in international relations are inductively derived from European interactions of the past several hundred years. It is not clear whether these theories are generalizable to Asia given its very different political economy, history, culture, and demographics. Kang finds that these theories do a poor job when applied to Asia (Masterson, 2012: 6).

Liberal Approaches of Understanding Borderland Interdependence

Liberal literature indicates that the interests of both individuals and states are affected by a host of factors at the domestic and international levels. At the domestic level, factors like the nature of economic and political systems, patterns of economic interactions, and personal values may play decisive role. At the international level, presence of factors like technological capabilities, patterns of interactions and interdependencies, transnational sociological patterns, knowledge, and international institutions allow states to affect each other in different ways.. Liberals are of the view that given the pervasiveness and wide influence of the network of international institutions it would be naive not to integrate it into an overall conception of the international system. These ideas can be traced back to Locke, Rousseau and Kant. As per as the specific interests of the states are concerned, liberals accept that state survival and autonomy are important. Unlike the realists who believed that existence of a hegemonic (dominant) power is a prerequisite to cooperation, the liberals are of the view that cooperation can be achieved through non-coercive bargaining based on identification of mutual interests. Their optimism about increased cooperation based on mutual interest emanates from a strong belief in the mutuality of interests, which they think will keep growing with increased interdependencies and the spread of democratic values.

Realist and Neo-Realist Approach Based Literature on China

Munro, Ross H (2006) argued that China's insistence on 'soft borders' policy was never just an instrument to help accelerate China's economic growth, nor was it aimed merely at binding its land neighbours' economies to China's. It was also quite consciously an instrument aimed at increasing China's influence in bordering countries. Also he argued that due to surge in strategic latitude coincided with the resurgence in the early 1990s of China's unprecedented economic take-off now PRC is adopting a highly ambitious strategy of regional domination that recalled the traditional tributary state system. A newly self confident China quickly understood that, absent the Soviet bloc threat, it had much to gain and little to fear from the countries on its border. Virtually all of them were poor and saddled with moribund economies that were no match for China's. He is also predicting that most neighbouring regions were sparsely populated while most of China's border regions were densely populated thus China would in many aspect, the legal aside, would absorb or permeate the foreign bordering areas.

Mark Beeson (2010) talking about the "asymmetrical regionalism: China, Southeast Asia and Uneven Development" argued that the sheer scale of China's economic expansion leaves its smaller neighbours with little choice other than to adjust to material reality. He also argued that 'China's policy of negotiated multilateral cooperation is a rational policy in China's self-interest rather than self-sacrificing generosity'. James C. Scott notes, and Bernard Formoso (2010) argued that since the end of the Second World War 'the power of the state to deploy distance demolishing technologies has changed the strategic balance of power between self-governing hill peoples and nation-states'.

Ruang Zhongze (2001) argued that 'the main characteristics of China's peripheral diplomacy are to establish a foothold in Asia and look forward to the world.... China is required to look to look at its relations with peripheral country with strategic viewpoint'. Zheng argued that China will not act aggressively because China's rapid economic development depends on having a stable and peaceful environment. While Zheng anticipates that it will be 45 years before China achieves an acceptable level of economic development and per capita income. He doesnot say what happens after that. Anna Moraczewska (2010) argued that it is the state that usually adapts its border functions to its foreign policy optimum and political regime. Border crossing process maybe more or less controlled by the state to manage its borders as a fundamental role

of making peace and order in its inner and outer environment and the border to make the limits of state sovereignty.

Border Trade and its Role in International Relations

People engage in trade-relation for their better life and even in International relations, maximum theories give importance to trade. The historical records show that many Asian and European countries were exchanging goods through Silk Route (Paul Lunde, 1988: 4). Moreover, International trade plays an important role in the economic development of many developing and developed countries, which is also considered as a source of growth.

However the importance of trade, capital and labour movement and foreign aid assume different degrees with the change in location, time and purpose. The role of border trade and its significance as such depend upon several factors, which otherwise may be very much different from the voluminous overseas trade. Different nations across its border behave very differently according to their own conceptions and perceptions about their neighbours, especially across the land borders.

International Trade Theories and Border Trade

There are various literatures available on international trade theories viz., classic trade theories, new trade theories, new economic geography theory and border effect theory to explain the benefits of international trade for different countries and also explains the pattern of International trade in the world economy.

During the 17th and 18th centuries the economic doctrine of mercantilism prevailed, largely in the Europe and the West. The doctrine of mercantilism was nationalistic and viewed the well being of the nation to be of prime importance. It favoured the regulation and planning of economic activity as an efficient means of fostering the goals of the nation, and viewed foreign trade with suspicion and advocated that countries should simultaneously encourage exports and discourage imports. The main tenant of mercantilism was that it was in the countries best interests to maintain a trade surplus, to export more than import. In doing so a country could accumulate more gold and silver, consequently its national wealth and prestige.

Classical Economist Understanding of Trade

18th century Smith emphasized the role of individual over that of the state and attacked mercantilism. Famous notion of the 'invisible hand' individual only intend to advance their own welfare. 19th century David Ricardo (1772-1823) also further developed Smith's ideas in his own concept of 'comparative advantage' and argued that State should produce and export only those good that they can generate at a lower cost than other nation which produce more efficiently. Adam Smith argued in his famous book, "*The wealth of Nations*", in 1776 that trade is beneficial because of differences between countries in the costs of producing different goods. Like all of his contemporaries, Smith held to a labour theory of value, according to which the cost producing a good value was given by the labour time required to produce it. Therefore the differences in the costs of producing a certain good in different countries reflected differences in labour efficiencies in each country. However, rather than each country striving to produce all the products which they could, each should concentrate on those products in which they enjoy a cost advantage over other countries (core competencies of each country).

Modern Theory of International Trade

According to Swedish economists Eli Heckscher (in 1919) and Bertil Ohlin (in 1933) the comparative advantage of a country arises from differences in national factor endowments. Nations have various factors of endowment and different factors of endowment explain difference in factor of cost. Heckscher-Ohlin theory predicts that countries will export those goods that make intensive use of factors that are locally abundant, while importing goods that make use of factors that are locally scarce. The enquiries based on these theoretical parameters would help in finding out the divergence or adherence to the basic premises as followed by China while conducting border trade with her neighbours.

With the advent of new trade theory in 1980s, there was significant impact on traditional theory. New trade theory brought in monopolistic competition, economies of scale, trade barriers both tariffs and non-tariffs. This theory view that for integration in trade, if impeding factors are reduced it will stimulate trade resulting to changes in international pattern of production specialization. Similarly, now there is surge of new economic geography theory that focus with uneven distribution of

economic activities since there is varying intensity of accessibility with the disposition of factor endowments.

Now there seems gradual shift in the approach to border trade with the evolution of border effect theory which was developed by McCallum (1995). This theory defined border effect as a phenomenon due to physical boundary between geographical spaces which diminishes the amount of trade of products leading to increase in price discrepancy between two geographical spaces. Border effects are widely accepted to represent the limitation of economic integration between regions no matter what cooperative initiatives they participate in.

Contemporary views on Border Trade

Based on his work on the USA–Mexico border, Oskar Martinez developed a much-cited four-phased typology of borderlands, ranging from ‘alienated’ to ‘integrated’, reflecting the nature of the political and physical interaction between the governments and peoples on each side of the border (Martinez, 1994). Sarah Turner (2010) attempted to expose the artificial nature of the border, its porosity, and the means by which local residents creates opportunities as supply and demand for goods in Sino-Vietnam border. Ricardo believed that free trade ‘binds together, by one common tie of interest and intercourse, the universal society of nations throughout the civilised world’ (Ricardo 1911: 114). Conflicts were often caused by states erecting barriers which distorted and concealed the natural harmony of interests commonly shared by individuals across the world. The solution to the problem, argued Adam Smith and Tom Paine, was the free movement of commodities, capital and labour. ‘If commerce were permitted to act to the universal extent it is capable, it would extirpate the system of war and produce a revolution in the uncivilised state of governments’ (Howard 1978: 29). Beth A. Simmons argued that international borders are usefully conceptualized as international political institutions that provide joint gains for the polities whose jurisdictions they distinguish. Far from irrelevant in an age of globalization, settled political borders help to make economic integration possible. Brantly Womack (2001) argued that border trade is an activity on the periphery of the national economy, and therefore its contribution is easily overlooked. In a large country like China, border trade will not be a prominent aspect of national well being, but its contribution will be beneficial in general and irreplaceable in border regions.

Definition of Border Trade from International Perspective

There is no standard definition of cross border trade in International Relations, as well as Foreign Policies. The definition given by World Bank is widely accepted among the scholars. The World Bank defines, “cross-border trade” as the flow of goods and services across international frontiers within an area of up to 30 kms (The World Bank. 2007: 4). Border trade is counted as a portion of legal trade of national import and export activities. In the Political Economy it is a special section due to its specific characteristics: market proximity, variation of goods and services and vulnerability to governmental intervention (Gilpin, 2010: 129).

The geographical proximity, including market proximity, is the most important characteristic of border trade which generates many consequent advantages, such as reducing transaction costs, relieving administration processes and shortening lead-time to market. A wider variety of products is also a common motivation for cross-border trade that attracts merchants and traders.

Chinese views on Border trade

China defines border trade as developed over time due to the different understanding at different economic development stages (Lu. J H: 1988: 7). During the time of Deng Xiaoping, China was undergoing through economic reform. China liberalised its economic system from Planned Economy Systems towards a Market Economy System. In 1980s, border trade was defined for the first time as ‘frontier trade’ (petty trade no more than a certain amount of money within certain commodity categories in certain markets between people living in bordering regions within 15 km of each side of the border), and the trading commodities were required to be daily life necessities (Tianjin University of commerce, 1980).

China state council defines that referred to border trade are seen as ‘petty trade in border cities and towns’ in which the local inhabitants and companies have to take the whole responsibility of their trading activities, of their profits and losses on their own’ in economic terms (China State Council, 1984). Lu also put forwarded an academic definition, which defined border trade as international trade activities between citizens, folk’s organizations, companies, governments and other institutions of two neighbouring countries.

Recently, China Foreign Exchange Department (2009) defines border trade as ‘petty trade’ between citizens living in bordering regions (within 20 km of each side of the border). It’s an exchange activity under a certain amount of money within certain commodity categories of legal markets, as well as international economic and technological cooperation in border regions to encourage international trade.

III. Rationale and Scope of the Study

China is facing problems with her peripheries in both domestic and international level. Three evils like Separatism, Extremism and Splitism are seen as the big problem in the domestic level. On the other hand “China Rise”, is being seen as the China threat towards its neighbor in the international level, in the International Politics. The three evils tendencies are primarily felt in the frontier areas of China which are inhabitant by different ethnic minority groups like Uyghur and Tibetan etc., who considered them to be left behind in terms of socio-politico-economic parameters in comparison to the prosperous coastal areas dominated by Han majority (Minority Rights Group International Report, China: Minority exclusion, marginalization and rising tensions, 2007: 18-26).

So the present study is primarily an enquiry into the China’s grand design of opening up its border for trade with her neighboring countries for overcoming the two objectives of maintaining a peaceful frontier, as well as good neighborly relations. But China’s approaches of border trade engagements with different land bordering neighbors have been not consistent. Certain countries tend to have more border trade like Vietnam, Myanmar etc., while other countries like India etc., in spite of lot of potentials tend to have lesser border trade. Thus, this study of China’s border trade with the countries of South Asian would help in understanding the overall dynamics of China’s politico-economic dynamics of creating peaceful peripheries through border trade.

As discussed above China has been advocating that ‘peace’ and ‘stability’ in peripheries is crucial for her growth (White paper on China’s foreign trade, December, 2011). The present Chinese leadership has been consistently pursuing a policy of ‘Harmonious World’ (*hexie shijie*) (Hu Jintao, 2005) and ‘peaceful rise’ (*heping jueqi*) (Zheng Bijian, 2003) especially with her land bordering neighbors. Thus it becomes pertinent to observe how China is evolving her policies to achieve

these objectives through engagements in the border? As China's geopolitical considerations provide China with myriad of opportunities and challenges. The opening of border for trade in this regard may prove to be a very crucial and significant medium for actualizing such a grand schemes of things. So the rationale of my study is to ascertain the efficacy and significance of the border trade in creating peaceful peripheries and good neighbourly relations.

IV. Delineating the Time Frame and the Topic

The time frame for the study has been chosen from 1991 to 2012. After July 1989 Tiananmen Square incident and in the aftermath of WTO sanctions, China was isolated from various trades Agreement and it became the primary task for China's diplomacy to overcome this isolation. So the Chinese leaders revived the "good neighbourliness policy" (Hu Jintao, 2005) in the early part of 1990s. Secondly, the Soviet (USSR) disintegration in 1991 provided China with an ample of scope to influence her neighbouring countries. Thirdly the rising economic profile especially during early 1990s provided China with a lot of incentive for improving the relations with her neighbours economically. The reason for choosing China's border trade with South Asian countries are primarily due to the following factors;

- 1) The South Asian countries namely; Afghanistan, Pakistan, India, Nepal and Bhutan share border with China's Tibetan Autonomous Region (here after TAR) and Xinjiang Autonomous Region (here after XUAR). These two regions are underdeveloped in comparison with the prosperous eastern regions and are infested with the problem of three evils (separatism, extremism and splitism). These problems inter alia, are at times linked to South Asian countries by China. For instance the Tibetan movement led by Tibetans based in India and Nepal. Also Uyghur separatists are having bases in Pakistan and are providing support to the activities to insurgents in XUAR. These issues have direct impact on overall bilateral relation in general and border engagements in particular.

- 2) The nature of relation among China and her neighbouring South Asian countries are not uniform and a general conclusion cannot be drawn in the right earnest. This may be ascribed to different level of bilateral relations and

engagements. As such it would be very interesting to study China's different approaches of border engagements with each country comparatively.

The scope of the present study is limited to three areas

- i. Border trade for development of the peripheries (domestic dynamics).
- ii. Border trade for creating better neighborly relations (foreign policy dynamics)
and
- iii. Border trade and its economic dynamics.

IV. Research Hypotheses

In this study, I will test the following two Hypotheses;

- a) China is aggravating her domestic problems in Xinjiang and Tibetan Autonomous region by opening its border for trade with South Asian countries,
- b) China's border trade with South Asian countries is not helping in dispelling the China threat perceptions among these countries.

V. Research Questions

1. Does border trade stabilize peace?
2. Is China providing concessions to its neighbors in border trade to actualize its policy of peaceful development?
3. Is China's policy of opening the borders for trade helping in mitigating domestic issues like three evils?
4. Is border trade in China creating modernization of its frontier areas?
5. Is border trade enhancing China's soft power credentials?
6. Is external threat or western encirclement policy is an imperative for China's policy of better border relations with her neighbors?
7. How the expansion of economic space through border trade would affect the domestic socio-economic and political condition in the peripheries?
8. Is China's overall relation with any particular country an impetus for conducting border trade?

VI. Methodology

In this study deductive approach is employed for a detailed analysis. Based on the hypotheses, four sets of variables are used. In this study, the independent variable is border trade and dependent variable is peaceful development. The two intervening variables are “good neighbourliness policy” and “peaceful peripheries”. The dependent variable form the basis for enquiry in this study; the intervening variables, the good neighbourliness policy and Peaceful peripheries are employed for better analysis. For the purpose of the study, Government white papers, trade statistics, keynote addresses, speeches, official statements of all the concerned governments would be referred. Apart from books and journals, newspaper articles and TV programmes and documentaries are used.

VII. Outline of the Dissertation

Chapter 2: China’s Policies and Perceptions on Border Trade

This chapter examines the historical evolution of China’s border trade policies in the light of China’s overall perceptions for securing and stabilizing her peripheries are discussed in detail.

Chapter 3: China’s Border Trade with India and Nepal through TAR

In this chapter a brief sketch of geostrategic location of Tibet Autonomous Region (TAR) and its consequent influence on border trade are described. The historical factors, Central Government Policies towards TAR in the light of western development campaign and possible impacts thereof on border trade are analysed and discussed in detail. Further border trade through TAR with India and Nepal is discussed on the basis of above parameters.

Chapter 4: China’s Border Trade with Pakistan and Afghanistan through XUAR

In this section, geostrategic location of Xinjiang Autonomous Region (XUAR) and its consequent influence on border trade are explained. The historical factors, Central Government Policies towards

XUAR in the light of western development campaign and possible impacts thereof on border trade is analysed and discussed in detail. Further border trade through XUAR with Pakistan and Afghanistan is discussed on the basis of above parameters.

Chapter 5: **Conclusion**

This chapter provides a holistic assessment of China's border trade policy dynamics and then impact on China's relations with her neighbours. Besides, it concludes with findings on the central theme of the dissertation by way of testing the hypotheses.

Chapter II

China's Policies and Perceptions on Border Trade

I. Background

Since the launching of economic reforms programme in late 1970s, China's international trade has experienced an extra ordinary expansion with an 18% average annual growth rate (Customs General 2002). It has become one of the fastest growing economies for the last thirty years with average growth rate of 9.5%. Yet China's economic growth remains concentrated on its eastern coastal region as only 5% of China's total trade is conducted with its immediate neighbours, according to the United Nations' Comtrade database. However this is now changing, as China's leaders focus on a more broad based geographically balanced strategy of development, known as '*Xiaokang*'. China now embraces cross-border economic cooperation as one element of her development strategy (UNDP and CCETE/MOFCOM Project report 2006-2010: 3). Also, China is now adapting and interacting with the global comity of nations in a multifarious approach. She is now more involved in the international community thereby joining regional and global institutions, intensifying its domestic efforts, and emphasizing the importance of foreign trade and investment (Bulkeley, 2009:1). However, the decision making and the consequent follow up in her overall dynamism in this direction have been shaped and reshaped by the perceptions which are being influenced by the interplay of domestic as well as international issues, challenges and opportunities.

