

EFFECTS OF DIPLOMATIC RELATIONS ON ECONOMY OF CHINA

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Abstract

This study is a detailed discussion and analysis of china's economy. The purpose of this study is to discuss China's diplomatic relations with rest of the world and to determine that how it is becoming the fastest growing economy. No econometric tests have been applied, it is a thorough and comprehensive study of China's political, economic and diplomatic policies. History of China has been discussed under different political regimes with an in depth analysis of five year plans. Presently, China is the fastest growing economy and it is maintaining peace with rest of the world to concentrate on development policies. Military built up of China has been analyzed and a comparison has been made between past and present military force. Special emphasis has been given towards Pakistan and China relations in accordance with Pakistan-China economic Corridor.

Keywords: China; Diplomacy; Economy; Politics; Military

AUTHOR'S NOTE

In this study, China's politico-economic history as well as current scenario has been discussed in detail, therefore online sources having current and updated information like newspapers, encyclopedias, Embassy's white papers etc. have been cited. Their details are mentioned in footnotes as well as in references along-with the relevant date and online links.

LIST OF ABBRIVIATIONS

AIIB	Asian Infrastructure and Investment Bank
ANZUS	The Australia, New Zealand, United States Security Treaty
BCM	Billion Cubic Meters
BIA	Bilateral Investment Agreement
CCP	Chinese Communist Party
CMC	Central Military Commission
CPEC	China-Pakistan Economic Corridor
CCPIT	Chinese Commission for the Promotion of International Trade
CPIFA	Chinese People's Institute of Foreign Affairs
CPPCC	Chinese People's Political Consultative Conference
ECM	European Common Market
EGA	Environmental Goods Agreement
EU	European Union
FAA	Fixed Asset Assessment
FDI	Foreign Direct Investment
FTZ	Free Trade Zone
GAO	General Accounting Office, US
GATT	General Agreement on Tariffs and Trade
GB	Great Britain
IPRs	Intellectual Property Rights
ITA	Information Technology Agreement
JEG	Joint Economic Group
KKH	Karakorum Highway
KWH	Kilowatt-hour
MOU	Memorandum of Understanding
NATO	North Atlantic Treaty Organization
NGOs	Non-governmental Organizations
NPC	National People's Congress
ODA	Official Development Assistance
PBC	People's Bank of China
PLA	People's Liberation Army



PRC People's Republic of China

R&D Research and Development

ROC Republic of China

SEATO South East Asian Treaty Organization

SED Strategic and Economic Dialogue

TTIP Trans-Atlantic Trade and Investment Partnership

UNDP United Nations Development Programs

UNIDO United Nations Industrial Development Organization

UN United Nations

US United States

WB World Bank

WTO World Trade Organization



1. INTRODUCTION

China, with more than 4,000 years of recorded history, is one of the few existing countries which flourished economically and culturally without much outside influence, since the earliest stages of world civilization. Despite the political and social upheavals that frequently have ravaged the country, China is unique among nations in its longevity and resilience as a discrete politico-cultural unit. China is one of the great cradles of world civilization, and its culture is remarkable for its duration, diversity, and influence on other cultures, especially those of its East Asian neighbors. It is the largest of all Asian countries (occupying nearly the entire East Asian landmass), it occupies approximately one-fourteenth of the land area of Earth and has the largest population (approximately 1,364,038,000) in the world. Among the major countries of the world, China is surpassed in area by only Russia and Canada, and it is almost as large as the whole of Europe. ⁽¹⁾

Present day China, official name People's Republic of China (PRC), was established in 1949 at the end of civil war as a result of communist revolution under the leadership of Mao Zedong (1893-1976). Historical buildings of cultural significance were destroyed as the reminiscent of the feudal past. Hitherto before China had been under the rule of monarchs. Mao declared the founding of the People's Republic of China on October 1, 1949. Soviet Union was the first country to recognize PRC on October 2, 1949 (Caso, 2008) ⁽²⁾. China has one party system; Chinese Communist Party (CCP); and it has a unicameral legislature known as National People's Congress (NPC). Administratively China is divided into 33 units which are under the direct control of central government and these consist of 22 provinces, 5 autonomous regions, 4 municipalities (Chongqing, Beijing, Shanghai, and Tianjin), and 2 special administrative regions (Hong Kong and Macau). The island province of Taiwan has been under separate administration since 1949. Shanghai is the main industrial city; Hong Kong is the leading commercial center and port. China has a very diverse and complex topography encompassing the highest and one of the lowest places on Earth, and its climate ranges from extremely dry, desert like conditions in the northwest to tropical monsoon in the southeast, and due to this it has the greatest contrast in temperature between its northern and southern borders of any country in the world. ⁽³⁾

(1) For details see *Encyclopedia Britannica*. <http://www.britannica.com/place/China/Cultural-life#ref590757>

(2) Caso, F. (2008). *Censorship*. InfoBase Publishing. (Page 62).

(3) For details see *Encyclopedia Britannica*. <http://www.britannica.com/place/China>

1.1 THE POLITICO-ECONOMIC HISTORY OF CHINA'S DEVELOPMENT

At the time of creation of PRC on October 1, 1949, Mao declared that "The Chinese people have stood up!" and announced the creation of a "People's Democratic Dictatorship." The people were declared comprising of four social classes: the workers, the peasants, the petite bourgeoisie, and the national-capitalists. These four classes were to be led by the CCP, as the vanguard of the working class. The CCP claimed a membership of 4.5 million, of which members of peasant origin accounted for nearly 90 percent. The party was under Mao's chairmanship, and the government was headed by Zhou Enlai (1898-1976) as Premier of the State Administrative Council (the predecessor of the State Council).

Although the communist party under the leadership of Mao had gained control of the Mainland China, yet the CCP leadership was aware that they had yet not won the hearts and minds of the majority of the population. In the next few years, efforts were made by the CCP to legitimize its rule. As a first step the CCP convened a meeting of 1200 persons from all strata of society in the fall of 1949 which was called as the "Chinese People's Political Consultative Conference (CPPCC)". In addition to CCP members, the delegates included representatives of patriotic associations, minor political parties, war lords, prominent lawyers, doctors, professors, social workers, artists, members of ethnic minorities and religious leaders. Mao declared that China was still colonial and semi-feudal and its principal enemies were imperialism and semi-feudal. Therefore, all other forces should unite against these enemies under the democratic dictatorship of the proletariat. The said meeting passed a document called the "Common Program", which would function as a proto constitution until a proper constitution was passed after elections. The Common Program declared that China was a democratic dictatorship of the four classes: workers, peasants, bourgeoisie and National bourgeoisie. The petty bourgeoisie included trades men, peddlers and small shopkeepers. National bourgeoisie included patriotic persons having substantial means, who had not collaborated with Japanese and submitted before any other foreign power. The CPPCC also adopted a National flag which reflected this class structure: red, with small gold stars, representing the four classes, surrounding the large gold star of the CCP. The design of the flag is also described by some as: large star representing the dominant Han nationality and the smaller stars standing for the more important minority groups—Tibetans, Mongols, Manchus and Muslims. (Dreyer, J. 1993)⁽⁴⁾

(4) Dreyer, J. (1993). China's Political System. For further details see Chapter 5, Titled 'PRC Politics Under Mao: 1949-1976'

At the time of forming PRC in 1949, China had agrarian economy with a large number of small peasants. Drug abuse was common. Mao changed the previous system of land ownership by replacing it with cooperative farming. He succeeded in completely wiping out drug trafficking. The former landlords and merchants were also persecuted.⁽⁵⁾

The period from 1949–52 was marked by changes in China under Soviet Union's influence. Under the Agrarian Reform Law of 1950, property of rural landlords was confiscated and distributed among peasants and eliminated the class identified as "feudal" or "semi-feudal". Property of the bureaucrat capitalist and selected foreign nationals was also confiscated. Programs were started to increase production and to lay down strong basis for socialist economy. The marriage law of May, 1950 and trade union law of June, 1950 won enormous support from the people and symbolized the break with old society. During 1949-1950, main focus was on urban areas for restoring order, rehabilitation of the economy and arresting high inflation. These policies met with enormous success and by late 1950, many urban Chinese viewed the CCP leadership as the needed reformers. In the beginning of 1951, CCP leadership started campaign of suppressing counter revolutionaries by dealing with them with iron hand.⁽⁶⁾

Using the tool of diplomacy Mao visited Moscow in Mid December 1949 which resulted in formalization of the Treaty of Friendship, Alliance and Mutual Assistance, signed on 14th of February, 1950 which was valid until 1980. Under this agreement, China gave the Soviet Union certain rights, such as the continued use of a naval base at Luda, Liaoning Province, in return for military support, weapons, and large amounts of economic and technological assistance, including technical advisers and machinery. The pact was also intended to counter Japan or any power's joining Japan for the purpose of aggression. China acceded, at least initially, to Soviet leadership of the world communist movement and took the Soviet Union as the model for development. Other agreements concerning civil aviation, mineral resources, shipping and railroads, and Soviet naval bases were also signed and these treaties were subsequently modified. In 1952 the joint stock companies formed in 1950 for economic development were transferred to exclusive Chinese ownership, while the naval bases were returned in 1954. Apparently the relations between China and Soviet Union gave the impression of close friendship and mutual co-operation but on account of variance in domestic policies and foreign policy tensions were present underneath which ultimately appeared in the form of border conflict.

(5) For details see Encyclopedia Wikipedia. https://en.wikipedia.org/wiki/History_of_the_People%27s_Republic_of_China

(6) For details see Encyclopedia Britannica. <http://www.britannica.com/place/China/Cultural-life#ref590757>

China raised the issue of outer Mangolian border and claimed the islands along the Amur and the Ussuri Rivers falling on the side of China which Soviet Union was not ready to accept on the basis of agreements of 19th century between the two countries. Periodic skirmishes kept on taking place between the two countries when ultimately these culminated into an armed conflict between China and Soviet Union in March, 1969. At one point of time the diplomatic relations between the two countries touched the lowest ebb when diplomats were recalled from each other's country. (Robinson, 1972)⁽⁷⁾

Mistrust had already cropped up between Soviet Union and China since China considered that Moscow failed to give Beijing adequate support under the Treaty of Friendship, Alliance and Mutual Assistance by leaving the Chinese to face the United Nations (UN) forces virtually alone in the Korean War (1950-1953).⁽⁸⁾

It would be appropriate to have a brief resume of the Korean War at this stage. Korea was under the Japanese rule since 1910. In August, 1945, during the Second World War, the Soviet Union declared war against Japan which ultimately resulted in the surrender of Japan by the close of the war. Soviet Union by agreement with the United States (US), occupied Korea north of the 38th parallel and the US occupied the southern part of Korea. Consequently two separate countries, known as North Korea (under the influence of the Soviet Union as a Communist government) and South Korea (under the influence of US) came into being, having their own separate respective governments. A conflict ensued between the North and South Korea, each claiming to be the legitimate Korea and did not accept the division. This conflict resulted in an open war when North Korean forces, supported initially by the Soviet Union, invaded South Korea on June 25th, 1950. The UN Security Council declared it as an act of aggression by North Korea against South Korea and again decided to dispatch UN forces in Korea. Twenty one countries contributed their armed forces personal out of which US provided 88 percent to the UN military personnel. In October, 1950, Chinese forces entered the war arena when China claimed that despite its warnings, the UN forces, led by the US forces, were coming close to its border with Korea at the 38th parallel, which is disputed by Jian, (2013)⁽⁹⁾, who is of the opinion that China was to enter the war to support the communist regime of North Korea as well as in opposition of US. -----The fighting ended on 27th July, 1953 and the agreement created the Korean demilitarized zone to separate North and South Korea. However, periodic clashes between north and South Korea still continue.⁽¹⁰⁾

(7) Robinson, T. W. (1972). The Sino-Soviet border dispute: Background, development, and the March 1969 clashes. *American Political Science Review*, 66(04), 1175-1202.

(8) For details see Encyclopedia Britannica. <http://www.britannica.com/place/China/Cultural-life#ref590757>

(9) Jian, C. (2013). *China's road to the Korean War: The making of the Sino-American confrontation*. Columbia University Press.

(10) For details see Encyclopedia Wikipedia. https://en.wikipedia.org/wiki/Korean_War

In order to achieve the goal of rapid economic growth, China adopted the Soviet model by launching five years plans and consequently, the **First Five-Year Plan (1953-1957)** based on a Soviet-style centrally controlled economy, was launched. The First Five-Year Plan emphasized rapid industrial development. The bulk of the state's investment was channeled into the industrial sector, particularly iron and steel, electric power, coal, heavy engineering, building materials, and basic chemicals were given first priority. The aim was to construct large, sophisticated, and highly capital-intensive plants. A large number of the new plants were built with Soviet technical and financial assistance, and resultantly heavy industry grew rapidly. Though four-fifths of the economically active population was occupied in agriculture, it was not given that much priority as was given to industrial sector. ⁽¹¹⁾.

However, in order to increase efficiency of farming, extensive organizational changes took place in agriculture sector by way of cooperative farming starting in 1953 since traditional family farming practices were not sufficient to cope with the country's ambitious industrialization plans. The policy of cooperative farming met popular support from the farmers since it resulted in an increase in both production and income. By the end of 1955 almost 2/3 (app 60%) of all Chinese farmers were engaged in cooperative farming and by 1957 about 93.5% of all farm households had joined producers' cooperatives. This ultimately encouraged adoption of collective farming beginning in 1958 with the second Five Year Plan.