As China has one of the longest land borders in the world. It shares land borders with 14 neighbouring countries, many of whom have territorial disputes with her. Thus over the years China has pursued multilevel foreign relations strategy to improve its relations with all neighbouring countries including former rivals. So, creating a peaceful external environment has become main concerns for Chinese leaders. Simultaneously, China has also tried to change its policy towards its borderlands, making sure that borderland provinces help to secure a stable relationship with neighbouring (Yufan and Chou, 2011:3). Meanwhile, Kaplan has also put forwarded a similar point that China today is consolidating its land borders and beginning to turn outward (Kaplan 2010: 22-41). Thus the borders and the

borderland are the most crucial aspect of the China's perception and policy making paradigm. Moreover China's borderlands are identified with secessionist forces among ethnic minorities like that of Uighur and Tibetans. Thus China's foreign policy and even core interests are relevant to borderland issues and vice versa (ibid: 4-6).

The Central Government since 1949 has given much importance to border trade for the purpose of developing the economies in borderland. Also from 1990s onward, China entered into a new era of prosperous growth in its border trade. As required by the situation, border trade needs to be regularised and coordinated with the neighbours. So China's State Council promulgated "opinions on the active development of border trade and economic cooperation and promotion of the prosperity of border areas". The document elaborates the modes, regulatory methods and favourable duty policies for border trade. It also covers the coordination of economic cooperation in border regions as well as the unified guidance and harmonised management of overall border trade and economic cooperation (ESCAP/UNDP Regional Trade Programme: RAS/92/035).

The continuous development of border trade and the share of border trade in the total volume have been constantly increasing. However this development trend in the domain of border trade has been a result of constant efforts and well calibrated decisions as pursued by leaders of PRC over a considerable period of time. The successes which China could achieve in border trade engagement are due to 'correct handling' of the challenges and opportunities which geopolitical situation provided to China. It is thus a very interesting discourse to understand and comprehend how the perceptions of the PRC leaders on border trade have fashioned the decisions in the formulations of policies.

This chapter would thus study the various perceptions and policies which guided the overall dynamics of border trade in China. The motivating factors and historical influences would also be analysed which have impacted the course of border trade engagements before China and other countries. The analysis would be centred on how domestic and international influences have relevance on border trade policy making? Simultaneously perceptions on the border trade would be evaluated in view of the various issues and challenges which China confronts while pursuing and cultivating good neighbourly relations and periphery development initiatives. However, the discussions would be focussed primarily on the period from 1991 to 2012.

II. Historical Factors and China's Border Trade Policies

In the ancient time borders across China served as the main conduit of trade and commerce. The various routes which traversed through China connected different regions of the world and these networks of connecting roads have been famously referred as 'Silk routes' (Melinda and Nemtsova, 2010:1). The variety of commodities and cultural exchanges through the various branches of Silk routes enriched ancient China immensely (Vivier, 2008: 1-4). As such the fiscal situation also improved and enabled the imperial rulers to conquer newer territories. The power and influence of China soared and led to rise of tributary system which ultimately led to 'middle kingdom concept' (*zhongguo*). In other words, in the Chinese perception of the world, there was always a centre-periphery consideration that helped situate the *zhongguo* in the known world (Edward Wang, 1999). The 'prosperity in the centre' and 'conflicting interests' in the peripheries though at times invited invasions and depredations into the mainland which ultimately culminated in the construction of the 'Great wall' (Yu Bin, 2008: 124). Thus peripheral areas have always been very crucial for China owing to its significance for providing stability and resources to the imperial court. Its regulation and control have been very critical for the overall sustenance and stability of the empires which ruled China. As argued by John Fairbank, this over emphasis on the land frontiers have led to neglect of the coastal frontiers (John Fairbank, 1968: 452-453,463) which invited the wrath of the Western powers and ultimately led to 'century of humiliation' and compounded the challenges for China.

In contemporary times the Chinese perceptions have not changed much and there is continuity in its policies towards its frontiers. Although, the 'Westphalia concept' of nation states changed the dynamics of the old tributary system in China with delineation of the loose borders into formalised borders. This process has been very complicated with lot of undue events of contestation and strife thereby disrupting the natural flow of trade & commerce, ideas and goodwill at the borders. This has come in the way of establishing positive bilateral relation and hence the prospect of enriching border trade.

However since the mid 1990s, China has expanded the number and depth of its bilateral relationships, joined various trade and security accords, deepened its participation in key multilateral organizations, and helped address global security

issues. Foreign policy decision-making has become less personalized and more institutionalized, and Chinese diplomats have become more sophisticated in their articulation of the country's goals. (Medeiros and Fravel 2003: 22-35). It has been further argued by Medeiros and Fravel that; China's present approach to bilateral relations, multilateral organizations, and security issues reflects a new flexibility and sophistication.

Throughout the 1990s, China also moved to resolve a number of territorial disputes that have historically caused tension between it and its neighbours. Since 1991, China has settled border conflicts with Kazakhstan, Kyrgyzstan, Laos, Russia, Tajikistan, and Vietnam. And it has sometimes done so on less-than-advantageous terms. In fact, in most of these agreements, China received only 50 percent or less of the contested territory (ibid: 26).

Since the early 1990s there has been concerted effort by China to improve her relation with land bordering neighbouring countries especially through trade and commerce. This trend has resulted in increased volume of border trade with the land bordering countries.

III. Brief outline of Border Trade in China

Border trade in China has a long history. It has passed through different stages and experienced a variegated developmental process (Feng, 2011:1). When China's border trade with Soviet Russia, Mongolia, North Korea and Vietnam started in 1950s, border trade was insignificant in nature as it was on the basis of accounting agreements. This trade practice could give little favourable consideration to the border areas. Though State Council attempted to encourage production and livelihoods and adjust supply and demand, the scope of border exchanges remained very limited (ESCAP Report, 1997:8).

Initially, China's border trade started with opening of border province of Yunnan with Myanmar in 1951. Similarly, China's border trade with Democratic Republic of Vietnam (DRV) also formalised with signing of trade protocol (*maoyi yidinshu*) in 1952 (Brantly Womack, 1994: 498). It is known that China was the first country to formalise a trade relationship with the DRV, just as it had been the first to grant diplomatic recognition and send an ambassador, and trade accords. In April 1954 the two countries signed a protocol on small-scale border trade, setting up trade

offices in border provinces of China and Vietnam. From 1954 to 1960, special local markets for small-scale trade were allowed on the border but they withered in the 1960s (ibid).

Similarly, the border trade between China and USSR (in Amur region) started in Heilongjiang province since 1957 (Lin and Fang, 2007:1). From 1959 to 1961 Xinjiang Autonomous Region traded through its four land ports and two water ports of Huergus, Tuedote with the former Soviet Republics of Kazakhstan and Kyrgyzstan, among others. The trade relations were then broken off as a result of deteriorating relations.

In April 1954, China and India signed the '*Panchsheel*' agreement which embodied five principles of peaceful coexistence. Under the framework of this agreement, India recognised without any qualification China's sovereignty over Tibet and conceded many of its rights and usages. In return, the Chinese allowed India to maintain certain trade and pilgrimage rights (Patil, 2007: 286). However, soon trade dropped significantly owing to deterioration in bilateral relation over the issue of disputed boundary and border trade stopped completely after 1962 border war. Meanwhile people within the 30km border areas of China and Nepal started barter based border trade in 1962 (ibid). By the late 1950s, border trade was on the decline and remained static for about 20 years because of changes in domestic policy as well as external relations.

China's border trade revived in the late 70s with the adoption of the open-door policy. The Chinese Government considered border trade as an important part of the opening-up policy, so as to "invigorate the border region and enrich its people". Under the guidance of this line, the Government formulated a series of border trade policies (ibid: 4). After the 1980s, China ended its State monopoly of foreign trade policy under a State-planned economic system and encouraged provinces to utilize the comparative of their geo-political locations for economic involvement in trade with the outside world (Goodman S.G David, 1994: 2). So forth 1982 the State council allowed, Heilongjiang, Inner Mongolia and Xinjiang to resume small border trade with the former Soviet Union and Mongolia, and reopened the ports of Manchuli, Suifen River and Huergosi. Similarly, Yunnan and Guangxi from 1983 to early 1984 opened nine counties and towns to border trade posts with Vietnam. Also Jilin province restored its border trade with the democratic People's Republic of Korea in 1984.

On the whole, border trade throughout the China has developed quite rapidly since 1980s, though the share of border trade accounted for only 1% of total national trade (ibid: 6-7). In 1992, State Council approved the opening of 13 cities as dry ports for border trade at Heihe and Suifen River of Heilongjiang province, Whunchun of Jilin province, Manchuli and Earlianhaote of inner Mongolia, Yinin, Bole and Tachen of Xinjiang Autonomous region, Wanding, Ruili and Hekou of Yunnan province and Dongxin and Pingxian of Guangxi Autonomous Region.

Table No.1.1 China's Volume of Border Trade, 1980-1995

Year	Volume of trade in terms of US dollar
1980	13 million
1983	26.79 million
1988	653 million
1991	1.14 billion
1992	1.865 billion
1993-1995	2 billion

Source: ESCAP/UNDP Regional Trade Programme (RAS/92/035), (1997), *Border Trade and Cross-Border Transactions of Selected Asian Countries: Studies in Trade and Investment 29*, United Nations, New York.

Since 1999 the most transactions in border trade were carried out through in cash-based trade and Renminbi has become the preferred means of settlement as most of the China's border trade partners are developing countries, with comparatively low levels of economic development and lacking in foreign exchange. Commodities exported through China's border trade are mainly raw materials (timber, rolled steel products, paper pulp, various mineral products, nonferrous metals, fertilizers, and agricultural products). The border trade administration in China involves both central and local government authorities with its distinct regional character. However, as a component of China's total foreign trade, border trade is also overseen by national trade authorities (MOFCOM).

Table No. 1.2 China's Border trade with neighbouring countries in % during 1990s

Country	% of border trade
Russian Federation	42
Myanmar	35.4
North Korea	17.2
Mongolia	2.5
Nepal	1.8
Laos	0.8
Pakistan	0.3

Source: Liu Xiangdong, ed. The Guidance for China's Foreign economic and Trade Policy. Beijing, Economic Management Publishing House, 1993: 53

With the deepening of china's economic reform and opening up, the government adjusted policies and norms of border trade. Since 1999, the total volume of border trade maintained average growth rate of 26.53%. Till 2008, china has opened 241 A class ports, 3000 trade enterprises (2008). National border trade import and export in 2008 rapidly increased to 30.88 billion, which is 1.2 % of all import and export of China.

IV. China's Border Trade Policies

In 1979, China embarked on economic reform and has gradually opened the country to the outside world and developing border trade is an important part of the opening up strategy of China along her border. By the end of 1984, the State Council approved the Ministry of Foreign Trade and Economic Cooperation (here after MOFTEC) for managing procedures for border trade. In October 1990, the MOFTEC, the State Ethnic Affairs commission, the General Administration of Customs, Ministry of Finance, the State Administration of Taxation and other units jointly composed of cross border trade investigation team dispatched to the four provinces of Heilongjiang, Guangxi, Xinjiang and Yunan for investigation. On the basis of their study in 1991, the State Council General Office of the economic and trade department promulgated "opinions on the active and positive development of border trade and

economic cooperation and promotion of the prosperity of border areas” (Guo Ban Fa 1991 no.25). This promulgated document elaborates the modes, regulatory methods and favourable duty policies for border trade. It also covers the coordination of economic cooperation in border regions as well as the unified guidance and harmonised management of overall border trade and economic cooperation.

However, the concrete situation of China’s borders with each of its neighbours is unique, and each situation changes over time, it is not possible to discuss the general characteristics of border trade as China did not form a unified system of cross-border trade. At present, China’s border trade to Russia, Vietnam, Laos, North Korea, Mongolia, Kazakhstan and other countries apply to the State Council document No. 33. Border trade through Yunnan Province with Myanmar, through Tibet with India and Nepal and through Xinjiang with Pakistan have each border trade regulations and different customs tax. The different arrangement creates an obstacle to the unity of the national border trade system. In spite of the complex regulation problem, State Government adopts a policy that favours and encourages border trade and economic cooperation. This includes enlarging the scope of business, delegating the management right to border provinces and regions for border trade and relaxing import and export licenses (Foreign Trade Research, Chengdu Office Yaosu Feng, 1995). So in 1992, The State Council issued a “notice” (Guo Fa 1992 No.33) on the further positive development of economic and trade relations between former Soviet Union countries including North Korea, Mongolia, Laos and Vietnam. This paper encouraged State Government to adopt a favourable policy towards the border trade and economic and technological cooperation.

Since early 1992, State Council (here after Central Government) adopted preferential policies for developing border trade. Under the aegis of these policies export quotas and licensing were cancelled and tariffs and value added taxes on imports were reduced to half (ibid: 3). Also, the commodities imported through border trade were permitted to be sold elsewhere across the country. Besides State-owned and collective enterprises, individual enterprises began to play an important role in border trade.

Further in 1994, State Government promulgated Article 2, Chapter 8 of the “Foreign trade of the People’s Republic of China” where it sets forth clearly that, “The State will adopt specific measures and give favourable terms and facilitation to the trade and fair markets in towns and cities of the bordering countries. The specific

approaches will thus be formulated by the State council” (Law on Foreign Trade of the People’s Republic of China). This indicates that China’s fundamental trade law constitutes the legal basis for the position, role and management of China’s border trade.

The Chinese Government also provides that the border trade should be conducted in the principle of “five selves”, namely,

- 1) Self-sourcing of supply,
- 2) Self-marketing of goods,
- 3) Self-negotiating with partners,
- 4) Self-balancing of accounts, and
- 5) Self-responsibility of profits and losses

China’s border trade prohibits the export of the following goods (Yonging,1993: 16-17):

1. All kinds of weapons, ammunition and explosives.
2. Chinese currency Renminbi (RMB) and foreign certificates of RMB.
3. Unproved foreign goods, instruments and securities.
4. Manuscripts, printed materials, films, photos, moving pictures, video tapes and disks etc., which are either related to State secrets or prohibited for export.
5. Chinese historic, revolutionary, valuable artistic items and relics and books.
6. Valuable metal and its products, jewellery and ornaments.
7. Valuable and rare animals, plants and seeds.
8. Other goods not allowed by the Government for export.

China’s border trade does not allow the import of the following goods:

1. All kinds of weapons, ammunition and explosives.
2. Radio transmitters and other such main materials.
3. Renminbi and securities of Renminbi (RMB)
4. Manuscripts, printed materials, films, photos, moving pictures, video tapes and disks etc., which are either related to State secrets or prohibited for export.

5. Explosives, anaesthetics, opium, morphine, heroin etc.,
6. Animals, plants and related products and food with dangerous, infections and destructive bacteria and insects.
7. Other goods forbidden by the Government for import.

There are number of relevant favourable policies for border trade. Apart from cigarettes, liquor, cosmetics and some machinery and electrical goods restricted by the State Government for import, goods imported and exported through the designated ports by border trade companies approved by MOFTEC enjoy 50% reduction of customs tariff and VAT. Goods handled by border trade companies and sold to other parts of the country should repay the deducted tax back to the government. Goods imported through fair markets and valued under 1000 Yuan are exempted from duties. When the value is over 1000 Yuan, tax must be paid on the excess part according to the regulations.

Border trade companies can export local products in accordance with plans and quotas approved by MOFTEC (Ministry of Foreign trade and economic cooperation). They can have appropriate freedom in getting licenses for goods imported on a barter basis. MOFTEC has delegated the power to issue export and import licenses to local departments for foreign trade management. The State Government encourages economic organizations in border regions to develop economic and technical cooperation. The foreign economic and trade departments of border provinces and autonomous regions can approve economic and technical cooperative projects to be implemented in border regions. However the Border trade companies can handle the second category of goods defined by MOFTEC and produced within the border regions. They can handle the third category of goods for export governed by the licensing system. The Chinese Government has recently emphasized that border enterprises must improve their management and raise the quality of export goods and upgrade economic efficiency, without relying too much on the favourable policies for the border trade (Preferential policies of the State Council on the development of border trade, China network).

Regarding the account settlement of the border trade, the relevant State regulations stipulate that a certain currency can be chosen and agreed upon by both parties for transactions by border inhabitants. In border trade with the Russian federation, Swiss francs and Yuan are most commonly used in settlement of account.

In trade with Myanmar, the Lao People's Democratic Republic and Vietnam, the dominant currency is RMB Yuan, since the Chinese currency is stable. For trade between China's Heilongjiang province and the Russian border region, the two parties have mutually established banks on a trial basis to settle the accounts in US dollars.

With the development of border trade, border provinces and regions have gradually established and strengthened border check points, customs, health quarantine, animal and plant quarantine, commodity inspection and so forth. In order to facilitate the import and export of goods in border areas, a system is being introduced to conduct joint inspection and simplify the procedures to speed up the customs declaration. Border trade companies have been given special care and are treated differently from ordinary trade companies. They have more simplified clearance of customs, border check formalities and pay fewer fees. The joint inspection has raised the efficiency of the trade enterprises and lowered their cost.