In terms of economic growth, the First Five-Year Plan was quite successful, especially in those areas emphasized by the Soviet-style development strategy. A solid foundation was created in heavy industry, particularly iron and steel manufacturing, coal mining, cement production, electricity generation, and machine building, which were put on a firm, modern technological footing. Industrial production increased at an average annual rate of 19% between 1952 and 1957, and national income grew at a rate of 9% a year.

Though agriculture sector did not receive much state investment, still output of agricultural sector increased by 4% a year due to the efficiency brought about by the reorganization and cooperation achieved through cooperative farming. By the end of the First Five-Year Plan, Chinese leaders became increasingly concerned over the relatively sluggish performance of agriculture and the inability of state trading companies to increase significantly the amount of grain procured from rural units for urban consumption, and for funding the many large urban industrialization projects. ⁽¹²⁾

(11) For details see Encyclopedia Britannica. <http://www.britannica.com/place/China/Economy>

(12) For details see Encyclopedia Wikipedia.

https://en.wikipedia.org/wiki/Fiveyear_plans_of_China#First_Plan_.281953.E2.80.931957.29

NOTE: Reference (12) has been consulted more than once for five years plans of China.

The second five year plan (1958-1962) was launched in 1958 and resembled its predecessor. Its main objectives were. (i) Expansion of heavy industry. (ii) Transferring more property from individual ownership to collective ownership in furtherance of the cause of socialism. (iii) Increased economic growth in all sectors. (iv) Cultural and scientific development of the Chinese people and improving their standard of living. (v) Strengthening national defense. The CCP desired to have 270% increase in agriculture output though actually it attained 35% growth only. The backyard production drive also failed to achieve the desired results and yielded large quantities of expensively produced substandard goods. Significant growth took place in capital construction as well as in the incomes of workers and farmers by 30%. The CCP, led by Mao, launched an economic and social campaign, known in the Chinese history as Great Leap Forward (GLF) from 1958-1961. ⁽¹³⁾

In order to achieve rapid transformation from agrarian economy to a socialist society through industrialization and collectivization, millions of people from agriculture sector were shifted to industrial sector; communes were formed, private farming was prohibited, emphasis was laid on increasing agriculture output through greater cooperation and greater physical effort. An additional campaign, known in the Chinese history as Great Sparrow Campaign (GSC) which was launched from 1958-1962 for elimination of rats, flies, mosquitos and sparrows resulted in the upsetting of ecological balance and enabled crop eating insects to multiply. This led to shortages of food supply and caused Great Chinese Famine, which resulted in death of millions of people. (Cheng, 2014) ⁽¹⁴⁾

Two other important developments took place; (i) In 1960 when Soviet Union withdrew its experts and (ii) The Sino-Indian war of 1962. Border disputes resulted in a short border war between the People's Republic of China and India on 20 October 1962. The border clash resulted in a crushing defeat of India as the PRC pushed the Indian forces to within forty-eight kilometers of the Assam plains in the northeast and occupied strategic points in Laddakh until the PRC declared a unilateral cease fire on 21st November, 1962 and withdrew twenty kilometers behind its contended line of control. ⁽¹⁵⁾

The years of the GLF saw shrinking of Chinese economy. Subsequently the CCP in its conferences in March 1960 and May 1962 studied negative impacts of GLF and criticized Mao, due to which he was marginalized within the party, leading him to start the Cultural Revolution in 1966. The “Great Proletarian Cultural Revolution,” usually known simply as the Cultural Revolution (or the Great Cultural Revolution), was a complex social upheaval that began as a struggle between Mao Zedong and other top party leaders (also known as Gang of Four; Jiang Qing, Wang Hongwen, Zhang Chunqiao, and Yao Wenyuan) for having dominance over the CCP and affected the Chinese society as a whole between 1966 to 1976.

(13) For details see Encyclopedia Wikipedia. https://en.wikipedia.org/wiki/Great_Leap_Forward

(14) Cheng, Z. (2014). To What Extent The Disastrous Consequences of the Great Leap Forward Movement Were the Responsibility of Chairman Mao? *Studies in Sociology of Science*, 5(4), 174.

(15) For details see Encyclopedia Wikipedia. https://en.wikipedia.org/wiki/Events_leading_to_the_Sino-Indian_War

Lin Biao, head of Army known as People's Liberation Army (PLA) supported Mao and got prepared "Little Red Book", comprising of sayings of Mao and required every soldier in the army to read the book. Red Guards consisting of the youth and the students organized anti-revolutionary forces which created factional fighting and resulted in the death of thousands of people, culminating in the breakdown of Authority throughout China. Mao believed in strict communist policies while the moderate leaders like Vice-Chairman Liu Shaoqi (1898-1969) and Premier Zhou Enlai (1898-1976), followed economic reforms based on individual ownership by way of farming their own plots of land in order to revive the economy. This policy had positive results since China's economy grew strongly from 1962-1965. Mao detested such policies, as they went against the principles of pure communism in which he so firmly believed. ⁽¹⁶⁾

It is worth mentioning here that in 1963, Zhou Enlai envisioned adoption of four modernizations, meaning thereby to strengthen the fields of agriculture, industry, national defense, and science and technology for development of China's economy. These four modernizations were adopted in 1978 by Deng Xiaoping, after the death of Zhou Enlai in 1976, for strengthening China's economy. ⁽¹⁷⁾

The third plan which was due in 1963 but could not be launched because China's economy had yet not come out of the adverse effects of the GLF which resulted in four poor harvests. Furthermore China undertook two nuclear explosions; first in October, 1964 and second in May 1965, which on the one hand had its impact on economic growth, though enabled China to become an atomic power, and on the other created strong reaction in the West, particularly United States of America. (W. K., 1966) ⁽¹⁸⁾

The third Five-year Plan (1966-1970) was launched in 1966, though its preparation had started in 1964, and it comprised of two schemes.... (i) Preliminary tentative plan proposed by the State Planning Commission and agreed by the Central Government in May, 1964 and (ii) Report Syllabus about the arrangement of the third five year plan drawn by the State Planning Commission in Sep, 1965. The targets envisaged in the Plan were.... (i) To put in all out efforts to develop agriculture for solving the problems faced by the people regarding food, clothing and other basic needs. (ii) To beef up National Defense and to excel in technology. (iii) For achieving the aforesaid two targets, to improve infrastructure, to increase production and its quality and in order to support agriculture and strengthen national defense, to enhance infrastructure, continue to improve production quality and (iv) To have an economy of self-reliance, and to develop transportation, commerce, culture, education and scientific research.

(16) Introduction to the Cultural Revolution Adapted from Jonathan Spence, The Search for Modern China, 2001. *The Spice Digest, fall (2007)*. <http://iis-db.stanford.edu/docs/115/CRintro.pdf>

(17) For details see Encyclopedia Wikipedia. https://en.wikipedia.org/wiki/Four_Modernizations

(18) W. K. (1966). China's Third Five-Year Plan. *The China Quarterly*, 25, pp 171-175.

All major targets of the plan were achieved since the gross output value of industry and agriculture actually exceeded targets by 14.1 percent; the gross output value of agriculture was 2.2 percent over-target; and the gross output value of industry was 21.1 percent over-target. ⁽¹⁹⁾

The fourth five year plan (1971-1975) was approved in Sep, 1970 by the ninth Communist Party Central Committee and stipulated.... (i) 12 percent average annual growth rate of gross output value both in agriculture and industry which in terms of quantity meant 300-325 billion Kg grain, 3.9 to 4.2 billion kg cotton, 35-40 million tons of steel, 400-430 million tons of coal, 200-220 billion KWH of electricity and 900 million to 1 billion tons of railway freight and; (ii) 130 billion Yuan to be spent for development of infrastructure. Subsequently in July, 1973 the State Planning Commission reduced the target of steel production to 32-35 million tons, and again to 30 million tons. During this period, most of the targets were achieved or exceeded and China became the fastest growing economy.

Liou, (1998) ⁽²⁰⁾ analyzed the fourth five year plan. According to Liou, the power struggle which started during Cultural Revolution continued during the period of the fourth five year plan. With the death of Lin Biao, Prime Minister Zhou Enlai was manager of the economic team and he was supported by Xiaoping. Major policy changes took place during this period and China started open door policy in order to improve China's relations with Western Countries. In the pursuit of this policy, China restored diplomatic relations with Japan and US in 1972. China also initiated import of foreign technology to modernize its agriculture, industry, science and technology and national defense. These policies came under severe criticism by the Gang of Four.

The uncertainty and instability so caused by the aforementioned internal strife exacerbated by the death of Zhou Enlai in Jan, 1976 and subsequent purge of Deng Xiaoping in April, 1976. The destruction which took place in July, 1976 from the Tangshan Earthquake also added further to the slow growth both in industrial and agriculture output. This uncertainty finally ended with the arrest of the Gang of Four in Oct, 1976, one month after Mao's death

The period from 1974-1976 was marked with struggle for power within the CCP ranks and the government. The year 1976 saw many changes in the politico-economic history of China both in respect of leadership as well as the politico-economic policies and ushered in an era of reforms. Premier Zhou Enlai died on Jan 8, 1976 and in the same year Chairman, Mao Zedong died on Sep 9, 1976 while purge of Deng Xiaoping (1904-1997) also took place in July, 1976. This provided an opportunity to Hua Guofeng (1921-2008) to assume the powerful position of Chairman of the CCP Central Committee along-with Prime Minister. Hua proposed a 10 year economic development plan (1976-1985) which included **fifth five year plan (1976-1980)**. It encompassed Zhou Enlai's concept of modernization and Mao's policy of speedy development.

(19) For details see China.org. <http://www.china.org.cn/english/MATERIAL/157608.htm>

(20) Liou, K. T. (1998). *Managing economic reforms in post-Mao China*. Greenwood Publishing Group.

Looking in retrospect, it can be safely concluded that China's strategy of modernization for politico-economic and social development has been changing considerably after every 25-30 years since 1949. The period of Mao Zedong (1949-1976) to Hua Guofeng (1976-1978) was the first generation development strategy while the period of Deng Xiaoping (1979-1991) and Jiang Zemin (1992-2001) was the second generation development strategy and the period of Hu Jintao (2002-2012) and after is the period of third generation development strategy. (Cai, 2010) ⁽²¹⁾

Deng Xiaoping got rehabilitated in CCP in 1977 and the CCP's 11th Central Committee meeting held in December, 1978, supported Hua's policy of economic reforms. The said 11th Central Committee Meeting decided to.... (i) Replace the 10 year plan to three year adjustment plan (1979-1981). (ii) Not to resort to mass movements for political and economic affairs and (iii) adopt the mode of economic modernization for economic development. (Harding, 1987) ⁽²²⁾

The original 10 year draft plan postulated.... (i) Steel output to reach 60 million tons. (ii) Petroleum output to reach 250 million tons. (iii) 120 new large projects including 10 steel production bases, 9 non-ferrous metal bases, 8 coal bases and 10 oil and gas fields ⁽²³⁾.

For this purpose, the government would invest 70 billion Yuan for infrastructure development. These were too high targets to be achieved. The new policy initiatives of reforms by Hua Guofeng and Deng Xiaoping resulted in quick recovery between 1976-1978 when in 1977, the gross output value of industry and agriculture reached 505.5 billion yuan, 4.4% above-target and representing an increase of 10.4% compared with the previous year. Gross domestic product for 1978 reached 301 billion yuan, an increase of 12.3% compared with 1977, and an increase of 19.4% compared with 1976. In April 1979, the central government formally put forward new principles of readjustment, reform, rectification and improvement.

The sixth five year plan (1980-1985) was initially a part of the ten year National Economic Development Plan (1976-1985) but was subsequently amended in 1980 and 1982. This plan was approved by the fifth National Conference of the fifth National People's Congress on 10th, Dec, 1982. The policy towards Market Reform of the economy continued during the plan period amidst serious debate between the reformers and conservatives. This plan was more comprehensive as compared to earlier plans and its general objectives were(i) To keep on pursuing the principle of "adjust, reform, rectify and improve". (ii) To overcome the serious challenges to economic development. (iii) To achieve a decisive turn in the fiscal situation. (iv) To lay sound foundation for the advancement of National Economic and Social Development.

(21) Cai, F. (Ed.). (2010). *Transforming the Chinese economy* (Vol. 2). Brill.

(22) Harding, H. (1987). *China's second revolution: Reform after Mao*. Brookings Institution Press.

(23) For details see Encyclopedia Wikipedia. [https://en.wikipedia.org/wiki/Economic_history_of_China_\(1949%E2%80%93present\)](https://en.wikipedia.org/wiki/Economic_history_of_China_(1949%E2%80%93present))

In order to increase the agriculture output, the Household Responsibility System, which was started secretly in Xiaogang, Fenyang in Anhui Province in 1978 since under Mao's leadership private ownership was banned, was continued. The experiment boosted production and increased income of farmers. Therefore, Deng Xiaoping implemented the program at National Level in 1981. Under this system, farm households were given fixed quotas of agriculture produce, which were fixed low in 1981, and on achieving their fixed quotas farmers were allowed to sell the remaining produce in local markets where prices were not regulated. This provided great incentive to the farmers and led to increase in their incomes, which helped them to raise their living standards ⁽²⁴⁾.

The plan focused on basic improvements in structural policy and gradual implementation of reforms. Specific objectives of the plan were---- (i) To achieve annual growth rate of 5 percent both in industrial and agriculture products. (ii) To keep the supply and quality of consumer products and keeping the market prices stable. (iii) To cut down material consumption particularly of energy. (iv) To update technological capacity of enterprises and to provide sufficient capital for the construction of key energy and communication projects. (v) Technological and scientific advancement of the country and to promote application of new technologies through development of education, science and culture. (vi) To strengthen National Defense Industry and to enhance National defense forces. (vii) To increase the government revenues. (viii) To develop trade and to make effective use of foreign capital. (ix) To control growth of population and to make proper arrangements for employment of labor forces and (x) to strengthen environmental protection.

About 36 percent of the total investment was to be used for modernizing existing plants, 23.5 percent of the total investment was to be reserved for the energy sector, 13% for transport and communication sector, a little over 6 percent to agriculture.

The implementation of plan was successful, National Income in real terms grew by 7.4 percent, bringing it to 424.7 billion Yuan. The fiscal situation improved gradually year by year. Fiscal revenue grew by an average of 15.9 billion yuan every year, which represented an annual growth of 12% thereby realizing a balance between fiscal revenue and expenditure. Gross industrial production in Nominal terms grew by 7.7 percent. Gross production in agriculture output increased by 11 percent, 6 percent more than the plan. In the real terms, the rate of increase was 9.3 percent. For the first time, PRC used advisory services by foreign consulting firms and international organizations like UNDP, UNIDO and World Bank (WB) etc. China also accepted for the first time Foreign Direct Investment (FDI) as in 1984 and 1985, WB alone supported projects to the tune of 2.4 billion dollar. (Hagemann, 1983) ⁽²⁵⁾

(24) For detail see about.com. <http://chineseculture.about.com/od/historyofchina/a/Chinese-History-Sixth-Five-Year-Plan-1980-1985.htm>

(25) Hagemann, E. (1983). China: good start for the 6th five-year plan. *Economic Bulletin*, 20(7), 5-9.

Another important development took place on January 1, 1984, the state council decided that People's Bank of China (PBC) would be the official Central Bank of PRC and it would be responsible for undertaking research and implementation of National Financial Macro Management Strategies and financial regulations and to control credit quantity and to ensure funds reconciliation and to maintain monetary stability. Though PBC was established on December 1, 1948, and it was first located in Shijiaz Huang, Hebel and its Head Quarters were shifted to Beijing in 1949. Between 1950 and 1978 PBC was the only Bank in the PRC and was responsible both for Central Banking and Commercial Banking operations. (Cai, 2010) ⁽²¹⁾

The seventh five year plan (1986-1990) was submitted before the fourth session of the sixth National People's Congress in March 1986 for approval and this was for the first time that a comprehensive plan for Socio-Economic development came up at the start of the next five year period. The fundamental principles laid down in the seventh five year plan encompassed..... (i) The policy of reforms, initiated earlier, to remain as top priority for economic development. (ii) A balance to be maintained between overall social demand and supply and between the National Budget, credit and materials. (iii) Improving economic efficiency, particularly that of product quality; to maintain proper relation between efficiency and growth rate, and quality and quantity. (iv) To familiarize with the changing structure of social demand as well as the requirements of economic modernization and to adjust the industrial structure accordingly. (v) In order to enhance the construction of the energy, communication infrastructure and raw materials industries to re-adjust the investment structure in fixed assets. (vi) Focus to shift on the construction of technical updating, reforming and expansion of existing enterprises. (vii) To increase the development of science and education. (viii) The policy of opening up to the outside world to be expanded through external economic and technological exchanges, combing with domestic economic growth. (ix) To improve further the material and cultural life of the Chinese people and to ensure emergence of ideological socialist material civilization and (x) to inculcate the spirit of arduous struggle and hard work amongst the Chinese.

Seventh five year plan envisaged economic development growth to the extent of 38 percent of both gross National industrial and agricultural output within five years or 6.7 percent annual growth; gross agriculture output by 4 percent and gross industrial output by 7.5 percent per annum, to increase gross national output by 44 percent within five years, or by an average annual rate of 7.5 percent. With reference to sectoral growth targets, the seventh five year plan fixed target between 425 and 450 million tons of grain, 4.25 million tons of cotton, 550 billion kilo watts for electricity, 1 billion ton for raw coal, 150 million tons of crude oil, steel 55-58 million tons and freight volume was set at 9.4 billion tons. Investment target in fixed assets was set at 1,296 billion Yuan so that fixed assets grow by 600 billion Yuan.

NOTE: (21) already mentioned on page 11

A growth of 35 percent was projected in total import and export volumes and the scale of FDI was to be expanded. Advanced technology was to be encouraged. Actual consumption both in urban and rural areas was projected to be increased by 5 percent a year while maintaining balance between the National budget, credit, material and foreign exchange. A nine year compulsory education scheme was launched and five million professionals were to be trained.

The national economy achieved high rates of growth since both Gross National Product (GNP) and Fixed Asset Assessment (FAA) increased during the plan period. However, in the year 1989 Tiananmen Incident⁽²⁶⁾ took place in which a large number of protesting students got killed as a result of governments' crackdown against the Protestors. Foreign governments as well as multilateral aid giving and banking institutions suspended loans and investment by placing economic sanctions on China. This outcome dampened the achievements of the seventh five year plan.⁽²⁷⁾

As analyzed by Zhou (2014)⁽²⁸⁾, the disparities in the regional development between China's Eastern, Central and Western regions had taken a serious shape by that time. In the seventh five year plan, the policy makers envisioned a more balanced state of development amongst various regions of the country. Furthermore, with the start of policies of reforms and opening up, the agriculture sector no more remained the core focus of National Economic Development. Resultantly the rural areas lagged behind in economic development as compared to urban areas.

In early 1986, the Chinese leaders were also deeply concerned with the increasing rate of population growth. The birth rate was at its peak during the seventh five year plan. The Chinese leadership re-affirmed the need for family planning in the seventh five year plan. The leadership launched a proper campaign by convincing people through education for exercising birth control. (Cleaveland & Banister, 1988)⁽²⁹⁾

By this time, fast industrialization coupled with urbanization had started posing a serious threat of environmental pollution. Gas omissions, dust omissions and waste water of industries like pulp and paper making, dyeing, electro plating, chemical production, food and alcohol processing, smelting, refining, coking and building material (cement, bricks and tiles) were causing environmental pollution. The authorities started taking policy initiatives in the form of town planning ordinance and introduction of environmental contract responsibility systems. New enterprises were subjected to environmental impact statements to be part of project feasibility studies. (Gersovitz, Gordon & Slemrod, 1993)⁽³⁰⁾

(26) For details see about.com. <http://asianhistory.about.com/od/china/a/TiananmenSquare.htm>

(27) For details see about.com. <http://chineseculture.about.com/od/historyofchina/a/Chinese-History-Seventh-Five-Year-Plan-1986-1990.htm#>.

(28) Zhou, H. (2014). *Foreign Aid in China*. Springer.

(29) Hardee-Cleaveland, K., & Banister, J. (1988). *Family planning in China: Recent trends* (No. 40). Center for International Research, US Bureau of the Census.

(30) Gersovitz, M., Gordon, R. H., & Slemrod, J. (1993). *China-Urban land management in an emerging market economy*. The World Bank.

In March 1991, fourth session of the Seventh National People's Congress approved China's outline of the ten year program and of the **eighth five year plan (1991-1995)** for National Economic and Social Development. The eighth five year plan marked the beginning of renewed economic reform under the leadership of Deng Xiaoping. As a result of internal struggle between the conservatives and the reformers in the CCP, reformist leader Zhao Ziyang, President and Party Secretary, was ousted and was replaced by Jiang Zemin, who took more conservative approach to economic and political reform. During this period Premier Zhu Rongji played important role in sustaining liberalization through macro-economic policies to control inflation and these policies were successful in controlling high inflation caused by rapid economic growth. Many of the general objectives and goals of the eighth five year plan were the same as in the seventh five year plan which focused on.... (i) To continue reform of the economic system, particularly the tax system. (ii) To improve product quality and efficiency and to manage the growth rate without compromising on quantity and quality. (iii) Development of foreign trade. (iv) To continue improvement of the standard of living and cultural life of the Chinese people and (v) to increase the production of energy and raw materials and development of communications and telecommunications ⁽³¹⁾.

According to GAO (General Accounting Office, US 1994) ⁽³²⁾, the targets of the eighth five year plan were... (i) To adjust China's industrial structure and to gradually modernize the National economy. (ii) To focus on six priority sectors of basic industries and infrastructure (energy, transport and communication); electronics, agriculture, construction, services, defense, and processing industries. (iii) Total investment of 2600 billion yuan, equal to 32 percent of GNP, between 1991-1995. Out of this total investment about 1700 billion yuan (65 percent) to be state investment; slightly less than one half of the proposed state investment to be utilized for capital construction (35 percent) with priority to energy resources, transportation and communications (18 percent), raw and semi-finished materials, agriculture, and water resources.

The implementation of eighth five year plan met with success since economy continued to grow, infrastructure expanded and standards of living of the majority of the Chinese people rose. The system of five working days a week was introduced in cities and townships. Production of cement, coal, cotton, cotton dresses, food and television were the highest in the world. Output of steel and chemical fibers ranked second in the world and electricity supply was third highest in the world. China ranked 11th in import and export volume in the world. Increase in Gross National Product (GNP) was 12 percent per annum and it rose to 5.76 trillion yuan.

(31) For details see about.com. <http://chineseculture.about.com/od/historyofchina/a/Chinese-History-Eighth-Five-Year-Plan-1991-1995.htm>

(32) General Government Division GAO, (1994). *International Trade; U.S. Government Policy Issues Affecting U.S. Business Activities in China*. DIANE Publishing Company.

The original target of quadrupling the GNP of 1980 by the year 2000, as fixed by the NPC, was achieved 5 years ahead of the schedule. The agricultural output value increased at an average annual rate of 4.1 percent and the industrial output value increased by 17.8 percent per annum. Average per capita income used by urban population for living expenses increased by 7.7 percent per year, after accounting for price rises while the average per capita income of rural population increased by 4.5 percent. National level per capita income rose to 1578 yuan resulting in the rise of standard of living of the people, a majority of whom got access to radio and television and number of people living in poverty decreased by 15 million to 65 million in 1995. This is evident from the increase in retail sales which touched the level of 6.7275 trillion yuan. Increase in per capita income led to increase in savings which were about 3000 billion yuan by the end of 1995, an increase of about 2000 billion yuan at the end of the seventh five year plan. Investment in fixed assets touched the level of 3.89 trillion yuan. 845 large and medium sized infrastructure projects were completed. With regard to development of transportation infrastructure 5800 km of railway lines was completed which included 3400 km of double-track lines and 2600 km of electrified railways. Besides this, 105,000 km of roads including 1600 km of highways and 12 new airports were built. Annual electricity supply increased by 9 percent. Reform of economic sector continued, and public sector started playing bigger role in the economic market. Tax system was decentralized by replacing it with new tax system. Foreign trade developed rapidly and its volume exceeded one trillion US dollars. (Peng, (1996)⁽³¹⁾⁽³³⁾)

China's rapid economic growth, its market potential and its economic reforms coupled with trade liberalization efforts attracted the US companies to invest in industries such as computers, air space, telecommunications and power generation. US electronic manufacturers estimated that China's market growth for electronics and computers was highest in the world. Demand for air transportation was growing by more than 20 percent annually since the last five year. This led to attracting US investors for investment in the aerospace industry while, the fastest growing infrastructure development projects attracted the US companies for investment in telecommunication projects. Similar was the position in respect of power generation plants and equipment. China's continued efforts to improve the business environment in order to meet the requirements for joining GATT also encouraged the US companies to expand their activities in China. The 1992 US-China Memorandum of Understanding (MOU) on market access and China's efforts to decentralize decision making offered further encouragement to US companies to invest in China since China committed to liberalize trade restrictions including imports of computer equipment⁽³²⁾.

(33) Peng, L. (1996). Report on the outline of the Ninth Five—Year Plan for national economic and social development and the long—range objectives to the year 2010. *Beijing Review*, 39.
NOTE: (31) and (32) already mentioned on Page 15.

Fifth plenary session of the fourteenth CCP adopted the proposal of the **ninth five year plan** of National Economy and Social Development (1996-2000) and long range objectives to the year 2010 on September 28, 1995. According to the Report on the outline of the Ninth Five-Year Plan by Peng (1996) ⁽³²⁾, the basic objectives and guiding principles for the next fifteen years were.....