Exit procedures for border trade and labour contracting of personnel have been simplified. As approved by the State Government, border provinces and autonomous regions are in a position to authorize one or two districts or counties to approve travel by business personnel to the regions of border countries. For the countries with which China has signed border exit management agreements, such personnel can have multiple entry visas. For those countries with which China does not have such agreements, personnel can apply for business passports with valid visas within one year, allowing multiple exit and entry, with approval by the relevant authority (ibid: 9).

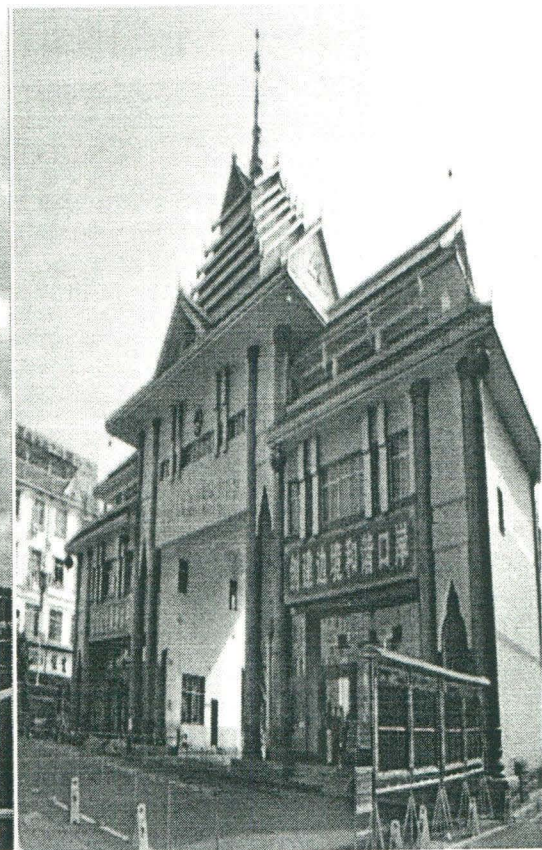
Since the start of border trade, all border provinces and autonomous regions have given great attention to the infrastructure of ports by establishing port constructions funds geared mainly for communication, transport, joint inspection at ports etc. At Heilongjiang province, for example, there was only one port before 1986, handling 1.1 million tons of cargo annually. The State government approved a series of 23 ports with an annual handling capacity of 5 million tons. The traffic in border regions has been improved. In some provinces and autonomous regions, the conditions of roads, railways, water and land transport facilities have been upgraded significantly. In Heihe city of Heilongjiang province, China and the Russian federation are jointly building a bridge across the Heilongjiang River, which is expected to substantially relieve the bottleneck of cargo transportation. Telecommunication is quite well developed and even more convenient than big cities

in the interior (ibid: 9-10). As in recent years, China has completed, a technologically sophisticated "border information integration system,". In addition, it has invested significantly in computerizing its border control for people entering and leaving China. Along with this technology, China has also invested in constructing new border port structures typically marked by large archways, known as "country doors" (*guomen*) that appear designed to impress visitors, and that are often destinations for Chinese tourists (Freeman, 20). The 'guomens' have often functional as well, it contain administrative offices for the various government bureaus, port office, health and quarantine officials.

Fig. No.1 Border Gate "Guomen"



Manzouli , Sino-Russian border



Ruili city , China-Myanmar border

Source: Google

China's border trade legislation recognizes four modalities for border trade as outlined by MOFTEC:

- 1) Border trade by border residents, i.e., trade by those living within 20km of the border in government approved border crossings or designate bazaars, not to exceed officially regulated values and quantities.
- 2) Small-Scale border trade, which refers to trade through government-designated border ports, conducted by approved border cities.
- 3) Border purchasing through tours emerged as a distinct category, particularly in China's northern border provinces, to overcome local constraints such as sparse border populations, high import tariffs in neighbouring developing, lax regulation of cross-border flows of people, and underdeveloped trade facilitation systems.
- 4) Foreign economic and technological cooperation in the border region encompasses trade in services in the border region, such as the export of labour services, project contracting, timber cutting, agricultural planting, and management of joint-venture enterprises.

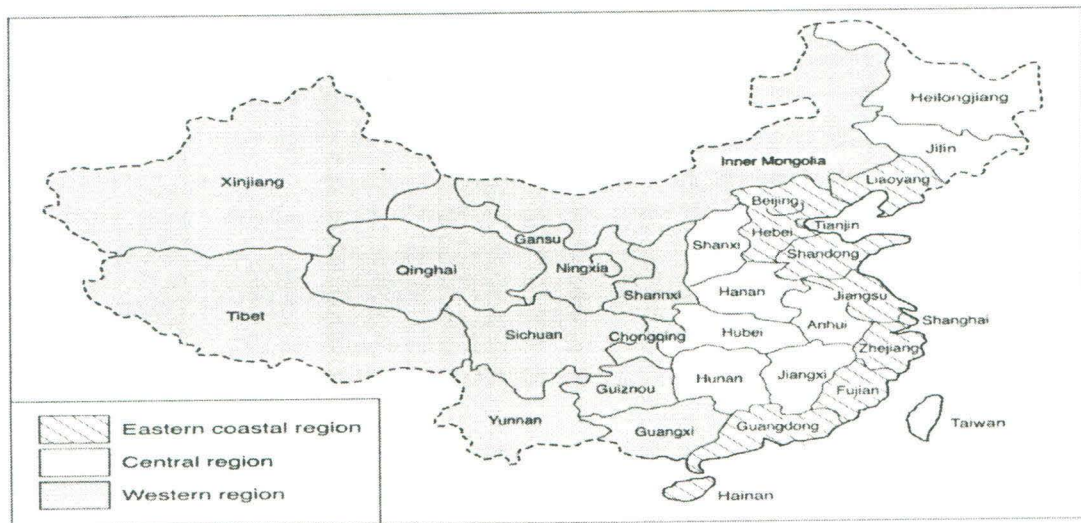
China's Western Development Policy and its significance on Border Trade

China's border trade policies have received much leverage after the initiation of the *Xibu da Kaifa*, or "Western Development Campaign" in 2000. Geographically and economically China is categorised into categorized into the Eastern (Coastal), the Central and the Western regions. The Western region comprises of 6 provinces, 5 Autonomous regions and 1 municipality (Chongqing). The Western region covers 71.4 percent of the mainland China with a population of 372 million about 28.8 percent of the country's total population. China's Western region is a vast region with diverse population, topography and climate. More than half of the inhabitants are in TAR and XUAR, one third of the population in Qinghai and Ningxia are ethnic minorities, and other seven provinces are predominantly of Han population.

As China's economic liberalisation policies (since 1978) under the leadership of Deng Xiaoping primarily focused on the eastern coastal region. As he explained in 1988 that, "The coastal regions, which comprise a vast region with a population 200 million, should accelerate their opening to the outside world, and we should help them develop rapidly first; afterwards they can promote the development of the interior"

(People's Daily, September 1988). Due to this policy the eastern coastal regions have become much developed in comparison to the Western regions (Aksornsri, 2006: 253). So in order to mitigate the regional disparity, in the late 1999 after two decades of development in coastal region, Chinese leaders started the Western Development Programme (hereafter WDP).

Map No. 2: Different Regions of China



Source: (Tian, 2004: 613)

The WDP has adopted a multifaceted approach towards development of the western region. This policy was started with the main focus on the development of the infrastructure like roads and railway network, hydropower plants, energy and telecommunications, creation of foreign direct investment avenues, increased efforts on environmental protection, promotion of education and retention of human resources and encouraging policies for migration of workers and business community towards the western regions. The magnitude of the development paradigm which this policy brought in the western region was enormous and it had profound impact on the border trade as creation of superstructures in the backward hinterlands in western provinces facilitated the development of border trade. The creation of roads and railways network, development of logistic support system and infusion of unprecedented capital facilitated forward and backward integration of the entire economy especially of the western region with the other regions of China. As Micheal and Hoffman (Michael and Hoffman, 2012: 7) argued that the prospect of lucrative trade opportunities tends to promote investment in road and railroad networks along international borders. So, discussions highlighting the infrastructure development

under WDP and its consequent influence on the border trade is being further illustrated;

Infrastructure development under WDP and its impact on border trade

The WDP and China's Tenth Five Year Plan aimed to invest mostly on developing transportation. The Chinese government announced three measures to build a road network in the west with investment of 16.6 billion yuan. First, eight national highways of 12,600 kms were built to connect the country's major cities, linking Dandong and Lhasa, Qingdao and Yinchuan, Shanghai and Chengdu, Shanghai and Ruili, Hengyang and Kunming, Erenhot (of inner Mongolia) and Hekou, Lianyungang and Korgas (near Huocheng, Xingjiang), and Chongqing and Zhanjiang. Second, State construction of regional and interprovincial and local highways in the western region, building 210,000 kms of roads. From the eight interprovincial highways, four of which connect the central and western regions; Lanzhou and Panhan (in Yunnan), Baotou and Beihai, Altay and Kunjirap and Daban (in Xinjiang), Yinchuang and Wuhan, Xi'an and Hefei, Changsha and Chongqing, Xining and Korla (in Xnjiang), and Chengdu and Zhangmu (in Tibet), totalling 15,000 Kms. Third, the state is also building 150,000 Kms of roads between townships and villages in the West (Lai: 451-452).

To develop western region's railway system, the centre initiated the expansion of the railway network from east to west and internal and external routes. The State government started construction of the X'ian-Hefie section of the X'ian Nanjing Railway, the Chongqing-Huaihua Railway in 2000, and Qinghai-Tibet railway in 2001. Light railway in Chongqing is under construction and international railways are under study. The center also had plans to upgrade and enlarge national airports as well as regional hubs. China has invested 5 billion yuan to renovate twenty airports (People's Daily, 18 May 2000). Xianyang International Airport in Xi'an, Shuangliu Airport in Chengdu, Wujiaba Airport in Kunming, Zhongchuan Airport in Lanzhou, and Urumqi Airport are all to be expanded or built as communication hubs and constructions began in 2000.

According to Hongyi Harry Lai, western drive will economically help local population; large infrastructure projects will provide jobs to the local population, improved transportation and scope of tourism will expand local trade. He believes

that politically, the growth of these cities and neighboring areas may ease the local resentment of the Han and the regime may win their loyalty, as it did in the coastal region between 1978 and 1994.

V. Perceptions which influence Border Trade in China

Primarily, the perception which influences border trade in China can be discussed under the three broad segments namely; Security perceptions, Stability perceptions and Perception related to Good neighbourly policy and economic diplomacy:

Perceptions related to Security aspect

Internationalisation of China's Borderlands

Since China's location places her in the hub of the geopolitics as she shares long boundaries with different regions of Asia. So it becomes crucial for her to secure her national interests and territorial boundaries thereby managing and engaging with her neighbours from becoming hostile. As argued by Hao and Chou (2011: 3) that PRC faced direct security threats more or less from all directions in the first four decades since 1949. Though, the end of the cold war and gradual improvement of relations with the US and other powers has substantially improved China's security situation. But still, China's leadership has certainly not lost their concern about the security of China's surrounding environment as many of the territorial disputes with China are not properly addressed and some major disputes still lingers on (Fravel, 2008: 5). For instance boundary dispute with India is yet to be negotiated. Moreover the Sovereignty issues with Taiwan and claim over some islands like Sparty and Paracel in South China Sea etc., further complicates the situation. Thus creating a peaceful external environment and engaging in economic relation are the major considerations for Chinese leaders. So China is pursuing a proactive policy towards its peripheries, ensuring that border areas help to secure a stable relationship with neighbouring States (ibid: 3). Thus China's leaders perceive border trade as an instrument to improve her relations with neighbours.

Further, argued by Hao and Chou that, the borderlands are most relevant to the structure of China's foreign policy. As the overspill effects of the central government's policies on these regions can benefit or harm the neighbouring

countries. As Li and Lye (2009: 255-287) has cited that the Yunnan's thirst for timbers to fuel its economic development has resulted in extensive logging and environmental degradation in Myanmar. Similarly, Shiu-hing (2009: 18-69) has argued that the rise of China's economy led to mushrooming of legal and illegal casinos in neighbouring countries such as Myanmar, Vietnam and North Korea. These problems have thus huge repercussions in the socio-economic well being of the people within an outside the borderlands of China.

Growing Multilateralism

In order to thwart the US "hegemonic" attempts China is engaging her neighbours in multilateral forums at various level. By championing multipolarity as the future development of world politics and economics, particularly on important occasions such as 14th CPC congress in October 1992 and the "Sino-Russian joint communiqué" in April 1996 (Chung, 2009: 110). China's involvement in forums like SCO, ASEAN+3 and the East Asian summit for securing her interests and influence with her neighbours or near neighbours has been a well calibrated policy. China has also engaged herself in sub regional groups like the Greater Mekong sub region, Greater Tumen sub region and "Kunming Initiative" in which, Chinese border provinces play leading roles (ibid:11). China's engagements with neighbours through these multilateral forums are very crucial in the wake of increasing US involvement in the Asian region especially after 9/11(war on terror) in the China's neighbouring countries like Afghanistan and Central Asian countries. As the American presence in the region is perceived to be influencing Uighur movement in Xinjiang (Swaine, 2010: 3-4).

Perceptions on Good neighbourly relations and economic diplomacy

As China's resurgence in economic and political sphere has been perceived as 'China threat' among her neighbouring countries it becomes pertinent for China to pursue a strategy of maintaining stable relationship with her neighbouring countries. So, since 2002, China's leaders called the "good neighbour" principle as a policy priorities, second only to maintaining great power relations (Shulen, 2005: 3). However actualising good neighbourly relations has its own complexities as China's interests at times have contradictions with the interests of neighbouring countries. It is

a challenge for China's leaders to converge the interests of different conflicting interests of all the surrounding countries. Thus China's leaders are pursuing good neighbourly relation by way of engaging the neighbours through economic diplomacy and border trade is perceived to be harbinger in actualisation of this policy. It is supported by the argument put forwarded by Freeman and Thompson that, China's policy aims within its regional neighbourhood were twofold: to engender a positive and stable regional environment conducive to its own development; and to reassure countries in the region that the effects of its rising power on their interests will be benign or even beneficial. They have further observed that in more recent years, China's objectives for its role in its neighbourhood have shifted. The growing importance of imports of resources, raw materials and increasingly energy in China's interactions with its neighbours has added a more explicit economic and energy dimension to China's calculations vis à vis its relationships with contiguous states (Freeman and Thompson,2011: 4-10).

Perceptions related to Stability

Creation of stable ethnic minorities regions

China's borderlands are inhabited by various ethnic minorities although small in number as compared to Han majority. But ethnic minorities inhabit 64% of the China's total geographical area covering 5 autonomous regions, 30 autonomous and 120 counties as well as 1256 ethnic townships. The area dominated by minority groups are rich in natural resource endowments as wood reserves accounts 46.57% of the total and water resources make up 65.93% of the country's energies. Besides there are abundant metal and mineral resources in these areas and there are huge scope for international trade through these regions as most of these areas shares borders with several neighbouring countries.

However in spite of all these natural bounties and scope for international linkages, the social and economic development of the ethnic minority regions like TAR, XUAR, Inner Mongolia, Yunnan, Ningxia etc., have remained comparatively low. So as discussed earlier WDP was launched to develop these regions and it has brought about several positive developmental changes. However, paradoxically with the launching of the WDP several issues pertaining to ethnic minorities have been compounded. For instance WDP has attracted Han immigrants in the ethnic

inhabited areas with higher education, better vocational skills than ethnic minorities to surge into other ethnic cities depriving the local ethnic minorities of job prospects and educational opportunities for their children. This led to income disparities and increased ethnic tension (Yangtso, 2012: 41).

Linked to the WDP “a “Program to Develop Border Areas and Enrich the Lives of the People Living There,” or more simply termed the “Prosperous Borders, Wealthy Minorities” program (PBWM) project was enacted in 2000 by the Central Committee of the Communist Party of China (CPC). As argued by Carla Freeman, the PBWM program’s stated objectives are to “strengthen national unity and safeguard stability in border areas,” aiming to achieve, “wealthy people, happy borders, a strong country, and harmonious and friendly neighbours”. In other words, these policies are seen as promoting stability (and development) not only on Chinese territory, but across the border as well, where it is expected that these new opportunities will garner China (and China’s local government) good will and influence in communities on the opposite side (ibid: 15-16).

However despite the economic benefits associated with border trade the Chinese leaders perceive that potential hazards associated with border exchanges like the problems of “over stayers”, smuggling and cross border crime are serious impediments to maintaining stable border trade with each other. Thus striking the right balance between openness and security is a difficult task for local officials in border regions, particularly in areas where cross-border relations are tense or where insecurity dominates on one side.

VI. Summary

China’s perceptions and policy making in relation to border trade has been affected by both domestic as well as international factors and challenges. The domestic factor of instability owing to uneven development and socio-economic backwardness coupled with external influences has led to rise in ethnic minority nationalism in her borderlands. Alongside the ‘rise of China’ and consequent threat perception among her neighbours and growing US presence has created insecure external peripheries for China simultaneously. However, China has pursued good neighbourly relation with her neighbours since early 1991. She has expanded the number and depth of its bilateral relationships, joined various trade and security

accords, deepened its participation in key multilateral organizations, and helped address global security issues. China has also managed to develop its borderland thereby initiating programmes like WDP, PBWM to address the regional disparity and economic well being among her citizens especially in the borderland. China's perceptions and consequent policies are thus auguring well for the rapid development of the border trade. However the historical and geographical factors alongside, the poor infrastructure and underdeveloped economy in majority of her neighbours affects her grand design of creating peaceful peripheries and good neighbourly relations. In the succeeding two chapters, China's border trade engagement with her South Asian countries namely India, Nepal, Pakistan and Afghanistan are analysed by evaluating the matrix of her policies and perceptions discourse.