(i) To correctly handle the relationships between reform, development and stability. While development is the absolute principle, reform provides impetus for development and maintenance of political and social stability is the basic pre-requisite for the promotion of reform and development. (ii) To vigorously promote the fundamental system and the mode of economic growth and to shift from a planned economy to a socialist market economy and from extensive mode to intensive mode. (iii) To contentiously resolve major issues bearing on the overall situation of reform and development. (iv) The plan must reflect the requirements of a socialist market economy by following the principle of Deng Xiaoping's theory of building socialism with Chinese characteristics which was "seizing the current opportunity to deepen the reform and open China wider to the outside world promoting development and maintaining stability". (v) To ensure a sustained and stable growth in agriculture and rural economy as a whole. (vi) To actively promote re-adjustment in industrial sector. (vii) To promote coordinated developments of regional economies. Since the speed of development varied, the disparities among the regions had got widened. During the ninth five year plan period, more attention was to be paid to the development of central and western parts of the country and to introduce policies conducive to slowing down the widening of regional disparities by striving to narrow them. (viii) To strive to maintain macro-economic stability. (ix) To continuously raise people's living standards in both urban and rural areas so that a fairly comfortable and practical eradication of poverty can be ensured. (x) Restructuring of the economic system by reform of the state owned enterprises. (xi) To cultivate a unified and open market system with orderly competition. (xii) To make necessary adjustments in the distribution of personal incomes and to establish as well as to improve the social security system. (xiii) To change the role of the government, and strengthen the state's macro control and regulatory capability. (xiv) To make full use of domestic and international resources and markets, opening wider to the outside world. (xv) To implement the strategies of developing China by relying on science and education for achieving sustainable development. (xvi) Education to be priority and to improve the cultural level of entire population. (xvii) To pursue policy of population planning and to cap population at 300 million by year. (xviii) To strengthen environmental and ecological protection and rationally developing and using natural resources. (xix) Developing socialist culture and ideology and strengthening democracy and the legal system. (xx) To make the government employees honest and industrious and to combat corruption. (xxi) Promoting peaceful reunification of motherland---- China to take over Hong Kong on July 1, 1997 and Macao on December 20, 1999.

NOTE: (32) already mentioned on Page 15.

(xxii) In international affairs China to have peaceful relations with all by following the principle of non-interference in other countries' affairs. (xxiii) To double 2000's GNP. (xxiv) To achieve 8 percent average annual economic growth, 30 percent of the total investment was to be in fixed assets. (xxv) To decrease the trend of price rise in such a manner that it remains lower than the rate of economic growth and to take effective measures to curb inflation. (xxvi) To appropriately tighten financial and monetary policies to overcome financial difficulties. For this purpose, the taxation system must be improved, tax base must be broadened and certain tax rates to be re-adjusted to abrogate tax reductions and exemptions. (xxvii) To strengthen the collection and management of revenue, to increase income and to cut down spending. Deficits must be reduced and a basic balance between revenue and expenditure to be maintained. (xxviii) Money supply must be controlled so as to maintain stable currency. (xxix) Loans must be restructured in accordance with industrial policies and credit principles. (xxx) To increase efficiency in the use of funds. (xxxi) An equilibrium in the balance of payments must be maintained so as to enhance the capacity to make international payments

Major achievements during the ninth five year plan for National Economic and Social Development were.... (i) China's GDP growth was at an average annual rate of 8.3 percent and by the year 2000, GDP was 8.9404 trillion yuan; the target of quadrupling the 1980 per Capita income was achieved ahead of the schedule. (ii) Due to rapid economic growth, national revenue increased at the rate of 16.5 percent annually and by the year 2000, the national revenue was 1.338 trillion yuan. The increase in industrial and agricultural output was in the front ranks of the world and commodity shortages almost got eliminated. (iii) As a result of extensive economic restructuring, socialist market economy started taking routes. Corporate system in large and medium sized state owned enterprises got adopted. A large number of key state enterprises were converted into corporations and a considerable number were listed in the stock markets within China and outside. (iv) By the year 2000, total profits of state owned and other industrial enterprises, with large shares held by the state, reached 239.2 billion yuan; 2.9 times as compared to the year 1997. Loss generating enterprises were turned around by making them profitable as a result of reforms and restructuring. The market system improved and the supply of capital, technology and labor expanded and the role of market in the allocation of resources got increased. (v) Opening up of the economy to the outside world and reform of foreign trade system led to growth of export oriented economy. By the year 2000, the total volume of China's imports and exports was 474.3 billion US dollars; exports being 249.2 billion US dollars (an increase of 67 percent over the year 1995). Resultantly the foreign currency reserves of China increased from 7.36 billion US dollars in 1990 to 15.8 billion US dollars, making China as the second largest holder of foreign currency reserves in the world after Japan. (vi) Standards of living of the people improved with the increase of per capita income of rural dwellers to 2,253 yuan and that of the city dwellers to 6,280 yuan, an annual increase of 4.7 and 5.8 percent in real terms respectively. ⁽³⁴⁾ ⁽³⁵⁾

(34) For details see People's Daily Online. <http://en.people.cn/features/lianghui/2001030600A185.html>

(35) For details see China Daily. <http://www.china.org.cn/95e/95-english3/1.htm>

The proposal of the central committee of the CCP for the formulation of the **tenth five year plan (2001-2005)** for National Economic and Social Development, as adopted by the fifth plenary session of the fourteenth CCP Central committee, was presented before the fourth session of the ninth National People's Congress on March 5, 2001 by Premier Zhu Rongji. The objectives and targets of the tenth five year plan were.... (i) Restructuring of the economy, and making marked improvements in the quality and benefits of economic growth, to lay a solid foundation for doubling the 2000 GDP by 2010. The average annual economic growth to be 7 percent so that the total GDP would be about 12,500 billion yuan by 2005, taking 2000 as the base year (ii) Per capita income to be 9400 yuan by 2005 (iii) The number of employees to get increased by 40 million and the surplus rural labor to be transferred to be 40 million. The urban unemployment rate to be controlled at about 5 percent. (iv) The price level as a whole would be kept stable. (v) International revenue and expenditure would be balanced. (vi) To make significant progress in establishing modern enterprise system by reforming and restructuring the state owned enterprises. (vii) To further improve the social security system and the socialist market economy. (viii) To take extensive and in depth part in international economic cooperation and China's international competitiveness would be strengthened. (ix) By the year 2005, the value increase of the output of the primary industries would be 13 percent of the GDP (with employees accounting for 44 percent of the total employees), that of the secondary industries would be 51 percent of GDP (with 23 percent of the total employees) and that of the tertiary industries would be 36 percent of the GDP (with 33 percent of the total employees). (x) IT industry would be given special attention for improvement and expansion. (xi) The infrastructure would be improved further. (xii) The development disparity between different regions would be effectively controlled and urbanization level would be raised. (xiii) By the year 2005, the R&D funds would be more than 1.5 percent of the GDP. Science and technological innovations would be strengthened. (xiv) The gross enrollment rate of junior high schools would be over 90 percent, that of senior high schools would be about 60 percent and that of higher education would be 16 percent. (xv) The population growth would be less than nine per thousand and by the year 2005, total population would not be more than 1.33 billion. (xvi) The forest coverage would be raised to 18.2 percent and the urban green rate to 35 percent. (xvii) The total amount of the major urban and rural pollutants discharge would be reduced by 10 percent as compared with the level of 2000. (xviii) Improvement in the saving and protection of natural resources. (xix) The dispose-able income both per urban and rural residents would be about 5 percent. (xx) 40 percent of the total households in China would have cable TV by 2005. (xxi) Medical and health services both for urban and rural areas would be further improved and cultural life of Chinese people would be made richer and more varied.

As analyzed by Cai (2010) ⁽²⁵⁾, the tenth five year plan was the first five year plan after the beginning of the third step in China's modernization drive and it was also the first five year plan which started establishing the socialist market economy. The plan targets were concentrated in the fields of social development and there was a reduction in the number of physical targets while there was an increase in the number of predictive targets which reflected China's structural change. The plan laid new emphasis on the role of market and the use of economic policies and legal measures to exert macro control. It was a balanced plan since number of targets relating to population, resources, environment, living standards, education, science and technology etc. went

up to 66.6 percent while the portion of economic targets dropped to 33.4 percent, which were all predictive targets. It was reflective of shift towards a public service oriented government.

On 11th December, 2001, China became member of World Trade Organization (WTO). This accession to WTO necessitated China to urgently adopt government functions to the practices of free market.

As published by Ling Zhu in Gov.cn (January 30, 2006)⁽³⁶⁾, major targets outlined in China's 10th five year plan were achieved ahead of schedule. The government of China succeeded in solving the employment problem of 43.68 million urban Chinese while 40 million rural labor force was shifted to cities. Consequently the unemployment rate dropped below 5 percent by the end of 2005. Annual per capita income for urban residents increased by 9.7 percent annually and that of the rural residents by 5 percent annually. The national financial income reached above 3 trillion yuan (372 billion US dollars) as against the national financial income of 1.34 trillion yuan (166.3 billion US dollars) in the year 2000. The reform of China's economic structure achieved considerable progress; agricultural production got strengthened and construction of infrastructure in the fields of energy, transport and key raw materials got accelerated.

During the 10th Five-Year Plan period, the domestic capital formation rate increased from 36% to 44.8%, while the consumption rate decreased from 61.5% to 50.7%, and foreign trade dependency rose from 39.6% to 63.9%.⁽³⁷⁾

The **eleventh five year plan (2006-2010)**, was ratified on March, 14th, 2006 by the fourth plenary session of China's tenth National People's Congress and it was presented by Ma Kia, Minister for National Development and Reform Commission before the press on March, 19th, 2006. The plan revolved around two strategies i.e., (i) Scientific concept of development and (ii) building a socialist harmonious society and it was declared as a "Declaration of Scientific, Harmonious and peaceful development...for the ambitious goal of building a well off society in an all-round manner".

The targets set in the eleventh five year plan were.... (i) The national economy to grow at an annual average rate of 7.5 percent. (ii) By 2010 GDP would be 26.1 trillion yuan (equal to 3.2 trillion US dollars) and per capita GDP would grow at the annual rate of 6.6 percent and by 2010, it would be 19,270 yuan (equal to 2400 US dollars) whereas by 2010, the per capita disposable income of both urban and rural residents would increase by 5 percent annually raising it from 10,493 yuan in 2005 to 13,390 yuan in 2010 and from 3255 yuan in 2005 to 4150 yuan in 2010 respectively.

(36) For details see gov.cn. http://www.gov.cn/english/2006-01/30/content_175609.htm

(37) For details see gov.cn. http://www.gov.cn/english/2006-03/23/content_234832.htm

NOTE: (25) already mentioned on Page 13.

(iii) The quality of economic growth to be improved further. Industrial structure to be optimized and upgraded. Share of service industry's value added to GDP would be enhanced from 40.3 percent in 2005 to 43.3 percent in 2010. (iv) Enterprises to have stronger capacity of independent innovation and international competitiveness. (v) Share of employment in service industry would increase from 31.3 percent in 2005 to 35.3 percent in 2010. (vi) Resource utilization efficiency to be improved while energy consumption of per unit GDP would be lowered by 20%. (vii) Spending on R&D would be raised from 1.3 percent of GDP in 2005 to 2 percent of GDP in 2010. (viii) 45 million people living in urban areas would be employed and 45 million rural labor would be shifted to urban areas and thus the urban employment rate would be from 4.2 percent in 2005 to 5 percent in 2010 and urbanization rate would get increased from 43 percent in 2005 to 47 percent in 2010. (ix) Effective population control would continue and the total population of 1.30756 billion in 2005 would remain capped at 1.36000 billion in 2010. (x) Public services for urban and rural residents, such as compulsory education, public health, social security, public culture, would be improved considerably both in quality and quantity and average education per capita to be increased from 8.5 years in 2005 to nine years in 2010. (xi) The urban citizens covered by old age pension would be increased from 174 million people in 2005 to 233 million people in 2010 and the coverage of new rural cooperative medical care system to be increased from 23.5 percent in 2005 to over 80 percent in 2010. (xii) For building a socialist harmonious society the widening gaps of public services, per capita income and the living standard between urban and rural areas and between different regions would be curbed. (xiii) The trend of ecological and environmental degradation will be curbed by reducing the total volume of pollutant emission by 10 percent in five years. (xiv) In cities, 70% of waste water and 60% of residential garbage would be treated. (xv) 100 million rural residents will be provided access to safe drinking water. (xvi) 1.2 million kilometers of rural roads would be newly built and upgraded. All towns and administrative villages that had the necessary conditions would have access to highways. (xvii) The share of agriculture would be reduced by reducing 122 million hectares of cultivated land in 2005 to 120 million hectares in 2010 but forest coverage would be increased from 18.2 percent in 2005 to 20 percent in 2010. (xviii) Market economy system would be boosted further and open economy would be widened. Government's capacity of market regulation would be enhanced. (xix) Through reforms institutional building of areas such as administrative governance, state-owned enterprises, taxation, finance, science and technology, education, culture and public health would be undertaken. (xx) Opening up to the outside world and domestic development would be balanced. (xxi) By 2010, the total import and export volume of goods trade and service trade would hit 2.3 trillion US dollars and 400 billion US dollars respectively. (xxii) New progress would be made in promoting democracy, the legal system and moral and culture. The legal system will be further improved in an all-round way with an aim to build a socialist legal system with Chinese characteristics. (xxiii) Ethical education would be strengthened for building a harmonious society.

(xxiv) Economic and social development to be achieved through Scientific Concept of Development for maintaining stable and fast economic growth. (xxv) Promote economic restructuring and balanced development of urban and rural areas. ⁽³⁸⁾

As analyzed by Naughton (2005) ⁽³⁹⁾, the eleventh five year plan was a result of a broad based consultative process and it contained lot of good ideas. It gave a comprehensive vision of a sustainable development process in China and gave a glimpse of the kind of government role that would be required for the achievements of these goals to have a more creative society having more focus on human resource development. However, the short-coming in the plan was that it did not clearly lay down as to how the proposals would be implemented. The various strategies and concepts in the plan had a rather slippery relationship to each other despite emanating from the same broad concepts of scientific development and harmonious society. It did not specify as to which would be the priority area and who would be responsible for its implementation and how. Rather it appeared to be a long wish list.

Due to strenuous efforts made during the eleventh five year plan, China's productivity, national strength and common man's standard of living got increased. Annual average growth rate was 10.7 percent, ahead of the target. The annual population growth was at about 5 in a thousand, lower than the target of 8 per thousand. The GDP per capita was 10.2 percent as against 6.6 percent fixed as a target. Per capita disposable income both in urban and rural areas increased considerably. The number of people covered by the urban endowment insurance and new rural Medicare system increased. Great progress was made in education, employment, and transfer of rural labor force. During this period China hosted successfully Beijing Olympic Games and Shanghai expo, which provided a great impetus to China's image in the outside world. Remarkable progress was achieved in railway construction by installing the world's largest high speed railway networks. China built more than 16000 km railway during eleventh plan period and total length of railway in operation was more than 90,000 km by the end of 2010. The goal of reducing 20 percent energy consumption per unit of GDP was achieved. During the period of eleventh five year plan, China ranked number two in the world by having utilized foreign capital of 420 billion US dollars, which was 1.5 times more than that of the tenth five year plan. Domestic trade volume grew at a high speed and the retail sales were 13.3 trillion yuan. Outflow of China's investment was more than 200 million US dollars with 30 percent annual growth. By the end of 2009, China had established 13000 enterprises in foreign countries and regions with an investment amounting to 245.8 billion US dollars. The assets of overseas enterprises were more than one trillion US dollars. Sixteen economic and trade cooperation zones were established ⁽⁴⁰⁾.

(38) For details see gov.cn. http://www.gov.cn/english/2006-03/23/content_234832.htm

(39) Naughton, B. (2005). The new common economic program: China's eleventh five year plan and what it means. *China Leadership Monitor*, 16, 1-10.

(40) For details see china.org.cn. http://china.org.cn/china/NPC_CPPCC_2011/2011-03/03/content_22043374.htm

China's twelfth five year plan (2011-2015) was approved by the National Peoples' Congress of China on March 14, 2011. Earlier the fifth plenary session of the seventeenth Central committee of the Communist Party of China debated the same in October, 2010. The macro policy directions of the plan envisaged..... (i) To address imbalance between consumption and investment. (ii) To sort out the constraint between economic growth on the one hand and resources and environment on the other. (iii) To resolve the large scale income disparity between the different segments of the social fabric. (iv) To overcome un-competitive technological innovation ability and unreasonable industrial structure. (v) To modernize the agricultural sector for reducing its vulnerability. (vi) To abridge the gap between the urban and rural development and to bring down the disparity between urban and rural incomes. (vii) To continue scientific development through reform and opening up so as to realize the goal of socialistic society with Chinese characteristics having wide scale social welfare coverage for promotion of social harmony and social justice. (viii) To ensure better livelihood for the Chinese people. (ix) Transforming the economic development and to build a resource saving and environment friendly society; emphasis to be on saving energy, reducing greenhouse emissions in order to actively tackle global climate change. (x) To strike a balance between economic development and population growth. (xi) To strengthen the co-ordination of fiscal, monetary, investment, industrial and land policy. (xii) For expanding domestic demand, to create positive consumption environment so that gradually the overall size of the domestic market becomes one of the biggest in the world. (xiii) To implement the strategy of expanding employment as priority and to encourage private investment. (xiv) To promote industrialization, urbanization and agricultural modernization simultaneously. Industry to support agriculture and city to support country side. (xv) In order to increase the co-ordination of regional development, flow of production factors and transition of industries be towards the central and western regions of the country. (xvi) To improve the public service system which suits Chinese development situation for providing comprehensive coverage to both rural and urban areas. (xvii) To significantly increase the incomes of low income groups and to expand the middle income group. (xviii) To accelerate the construction of service government and focus to resolve the basic problems which impact the social harmony and stability. ⁽⁴¹⁾

As mentioned by Xinhua (2011) in China.org ⁽⁴²⁾, key targets of the twelfth five year plan were..... (i) The GDP to grow at an average annual growth of 7 percent. (ii) Employment for more than 45 million in urban areas. (iii) Urban unemployment not to be more than 5 percent. (iv) Prices to be kept stable. (iv) Domestic consumption to be increased. (v) Output of strategic emerging industries to be developed (8 percent of GDP). (vi) Value addition in output of service sector to be 47 percent of GDP. (vii) Urbanization to reach 51.5 percent of total population. (viii) To encourage innovation, 2.2 percent of GDP to be spent on R& D. (ix) Population to remain below 1.39 billion by 2015. Life span per person to be increased by 1 year.

(41) For details see cbichina.org.

<http://www.cbichina.org.cn/cbichina/upload/fckeditor/Full%20Translation%20of%20the%2012th%20Five-Year%20Plan.pdf>

(42) For details see china.org.cn. http://china.org.cn/china/NPC_CPPCC_2011/2011-03/05/content_22059883.htm

In addition, pension to cover whole rural population along-with 357 million urban residents. (x) Encouraging foreign investment for modernization of agriculture and environment protection industries. Moving coastal regions from being the "world's factory" to hubs of research and development, high-end manufacturing, and the service sector and environment protection industries. Annual grain production capacity to be no less than 540 million tones and farmland reserves not to be less than 121.2 million hectors. (xi) Non-fossil fuel not to be more than 11.4 percent of primary energy consumption. (xii) Water consumption per unit of value-added industrial output not to be more than 30 percent. (xiii) Energy consumption per unit of GDP to be reduced by 16 percent. (xiv) Carbon dioxide emission per unit of GDP to be cut by 17 percent. (xv) Forest coverage to be increased by 21.66 percent and forest stock to be enhanced by 600 million cubic meters. (xvi) Minimum wage to increase annually at least by 13 percent on an average. 36 million apartments to be built/renovated for the low income groups. (xvii) To improve public service, both for urban and rural population, to improve democracy and legal system, improved social management system and more than 10 percent of the total population to be registered as community volunteers. (xviii) To encourage qualified enterprises to get registered in stock markets. To reform monopoly industries and to make them more competitive in market. (xix) To enhance government efficiency and credibility. (xx) To enhance efficient development of nuclear power with ensured safety. (xxi) Large scale hydro power plants to be installed in southwest China. (xxii) Length of high speed railways to be increased up to 45,000 km and length of highway networks to reach 83,000 km. A new airport (Beijing Daxing International Airport) to be built in Beijing.

According to Xinhuanet, reported by Huaxia (26th Oct, 2015) ⁽⁴³⁾, so far the achievements during the 12th five year plan were.... (i) Average GDP growth of 7.8 percent which is higher than the average global rate of growth of 2.5 percent. (ii) China is accepted in the world as a middle class country in terms of per-capita GDP. (iii) Urbanization rate has exceeded 50 percent. (iv) China is shifting from the exports of clothes and shoes etc. to exporting high speed trains. By September 2016, work would start on a 370 km Xpress-West high speed railway project which will connect Las Vegas, Nevada, and Los Angeles, California with Chinese investment. (v) China has invested more than 400 billion US dollars overseas during this plan period. Chinese goods and investments have spread across the world increasing China's influence in world economy. (vi) Central Bank of China issued 5 billion yuan denominated notes in London, the first offshore issuance of such debts outside China. This would promote the yuan's globalization by increasing its presence in the global bond market. (vii) China has achieved a balanced sustainable growth through transformation of economic growth mode and restructuring of its economy due to which Chinese economic development has entered a new phase of relying on quality and innovation. (viii) China has spent more than 70 percent of its fiscal revenue in improving the peoples' lives. Urban employment rate has been kept at a low rate. Average life span of Chinese has been lifted by one year and almost all Chinese people have been covered by medical insurance.

(43) For details see Xinhua net. http://news.xinhuanet.com/english/2015-10/26/c_134748390.htm

The Chinese population living below poverty line has been decreased by 100 million and thus the target of reducing the population living below poverty line by half has been achieved ahead of 2015 deadline. (ix) An amount of 400 billion yuan (about 76 billion US dollars) has been spent for subsidizing the people in need and more than 32.3 million houses have been built or are being built for low income groups. People living in poverty stricken regions in rural areas have enjoyed better houses, cheap electricity, clean water, improved medical services and education. (x) Stringent measures have been taken for eradication of corruption. (xi) Pilot project of Free Trade Zone (FTZ) was started in Shanghai in 2013. In the first 8 months of 2015, 1959 foreign funded enterprises opened in the FTZ. (xii) Foreign travel by Chinese people increased tremendously. In 2014 alone, more than 100 million Chinese travelled abroad and spent more than 1 trillion yuan during their foreign travels. (xiii) On Chinese initiative, The Asian Infrastructure Investment Bank has come into being which is tasked with financing infrastructure construction across Asia. The Belt and Road initiative is bringing together countries in Asia, Europe and Africa with the purpose of boosting infrastructure construction, financial cooperation and cultural exchanges in those regions. (xiv) The process of administrative approvals has been simplified. Public, especially the graduates are being encouraged to start their own business. Furthermore, (xv) During 12th five year plan China's railway mileage reached 112,000 km and high speed railway reached 16,000 km, ranking first in the world. (xvi) According to data released by the State Forestry Administration, the country is expected to complete afforestation of 2.96 million hectares and forest tending of 38.8 million hectares. (xvii) The emission reduction targets set in the plan would be met since by 2014, China's energy consumption per unit of GDP and carbon dioxide emissions had already decreased by 29.9 percent and 33.8 percent as compared with that of 2005. (xviii) The total length of newly built roads in rural area would be more than 1 million km and the total mileage would reach 3.95 million km. (xix) In 2014 China's total e-commerce transactions amounted to 16.39 trillion yuan, an increase of 59.4 percent over the previous year. By this rate, the e-commerce transactions in 2015 are expected to exceed 25 trillion yuan, according to National Bureau of Statistics. (xx) China's South-North Water Transfer Project began spewing water on December 12, 2014. ⁽⁴⁴⁾

The data available up to the year 2014, revealed that most of the targets set in the 12th five year plan (2011-2015) have been achieved or are near achievement. Urban employment has risen to 13 million a year, exceeding the target of 10 million a year. Urban wages have increased and are well above the rate of inflation. Although the growth in manufacturing for export slowed down but the services sector grew and was now contributing more to GDP than manufacturing sector. The table given below indicates the targets set forth in the 12th five year plan and results achieved by the end of year 2014 (the period of this plan is to end by the close of year 2015). ⁽⁴⁵⁾

(44) For details see china.org.cn. http://www.china.org.cn/business/2015-10/16/content_36826118.htm

(45) For details see China.org.cn. http://www.china.org.cn/opinion/2015-11/12/content_37041954.htm

SOME IMPORTANT FIGURES

Progress on key targets of the 12th Five-Year Plan		
Category	12th FYP Target	2014 Data
GDP growth	7% yearly (nonbinding)	7.4%
Urbanization rate	Increase to 51.5% (nonbinding)	54.77%
Services sector value added as % of total GDP	Increase to 47% (nonbinding)	48.2%
R&D spending as % of GDP	Increase to 2.2% (nonbinding)	2.1%
Patents/10,000 people	3.3 (nonbinding)	4.9
9-year mandatory education rate	93% (binding)	92.6%
High-school enrolment rate	87% (nonbinding)	85% (2013)
Average urban disposable income	Increase by 7% yearly (nonbinding)	8.4% (2011), 9.6% (2012), 7.0% (2013), 6.8% (2014)
Average rural gross income	Increase by 7% yearly (nonbinding)	11.4% (2011), 9.6% (2012), 9.3% (2013), 9.2% (2014)
Urban registered unemployment	Decrease to 5% (nonbinding)	4.1%
Energy intensity per unit of GDP	Decrease by 16% (average 3.4% per year)	-12.79%
Carbon intensity per unit of GDP	Decrease by 17% (average 3.4% per year)	-10.62% (2013)
Non-fossil fuel in primary energy mix	11.4% (binding)	11.1%
Forest coverage	21.7% (binding)	21.63% (Feb 2014)

Data from Chinese government and research by the Eurasia Group

SOURCE LINK: http://www.china.org.cn/opinion/2015-11/12/content_37041954.htm

Proposal on the **Thirteenth five year plan (2016-2020)** was adopted at the fifth session of the central committee of the communist party of China towards the end of October 2015 which would be finally approved by National Peoples' Congress in March 2016. China's blueprint for its 13th five year plan attracted worldwide attraction as reported by Huaxia (2015) in its edition dated 10th November 2015 published in news.xinhuanet ⁽⁴⁶⁾ Professor Nikolai Samoilov, of Asian and African Social Development Theory at St. Petersburg State University in Russia said

"A healthy Chinese economy is of great importance to the world and would definitely promote the win-win economic cooperation among countries in the world"

According to James Laurenceson, deputy director of the Australia-China Relations Institute at the University of Technology Sydney said, upon the unveiling of China's new five-year plan,

"The IMF forecasts that China's economy will be 44 percent bigger in 2020 than now. This means that China will remain the leading source of global growth in the coming five years"

The proposed 13th five year plan sets a target of "maintaining medium-high growth," highlighting the ideas of innovation, coordination, green development, opening up and sharing to fulfill its goals. China's "growth pattern is truly changing from an investment, export-led economy to a domestic consumption, services-driven one, leading to slower albeit healthier growth," said Livio Ribeiro, an economist at the Getulio Vargas Foundation in Brazil, in an interview with Xinhua.