Chapter III

China's Border Trade with India and Nepal through TAR

I. Background

China has been maintaining a robust economic relation with both, India and Nepal. In recent times China has become the largest trading partner for India with whopping annual bilateral trade of US\$ 73.9 billion in 2011 (The Hindu, January 10, 2013). On the other hand Nepal has been the largest trading partner for Tibet Autonomous region (hereafter TAR) of China since 2001. The total bilateral trade between Nepal and TAR stood at US\$ 542 in 2011 (Xinhua, February 2, 2011). As such the economic engagements among these countries have been very crucial for the overall development improvement of bilateral relations.

China and Nepal entered 'agreement on trade and other related matters between TAR of China and Nepal' in 1956 (Shrestha, August 31, 2010 in bordernepal). Since then China and Nepal has been witnessing significant rise in border trade through TAR. On the other hand Border trade through Tibet with India has not been as vigorous as Nepal. As China and India have involved in boundary dispute since late 1950s which culminated in brief border war in 1962. Due these factors border routes along India and China were closed. Though with improved bilateral relation in 1992, two border passes between and China in Shipkila and Lipulekh were opened for border trade which was followed by opening of trade at Nathula in 2006.

The border trade between China with India and Nepal is depended on host of factors, the chief among them is the issue on the activities of the Tibetan refugees against China, which are based in India and Nepal, the other issue being the rough terrain and lack of proper infrastructures which acts as impediment in the actualization of economies of scale in the border. However with initiation of western development campaign, since 2000 there has been massive improvement in the overall infrastructure especially in TAR. This has provided much scope for further development in exchanges through the border as the bordering areas of China, Nepal

and India is having lot of potential for developing the backward economies in their respective territories.

This chapter will provide a brief sketch of TAR's geostrategic location and geopolitical imperatives that have impact on the overall dynamics of China's border trade with India and Nepal. The China's policies and perceptions on the broad contours of stabilising TAR from the ethnic minority issues and securing her national interest in boundary negotiation with India would be analysed and discussed.

II. TAR and Border Trade

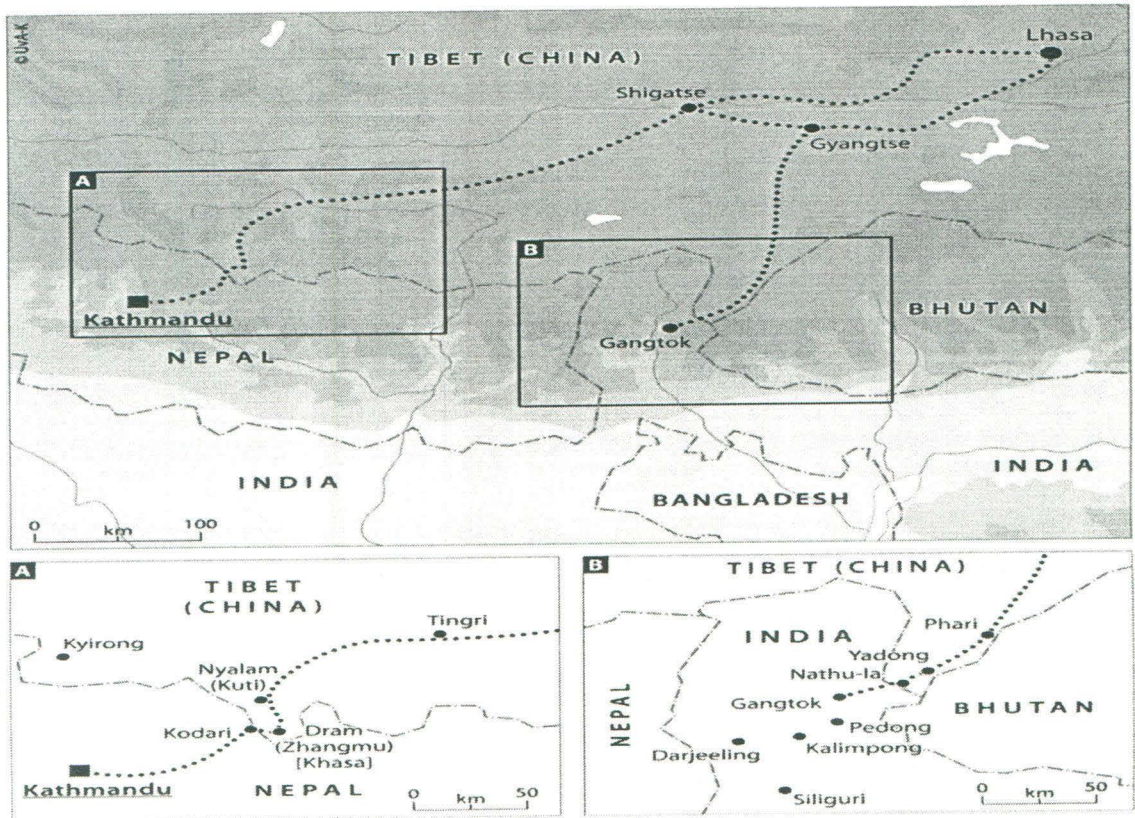
Tibet autonomous region (TAR) is located in southwestern part of China with total geographic area of 343,500 square km. It is surrounded by India, Nepal and Bhutan in the south and Myanmar in the east. It share boundary with provinces of Sichuan, Yunnan in the north east, Qinghai in the north and Xinjiang in the west. The total borderline extends for 3,800 and there are 21 border counties and 104 border townships in TAR. There are 312 mountain passes connecting TAR with neighboring countries with 44 passages perennially used and 268 others open to traffic seasonally. These include 184 linked up with Nepal, 105 with India (including 12 in POK), 18 with Bhutan and five with Myanmar (tibetinfo.cn). TAR, together with its neighbour countries and neighbouring provinces has abundant resources and close trade relationships with a strongly complementary economic structure (undp.org.cn).

There are five ports through which border trade is conducted in TAR. Zhangmu is the only first-class port of China, and second class ports are the Gyilung and Riwo. Zhangmu, Gyilung and Riwo are involved with business with India and Nepal. Historically, Yadong was a port involved with trade with India, Bhutan and Sikkim (now part of India) but it was closed due Sino-Indo border war of 1962. In Tibet there are 28 markets actively involved in border trade. Tibet saw establishment of its first foreign trade company in 1976. Today, there are 65 businesses, which are involved in small volume of border trade. Recent years saw the booming of border trade in the region. The State-owned and collective firms play a big role in the business, and privately owned ones also have much room to maneuver in this regard.

In recent years, Tibet has actively made efforts to develop trade with neighbouring countries. Tibet imported and exported 110 million U.S. dollars worth of goods in its peak year of 2000, a 12-fold increase over the 1993 figure of 8.92

million U.S. dollars. The border trade value makes up 78.44 of the region's total foreign trade volume. The value of border trade with Nepal accounts for upwards of 95 percent of the region's border trade.

Map No. 3 Major Trade Route currently used in TAR



Source: T. Harris / Political Geography xxx (2013): 1-9

During the Ninth Five-Year Plan (1996-2000), the border trade value reached US\$235 million, a 300 percent increase over the previous five-year plan period or close to 50 percent of the total imports and exports of Tibet. Export items include sheep wool, textiles, household electrical appliances, and traditional herbal medicine whereas imports have diversified to cover cereals, plant oils and incenses. Border trade makes up 83 percent of the total regional foreign trade. This indicates regional cooperation and increased cross-border trade are effective levers to create economic opportunities for TAR, especially for poor populations living in border areas and border provinces.

Table No. 2.1 Border Trade Situation TAR (1990-2000) in US\$

Year	Border Trade Volume (US\$10000)		
	Value	Exports	Imports
1990	902	524	378
1991	682	564	118
1992	1075	987	88
1993	892	698	194
1994	962	601	361
1995	2254	1803	451
1996	1200	920	280
1997	1003	900	103
1998	2381	1862	519
1999	8044	7143	901
2000	665	665	665

Source: Tibetan Statistical Yearbook, 2001

III. Border Trade with India

Tibetan Autonomous region of China shares a border of over 3488 kms with India. The entire Himalayan range acts as a boundary between the two countries. This Himalayan borderland was a zone of peaceful human activities prior to its exposure to geopolitical “great game” in modern times. The traditional mountain passes provided opportunities for conducting barter trade and other cultural exchanges since time immemorial.

The colonial legacies of disputed drawing of the border and subsequent Sino-India frontier war of 1962 have shaped the current ties between people who reside on both sides of the borderland (Pallavi Banerjee and Xiangming Chen, 2012). The India–China War in 1962 led both countries to treat their mutual borderlands as critical frontiers of national security policies (Calvin, 1984). As such borders were closed for any economic endeavour since then. Though unregulated and clandestine exchanges existed between the people living very close to the borders, but it was of limited nature and irregular trend.

The economic reform of China since 1978 and the liberalization of the Indian economy in the early 1990s have led both countries to become economic competitors (Mehra, 2006) and also explore trans-border trade opportunities despite their

(Mehra, 2006) and also explore trans-border trade opportunities despite their longstanding border disputes. The Sino-Indian Bilateral Peace and Tranquillity Accords was signed to maintain peace along the Line of Actual Control (LoAC) in 1993 and 1996 (Vasi, 2008).

Evolution of Border Trade

Border trade between India and China resumed in 1992-93, when two mountain passes at Shipki La in Himachal Pradesh and Lipu Lekh in Uttarakhand were opened following the signing of the Memorandum on the Resumption of Border Trade in December 1991, Protocol on Entry and Exit Procedures for Border Trade in July 1992 and another Protocol in September 1993. In June 2003, a MoU was signed between the two countries to resume border trade between Sikkim and Tibet through Nathu La. According to the border trade agreements of 1991, 1992 and 2003, both the countries agreed to trade in 44 items (29 from export list and 15 from import list (refer to Table no. 2.2 and 2.3).

Table No. 2.2 List of 29 items from India exportable to China

1. Agriculture Implements	11. Dry fruits	21. Utensils
2. Blankets	12. Palm oil	22. Wheat
3. Copper products	13. Vegetable oil	23. Liquor
4. Clothes	14. Gur and Misri	24. Milk processed products
5. Cycles	15. Tobacco	25. Canned food
6. Coffee	16. Snuff	26. Cigarettes
7. Tea	17. Spices	27. Local herb
8. Barley	18. Shoes	28. Dry and fresh vegetables
9. Rice	19. Kerosene oil	29. Hardware
10. Flour	20. Stationary	

Source: Government of Sikkim, Department of commerce & Industries

<http://sikkimindustries.gov.in/report%20on%20nathula%20trade.pdf>

Table No. 2.3 List of Items which are Importable from China

1. Goat skin	9. Seabelyipe
2. Sheep skin	10. Butter
3. Wool	11. Goat Kashmir
4. Raw silk	12. Common Salt
5. Yak tail	13. Horse
6. Yak hair	14. Sheep
7. China clay	15. Goat
8. Borax	

Source: Government of Sikkim, Department of commerce & Industries

<http://sikkimindustries.gov.in/report%20on%20nathula%20trade.pdf>

The Impact of Nathu La on China-India Border Trade

Gangtok, capital of Sikkim, is 527 kilometers away from Lhasa, whereas Katmandu, capital of Nepal, is 1,300 kilometers away from Lhasa. Till recently there were no trade pass between China and India, whereas passengers and freight are allowed to travel freely between Nepal and India. Therefore, the China-Nepal Highway has been the venue for vast freight transportation between India and Tibet, with Zhangmu being the trade pass. The opening of Yadong and Nathu La has lot of significance for border trade and for uplifting the economy of the adjoining regions in both China and India.

Nathu La is the world's highest mountain highway trade pass at 4,328 meters above sea level. It is 56 km from the Sikkimese capital, Gangtok, 52 km from the Chinese border town of Yadong, and around 400 km from the Tibetan capital, Lhasa. It is an ancient Silk Route passable between April and October, and also one of the better conditioned trade passes between India and China.

Trading period

Border trade markets remain open from Monday to Thursday every week four days in a week from morning 7:30 am to afternoon 3:30 pm Indian time and 10 am to 6 pm Chinese time would be the timings for the border trade.

Trading period

Year	From	To
2006-2007	6 th July 2006	3 rd September 2007
2007-2008	1 st May 2007	30 th November 2007
2008-2009	19 th May 2008	27 th November 2008
2009-2010	1 st May 2009	30 th November 2009

Source: Source: Government of Sikkim, Department of commerce & Industries
<http://sikkimindustries.gov.in/report%20on%20nathula%20trade.pdf>

Initially, India was highly suspicious and cautious in the early phase of negotiations with China in relation to opening of Nathu La. Aware of India's prudence and hesitation, China was convinced that the opening of Nathu La would be symbolic at first, with more political significance than economic significance (Kuei-hsiang Hsu, 2005). This has been validated by China, as Sikkim was recognised as part of India by China in run up to opening of the Nathu La for trade in 2005. This has created a very congenial political atmosphere and bonhomie between India and China. Both Sikkim's Nathu La Trade Study Group and India's Confederation of Indian Industry (CII) have evaluated the economic potential and benefits in the opening of Nathu La. The CII believed that border trade would hit 10 billion USD within the first 10 years of opening. The Study Group predicted a trade volume of 2.06 billion Rupee (approximately 45 million USD) within the first year of opening. The Study Group also believed that border trading would grow in small increments at first then leapfrog.

Table No. 2.4 Volume of India-China border trade through Nathula, 2007-2009

Particulars	1 st May to 29 th Nov 2007	19 th May to 27 th Nov 2008	1 st May to 30 th Nov 2009
Export from India to TAR	27.87 lakhs	95 lakhs	1.35 crore
Import from TAR to India	6.88 lakhs	1.35 lakhs	2.96 lakhs
Visit of Indian traders to trade mart at Renqingang	2117	1034	-
Visit of Chinese traders to trade mart at Sherathang	3701	3948	-

Source: Source: Government of Sikkim, Department of commerce & Industries
<http://sikkimindustries.gov.in/report%20on%20nathula%20trade.pdf>

Though trade through Nathu La has not picked up as yet (refer to Table No. 2.5 for present status) but it is very promising in future as China has launched a number of projects in a bid of to create accesses to the sea for Tibet and south western provinces. The following are examples of noteworthy transportation construction:

Constructing the “Great Artery” Connecting North and South Asia

China has completed the Qinghai-Tibet Railway 1,142 kilometers in 2006. All sections of the railway are located within Tibetan communities. The railway, the first one ever in the Tibetan Autonomous Region, is estimated to shoulder 75% of Tibet’s inflowing freight (“*Qinghai-Tibet Railway Opens, Crossing the Roof of the World,*” *United Daily News*, 2005/10/06, p. A13). The TAR Development and Reform Commission plans to add three branches to the railway, including the eastward branch (Lhasa to Nyingchi), the westward branch (Lhasa to Shigatse), and the southward branch (Shigatse to Yadong), to be completed and put into operation in ten years. Upon completion of the branches, the railway will measure more than 2,000 kms in total (“Qinghai-Tibet Railway to add three branches in 10 years,” 2005/10/18. *Lanzhou Morning News*). The initiatives underscored China’s ambition to build Yadong as the starting point of the “Great Artery” connecting North and South Asia. Qinghai-Tibet Railway southward to Yadong to construct the future transportation artery for North and South Asia.

Similarly, India has also been making plans and building infrastructure to prepare itself for the vibrant border trade through Nathu La. The border trade activities will benefit Sikkim, Darjeeling, West Bengal, and Calcutta along the route and even the entire Northeast India. The Confederation of Indian Industry (CII) believes the opening of Nathu La has presented an economic windfall to Northeast India and is likely to turn Calcutta into the new China-India trade centre. Aware of the need to seize the advantage, the CII worked with representatives of Sikkim and West Bengal to brainstorm development strategies. The group decided that the twin cities of Siliguri and Jalpaiguri had the potential for economic development (“CII meet on trade fortunes,” *The Telegraph*, January 14, 2004,). Siliguri, located near Sikkim, is one of the most important transportation centres along with Calcutta. Siliguri has been designated by the West Bengal government as the future China-India trade centre because of its railway, highway, and air transportation advantages. The proper

development of border trade through Yadong will literally open a window on South Asia for China. Completion of the branches of the Qinghai-Tibet Railway, combined with the opening of trade activities on the border of Yadong and Sikkim, will have a profound impact on the economic development in China's south western and north western provinces (Kuei-hsiang Hsu, 2005).

Border Trade Through Shipkila

The 1992 agreement between India and China led to the opening of border trade between India and China through Shipkila in Himachal Pradesh. The Shipkila pass trade route mainly caters to the people living on both sides of the borders. Namgya village (more specifically it is Chhupan which is 10kms along the old Hindustan-Tibet Road (mule track) and 6kms by motor able roads from Namgya) in Kinnaur district in Himachal Pradesh in India and Jiuba in Zada County in TAR of China have been identified as the border markets. Shipkila has been identified as the pass for entry and exit of persons, commodities and means of transport engaged in border trade, exchange of commodities and means of transportation. The trade through Shipkila has been to a large extent one way. There has been no record so far of Tibetan traders having come into Indian soil post resumption of trade (Nathula Trade Study Group, 2005: 112).

Even when Indian traders go into the Tibetan side, their movements are highly restricted. At times, the Chinese shoulders allow them to move only during the night and never in day time. Also, this movement is highly restricted and monitored. Even the access to Jiuba in Zada county of TAR which is formally announced as the "trade mart" on the Chinese side has been restricted. In fact there is no records of Indian traders having permit to go there. Most of the traders of this region are "part timer traders" and their alternate activities are only during the trading months of 1st June to 31st November every year. This road remain blocked in winter (December to April) because of Snow. No heavy vehicle traffic is possible. Goods carried through jeeps and horses are used during monsoon. The permitted composition of trade is mentioned in table no- 1 and 2. Overwhelming portion of this trade is of traditional trade items with almost all of the trade transactions being done using the barter system. On Chinese side, the main banned items for import include; photos, pictures etc of Dalai Lama and the Potala palace. They follow the exchange rate of: 1 Chinese Yuan= Rs 5.

On the Chinese side, the first village from Shipkila pass is Shipkee village. Kew village follows next where Indian traders are made to pay custom tax.. There is no tax on the traditional items and on food rations but other items imported into Tibet attracts a 7% tax (or Rs. 70 on every Rs 1000 worth of goods). The duty tax on export on every item other than what is prescribed as exports items attract a 10% tax. A total of 17% tax has to be paid by Indian traders. All these taxes are also taken in the form of 'kind' and not in cash and they also hand over a ' tax receipt' which also acts as their trade permit mentioning up till where they are allowed to go to trade (Nathula Trade Study Group, 2005: 112).

Table No. 2.5 Volume of India-China Border Trade through Shipkila Pass, 1994-2003

Year	Exports (Rs in lakhs)	Imports (Rs in lakhs)
1994-95	11.09	14.93
1995-96	7.64	16.54
1996-97	6.54	9.84
1997-98	12.91	21.77
1998-99	6.44	5.4
1999-2000	13.51	13.96
2000-01	9.21	20.64
2000-02	21.78	25.82
2002-03	13.91	18.94

Source: Government of Himachal Pradesh, Shimla (see also Nathula Trade Study Group 2005: 109)

Trading Constraints in Shipkila

Besides the limited period of trading and rather hostile topographical and climatic conditions, the trade has not really taken off partly because the Chinese side has shown very lukewarm interest in the promotion of this trade route. Officially, there has been absolutely no efforts of communication by the Chinese side so far both with border officials on the Indian side and with the Union government in New Delhi in this regard. There has not been even a single recorded meeting with the Chinese counterparts so far.

Table No. 2.6 Number of visitors from India to China and vice versa, 1994-2003

Year	No of Indian traders who visited China	No. Of Chinese traders who visited India
1994-95	90	Nil
1995-96	63	Nil
1996-97	30	Nil
1997-98	39	Nil
1998-99	30	Nil
1999-2000	40	Nil
2000-01	47	Nil
2000-02	32	Nil
2002-03	35	Nil

Source: Government of Himachal Pradesh, (see also Nathula Study Group: 113)

Trade exchange in Shipkila has been mostly a “one sided affair”. No official account of any visit by Tibetan traders has been recorded on Indian soil. Nevertheless Indian traders have been supplementing their income through border trade though profit margin is very meagre.

Border trade through Lipulekh Pass

Border trade through Lipulekh in Uttaranchal is the outcome of India-China agreement of 1993. Trade is conducted through Lipulekh pass (5200 mtrs). The Lipulekh pass trade connects Dharchula in Pithoragarh district of Uttaranchal with Taklakot in Purang county of TAR. The Govt. of India and Govt. Of PRC agreed to establish the border trade, marked in the following locations:

- a) Pulan in the TAR
- b) Gunji in the Pithoragarh district of Uttaranchal

Payment for border trade may be made in freely convertible currencies acceptable to both sides or in barter mode. Market sites at Gunji and Plan are open during the period from 1st June to 10th September every year.

There has been a steady increase in the border trade through this route. Though the exports from the Indian side has been much smaller than the imports. It can be inferred that given the proper infrastructure development in this border trade pass border trade can be improved (Refer to Table. No.2.8)

Table No. 2.7 Border Trade between TAR and Lipulekh, 1992-97

Year	Exports (Rs)	Imports(Rs)
1992-93	355014	120924
1993-94	2110601	2180527
1994-95	1741188	1068815
1995-96	1391936	3541506
1996-97	1924000	5015000

Source: Government of Himachal Pradesh, Shimla (see also Nathula Study Group: 118)

IV. Border trade and Nepal

Nepal and China have a common border of 1,414.88 kilometres. Out of 30 counties in 22 counties in the TAR shares borders with Nepal. There are 34 major passes between Nepal and the TAR. Hilsa (Humla), Rasuwagadhi, Kodari (Tatopani) and Olangchungola are four border points presently working. Till 1991 the percentage of China's border trade with Nepal was 1.8% of the overall border trade (ESCAP report, 1997). China's export to Nepal reached a figure of 58.6 million US dollar in 2001-2002. Trade has grown from 11 percent to 19.4 percent within a short period of 2009-2010. In the same year, China offered zero tariffs to 60 percent of Nepal's products. China has also opened seven dry ports for Nepal inside TAR out of which five are officially formalised routes. Tatopani ('hot spring') is the most vital and busiest. Over the years this route also known as Kodari (Nepal) and Khasa/Zhangmu (China/Tibet side) has emerged as the Nepal-China traditional frontier trading hub. Over 95% of Nepal's trade with the TAR (China) is now done via this route (Mahendra,2005). Officially, China and Nepal have agreed on a 30km radius zone with the epicentre of the Tatopani Custom Office as a Trade free Zone (TFZ). The 30 km radius includes areas till Barabhise on the Nepalese side and Kuti on Chinese side as the TFZ. There is free movement of people from both countries with proper ID cards through these posts. Trading can still be done on the barter system but exchange of local currency is gaining prominence.

The larger context

Nepal plays an important role in China's South Asia Policy as it forms the entry point for China into the region. China's strategic interests in Nepal is also heightened due to it being the gateway into its restive Tibetan regions, which has been elevated to a national priority in the recent years and with Nepal hosting a sizeable strong Tibetan exile community, stability in Nepal remains a priority for China. The Himalayan state can also be depicted as a playground where the two Asian giants; China to the North and India to the South are competing to increase their influences. Thus, Nepal occupies a unique geo strategic position where real politic is seen to be at constant play and which in many instances has been termed as a win-win situation for Nepal. However, Nepal has mostly tried to maintain a policy of equidistance between China and India, aptly befitting the analogy of it being a "yam between two boulders". Historically, China and Nepal shared deep cultural, economic and people to people contacts with the medium being mostly through Tibet.

Nepal recognised the PRC on the 1 August 1955 and both nations signed the Five Principles of Peaceful Coexistence. A year later China's Premier Zhou Enlai visited Nepal, who with other things also provided the Nepalese ten million rupees as the first instalment of China's aid to Nepal under the October 1956 agreement (Swaran Singh, 2003). Subsequently an agreement on trade and intercourse was also signed between both nations which provided Nepal an opportunity to lessen its overdependence on India. In 1960, China signed a border agreement with Nepal resolving much of the issues. In the same year, both nations signed the Treaty of Peace and Friendship, which was touted to be parallel to the historic Nepal India Treaty of Peace and Friendship which was signed in 1950. More importantly since the 1960's, China has provided Nepal with much developmental aid, seen mostly in the form of infrastructural build-up, roads and highways. This is seen in the construction of the Kathmandu-Kodari road also known as the Arniko highway; named after the Nepalese artisan who in the 13th century had led a delegation of 80 artisans to China. The construction of the road started from 1962 and was completed by 1967, for which economic assistance of 3.5 million dollars was provided without any conditions or privileges. This highway linked Kathmandu to Tibet and was seen as a crucial link between Tibet and South Asia. Mao had elaborated the significance of this road to a Nepali delegation in 1964 by saying that "once the roads are open, India may be a bit

more respectful towards you” (ibid). Apart from this, other major roads and highways such as the Kathmandu-Bhaktapur highway, the Kathmandu-Pokhara and the Pokhara-Surkhet roads were all built through Chinese assistance.

Interestingly, the domestic politics in both nations has also much influenced their diplomatic relationship. PRC in the initial periods was seen to be sharing a rapport with the monarchy, while India was seen to be close to the pro-democratic Parties. In this context, China had supported King Birendra’s 1973 proposal for declaring Nepal as a Zone of Peace, which was much opposed by India. There were numerous high level visits by Chinese leaders such as Deng Xiaoping’s visit in 1978 and also Premier Zhao Ziyang’s visit to Nepal in 1981. During the late 1980’s pro democracy protests by Nepal’s political parties was initiated which was supported by numerous mainstream Indian political parties who also received tacit support from Delhi. These protests had been further accentuated by India closing its trade routes with Nepal. The economic blockade had been imposed due to major disagreements over trade between the two countries as well as due to Nepal’s acceptance of Chinese light arms and other military hardware in 1988 which was seen in contravention to an earlier agreement signed in 1965 with India which had made it the exclusive supplier of defence equipments to Nepal. More importantly, the economic hardship faced by Nepal also led to more engagement with China during this period to resolve the crisis. However, during this period the PRC was facing much flak from the international community due to the Tiananmen massacres and India had been one of the few major powers to engage China in its aftermath (Swaran Singh, 2003). Thus Chinese policies towards Nepal during this period were not to wean it away from India. In the subsequent years, Nepal continued its policy of maintaining equidistance between its giant neighbours. A series of visits were carried out by the Nepalese Prime Ministers to China, where they received financial aid in lieu of a reiteration of the One China policy by Nepal and also preventing any anti Chinese activities by Tibetans on Nepal’s soil.

In 1996, Sher Bahadur Deuba, the then Nepalese Prime Minister visited China, whom the latter saw as having the blessings of the US government. During this visit, a Sino Nepal non government forum was established which emphasised linkages at the grassroots. This visit of Prime Minister Deuba also coincided with the imposition of the Strike Hard campaigns that had been launched in Tibet with much vigour. Hence in 2001, the Chinese Defence Minister General Chi Hao Tian visited

Nepal. This was followed a year later by the signing of an agreement between Nepal and China on Trade and other matters especially with concern to the Tibet Autonomous Region. It coincided with China starting the “Open up the West Campaign” which emphasised on the massive economic development of the Tibetan regions. In the same year, the then Premier Zhu Rongji visited Nepal who showered investments worth 10 million dollars for the construction of a hospital, a technical institute and the 65 kilometres Rasuwa-Syaphrubesi road linking Nepal to Tibet. In 2001, China was the fifth largest investor in Nepal after India, USA, UK and Norway (Swaran Singh, 2003). Within ten years it has become the third largest following India and the USA (IPCS).

In 2007, Wang Jiariu, minister in the CCP’s powerful International Liaison Department met a number of senior Nepalese leaders as well as requested them for stability in Nepal and also to curb the activities of the Tibetan refugees during the Olympics. With the Maoists coming to power in 2008, a further tilt towards China was observed, with the first state visit of Prime Minister Prachanda being to China. With the Maoist being at the helm of affairs, China increased the grant offered to Nepal to 150 million Yuan and also allowed duty free access to 500 Nepalese goods. In the period of 2008-09, an estimated 38 official delegations from China and 12 Nepalese delegations travelled between both nations, which signify the rise in diplomatic ties between both nations.

It is through the Economic and Technical Co-operation Program between China and Nepal that the former has been able to provide much assistance which has been to the tune of 80 million Yuan per year. Since 1956, China has been providing 62 sums of economic aid to Nepal totalling over 2 billion dollars involving 27 major projects (Singh, 2003). The recent short visit by the former Premier Wen Jiabao to Nepal also marked a new chapter in Sino Nepal ties. He pledged more than 140 million dollars to Nepal which included a 20 million dollars aid to Nepal’s peace process and almost 2 million dollars for the country’s police forces.

Custom Facilities

Presently 72 staff runs the Tatopani Custom office which include 1 Chief Custom Officer, 2 Chief Custom Inspectors, 20 Custom officers and others like clerks, section department, messengers etc. The Tatopani custom office has registered

custom revenue of Rs. 86.30 crore in 2001 and Rs. 89.05 crore in 2002. The custom office handles custom clearance of goods imported from China into Nepal territory.

Commodity structure

China's export to Nepal through Zhangmu has seen very significant changes both in terms of volume and contents. Though the Chinese goods entered in to Nepal in a significant way during 1960s and 1970s through various traditional trade routes and the Kolkata port. But the Chinese aid projects in Nepal had various tied elements which has also brought a huge quantity of Chinese goods through overland Zhangmu port. A range of Chinese goods including electronics, shoes, finished goods (like textiles, plastic) have flooded Nepalese markets. On the other hand Nepal's export to China through Tatopani has mostly confined to traditional items including rice, wheat flour, vegetable ghee, noodles, copper vessels, incense sticks, sugar, chocolates, biscuits, medical commodities and other edibles. Earlier in Nepal trade was done only by the National trading now it is free for all.

Table No. 2.8 Nepal's Trade with China, 2003-2009

F.Y.	Exports	Imports	Trade Deficit
2003/04	2348.2	9299.9	6951.8
2004/05	1888.5	12859.2	10970.7
2005/06	892.6	12083.5	11190.9
2006/07	378	16678.6	16300.6
2007/08	736.4	22255.8	21519.4
2008/09	1847.9	32852.9	31005

Source: Trade and exchange promotion centre, Nepal

Mode of payments

Two systems of payment mode is followed by both the governments;

- i. Open letter of Credit (LC) with other normal practices. (Compulsory for goods value upwards 30000 US dollars)
- ii. If not able to open LC, the draft, DD up to 30000 could be taken. Since Tibet does not have the LC facilities most of the traders use drafts.

The two national banks bank of China and Nepal bank play an active role in the transaction.

Infrastructure facilities

The road conditions and their load bearing capacity in Nepal are very poor at present. There is almost absence of railways for carrying commercial cargo. There are few major corridors for international trade. The Qinghai Tibet railway which was operational from 2006 onwards is touted to boost the commercial relations between both nations. There are also plans for the subsequent extension of the Qinghai Tibet railway to the border of Nepal by 2015 which has been predicted to herald a new phase for China Nepal relations. What is also significant in the extension of the railways as well as the construction of all weather expressways in Tibet is the alternative trade linkages it provides to Nepal as well as lesser dependence on India.

Movement of goods

Since most of the importers bring their goods from the mainland China, the consignments hauls and their transportation are mainly concentrated from cities like Shanghai and Shengchang. The truck in China haul their consignments right from Shanghai then to Chengdu, to Lhasa and Khasa and to Kathmandu. No custom duty has to be paid enroute from Golmund to Khasa.

The Nepalese traders use mostly the transport services which are jointly run by the Chinese and the Nepalese in the trading cities of China.

To clear a vehicle on the Chinese side it normally takes about one week as the quarantine check is also carried out. Once loaded in the truck in Guangzhou it takes about 12 to 15 days to reach Khasa. The Chinese side also provides the insurance coverage with a charge of 1%- 2% on the intended consignment of trade. Once the goods reach Khasa, brought there by the 10-wheeler Chinese trucks in 20-24 feet long containers, they are put into huge warehouses where goods and paperwork are inspected by the Chinese customs. The Nepalese importer then hires the Nepalese trucks from Larcha to go up to Khasa to get the goods. It is found that the goods brought from China are not unloaded in Khasa. It is a 'truck to truck' transfer both to save costs and avoid damages. After collecting the goods, they come down to the Tatopani Custom Office to get the final check before being re-checked and sealed and then allowed onward journey to the final market destination in Nepal (ibid).

On an average 30 container trucks per day are checked and goods forwarded towards the intended markets from the Tatopani Custom office. Most of them head towards

the plains of the Kathmandu Valley thereby making inroads into the Indian market. Peak season records show movement of 50 trucks per day.

Significance of conducting Border trade for China with Nepal;

In overall assessment the border trade between China and Nepal is mutually beneficial and equally remunerative as:

- 1) For China, Stability in Tibet is their core issue through economic diplomacy they are able to persuade Nepal to act tough with the Tibetan refugees based in Nepal. To a great extent the anti China activities in Nepal are now under control.
- 2) The border trade provides leverage to China in its South Asia politico-economic dynamics. As China seeks to have greater influence and connectivity with the South Asian region so as to minimize any kind of probable use of the territories in South Asian countries against China for instance they want to safeguard any kind of containment policy by western countries against China.
- 3) Simultaneously, China could minimize the overall dependence of Nepal with India, this has provided hedge over India's overall influence in Nepal to China. Nonetheless China's South Asia has been India centric.
- 4) On economic terms China is gaining immensely as Nepal is importing large variety of products from China. Also, tourism in TAR got huge boost due to development of border trade between these two countries. With the improving infrastructure like better improved highways and the proposed railway beyond Lhasa is creating a very promising trend for border trade between China and Nepal and their better bilateral relations.
- 5) Economic conditions of the hinterland is affected in a great way. Better infrastructure like roads, banking facilities, transportation and better communication mediums like post office etc., is ushering a new development paradigm for the people living in the borders. Though further detailed studies need to be carried forward to ascertain the impact of border trade on the livelihood of the people living in TAR . As the onslaught of Han traders and

their consequent taking over of economic avenues and opportunities is a very critical issue in TAR itself. The majority of trade consignments which passes through Kodari road are from the factories which are based at eastern coastal and central part of China. How much impact border trade is on the native Tibetan community also need to be studied in a greater depth.