The shift "comes along with deeper urbanization" and increasing demand for "soft commodities and cleaner energy sources," Ribeiro said.

"China will most likely buy much more food and services by the end of this decade. Understanding that is vital to play along with the growth transition and to reap all the opportunities it will create," he said

Besides "huge opportunities" in the financial sector, Joseph Foudy, clinical associate professor of economics at New York University, also expects the healthcare, automobile and electronics sectors to thrive under the next five-year plan.

"The auto sector is in slowdown in China, but I expect it to kick back and return in the next couple of years to be very vibrant," he told Xinhua.

The proposed objectives of the 13th five year plan are..... (i) To double the 2010 GDP and the per-capita income of both rural and urban residents by 2020 while the annual growth must be at least 6.5 percent, as announced by Xi Jinping, President of China. Thus the growth pattern envisaged slower but healthier economic growth for enabling China to digest industrial over capacity, restructure the economy and shift to innovation driven mode.

(46) For details see news.xinhuanet. http://news.xinhuanet.com/english/2015-11/10/c_134801512.htm

(ii) Creating a new “ecological civilization”, rather than focusing on the GDP growth, will be new priority of the Chinese government. (iii) Service sector share in the GDP will continue to increase and consumptions’ contribution to economic growth will rise. (iv) The policy of innovative development has penetrated all sectors of the society and industry. Innovative development of the internet will have a far reaching influence on China’s future economic development. (v) Peoples’ livelihood will continue to improve. (vi) China will further open up its capital market, service sector including banking, insurance, securities and nursing homes to foreign investment. (vii) China will continue to promote the “Belt and Road” initiative through co-operation with countries and regions and will participate in global industrial and equipment manufacturing co-operation. (viii) Lowering barriers to entry for private sector firms, both domestic and foreign, will be a major focus of the 13th five year plan. ⁽⁴⁷⁾

The Diplomat (dated 7th November, 2015 by Sara Hsu) ⁽⁴⁸⁾, summed up the main objectives of the 13th five year plan as To promote innovation, green development, online economic activity, social insurance and further opening up and reforms of financial markets. The program “made in China 2025” is to be focused which seeks to expand the integration of innovation into industrial and services industries.



(47) For details see news.xinhuanet. http://news.xinhuanet.com/english/2015-11/09/c_134797917.htm

(48) For details see The Diplomat. <http://thediplomat.com/2015/11/chinas-next-five-year-plan-realistic-objectives/>

2. THE GENESIS OF CHINA'S FOREIGN POLICY- A JOURNEY FROM ISOLATION TO WORLD POWER

In the present day world, PRC is the world's second most important country, after United States, because of its huge population and growing economic and military power. China has dramatically changed from a revolutionary state, exporting communist revolution by overthrowing the western dominated capitalist system into a "Status quo" power. While China was largely pursuing a policy of isolation during cold war (1947-1991), it has become a major global stakeholder in the existing international system and has assumed the role of leadership in many international security and economic institutions. Consequently major security issues in any region of the world cannot be decided without taking into consideration PRC's position. Its influence in Africa, South Asia, Southeast Asia, Europe and Latin America has expanded tremendously. Like Great Britain (GB) and United States (US), when they were growing as economic powers, China is also exerting its influence in the world affairs by converting its economic strength into military strength. (Weitz, 2013)⁽⁴⁹⁾

According to (Song & Ding, 2013)⁽⁵⁰⁾ Domestic stability for successful economic development has been one of the major considerations in framing its foreign policy. The general attitude of China towards the world during Mao's period was "you are you, I am I" which led to following a policy of isolation. However, at the end of cold war, Deng Xiaoping put forward the following basic principles for Chinese foreign policy:-

Observe calmly.

Secure our position

Cope with the affairs calmly.

Hide our capacities and hide our time

Be good at maintaining a low profile.

Never claim leadership.

Do something.

(49) Weitz, R. (2013). *Global Security Watch-China*. ABC-CLIO.

(50) Song, X., & Ding, C. (2013). *China and the European Union: Future Directions*. Fundación Univ. San Pablo.

This strategy has been the guideline for the Chinese foreign policy towards the end of 20th century and beginning of the 21st century. The Chinese leadership perceived that the first twenty years of the 21st century were strategically important for Chinese political, economic and social development due to possibility of a relatively peaceful international environment.

In the beginning of 21st century, China's foreign policy was directed to improve and develop relations with the developed countries of the world. Grounds of common interest were decided to form the basis of multilateral and bilateral relationship in order to strengthen mutual trust, deepen co-operation and to manage internal differences in the light of Five Principles of Peaceful Co-existence. China also decided to continue cementing its friendly relations with the neighbors and step up regional co-operation. The Chinese leadership decided to enhance solidarity and co-operation with the developed countries to the level of strategic relationship and to pay more attention to a realistic co-operation with its neighbors and developing countries. According to this policy, the US and the EU as well as its member states were the most important partners for China. Japan and Russia were next while other countries of South East Asia were third and developing countries in Africa and Latin America were the last. China opted to keep low profile in diplomacy and shifted from multipolarity to multilateralism, which was the most important common ground between China and EU for European Union – China strategic partnership. China considered multilateralism as inter-governmental arrangement to deal with common issues where every state being sovereign was equal and had to follow the principle of non-intervention in other's internal affairs. China considered multilateralism as a diplomatic tool rather than a mechanism for international order. (Xinning Song and Weiping Huang, in Song, X, & Ding, C. (2013). *China and the European Union: Future Directions*)⁽⁵¹⁾

In October 2007, NPC declared that the strategic objectives of the Chinese foreign policy included three goals:-

Sharing opportunities for development.

Rising to challenges together and

Promoting the noble cause of peace and development of humanity.

For the achievement of these goals, China proposed to join hands with all people around the world for building a 'harmonious world' of lasting peace and common prosperity. Two key words "lasting peace" and "common prosperity" were important to understand the meaning of "harmonious world", which had five elements:-

Politically, all countries to respect each other and to conduct consultations on equal footings, to promote democracy.

Economically, all countries should co-operate with each other by drawing on each other's strengths and working together to advance economic globalization for having balanced development, shared benefits and win-win progress.

Culturally all countries should learn from each other in the spirit of seeking common ground while shelving differences, respect the diversity and to make joint efforts for advancement of civilizations.

With regard to security, all countries should trust each other, strengthen co-operation and settle international disputes by peaceful means instead of war so as to safeguard peace and stability in the world.

As to issues like energy and climate change, all countries should assist and co-operate with each other in conservation efforts for taking good care of the earth, the only home for human beings.

The Chinese leadership emphasized that for having harmonious world, principles of UN charter, observation of international law and norms of international relations and promotion of democracy and collaboration etc. were necessary.

By adoption of Deng Xiaoping's policy of seeking harmony with other countries in the world but keeping its own distinctiveness, China moved from isolation to State dialogue but the domestic affairs always remained excluded from the said dialogues.⁽⁵¹⁾

This change in China's strategy has been explained in its 2008 National Defense White Paper as:

"The future and destiny of China have been increasingly closely connected with the global community.....China cannot develop in isolation from rest of the world, nor can the world enjoy prosperity and stability without China.....peace and development remain the principal themes of the times."⁽⁵²⁾

Different factors like its historical legacy, world view based on its socialist ideology, nationalism, decision making process and the international situation affected China's foreign policy which saw many fluctuations since 1949. The two factors which caused wide fluctuations in China's foreign policy were the degree of militancy or peacefulness which it promoted and inconsistency in choosing between self-reliance and openness to the outside world. Broadly speaking China's foreign policy can be divided by decades: the Sino-Soviet co-operation in the 1950s, isolationism and radicalism in the 1960s, upfront involvement in international affairs in the 1970s and the pursuit of independent foreign policy since the 1980s⁽⁵³⁾.

(51) Song, X., & Ding, C. (2013). *China and the European Union: Future Directions*. Fundación Univ. San Pablo (For further details see chapter 4 titled "China and the Global Political Economy" by Xinning Song and Weiping Huang.

(52) Weitz, R. (2013). *Global Security Watch—China*. (Page 7)

And for details see White Paper. <http://www.cfr.org/china/white-paper-chinas-national-defense-2008/p18292>

(53) For details see Photius.com. http://www.photius.com/countries/china/economy/china_economy_an_overview_of_china-1004.html

The present day China officially states that it “unswervingly pursues an independent foreign policy of peace. The fundamental goals of this policy are to preserve China's independence, sovereignty and territorial integrity, create a favorable international environment for China's reform and opening up and modernization construction, maintain world peace and propel common development”.⁽⁵⁴⁾

As reported by The Washington Times in its edition dated March 1, 2007⁽⁵⁵⁾, Qin Gang, spokesman of the Chinese Ministry of Foreign Affairs, while responding to the remarks of the United States Vice President Dick Cheney expressing his concerns over the transparency of the Chinese Military Expenditure and impact of China's anti-satellite test on world, he declared eight points of China's diplomatic philosophy as under:-

China, being itself a developing country lacks resources to seek hegemony and even if it becomes a developed country, it will not seek hegemony.

China will neither impose its ideology on other countries nor interfere in the internal affairs of other countries. It will not involve itself in any power politics.

All countries, big or small, should be treated equally with mutual respect. All affairs amongst the countries should be resolved through consultation with equal participation and no country to bully any other country on the basis of strength.

China will judge each issue on its merits in international affairs and it will never adopt double standards: one for itself and one for others.

China advocates stepping up international cooperation and all the countries to handle their relations on the basis of UN charter and norms governing international relations. The dignity and authority of the UN should not be undermined and we should not set our own wishes above the UN charter, international law and norms.

China advocates peaceful negotiations for the resolution of international disputes and not to use force, or threat of force, in resolution of international disputes. China does not have any expansionist designs against any country through invasion or aggression. China maintained a reasonable military build up to defend its own sovereignty and territorial integrity.

China firmly opposes terrorism and proliferation of weapons of mass destruction. As a responsible member of international community, China will faithfully abide all international treaties without being selective for discarding treaties which it does not need.

(54) Ministry of Foreign Affairs of The People's Republic of China. http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/

(55) For details see Washington Times. <http://www.washingtontimes.com/news/2007/mar/01/20070301-104826-2978r/>

China respects the diversity of civilizations in the whole world and advocates exchanges between different cultures for learning and complimenting each other with their respective strengths. China opposes confrontations between civilizations and it does not link terrorism with any ethnic group or religion.

As analyzed by Taylor (1965) ⁽⁵⁶⁾, while there is general perception that China poses a threat to the western world, there is no consensus about the nature of the threat. The China's foreign policy is often declared to be complex and there have been basic tactical shifts and some major mistakes since 1949. However, keeping in view the Chinese history, the communist China's foreign policy has been generally restricted and restrained. Keeping in view its size in terms of area and population and its potential strength, China's determination to re-assert as a leading world power is but a natural ambition.

The genesis of China's foreign policy can be traced to its historical legacy, size and population, nationalism, world view and communist philosophy of Marxism, Leninism and Maoism. The principal areas of concern of PRC since 1949 have been security, sovereignty, independence, territorial integrity, reunification with Republic of China (Taipei) and economic development, China's long history and being the World's oldest civilization has affected formulation of China's foreign policy.

China's historical legacy has been a tendency towards isolationism during imperial times. China's centuries' old history of self-sufficiency favored isolation. China's domination of foreign powers in the 19th century till the end of World War II, which the Chinese referred to as "The century of shame and humiliation", when the hitherto powerful imperial government devolved to "Semi-colonial" status and it was made to sign unequal treaties and China was divided into spheres of influence and Japan's invasion and occupation of parts of China in the late 1930s, has continued to be a very strong source of generating Chinese Nationalist sentiments since 1949. The suspicion of foreign powers, opposition to acceptance of any inferior status and desire to re-assert sovereignty and independence have strongly influenced the Chinese foreign policy. The famous statement of Mao Zedong in 1949 that "The Chinese people have stood up" and Deng Xiaping's 1982 declaration that "No foreign country can expect China to be its vassal or expect it to swallow any bitter fruit detrimental to its interest", amplify the Chinese strong feelings of Nationalism. The strong sentiments of Nationalism as a principle of foreign policy lead to the desire to achieve territorial integrity and to restore its sovereignty over areas previously considered as part of China.

This policy generated several border disputes with its neighbors like Russia, India and Vietnam. Border disputes with some countries like Pakistan, Burma, Nepal, Afghanistan and North Korea have been resolved. For many years Chinese claim over two other areas namely Honk Kong and Macau being its part played an important role in its foreign policy.

(56) Taylor, C. (1965). China's Foreign Policy. *Int'l J.*, 21, 311.