Significance of conducting Border trade for Nepal with China

For Nepal, border trade with China provides myriad of opportunities economically and politically. As Nepal is a buffer country with limited economic exchanges with other countries of the world. Any connectivity to outside world augur well for her economy especially when it is about having border trade with a giant and major economic power like China it becomes all the more important as;

- 1) Nepal since time immemorial has its trade and commerce with India. Her economy is depended on the supply which comes from India; as such the influence of India on Nepal's politico economic life has been very pervading and often resented by the people of Nepal and certain section of the elite groups. Moreover they have a very bitter experience in 1989 when India imposed economic embargo on her. Any alternative to minimize her over dependence on India is a very welcome development for them. Thus border trade with China is a positive development for Nepal.
- 2) There is great demand for the Chinese goods in Nepal, India and other neighbouring countries. This may be ascribed to the reason that Chinese goods are inexpensive with moderate quality and wide varieties for the consumers. Thus Chinese products meet the wants of the majority of people in South Asia. Thus Nepal's imports from China are to a large extent dependent on Indian demand. Studies have revealed that some 80% of the Chinese goods coming to Nepal are redirected to India especially to the bordering towns (Mahendra Lama, 2005). This way Nepal is gaining economically through border trade with China.
- 3) China has been striving to neutralise India's influence in Nepal. So border trade has been an instrument in this regard. Thus there has been lot of incentives which China provided to Nepal to actualize her objectives. Meanwhile Nepal only gain from such incentives. China provided lot of financial incentives which has been elaborated in detail above.

- 4) Economically Nepal gained much through border trade as apart from export of products from Nepal lot of tourists are visiting Nepal from Chinese sides and also people from third counties are making visit to Nepal so that they can visit Tibet. According to estimates 300000 tourists used Kodari Kathmandu highway in 2001 (Prabir De and Biswa Bhattacharya, 2005).
- 5) Border trade and related developments in a way leveraged Nepal to make independent decisions which are not guided by India. Thus border trade has provided Nepal with a scope to maintain balance between India and China.

V. Summary

The border trade Between China and India and between China and Nepal through TAR donot show a uniform pattern. The trade between Nepal and TAR is fairly developed and the volume of trade is also fast rising. The Tatopani trading port has become the main hub for the border trade exchange. More than 90% of the Nepal-China border trade is conducted through this port. While India's Nathula trading port is yet to achieve its full potential. Since 2006 the volume of trade has not witnessed any appreciable growth. The Shipkila and Lipulekh border trading point is in a very early stage of development. Though these two trading passes were opened in 1993 but due strategic consideration only barter trade is being conducted. One of the major reasons for less amount of trade between India and China is that the trading items allowed for trade is outdated. Though trade between China and Nepal is very high but there is huge trade deficit for Nepal. As merchandise from China is flooding her market, while her low value handicrafts and food items have fewer takers in TAR. However entrepreneurs in Nepal are making huge profit from border trade as majority of the goods traded through TAR are exported to India.

Chapter 4

China's Border Trade with Pakistan and Afghanistan through Xinjiang

I. Background

China has been cooperating with Pakistan and Afghanistan in various ways, such as in the form of trade, aid, investment etc., among which trade has been most important one. China exported more than US\$ 5 billion worth of commodities to Pakistan in 2007, while the figure was only US\$ 1.8 billion for the year 2003. China is the largest import sources for Pakistan and its share has increased from 14 % to 17% during 2003-07. It ranked 3rd top import sources in 2003. On the other hand China's total trade with Afghanistan was 19.58 million US\$ in 1999 which rose to 154 million US\$ in 2008.

China shares a boundary of 523 km with Pakistan and 76 km with Afghanistan in the Xinjiang province (XUAR). The boundary between China and her neighbours, Pakistan and Afghanistan were successfully formalised in 1963 through negotiations and mutual agreements (Fravel, 2008:115-119). As such there is no iterant on the understanding of borders which has created a congenial atmosphere for cross border exchanges along their territories and improvement in the infrastructure bottlenecks have resulted in raising the scale of engagements and leveraging the economies of scale. However the issue of ethnic separatist movement taking place in China and reported links of the insurgents and support provided by the elements in Pakistan and Afghanistan has created challenges and reservations for further development of the border trade.

With the initiation of western development campaign, since 2000 there has been massive improvement in the overall infrastructure especially in XUAR. This has provided much scope for further development in exchanges through the border as the bordering areas of Afghanistan, Pakistan and China is having lot of resources and imperative for overall bilateral international trade.

This chapter will provide a brief sketch of Xinjiang's geostrategic location and geopolitical imperatives that has impact on the overall dynamics of border trade with Pakistan and Afghanistan. The Central Government Policies towards XUAR in the light of western development campaign, the infrastructure development programmes and its possible impact on border trade would also be analysed. Then border trade with Pakistan and Afghanistan would be analysed and discussed on the basis of above parameters.

II. Xinjiang and Border Trade

Xinjiang Uyghur Autonomous Region is the largest administrative unit in China. It occupies one-sixth of China's entire landmass and shares a 5,600 km long international border constituting a quarter of China's total land frontier (Raczka, 1998: 374). It shares boundary with eight neighbouring countries namely Pakistan, Afghanistan, Tajikistan, Kyrgyzstan, Kazakhstan, Russia, India (Pakistan Occupied Kashmir) and Mongolia (Chaudhuri, 2005:3).

Prior to 1990s, border trade potential from Xinjiang with neighbouring countries was undermined by lack of cross border road and rail infrastructure. Moreover political reasons also restricted any development of border trade. But after the dissolution of Soviet Union in 1991 and establishment of friendly relations between China and the newly independent nations of Central Asia and Russia the scenario has changed much. The establishment of Shanghai Cooperation Organisation in 1996 provided much impetus to development and growth of border trade through Xinjiang. It is now positioned as an international commercial centre to reach out to Central Asia, South and West Asia and even European countries- a compliment to China's economic powerhouse on its eastern coast. Under this background, the Urumqi Foreign economic and trade fair, launched in 1992, was upgraded to China-Eurasia Expo in 2011.

Presently, Xinjiang has 17 first grade and 12 second grade land ports. Also there are 15 national industrial parks including the much discussed Kashi and Korgas economic development zones. In 2007, the State council issued a specific document to encourage Xinjiang's economic and social development in which it sets out to "expand the opening-up strategy catering to Central Asia and make Xinjiang an export processing base and international energy import gateway"(China Today,

Special report, 2012: 17). One of the most prominent endeavours in the last decade for facilitating border trade through Xinjiang has been in the domestic infrastructure development as ninety-six per cent of the villages and towns in Xinjiang are connected by road ways. During 1996-2000, approximately 10.8 billion Yuan was spent on highway construction, accounting for 63 per cent of the total investment in Xinjiang's highway facilities since 1949 (Zhao, 2001: 211-12).

Table No.3.1 Trade Values between Xinjiang and Central Asian and Other Neighbouring Countries 1997-2002 (Unit: million US dollars)

		Kazakhstan	Kirgizstan	Tadzhikistan	Turkmenistan	Uzbekistan	Russia	Mongolia	Pakistan	India	Afghanistan
1997	Total	550.10	112.41	72.25	19.78	4.22	51.21	17.93	13.98	2.48	0.03
	Export	116.62	71.27	22.54	3.58	1.66	4.90	9.70	12.28	2.48	0.03
	Import	433.48	41.14	49.71	16.20	2.56	46.31	8.23	4.70	0	0
1998	Total	560.23	202.00	60.18	6.10	3.87	76.17	12.81	21.16	2.16	0
	Export	166.74	171.27	23.82	3.23	1.63	25.42	6.92	16.31	1.77	0
	Import	393.49	30.73	36.36	2.87	2.24	50.75	5.89	4.85	0.39	0
1999	Total	888.89	111.73	5.81	10.70	2.10	66.93	11.05	46.38	4.09	0.37
	Export	469.26	88.66	3.05	5.61	0.16	13.38	4.40	43.19	3.50	0.37
	Import	419.63	23.07	2.76	5.09	1.94	53.55	6.65	3.19	0.59	0
2000	Total	1182.45	171.37	10.28	2.43	9.52	67.70	7.11	22.52	17.80	2
	Export	512.00	104.37	5.15	0.44	5.40	18.38	3.81	16.13	16.83	0
	Import	670.45	66.99	5.13	1.99	4.12	49.32	3.30	6.39	0.96	0.02
2001	Total	904.26	99.22	7.06	0.96	5.55	122.53	8.60	8.73	2.06	0.25
	Export	209.13	56.91	3.49	0.01	3.44	32.99	5.46	5.89	1.99	0.22
	Import	695.14	42.31	3.57	0.95	2.11	89.54	3.14	2.83	0.07	0.03
2002	Total	1,365.00	154.00	4.00	9.90	19.10	215.00	4.20	69.40	10.97	0.12
	Export	442.00	99.00	0.20	9.70	17.10	47.00	3.10	66.60	5.89	0.12
	Import	923.00	54.00	3.80	0.20	2.00	168.00	1.10	2.80	5.08	0

(Source: Xinjiang Border Trade Administration, available at <http://www.china.org.cn/english/features/Xinjiang/114822.htm>)

Due to preferential policies on land, tax, imports and exports fast development of infrastructure in Xinjiang the border trade has been boosted immensely and presently it exports, more than 70% for manufactured goods, including food, shoes, textiles, clothing, household products, household appliances and other light industrial products to neighbouring countries. Xinjiang's foreign trade registered a new high in 2011, topping US \$ 22.82 billion and growing over 33 percent year on year basis. According to custom statistics exports totalled US\$ 16.8 billion in 2010, registering a growth of almost 30 percent, while imports jumped 44 percent to US\$ 5.99 billion. In 2011, cross-border trade between Xinjiang and the five Central Asian members of the CIS (Common Wealth of Independent States) and Russia reached US \$ 17.9 billion which was almost four fifths of Xinjiang's entire foreign trade (China Today, Special report, 2012 :17-19).

Xinjiang is imbued with a number of resources as discussed above, such as biological resources, 699 kinds of wild animals, including 85 kinds of fish, seven kinds of amphibians, reptiles, 45 species of mammals, and 137 kinds. More than 4000 kinds of wild plants have been identified, including special economic value of more than 1000 kinds of Apocynum, rubber grass. Also 122 kinds of minerals have been found, which ranks first in the country: beryllium, muscovite, sodium saltpetre, clay, serpentine rocks; Identified reserves of 730 million tons of iron ore. Moreover, Xinjiang surface water of annual runoff of about 884 billion cubic meters of groundwater recoverable amount of 25.2 billion cubic meters, the glacier area of 24,000 square kilometres, more than 25,800 billion cubic meters of water storage. The coal reserves account for 37.7% of the total reserves forecasted petroleum, natural gas reserves estimated 30 billion tons, accounting for more than 25% of the total forecast. In 2005, seven newly discovered oil and gas fields (wells); 11 newly discovered non-oil mineral exploration of minerals: coal, lead, zinc, copper, iron, silver, and magnetite. Mines have made significant progress in 29, 24 oil and gas fields (wells), and five non-oil and gas mineral deposits. All these factors coupled with state led development interventions are creating opportunities for development of industries and businesses which are in turn shaping border trade development in the region.

Xinjiang is also known for the riots involving Uyghur separatist and Islamic extremist organisations in this region, which is considered as one of the major threats for China. Between 22 and 25 August 2009, about one month after the tragic

violence, President Hu Jintao visited Xinxiang and made a speech to local officials. In the speech he asserted that “the fundamental way to resolve the Xinxiang problem is to expedite development in Xinjiang.” This conveys a clear message that Beijing is going to change the stability first policy and work out a development plan for Xinjiang because this region is emerging as one of the most important part of China (Wei, S and Cuifen, W, 2010:60-61).

The neighbouring CIS countries along with Pakistan and Afghanistan have been reported to provide help and support to the Uighur movement functionaries and terror groups. Due to these factors there are lot of debates in regulating the border trade and cross border linkages in recent times.

III. Border Trade with Pakistan

China and Pakistan boundary extends for 523 kms generally from the south eastward from the Afghanistan tripoint to the Karakorum pass. This provisional boundary has been delimited and demarcated by a series of Sino-Pakistani agreements, treaties and notes between 1961 and 1965(International boundary study No. 8, 1968: 2). As it has been mutually agreed through negotiation thus presently there are no boundary dispute existing between the two countries. In 1978 the Khunjerab pass was officially opened for conducting border trade, though limited border trade has been existing since time immemorial as this region was part of the silk route (China.org.cn December 15, 2004).

The China-Pakistan border trade has been gradually increasing but it is negatively skewed towards Pakistan. As from the Table 4.1 it can be gauged sufficiently that China’s border trade with Pakistan has been constantly rising at a tremendous pace. But the border trade between China and Pakistan is negatively skewed towards Pakistan as the total border trade in 1997 was 13.98 million US\$ out of which China’s total export to Pakistan was 12.28. On the other hand Pakistan’s export to China was mere 4.70 million US\$. In 2002 the gap in border trade between two countries further increased. As total border trade was 69.40 million US\$ between the two countries in which Pakistan’s export to China was meagre 2.80 million US\$.

Table No. 3.2 **Pakistan's exports to China (US\$ million), 2000-2010**

Year	2000	2003	2005	2007	2010
Value	224.6	259.6	435.7	613.8	1435.9
Share (in %)	2.7	2.2	2.7	3.4	6.7

Source: United Nations Statistics division, UN Comtrade Statistic database

However the cumulative trade statistic highlights a much better picture (refer Table 4.2) as the percentage share of Pakistan's export to China in 2000 was 2.7% with value of 224.6 million US\$ which increased to 6.7% in 2010 with total value of 1435.9 million US\$. Thus there it is evident from the table 4.2 that the volume of export from China to Pakistan has been increasing but it is through overseas trade. Border trade export of Pakistan is still not grown to appreciable level as total volume of border trade export from Pakistan in 2000 was mere 6.39 US\$ whereas overseas trade for the year was 224.6 US\$.

Evolution of the Trade Route

Historically border trade between China and Pakistan was carried out through Silk Road. The Silk Road was originally opened by Zhang Qian and it gradually expanded in the Han Dynasty (206 BC-220 AD). In the Han Dynasty, the ancient road originated from the historical capital of Chang-an (now Xian). This trade route ran through Gansu Province via Tianshui, Lanzhou, Wuwei, Zhangye, Jiuquan, Jiayuguan (an important military garrison and barrier of the Great Wall) and Dunhuang along the Hexi Corridor. Dunhuang is famous for its Mogao Caves and other cultural relics. It was also a key point of the route, where the trade road divided into three main routes: the southern, central and northern routes (). The three main routes spread all over the Xinjiang Uygur Autonomous Region. The Southern Route wandered west along the northern foot of the Kunlun Mountains, passing Ruoqiang (Charkhlik), Qiemo (Cherchen), Hetian, Yecheng (Karghalik), Shache (Yarkand) and reached Kashgar (the last point of the Silk Road in China). Then this route crossed the snow covered Pamirs, reached Pakistan and India via Kashmir; it could also reach Europe through Islamabad, Kabul, Mashhad, Baghdad and Damascus (travelchinaguide.com). The

expansion of the famed Karakoram Highway from China to Pakistan is a part of the Silk Road trade routes.

Fig No. 2 Karakoram Highway Connecting China With Pakistan



The Larger Context

China had been close ally of Pakistan since 1950s and both these countries have been cooperating with each other on several fronts. XUAR plays the vital role in the bilateral relations as it is the only region of China having a 500 km borderline with the Pakistan (Islamic Republic of Pakistan). The Khunjerab Pass lying in the Taxkorgan Tajik Autonomous County of Kashgar Prefecture of XUAR located in the Pamir Mountain areas, which is the only land Port between China and Pakistan, as well as the only port in Xinjiang open to any third country. One has to note that the distance between Khunjerab Pass and Urumqi (the capital city of Xinjiang) and Kashgar, one of the important cities in the southern Xinjiang, is about 1890 km and 420 km respectively. On the other side, the distance between Khunjerab Pass to Sost Port and Gilgit in north of Pakistan is only 130km and 270km respectively. The

distance from Khunjerab pass to Islamabad (the capital city of Pakistan) is 870km. Khunjerab Pass, due to its special geographic location, is now the most important channel of trade between Xinjiang and Pakistan.

China and Pakistan celebrated sixty years of their diplomatic engagement in 2011. Pakistan President Asif Ali Zardari went on an official visit to China from 30 August to 1 September 2011 to participate in the first ever China-Eurasia Expo held in Urumqi to negotiate for the further development of border trade in the region. During his visit, Zardari also met Vice Premier Li Keqiang (Present Premier) and the provincial leadership, including CPC Party Secretary, Zhang Chunxian, and Governor Nur Bekri of Xinjiang Uygur Autonomous Region (XUAR). The relationship between the two prospered, especially since the 1960s, against the backdrop of the India-China war of 1962. More than the border trade Pakistan has since looked up to China as a major strategic partner, by which the illegal transfer of nuclear and missile technology between the two countries is well established. Also Pakistan played a major role in the US-China reconciliation in early 1970s. China and Pakistan are united in their hostility towards India and each uses the other as a strategic ally in southern Asian region against India. Given the fact that India has suffered aggression from both these countries, India has genuine concerns about Sino-Pakistan nexus. The Indo-US nuclear deal in 2007 has been wrongly interpreted by both as being directed against them and this has brought them even closer together. This is demonstrated by the bold attempt by the Chinese to sign nuclear deals with Pakistan, as a strategic counter to Indo-US deal. In recent years, the two countries have characterized their relationship as an 'all-weather' friendship and the Chinese President even termed as being '*higher than the mountains, deeper than the oceans*'. All these led to strengthen the border trade relation for which China engaged itself in critical infrastructure building and business investments in Pakistan. This is amply demonstrated by the construction, and later expansion, of the Karakorum Highway, a deep-sea port at Gwadar, Chashma Nuclear Power Plant, Taxila Heavy Mechanical Complex, Jinnah Sports Stadium, and the Pakistan-China Friendship Centre. Reports in the media indicate that Chinese are increasing their footprints in the Pakistan-occupied Kashmir (PoK) under the pretext of developing infrastructure in the region (Selig S. Harison. 2010).

While celebrating their longstanding relationship in the year 2011, Chinese State Councillor, Dai Bingguo, went yet another step further than all-weather friendship and called Pakistan an '*iron-core*' friend (Carry Forward China-Pakistan

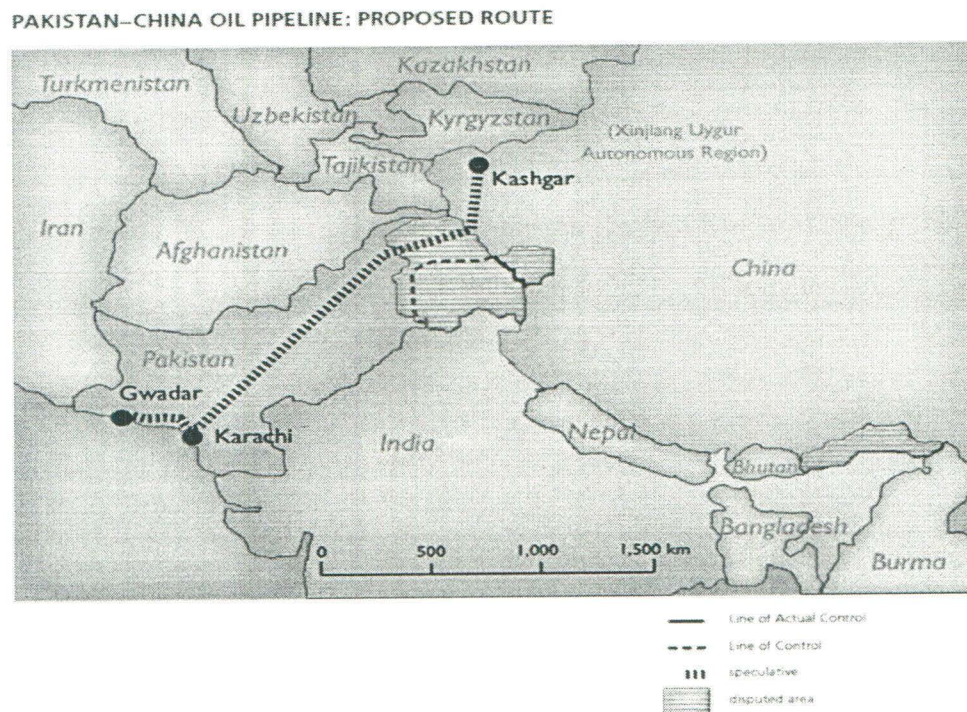
Friendship for Common Progress). This emphasis in bilateral relations, which would be on further strengthening bilateral strategic cooperation, expanding areas of practical cooperation, rehabilitation of road network after the floods, energy, space, banking, power, etc. and people-to-people exchange. China-Pakistan trade hovers around US\$ 10 billion and they are taking active measures to raise it to about \$15 billion by 2012. According to Pakistan Foreign Ministry, 'over 100 Chinese projects in various fields are underway in Pakistan and thousands of Chinese are working on these projects' (Peer Muhammad, 2010).

Gwadar to Khunjerab pass

China also focuses its eyes in energy sectors. In 2000 China total energy consumption was half then the US; but in 2010, China surpassed the US to become world's biggest energy consumer. 85 per cent of that Oil and Natural Gas passes through the Indian Ocean and the Malacca direct route to Pacific Ocean ports, of which Hu Jintao refers it as "*China's Malacca Dilemma.*" It means that the new port opening from the Xinjiang regions becomes close to reach the Oil and natural gas joining Africa, Pakistan to China, then the route from the Malacca, which are conflicts in the contemporary phase.

Option to this was to link Gwadar to Xinjiang over land with railways and oil pipelines. Pakistan has drawn up plans to build a railway between Havellian, a Pakistan city close to Islamabad and Kashyar in Xinjiang. In 2006 Pakistan awarded a \$1.2 million contract to an international consortium to carry out a feasibility study for establishing the rail link as well as plans for 3,300 km oil pipeline between Gwadar to Xinjiang. According to government of Pakistan proposed pipeline would carry 12 million tons of oil every year. For which Andrew Erickson and Gabriel Collins called it as "*Pipe Dream*" (Andrew S. Erickson and Gabriel B. Collins, 2010).

Fig No. 3 China-Pakistan Proposed Pipeline



Source: Andrew S. Erickson and Gabriel B. Collins (2010): 102.

Border Trade and Growing Interdependency between China and Pakistan

The Chinese economic growth and the current import trend provide promising avenues for trade for countries with potential to create niches in the Chinese market. The possibilities of bilateral trade with China have specially increased manifold following her accession to the WTO. The acceptance of trade terms and conditions dictated by the WTO Agreements and a transition to 'market economy' make China one of the major players in the comity of WTO members. To strengthen economic and trade relations, Pakistan and China initiated measures to conclude a Free Trade Agreement. As a first step, the two countries signed an Early Harvest Program (EHP) on 5th April, 2005 which became operational on 1st January, 2006. China exported more than US\$ 5 billion worth of commodities to Pakistan in 2007, while the figure was only US\$ 1.8 billion for the year 2003. China is the largest import sources for Pakistan and its share has increased from 14 % to 17% during 2003-07. It ranked 3rd the top import sources in 2003. The increase in the trade between China and Pakistan may be ascribed to simplification of the processes through the agreements as mentioned above (China Today, Winterbottom, 2012-November-7).

One of the most important export item in the cross border trade between China and Pakistan has been the export of fruits from Xinjiang to Pakistan. The discussion in this regard is very important as it is one product which is solely produced in the Xinjiang province and it helps in raising the living standard among the native farmers. As mentioned earlier majority of the merchandise products are sourced from other areas of more industrialised region of China which have limited impact on the lives of the rural communities of Xinjiang. The volume of trade enormously increased during past several years;

Table No. 3.3 Percentage of Pakistan's Total Exports to China, 2000-2010

Commodity	2000		2010	
	USD million	Share %	USD million	Share %
Cotton yarn thread	100	40.9	737.3	51.3
Chromium ore and concentrates	4.5	1.9	137.6	9.6
Cotton fabric, woven	56.5	23.1	99.6	6.9
Textile fabrics, cotton	10.7	4.4	75.9	5.3
Fish, crustaceans, molluscs	15.3	6.3	67.5	4.7
Leather	15.9	6.5	46	3.2
Machinery and transport equipment	0.8	0.3	45.4	3.2
Plastics in primary form	2.5	1	38.2	2.7
Subtotal	206.2	84.3	1245.5	86.9
Total exports to China	244.6		1435.9	

Source: United Nations Statistics Division, *UN Comtrade*.

Table No. 3.4 Fruits export from Xinjiang to Pakistan during 2002-2005 in US\$

Year	Fruits export (in tons)	Value (10,000dollar)	Exports in percentage	Values
2002	308	16	-	-
2003	4715	58	1431	263
2004	9552	193	103	233
2005	17362	501	82	160

Source: Xinjiang Statistics Yearbook 2001 and 2007

Table No.3.5 Plant area of typical fruits during 2000-2006 in (hectare %)

Types of fruit	Plant area	Xinjiang	Southern Xinjiang	Kashghar Prefecture
Fruits in total	2000	193075	101081	28748
	2006	502788	347923	111838
	Annual increase rate	14.65	19.31	21.42
Apple	2000	34561	11103	2622
	2006	31067	13522	3486
	Annual increase rate	-	2.86	415
Pears	2000	33898	20657	1836
	2006	69180	51277	2039
	Annual increase rate	10.73	13.87	1.51
Grapes	2000	59054	15407	2192
	2006	103875	34590	4225
	Annual increase rate	8.4	12.25	9.83

Source: Xinjiang Statistical Yearbook 2001 and 2007.

The above tables show that the cross-border fruit exports between Xinjiang and Pakistan is at its infant stage. The annual export amount is not so large, but the overall trend shows an increase during this period of time. About 693 batches of fruits were exported from Xinjiang to Pakistan during 2005. The total weight was 17,320 ton and the value 5.01 million USD, which is 82% and 160% higher than that of 2004. Apple, pear and grape produced in the southern XUAR makes large part of this

export. These items account 39.4%, 34.5% and 25.5% respectively of the total fruits export. Since 2000, the agricultural structure of Xinjiang has been under rapid transformation. The overall capacity of fruit production, such as the fruit varieties, planting area, yield and quality, has increased enormously. This gives enormous potential to export fruits to the surrounding South Asian, as well as Central Asian countries.

The statistics during 2000-2006 reveals an annual increase of 15% and 12% in planting area and total yield respectively in Xinjiang. The planting area was 502.8 thousand hectares, while the total yield was 3431.4 thousand tons during 2006. In the Kashgar Prefecture, cumulative fruits yield is 237.8 thousand ton and the planting area is 118.4 thousand hectares. This shows an increase of 289% and 216% respectively as compare to 2000. During this period, the planting area and yield of apples, pears and grapes, which accounts for large percentage of cross-border trade between Xinjiang and Pakistan, increased enormously. So border trade between China and Pakistan is bringing much development in the local economy thereby benefiting the farmers. This is a very positive development as the local population are often found to be marginalised by the Han entrepreneurs and other business communities. Nevertheless, the participation of the native Uyghurs in the border trade has not been very insignificant as the majority of export from Xinjiang is high value-added exports of mechanical and electrical products, chemical products, oil products, home appliances, and other products which are sourced from township enterprises and private enterprises which are based in Zhejiang, Hebei, Guangdong, Fujian and other provinces and autonomous regions

According to Eichengreen, Rhee, and Tong (2007) structure of China's export from Xinjiang to Pakistan are also changing according to the time period.

Table No.3.6 Changing structure of China's export from Xinjiang to Pakistan

Years	Structure of China's export
1980s	Clothing, footwear, light manufactures and fuels
Early 1990s	Office machinery, telecommunications, furniture and industrial supplies
Late 1990s	Automated data processing equipment and consumer electronics

Source: Eichengreen B, Rhee Y & Tong H, 2007:212

IV. Border Trade with Afghanistan

China and Afghanistan have shared deep economic and cultural linkages via the ancient silk route since 140 BC; it not only facilitated the movement of goods but also helped in the spread of Buddhism and later Islam from Afghanistan into China (Chandra, 2002: 1-15). The lack of roads between Xinjiang and Afghanistan through the narrow Wakhan Corridor (China's border with Afghanistan) limits the flow of trade. This has required China's trade with Afghanistan to go through Pakistan or Tajikistan.

Afghanistan has long been the missing link in Chinese plans for regional economic integration with Central and South Asia. Xinjiang in western China shares borders with Afghanistan, Pakistan, and three Central Asian states like Kazakhstan, Kyrgyzstan and Tajikistan. Since the Chinese leadership launched its "Go West" strategy (*xibu da kaifa*) in 2000 to develop its western region, China has sought to develop Xinjiang as an oil and gas centre and to build infrastructure networks that would connect the region to coastal areas within China as well as to neighbouring states in Central and South Asia (Garver, 2006: 2). Chinese foreign office looks at Afghanistan as a 'regional hotspot', with tremendous opportunity for mutually beneficial economic engagement. The analyst particularly takes into account four factors which have been focused by Beijing's engagement with Kabul, namely, the Indo-Pak equation, implications of a large US military presence in the region, consequences of growing drug proliferation and its linkages with pan-Islamist groups which in turn could potentially create trouble in Xinjiang and adversely impact upon China's desire to expand and secure its commercial interests in the region (Sharma, 2011). China does not hide its hunger for resources and has expressed its desire to take every possible risk to tap into the mineral wealth of Afghanistan (Ministry of Foreign Affairs of the People's Republic of China, 2011). Analysts in the US believe, on the contrary, that rather than taking risks, China is freeloading on American security efforts in Afghanistan. Notwithstanding such arguments, China has stuck to its plan of encouraging further Chinese investments in Afghanistan despite the grim scenarios being painted for the country post 2014. In fact, one of the top Chinese diplomats, Wu Gangcheng, went on record saying in October 2011 that 'a gold mine in one person's eyes may be a pile of dirt for another', and stated further, 'You have to take risks in running a business anywhere. Even if you are running a business

selling French fries, you take the risk of being burned by the hot oil'. In addition to Aynak copper mines, the Chinese oil giant, China National Petroleum Corporation (CNPC), signed an agreement with the Afghan government in December 2011 to work with the Watan group to explore and extract crude oil from the basin of the Amu Darya River, especially in Kashkari, Bazarkami, and Zamarudsai in Saripul and Faryab provinces in northern Afghanistan with an estimated deposit of 87 million barrels of oil (2011: Milestone in China-Russia Relations).

China's engagement with the Afghanistan is also led by some other factors. Majority of Xinjiang are Muslim who shares same types of value under the same religion and it becomes key aspect even to have good trade relation between Afghanistan and region of Xinjiang forming sub regionalism.

Table No. 3.7 China-Afghanistan Bilateral Trade (In million US\$)

Year	Total	Chinese exports	Chinese imports
1999	19.58	16.88	2.9
2000	25.29	19.89	5.4
2002	19.99	19.92	0.08
2003	27.06	26.45	0.61
2004	57.92	56.97	0.95
2005	52.77	51.21	1.556
2006	100.66	100.47	0.19
2007	171	169	2
2008	154	152	3

Source: Ministry of Foreign Affairs and the Ministry of Commerce of the People's Republic of China.

China has provided Afghanistan with modest assistance for reconstruction since 2002. It has committed to provide a total aid of \$200 million but, so far, disbursed about \$73 million. In 2009, at an international conference on Afghanistan in The Hague, China announced it would provide US \$ 75 million of aid to Afghanistan till 2014. Chinese assistance has targeted education, agriculture, and capacity building of the public sector in Afghanistan. It is currently involved in the Parvan water conservancy restoration project, earlier built with Chinese aid in the 1970s, and hopes to complete it by 2012. Diplomatic contacts between the two countries continued at

highest levels throughout 2011. In January 2011, Afghan vice Foreign Minister, Mohammad Kabir Farahi, visited China to celebrate the event. The Afghan President paid a state visit to China from 23 to 25 March and held talks with his Chinese counterpart, Hu Jintao, National People's Congress (NPC) Chairman, Wu Bangguo, and Premier Wen Jiabao. During this visit, a joint statement was issued expressing satisfaction with the development of bilateral relations. The two leaders agreed to follow the guidance of the 'Treaty of Good Neighbourly Friendship and Cooperation' to consolidate and develop China-Afghanistan comprehensive and cooperative partnership featuring good neighbourliness, mutual trust, and lasting friendship.

Apart from this, three other documents were signed, namely:

- (a) The Agreement on Economic and Technical Cooperation, whereby China would provide RMB 160 million to Afghanistan;
- (b) The Letter of Exchange on Training Programme; and
- (c) The Letter of Exchange on Granting Special Preferential Tariff Treatment to Certain Goods originated in Afghanistan and Exported to China.

In April 2011, Afghan Vice President, Mohammad Karim Khalili, attended the Boao Forum for Asia and met with his Chinese counterpart, Xi Jinping. By August 2011, the multi-functional hall in the presidential building, built with Chinese assistance, was completed and handed over to the Afghan government. During the year, China undertook to build the National Education Centre of Science and Technology, and a teaching building and a guest house at the Kabul University. The two countries also made steady progress on the bilateral economic front. The first bilateral meeting of the Joint Economic and Trade Committee was held in Kunming in June 2011. Afghanistan also participated successfully at the Shanghai Expo. China actively participated in international and regional conferences on Afghanistan. Foreign Minister Yang Jiechi attended the London Conference (January 2011), the Istanbul Regional Conference (November 2011), the Kabul Conference, and the Bonn Conference in December 2011 to establish the border trade and strong bilateral relation in future. Other Chinese representatives attended meetings such as the Fourth Regional Economic Cooperation Conference on Afghanistan and Afghanistan International Investment Conference. On the whole, Afghanistan welcomed Chinese investments and hopes that this may change the economic fundamentals of the

country by creating jobs, boosting revenue-generation capacity of the government, and stimulating growth in other sectors.

On the other hand China also has a major oil investment in Afghanistan. In December 2011, the China National Petroleum Company (CNPC) signed a deal Afghanistan's first major contract with a foreign oil company in decades to develop oil fields and refineries in the Amu Darya basin beginning in October 2012. China's investment is likely to amount to \$400 million according to CNPC estimates. Besides exports, investment from China could provide a major boost to Afghanistan's export industry. The structure of China's exports has been changing over the years from "clothing, footwear, other light manufactures and fuels that dominated its trade in the 1980s and early 1990s, toward office machinery, telecommunications, furniture, and industrial supplies in the late 1990s and automated data processing equipment and consumer electronics in recent years" (Eichengreen, Rhee & Tong, 2007: 202). Though China has been moving up the value chain, but because of its huge labour force, it has continued to export labour intensive products as well. However, after almost 30 years of rapid growth, most of the surplus labour has now been absorbed and wages are rising rapidly, particularly in the coastal belt. As a result, exporters in China are losing competitiveness in the more labour intensive industries and beginning to look at the possibility of relocating these industries elsewhere. The Xinjiang region and Afghanistan may be favoured in this regard as there is ample scope for mutual border trade opportunities. For instance huge sourcing of raw materials from Afghanistan may be processed in Xinjiang as China is developing this region as one of the manufacturing hub in recent times.