The Chinese declared these to be “Problems left over from history” due to imperialistic aggression and incompetence of the then Chinese rulers. Macau was occupied by Portugal in 1557 and ceded to Portugal in 1887 under a treaty. Britain gained control of Hong Kong Islands through treaties with China in the 19th century. In mid 1980s, China concluded formal agreements with Britain and Portugal for the return of these areas to Chinese sovereignty in 1997 Hon Kong and in 1999 Macau. These agreements were made under the policy of “One country- two systems” and these areas were given high degree of autonomy and were treated as “special administrative regions”. The Chinese leadership considered the return of both the areas as major foreign policy achievement in the late 20th century. The most important issue of national reunification is concerning Taiwan, which remains unresolved. At the time of establishment of PRC in 1949, Chiang Kai-shek and his forces fled to Taiwan and established “Republic of China (ROC)”, which continued to claim as the legitimate mainland China. Since 1949, PRC insisted that it was the legitimate mainland China and ROC was its part. Up to 1971, ROC was recognized by most of the countries under the US influence and occupied permanent seat as member of the UN Security Council. However, in 1971 PRC was recognized as the mainland China and it joined UN and also became permanent member of UN Security Council in place of ROC. Since then most of the countries in the world recognize PRC as the legitimate mainland China but still some countries are continuing to have diplomatic relations with ROC (Robert L. Worden, Andrea Matles Savada and Ronald E. Dolan, 1987) ⁽⁵⁷⁾.

China's determination to advance communism throughout the world by “exporting revolution” had been another component of its foreign policy though it has been fluctuating since 1949. In the early 1950s and during the 1960s, Chinese leadership had been inciting worldwide armed struggle against colonialism and "reactionary" governments. Chinese leaders believed that China's experience was applicable to many other countries, but they also stressed the importance of keeping in view each country's own conditions. For most of the time since 1949, China's dedication to encouraging revolution abroad has appeared to receive a lower priority than other foreign policy goals.

(57) Robert L. Worden, Andrea Matles Savada and Ronald E. Dolan (1987). *China: A Country Study*. Washington: GPO for the Library of Congress. For details see ‘Nationalism’.
<http://countrystudies.us/china/124.htm>

China's support to militancy and worldwide revolution was at its peak during the Cultural Revolution. Lin Biao's famous 1965 essay "Long Live the Victory of People's War!", which predicted that the underdeveloped countries of the world would surround and overpower the industrialized nations and create a new communist world order, provided great inspiration to the leftist movements. Due to China's alleged involvement in subversive activities in Indonesia and other African countries in the late 1960s, many countries broke off diplomatic relations with Beijing.

By the 1980s China reduced its support to leftist revolutionary and liberation movements around the world, prominent exceptions being the Palestine Liberation Organization and resistance fighters in Cambodia and Afghanistan. Though China shifted its policy towards cultivating state-to-state relations with established governments, but many countries especially in Asia continued to be suspicious of China's intentions. China's image as a radical power intending to fomenting world revolution continued to affect the conduct of its foreign relations into the late 1980s.

China has claimed to be consistently following the principles of independence, sovereignty, territorial integrity and maintaining world peace since 1949 but the same have been actually changing according to prevailing circumstances. This apparent contradiction stands fully explained by Mao's statement: "We should be firm in principle; we should also have all flexibility permissible and necessary for carrying out our principles." (Robert L. Worden, Andrea Matles Savada and Ronald E. Dolan, 1987) ⁽⁵⁸⁾

Chinese leadership claimed to have pursued a long-term strategy and "definitely not swayed by expediency or anybody's instigation or provocation." Chinese often describe their foreign policy with words such as "always" and "never." ⁽⁵⁹⁾

In 1954 China signed an agreement with India on the basis of the following five principles of peaceful co-existence:

- 1 Mutual respect for each other's territorial integrity and sovereignty.
- 2 Mutual non-aggression.
- 3 Mutual non-interference in each other's internal affairs.
- 4 Equality and mutual benefit.
- 5 Peaceful co-existence.

(58) Robert L. Worden, Andrea Matles Savada and Ronald E. Dolan, editors. *China: A Country Study*. Washington: GPO for the Library of Congress, 1987. For details see 'The Influence of Ideology'.

<http://countrystudies.us/china/125.htm>

(59) Singh, R. (2011). *China and India in Asia Power Politics*. Vij Books India Pvt Ltd.

These five principles played an important role in cultivating China's friendship with newly independent states of Asia and Africa in the mid-1950s. However, during the Cultural Revolution, China got entangled in bitter disputes with many of these countries and the five principles of co-existence could not be acted upon. During 1980s The Five Principles of Peaceful Coexistence were reemphasized and formed the basis for relations with all nations regardless of their social systems or ideology, and were made a part of the 1982 party constitution. (Eekelen & Eekelen, 2013) ⁽⁶⁰⁾

The process of formulating and implementation concerning foreign policy and national security, and the institutions involved there in, is a complex study in respect of China where information related to leadership and decision making is generally surrounded by a veil of secrecy. After the founding of PRC in 1949 and till 1980s the decision-making power for the most important foreign policy issues remained in the hands of the top leadership like Mao Zedong, Zhou Enlai and Deng Xiaoping. By the late 1980s, Deng initiated steps to institutionalize decision making and make it less dependent on personal authority. As the establishment of diplomatic relations by the foreign countries with China increased and China joined UN and other international organizations in pursuit of its policy of opening up for economic development, these steps affected China's foreign policy significantly by the late 1980s. Resultantly more ministries and organizations were involved in the process of consultations for formulation of foreign relations with the outside world. The three dimensions i.e. the structure of the organizations involved in the formulation of foreign policy, the process of decision making and the way those decisions were implemented, are inter-related. (Sun, 2013) ⁽⁶¹⁾

By the late 1980s high level party organizations like Central Committee, Political Bureau, party Secretariat, and government departments and state Central Military Commissions, National People's Congress, and State Council and such leaders as the premier, president, and party general secretary, were involved in the formulation of foreign relations to varying degrees. The party Secretariat and the State Council together carried the major responsibility for foreign policy decisions. The State Council referred major decisions to the Secretariat for resolution and the Political Bureau for ratification. Other party organizations concerned with foreign relations were the United Front Work Department, responsible for relations with overseas Chinese, the Propaganda Department, and the Foreign Affairs Small Group. In the 1980s the National People's Congress through its standing committee on foreign affairs occasionally prepared reports on foreign related issues for other party and government bodies.

(60) Eekelen, W. F., & van Eekelen, W. F. (2013). *Indian Foreign Policy and the Border Dispute with China*. Springer.

(61) Sun, Y. (2013). *Chinese National Security Decision-Making: Processes and Challenges*.

The Ministry of Foreign Affairs was the most important institution involved in conducting day-to-day foreign relations, but by the 1980s many other ministries and organizations under the State Council like Ministry of Foreign Economic Relations and Trade, Ministry of Finance, Ministry of National Defense, Bank of China, People's Bank of China, and China Council for the Promotion of International Trade had their role in foreign affairs. In addition, over half of the ministries, overseeing such disparate areas as aeronautics, forestry, and public health, had a bureau or department concerned explicitly with foreign affairs. These offices presumably handled contacts between the ministry and its foreign counterparts. (Robert L. Worden, Andrea Matles Savada and Ronald E. Dolan, 1987) ⁽⁶²⁾



(62) Robert L. Worden, Andrea Matles Savada and Ronald E. Dolan (1987). *China: A Country Study*. Washington: GPO for the Library of Congress. For details see 'Foreign Policy Decision Making and Implementation'.
<http://countrystudies.us/china/126.htm>

3. AN ANALYSIS OF CHINA'S DIPLOMATIC RELATIONS WITH OTHER COUNTRIES IN THE CONTEXT OF ECONOMIC DIPLOMACY AND MILITARY STRATEGY

The immediate concerns of the Chinese leadership after founding of PRC in 1949 were ensuring National Security, development of the economy and consolidation of power of the CCP. Mao opted to be on the side of Soviet Union as was evident from his famous statement "lean to one side"...meaning the Soviet side as against the US. Practically it amounted to forming of an international united front with the Soviet Union and other socialist countries against US and its block. This resulted in the Sino-Soviet Treaty of Friendship, Alliance and Mutual Assistance of 1950. Soviet Union provided military equipment to PRC along-with technical advisors for helping in economic development. As analyzed by Mackerras & Yorke, (1991) ⁽⁶³⁾, the Sino- Soviet Union's relations started deteriorating due to ideological differences on Khrushchev's deStalinization speech before the Congress of the Communist party of the Soviet Union on February 25, 1956. China alleged that Soviet Union was negating Lenin's concept of Imperialism. On the other hand Soviet Union criticized Mao's policy of GLF and establishment of People's Communes to be against Marxist philosophy. In the summer of 1960, Soviet Union withdrew its technical experts from China which caused problems to Chinese economy. China alleged that Soviet Union did not fulfill its commitment to share nuclear technology. Soviet Union also condemned Mao's Cultural Revolution. In the words of Mackerras & Yorke, (1991),

"By then China had reached the conclusion that Soviet social imperialism was an even more serious threat to her security and to the peace of the world than United States imperialism."

Thereafter incidents like besieging of the Soviet embassy in Beijing in 1967 and border clashes of 1969 took place Beijing took serious exception to the Soviet invasion of Czechoslovakia in 1967 and dubbed it as "social imperialism." The tensions between the two countries got reduced when PRC's Prime Minister Zhou Enlai had a meeting with the Soviet Prime Minister Alexei Kosygin in late 1969. In the 1970s PRC adopted moderate course and began rapprochement with the US to counter weight the perceived threat from the Soviet Union due to its military buildup in East Asia and its treaties with Vietnam and Afghanistan, which China considered as an attempt to encircle it. When China started following an independent foreign policy and its opening up for economic development in 1980s, it rather adopted a conciliatory policy towards Soviet Union. The doors for renewed diplomacy between the two countries got opened when at the time of deaths of the Soviet leaders like Leonid Brezhnev, Yuriy Andropov and Konstantin Chernenko between 1982 and 1985 high powered Chinese delegations attended their funerals. This improvement in the Sion-Soviet relations led to expansion in trade and exchanges in economic and technical fields to the extent of renovation of the projects originally built with the Soviet assistance in the 1950s.

(63) Mackerras, C., & Yorke, A. (1991). *The Cambridge handbook of contemporary China*. Cambridge University Press. Page 146.

The process got speeded up when the Soviet leader Mikhail Gorbachev announced in 1986-1987 partial troops withdrawal from Afghanistan and Mongolia, concessions pertaining to border dispute, proposal to have border railroad, space co-operation, and joint hydropower development. He also offered to hold discussions with China “at any time and at any level.” Though it did not lead to an immediate high-level breakthrough in Sino-Soviet relations, but bilateral consultations appeared to gain momentum, and border talks got resumed in 1987. However, China and Soviet Union never entered into a formal alliance like that of Treaty of Co-operation and Alliance of 1950 (Robert L. Worden, Andrea Matles Savada and Ronald E. Dolan, 1987; Lawrance, 2013) ⁽⁶⁴⁾ ⁽⁶⁵⁾.

According to Nye (2015) ⁽⁶⁶⁾, as a result of dismemberment of Soviet Union in December 1991, Russian Federation came into being and a new chapter of Sino-Russian rapprochement began in 1992. Both the countries declared to be pursuing “Constructive Partnership” in 1992 while in 1996 they entered into a “Strategic Partnership” and in 2001 they signed a “Treaty of Good Neighborliness and friendly co-operation”. On the eve of Chinese President Xi Jinping’s state visit to Moscow in 2013, the Russian President Vladimir Putin declared that both the countries were forging a “Special Relationship”. The economic diplomacy reached new heights when in 2014 Russia announced the framework of a deal worth 400 billion US Dollars to supply 38 billion cubic meters (BCM) of gas to China annually for 30 years, beginning in 2019. For this purpose, Russia’s state owned energy joint Gazprom and China’s National Petroleum Corporation agreed to the construction of 2500 miles gas pipeline to China’s Heilongjiang province. Reportedly Russia offered many concessions to China to ensure success of the deal after prolonged negotiations. In November 2014, Gazprom announced an agreement to deliver additional 30 BCM of gas to China’s Xingjian province for 30 years. If both the agreements succeed, the supply of 68 BCM gas to China annually would exceed the 40 BCM gas being presently supplied to its largest customer, Germany.

Despite this increased economic diplomacy between the two countries, where Russia is supplying raw materials to China and importing Chinese manufactured goods, there are deep rooted problems between the two which dampen the chances of close alliance between Russia and China. Russia’s economic and military power has been declining since end of 1991 while China’s economic and military power has been getting stronger. This imbalance between the two would make Russia resist any tight military alliance with China even if the two countries continue to have economic diplomacy. Moreover, China’s development strategy is dependent on its continued integration with the world economy and, specifically to have continuous access to American markets. Therefore, China would not risk its strategy for some authoritarian alliance with Russia. (Jakobson, Holtom, Knox & Peng, 2011) ⁽⁶⁷⁾

(64) Robert L. Worden, Andrea Matles Savada and Ronald E. Dolan (1987). *China: A Country Study*. Washington: GPO for the Library of Congress. For details see Sino-Soviet Relations

<http://countrystudies.us/china/128.htm>

(65) Lawrance, A. (2013). China's foreign relations since 1949.

(66) Nye, J. S. (2015). A New Sino-Russian Alliance. *Project Syndicate*, 12.