Other important issues which may hamper development of border trade between China and Afghanistan are the issues of smuggling of opium as Afghanistan is known for the opium cultivation and it is also known for the transnational actors like terrorism. There are serious linkages of drug addiction, smuggling and terrorism. As there are perceptions in China that border trade would encourage these negative influences in Xinjiang region and may affect other regions and provinces. With a population of about 20 million and an officially estimated 60,000 infections, Xinjiang has one-tenth of China's AIDS cases and the highest HIV infection rate in the country. Chinese authorities estimate that Kashgar Prefecture, with a population of about three million, has 780 cases, but public health experts here say the real figure is probably four times that and rising fast. Until recently, drug addicts were largely left

to the police, who regarded them as simple criminals whose drug use was to be combated mercilessly. Resistance to treating drug addiction as a public health concern has been high; mirroring what some international health experts say's, more generally, a slow response to HIV/AIDS in China. In spite of these glaring influences the scope for developing border trade between China and Afghanistan look very promising. Moreover the incidence of smuggling and transportation of diseases have not been stopped. Rather a properly managed and regulated border trade would curb these menaces.

V. Summary

The border trade between China and Pakistan is fast developing while it is still in its early phase vis-à-vis Afghanistan. The natural barriers like difficult terrain and inhospitable mountain region has led to low density of inhabitants in the border region, this in turn has affected border trade till recent past. However the China's rapid development and huge investment in infrastructure under western development programme has mitigated these issues to a great extent. Moreover the signing of trade agreements especially with Pakistan has resulted in huge increase in trade volume. But there are several issues which have negative impact on the growth of development of border trade. The most crucial issue in this regard is that the problems of three evils (terrorism, extremism and separatism) is creating friction in the bilateral relation which has direct bearing on the border trade engagement. As Xinjiang is affected by the presence of three evils and there are reservations among Chinese that the elements in Pakistan and Afghanistan are supporting the proponents of three evils. Also there are issues of AIDS, drug smuggling especially from Afghanistan's border which would encourage these negative influences in Xinjiang region and may affect other regions of China. However China is increasing her engagements and deepening the interdependency with Afghanistan and Pakistan as there are several strategic and geopolitical considerations to it.

Chapter 5

Conclusion

The period between 1991 to 2012 is crucial for China in developing relations with her neighbours. After July 1989 Tiananmen Square incident and in the aftermath of economic sanctions, China was isolated from various trade agreements and it became the primary task for China's diplomacy to overcome this isolation. Therefore the Chinese leaders revived the "good neighbourliness policy". Subsequently China extended this policy towards its borderlands, making sure that borderland provinces help to secure a stable relationship with neighbouring states and also benefit from the inter-regional economic interaction. Since the mid-1990s, China has expanded the number and depth of its bilateral relationships and joined various trade regimes.

China's economic liberalisation policies, since 1978 under the leadership of Deng Xiaoping primarily focused on the eastern coastal region. As he explained in 1988 that, "The coastal regions, which comprise a vast region with a population 200 million, should accelerate their opening to the outside world, and we should help them develop rapidly first; afterwards they can promote the development of the interior". Due to this policy the eastern coastal regions have become much developed in comparison to the Western regions. However, the perception among Chinese leaders has changed, as China's leaders focus on a broader based geographically balanced strategy of development, known as '*Xiaokang*'. So in order to mitigate the regional disparity, in the late 1999 after two decades of development in coastal region, Chinese leaders started the *Xibu da Kaifa* or 'Western Development Programme' (WDP).

China's border trade policies have received much attention after the initiation of the *Xibu da Kaifa*, or "Western Development Campaign" in 2000, which are a set of policies directed towards the upliftment of the poorer western provinces of China. These areas cover 71.4 percent of the mainland China with a population of 372 million about 28.8 percent of the country's total population. More than half of the inhabitants are in TAR and XUAR, one third of the population in Qinghai and Ningxia are ethnic minorities, and other seven provinces are predominantly of Han population. Under the programme of the Western Development Campaign, there has been an emphasis on infrastructural build up which in turn aids in the growth of border trade. However, border trade has also been strongly influenced by the dual

perceptions of stability and security especially in its western regions. The apparatus of a nation state is seen as creating a stumbling block to China's border trade. The borders of China are also the most relevant to the structure of China's foreign policy.

China has been pursuing a proactive policy towards its peripheries, ensuring that peripheries and border provinces help to secure a stable relationship with neighbouring States and also thereby benefiting from the inter-regional economic interaction. Thus China's leaders perceive border trade as an instrument to improve her relations with neighbours. There is also a perception that through border trade, peace and stability can be brought in China's restive peripheral regions, especially Tibet and Xinjiang. However, along with the positive benefits there are also concerns about the potential hazards associated with border exchanges. Striking the right balance between openness and security is a difficult task for local officials in border regions, particularly in areas where cross-border relations are tense or where insecurity dominates on one side. Chinese officials identify the most significant non-traditional security threats as the problem of illegal "over stayers," border smuggling and cross-border crime.

China's borders with each of its neighbours are unique, and each situation changes over time, it is not possible to discuss the general characteristics of border trade as China did not form a unified system of cross-border trade. At present, China's border trade to Russia, Vietnam, Laos, North Korea, Mongolia, Kazakhstan and other countries apply to the State Council document No. 33. Border trade through Yunnan Province with Myanmar, through Tibet with India and Nepal and through Xinjiang with Pakistan have each border trade regulations and different customs tax. The different arrangement creates an obstacle to the unity of the national border trade system. In spite of the complex regulation problem, State Government adopts a policy that favours and encourages border trade and economic cooperation. This includes enlarging the scope of business, delegating the management right to border provinces and regions for border trade and relaxing import and export licenses.

Since early 1992, China has adopted preferential policies for developing border trade. Under the aegis of these policies export quotas and licensing were cancelled and tariffs and value added taxes on imports were reduced to half. Also, the commodities imported through border trade were permitted to be sold elsewhere across the country. Besides State-owned and collective enterprises, individual enterprises have begun to play an important role in border trade.

With the development of border trade, border provinces and regions have gradually established and strengthen border check points, customs, health quarantine, animal and plant quarantine, commodity inspection and so forth. In order to facilitate the import and export of goods in border areas, a system is being introduced to conduct joint inspection and simplify the procedures to speed up the customs declaration. Border trade companies have been given special care and are treated differently from ordinary trade companies. They have more simplified clearance of customs, border check formalities and pay fewer fees.

Since the start of border trade, all border provinces and autonomous regions have given great attention to the infrastructure of ports by establishing port constructions funds geared mainly for communication, transport, joint inspection at ports etc. As in recent years, China has completed, a technologically sophisticated "border information integration system," launched nearly a decade ago beginning with Xinjiang, inner Mongolia and Yunnan, the provinces and autonomous regions with the longest land borders. In addition, it has invested significantly in computerizing its border control for people entering and leaving China. Along with this technology, it has also invested in constructing new border port structures. Today, border crossings on the Chinese side are typically marked by large archways, known as "country doors" (*guomen*) that appear designed to impress visitors, and that are often destinations for Chinese tourists (Freeman, 20). The archways are often functional as well, containing administrative offices for the various government bureaus tasked with controlling border crossings the port office, health and quarantine officials, customs, and the people's armed police and in some cases also housing immigration check points as well.

In the case of Xinjiang, China's restive Uyghur minority province, border trade potential from Xinjiang with neighbouring countries was undermined by lack of cross border road and rail infrastructure. Moreover political reasons also restricted any development of border trade. But after the dissolution of Soviet Union in 1991 and establishment of friendly relations between China and the newly independent nations of Central Asia and Russia the scenario has changed much. The establishment of Shanghai Cooperation Organisation in 1996 provided much impetus to development and growth of border trade through Xinjiang. It is now positioned as an international commercial centre to reach out to Central Asia, South and West Asia and even European countries.

It is with Pakistan in South Asia that Xinjiang has extensive trade which has been constantly rising at a tremendous pace while it is still in its early phase vis-à-vis Afghanistan. The natural barriers like difficult terrain and inhospitable mountain region has led to low density of inhabitants in the border region, this in turn has affected border trade till recent past. However the China's rapid development and huge investment in infrastructure under western development programme has mitigated these issues to a great extent. Moreover the signing of trade agreements especially with Pakistan has resulted in huge increase in trade volume. But there are several issues which have negative impact on the growth of development of border trade. The most crucial issue in this regard is that the problems of three evils (terrorism, extremism and separatism) which are creating friction in the bilateral relation and has direct bearing on the border trade engagements. As Xinjiang is affected by the presence of three evils and there are reservations among Chinese that the elements in Pakistan and Afghanistan are supporting the proponents of three evils. Also there are issues of AIDS, drug smuggling especially from Afghanistan's border which would encourage these negative influences in Xinjiang region and may affect other regions of China. However China is increasing her engagements and deepening the interdependency with Afghanistan and Pakistan as there are several strategic and geopolitical considerations to it. However in spite of all these natural bounties and scope for international linkages, the social and economic development of the ethnic minority regions like TAR, XUAR, Inner Mongolia, Yunnan, Ningxia etc., have remained comparatively low. So as discussed earlier WDP was launched to develop these regions and it has brought about several positive developmental changes. However, paradoxically with the launching of the WDP several issues pertaining to ethnic minorities have been compounded. For instance WDP has attracted Han immigrants in the ethnic inhabited areas with higher education, better vocational skills than ethnic minorities to surge into other ethnic cities depriving the local ethnic minorities of job prospects and educational opportunities for their children. This led to income disparities and increased ethnic tension.

The border trade through TAR is far less in comparison to Xinjiang. The reverberations of 1962 Sino-Indo border dispute still afflicts the development of border trade engagement in the South Asia. The unresolved boundary problem restricts any chance of opening up of the border trading routes which in recent past prior to 1962 were place of bonhomie and economic exchanges. However border trade

between China and Nepal through TAR is growing very fast with the improvement of the China-Nepal friendship road which connects TAR with Nepal. Though trade is highly deficit for Nepal, yet being a buffer State and consequent opportunity to serve as transit for trade has served Nepal's interest to a great extent. Nepali traders are highly benefiting from selling the products which they bring from Tatopani trademart to Indian markets. Though in recent times Indian government has also tried to gain from border trade through Nathula but progress is insignificant in economic terms. The other two border trade points namely Shipkila and Lipulekh between TAR and India are also in bad shape owing to lack of interest from Tibetans as till date not a single trader from TAR have crossed over to India for trade to these two border passes, though Indian traders seasonally visit the other side for trade. The activities of Tibetan refugees who are based in India and Nepal are again a serious impediment for further opening of other border trading routes. As China perceives their activities will be further strengthen if the borders are open for trade. Also one of the most important impediment for further development of border trade between India and China is that the list of items that are allowed for border trade are outdated with little scope for raising the economies of scale. One of the negative influences of border trade for Nepal with China is that the Nepalese market is flooded with cheap Chinese products and there are enough instances where the local entrepreneurs have to close their businesses as they fail to compete with Chinese products.

China's border trade with South Asian countries does not follow a uniform pattern and in the near future there won't be much change in this regard. As each country in South Asia have its own resource endowment base and socio-politico and economic interests to be safeguarded. However, with improved infrastructure and bilateral negotiations the magnitude of border trade can be increased manifold as there are enough scope for realising the same.

Hypotheses Testing

- a) **China is aggravating her domestic problems in Xinjiang and Tibetan Autonomous region by opening its border for trade with South Asian countries**

As per the findings, China's border trade with South Asian countries is not aggravating any problem for China rather border trade has been very effective in

stabilizing and securing her interests in TAR and XUAR. Border trade with Nepal and Pakistan has prospered over the years and there has been increased volume in trade and movement of traders, businessmen and tourists across the border crossings especially along Tatopani-Kodari friendship road in Nepal and Khunjerab highway in Pakistan.

With China's growing investment in these two countries especially in the construction of infrastructure there has been tremendous influence on the local economy in the peripheries. The cultivators and local traders are benefiting by involving them in the border trade exchanges. For instance the fruit growers have witnessed far reaching impact in XUAR as demand for their products has led to increase in acreage of their farms and consequent rise in their earnings. It has also led to improvement in forward and backward linkages of their economy with other areas. Though there are perceptions in China that the elements which are based in Pakistan (supporters of Uighur movement) and Nepal (supporters of exile Tibetan government under Dalai Lama) but these factors according to the findings have not created any impact, rather China seems to be strategizing to stabilize XUAR and TAR from these problems by leveraging the scope of border trade as they are found to be raising their stake at both Nepal and Pakistan.

The interdependency among these three countries (China with Nepal and China with Pakistan) is found to be growing and their domestic situation in terms of socio-economic development is far reaching. However, it would be very interesting to study further how long the moribund economies of Pakistan and Nepal can sustain the onslaught of Chinese products in their economy. Though it was beyond the scope of the present study to assess the impact of the Chinese border trade on the economies of South Asian countries but it can be estimated that once the border trade through Nathula in India starts to gain momentum and traction then the volume of border trade through Nepal will come down substantially, as majority of the traded volume from China finds its way to India via Nepal. However it all depends on Sino-Indo border dispute resolution amicably. As till now it has been found out that, though three border passes (Shipkila, Lipulekh and Nathula) have been opened for border trade between China and India but there have been limited transactions in comparison to the volume of trade between China's border trade with Nepal and Pakistan. Noteworthy to mention that, till now not a single trader from TAR has visited the Indian trading mart at Lipulekh and Shipkila though approval for border trade in 1992-93 were made

through mutual agreements.. The strategic considerations and infrastructure bottlenecks have been the major cause of poor development in this regard. However study could not relate anything that would aggravate the domestic situation in TAR if border trade with India increases. As it has been found out that China is building her infrastructure like railways and road networks along Indo-Tibet borders it can very well be speculated that China is planning in a big way to have border trade with India.

However China's border trade with Afghanistan has potential to create problems at XUAR. As Afghanistan is known for the opium cultivation and it is also known for the transnational actors like terrorism. There are serious linkages of drug addiction, smuggling and terrorism. As there are perceptions in China that border trade would encourage these negative influences in Xinjiang region and may affect other regions and provinces. Nevertheless, China has started investing hugely in Afghanistan's reconstruction and inked several economic deals; it would be interesting to locate how far China's engagements would lead to border trade development in future. So far China's border trade has augured well for overall development of the economy in XUAR and TAR. Border trade is not aggravating or creating any new problem in the domestic politics in XUAR or TAR.

b) China's border trade with South Asian countries is not helping in dispelling the China threat perceptions among these countries;

China's border trade as discussed above is leading to increase interdependency among South Asian Countries and her restive TAR and XUAR. Border trade is developing in a quite remarkable way and it is commensurate with the their overall bilateral relation with China. However the study could not found out any instance where it may be ascribed that the border trade with South Asian countries is dispelling the China threat perception.

Pakistan and Nepal seemed to be benefitting from the trade and there seemed to be further strengthening of their bilateral relations with China. Pakistani and Chinese leaders are regularly meeting with each other and inking cooperation and economic deals and reiterating that their relation is "higher than the mountains and deeper than the seas". Though there is growing economic reservations among Nepali citizens about the flooding of the cheap Chinese products in their economy, thereby

threatening the local entrepreneurs. But it is still not a major issue for both of these countries as they are benefitting from border trade.

Since China has signed border agreement with Afghanistan, Pakistan and Nepal thus there are limited scopes for any possible dispute over these in near future. Moreover Pakistan, Nepal or Afghanistan has never been at loggerheads over any particular issue with China. But in case of India, since protracted contest over the boundary between the two countries is still not resolved amicably. So it may be ascribed here that lower level of border trade in spite of huge potential is due to each other's apprehension that the formalization of the border trade along the borders may be used as a strategic claim over the location and validity of the boundary. For instance when border trade at Nathula was opened, Government of India construed it to be Chinese acceptance of India's claimed boundary with China at Sikkim. This was repudiated by China later on.

In recent times China's move of rapid modernization in the TAR region especially along the Sino-Indo boundary by way construction of roads and railways networks have lead to growing apprehensions among Indian think tanks. They perceive it to be Chinese designs to gain strategic edge over India in terms of easy movements of troops and logistics in case of any dispute. The Chinese claims that these arteries of transportation networks would facilitate border trade has found fewer takers in India. China's grand design of infrastructure development along the border for trade and communication cannot be doubted altogether, as discussed earlier China has been pursuing a full scale western development programme popularly known as "Xibu da Kaifa" for developing her western areas which have remained backward in comparison to eastern coastal regions. Nepal has welcomed the Chinese plans for connecting Katmandu-Lhasa by both regular bus service and a railway route. Similarly, China is building Gwadar port in Pakistan and planning to connect it to Xinjiang via Kunjerab pass through pipelines. But on the other hand India perceives these developments to be China's plan of encircling India ('String of Pearls theory'). So in regard to dispelling of China threat perception through border trade cannot be concluded as overlapping issues and perceptions among different countries complicating the situation. Further research can throw some light on this issue.

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