Also available on online link: <http://www.newtimes.co.rw/section/article/2015-01-13/184899/>

According to a document titled ‘U.S. - China Relations Since 1949’⁽⁶⁸⁾, published by Asia for Educators, even otherwise both the countries remain locked in their struggle for having more influence in Central Asia and China having larger economic and military might, it would always out weight Russia in this struggle. Relations between China and U.S have been vacillating from mutual mistrust and hostility to economic and military co-operation. In the first two decades after the establishment of PRC in 1949, U.S considered China as an aggressive expansionist country which posed threat to the world peace particularly the non-communist countries and therefore followed the policy of “Containment of China”. During this period the U.S entered into military alliances with Japan, South Korea and Taiwan and also formed “South East Asian Treaty organization (SEATO)”, which included countries like Thailand, Philippines, Australia, France, New Zealand, Pakistan, and United Kingdom (UK). US also formed ANZUS treaty which linked Australia, New Zealand and U.S. America maintained its military basis in a number of these countries and in some countries it stationed large number of its troops, especially Japan and South Korea. U.S discouraged its allies to enter into diplomatic relations with China and American citizens were prohibited from visiting China. During this period Korean War took place and it heightened hostility between the two countries because China, along-with Soviet Union, was on the side of Communist North Korea while U.S and its allies supported South Korea. During these years, U.S got involved in the Vietnam War and that also added to bitterness in its relations with China. At one stage, even international embargo was placed on China through UN Security Council. In 1954, U.S entered into a military defense treaty with Chiang Kai Shek and in 1955, U.S threatened the use of atomic bomb against China. In 1950s, U.S condemned China’s human right abuses in Tibet. In October, 1964, China conducted its first nuclear test and this incident caused further escalation in tensions between the two countries.

However, after the development of hostilities between the Soviet Union and China on border dispute in 1969, China considered Soviet Union as a bigger threat than U.S and a policy of rapprochement started between U.S and China. In April 1971, China’s Ping-Pong team invited the U.S team to China. The U.S journalists also accompanied the players and they were the first American citizens to visit China since 1949. In July 1971, U.S secretary of States, Henry Kissinger visited China secretly and thereafter UN recognized PRC as the legitimate Mainland China and it became permanent member of U.N Security Council in place of Chiang Kai Shek’s ROC. In 1972, U.S president Richard Nixon visited China for eight days and met Chairman Mao Zedong and signed “Shanghai Communique” with Prime Minister Zhou Enlai which set the stage for improved relations between U.S and China. U.S president Jimmy Carter accepted “One China” policy by accepting PRC in 1979 and severed diplomatic relations with Taiwan.

(67) Jakobson, L., Holtom, P., Knox, D., & Peng, J. (2011). ‘China’s Energy and Security Relations With Russia: Hopes, Frustrations and Uncertainties’ *SIPRI Policy Paper* no. 29, 10.

(68) For details see U.S. China Relations since 1949. *Asia for Educators*. http://afe.easia.columbia.edu/special/china_1950_us_china.htm

Furthermore, full diplomatic relations between China and U.S got established in 1979. Shortly thereafter Chinese vice Premier Deng Xiaoping visited U.S, however subsequently in April 1979, U.S congress approved Taiwan Relations Act under which commercial and cultural relations between U.S and Taiwan could continue. The establishment of full diplomatic relations between China and U.S in 1979 coincided with China's policy of reform and opening up. Consequently trade and investment relations between two countries started. Despite these positive developments, the use of military force by China against the demonstrating students in Beijing's Tiananmen Square in 1989, who were demanding democratic reforms etc., caused deaths of hundreds of demonstrating students. In retaliation U.S suspended its military sales to China and froze its relations with it. Another ugly incident took place in May 1999 when accidentally NATO forces, while pursuing Serbian forces occupying Kosovo, bombed China's embassy in Belgrade. This incident created serious tensions between the U.S and China. Ultimately U.S and NATO offered apologies for the mistake.

- According to Council on Foreign Relations ⁽⁶⁹⁾, (U.S. Relations With China (1949 - Present), In October 2000, U.S President Bill Clinton signed the U.S – China relations act granting China permanent normal trade relations with U.S which paved the way for China to join WTO. The volume of trade between China and U.S rose from 5 billion US dollars to 231 billion US dollars during 1980 and 2004. By 2006, China became the second largest trade partner with U.S, after Canada. Tensions between the two countries again emerged when in April 2001 a U.S reconnaissance plane collided with a Chinese fighter leading to the death of a Chinese pilot and emergency landing of the U.S plane in Chinese territory. The Chinese detained the crew but was released after U.S President George W Bush expressed its regrets. In September 2005, U.S Deputy secretary of state initiated a strategic dialogue with China, recognizing it as an emerging power and called upon it to serve as a “Responsible Stakeholder”. China increased its military expenditures by 18 percent in 2000, bringing it to more than 45 billion US Dollars and during the period of 1990 to 2005, China had been increasing its military expenditures by 15 percent on an average annually. In 2000, U.S Vice President Dick Cheney during his tour of Asia remarked that China's military buildup was “Not Consistent” with its declared goal of “Peaceful Rise”. In response, China stated that the increase was for providing better training and higher salaries to the soldiers to “Protect National Security and Territorial Integrity”.

Also, the economic relations between the two countries continued to grow to such an extent that by September 2008 China became the largest U.S creditor at around 600 billion US dollars. By the year, 2010 size of China's economy was reported at 1.33 trillion US dollars, higher than Japan, which made it the second largest economy having its GDP of 5.88 trillion US dollars. China is expected to overtake the U.S by 2027 as the world's number one economy.

(69) For details see U.S. Relations with China. *Council on Foreign Relations*. <http://www.cfr.org/china/us-relations-china-1949---present/p17698#>

Trade balance between the U.S and China is in Chia's favor and U.S trade deficit with China has reached the level of 295.5 billion US dollars in 2011. In June 2013, U.S President Barak Obama had a summit with Chinese President in California to build up personal rapport in order to ease tensions in U.S- China relations. The Presidents of China and U.S agreed to co-operate by pressing bilateral, regional and global issues including climate change. Both committed to establish new model of relations between the two great powers. In November 2014, during the Asia-Pacific Co-operation Summit, both the Presidents of U.S and China issued a joint statement on climate and committed to reduce carbon emissions growth by 2030. In May 2015, controversy emerged between the two countries when U.S secretary of defense called upon China to halt its land reclamation efforts in South China Sea where U.S felt that China was placing military equipment on a chain of artificial islands while Beijing claimed that the construction was only for civilian purpose.

In addition, despite co-operation between China and U.S, still important issues between the two remain unresolved. U.S is dissatisfied with the Chinese policy on human rights, China's large trade surplus with the U.S and China's sales of missiles and nuclear tech to different countries while China has strong reservations on U.S arms sales to Taiwan and U.S global foreign policy in which it takes care of its own interest only and does not bother about the interest of other countries.

Now I propose to discuss the Sino- European relations. China's relations with Europe have been fluctuating between hostility and co-operation since 1949 as has been the case of its relations with the Soviet Union and the US. As analyzed by Shambaugh, 1992⁽⁷⁰⁾, presently Sino-European relations are business like. The collapse of communist regimes in Eastern Europe and the coming into being of European Common Market (ECM) affected the Sino-European relations tremendously. After the Second World War (1939-1945), Europe got divided into Eastern and Western parts. Eastern Europe with communist regimes fell in the communist block lead by Soviet-union while Western Europe under the capitalist democratic system fell in the block lead by United States. China's relations with Europe derived its roots from China's relations with the two super powers i.e., Soviet Union and the US. Despite strong reservations which the CCP had towards European countries many European countries like Bulgaria, Romania, Poland, Hungary and Yugoslavia (all falling in the communist block) recognized PRC in October 1949 while countries like Norway, Denmark, Finland, Sweden also established diplomatic relations with PRC. GB also announced diplomatic relations with PRC, which was initially regretted by China on account of GB supplies of arms to Taiwan but subsequently relations between PRC and GB got established at the charge d'affaires' level. Later on Sino-East European relations were less positive on account of strained relations between Soviet Union and China. In the 1960s East European economic technicians and military advisors left China as was done by the Soviet Union and due to this development trade relations between China and most of the East European countries got adversely affected.

(70) Shambaugh, D. (1992). China and Europe. *The ANNALS of the American Academy of Political and Social Science*, 101-114. From <http://www.jstor.org/stable/1046756>.

The author added that the conflict between the Soviet Union and China in the 1960s followed by Mao's radicalism in the form of Cultural Revolution also affected the Sino-European relations. France recognized PRC in 1964 which caused a modest increase in bilateral trade between the two countries. By the end of 1960s decade, diplomatic relations between China and many East European and West European countries were at the lowest ebb and resultantly China faced isolation in respect of both Eastern and Western European states. After Mao's death in 1976 and the arrest of the radical Gang of Four, a rapprochement process started with East European states and visits of high level delegations to China and from China to East European countries started. Yugoslavia's Marshal Tito's visit to China in 1977 influenced change in China's economic development strategy by allowing participation of workers in management, a limited role for the private sector and devolution of economic decision making.

Moreover, following the development of relations between the US and China in the 1970s, other West European countries like GB and Federal Republic of Germany established diplomatic relations with China in 1972. The European community recognized China in 1975 and granted it Preferential Trade Status in 1978 when the institutionalization of trade relations between China and European Union started by way of Framework Agreement of 1978. A series of bilateral agreements were signed by different West European countries with China which helped boost trade between China and west Europe to 5.8 billion US dollars by the end of 1970s decade. West Germany was ahead of GB as China's largest trade partner during this period. Accords were signed regarding scientific and cultural exchanges allowing inflow of scholars and data between China and different West European countries. In July 1984, the European commission decided to negotiate a new agreement with China to accommodate the expanded trade and political relations. As a result, Agreement on Trade and Economic Co-operation between EC and China came into force on October 1, 1985. Under this new agreement, apart from economic relations, political implications also entered the relations between EC and China. Chinese leadership during this period took Western Europe in terms of National Security in order to shed off the Soviet Union's pressure. During this era China supported North Atlantic Treaty Organization (NATO) and China considered Europe as belonging to "Second World", which could be mobilized into a worldwide anti Soviet United front. By 1970s, many people labelled China as the sixteenth member of NATO. This provided China increased access to European Defense suppliers. China purchased anti-air and anti-tank missiles from Italy and West Germany, radars from France and jet fighter technologies from GB. During the 1980s relations between China and West European countries got fairly normalized and state visits of the Heads of states and Heads of governments took place to China and many Chinese leaders visited West Europe and commercial, cultural, scientific and military exchanges took place.

According to Shambaugh, Sandschneider and Hong (2007) ⁽⁷¹⁾,

“The Political dialogue with China can be traced back to the first half of the 1980s. In 1983, the Council decided to establish, in the framework of EPC, biannual consultations between the political director of the foreign ministry of the country representing the EC presidency and ambassadors in each respective capital city.”

These meetings between the European commission and the Chinese government were subsequently integrated into the framework for political dialogue in 1994. Now meetings between the foreign ministers are held regularly and the Chinese foreign minister holds annual meetings with the European Union ambassadors in Beijing. In 1998 the political dialogue between the European Union (EU) and China was upgraded to the level of Heads of States and Governments. Presently the political dialogue included topics from human rights to international security and from terrorism to environmental issues. During this period, set backs have been taking place like the one in June 1989 as a result of controversy in the UN human rights commissions and bombing of the Chinese Embassy in Belgrade in 1999 but both sides exercised restraint and reestablished the dialogue.

Shambaugh, 1992 ⁽⁷⁰⁾ added that, during the 1980s China started paying more attention to West European businessmen which increased its trade with West European countries. By 1987, the two way trade totaled 13 billion US dollars....more than double since 1980. China's imports from West Europe had grown up by 169 percent over this period although this was only 15 percent of China's total foreign trade. Germany alone had nearly 40 percent share of trade with China. By 1990 the GB surpassed France and Italy as suppliers of industrial and other economic equipment to China, of which major share was of power generation equipment. However, during this period Foreign Direct Investment (FDI) by West European countries like France, Italy, GB, and the then West Germany accounted for only 1.7 percent, equal to 39 million US dollars, of total FDI in China. During this period, students from different European countries started coming to China for studies. However, the 1989 incidence of massacre of large number of students, who were demonstrating for democratic rights in Tiananmen Square in Beijing, on account of use of military force by China had serious adverse effects on Sino-European relations. Sanctions and embargoes were placed by many European countries on China. Some European countries even admitted dissident Chinese by granting them asylum and subsequently nationality. However, in summer 1990, most of the European countries lifted sanctions regarding trade relations etc. Following by US President Bush's indication at the time of G-7 Summit that US “would not oppose” the allies lifting sanctions. Although arms sales and military contacts were kept frozen but ministerial and state visits of Heads of states/governments got resumed.

(71) Shambaugh, D., Sandschneider, E., & Hong, Z. (Eds.). (2007). *China-Europe relations: perceptions, policies and prospects*. Routledge. Page 71

NOTE: (70) already mentioned on Page 42.

The collapse of communist regimes in Eastern Europe and their reversion to democratic system did not cause much reaction from China and it continued to have normal relations with the new governments. Reunification of Germany also did not cause any dent in the trade between China and Germany.

The seventeenth EU – China Summit for celebration of 40th anniversary of diplomatic relations between EU and China was held in June 2014 where after China released two important documents:-

“One belt, One road” project (vision and actions on jointly building Silk Roads on economic belt and the 21st century maritime Silk Road, March 2015) ⁽⁷²⁾ and White paper on China’s military strategy (May 2015) ⁽⁷³⁾.

China is following two-pronged strategy in its foreign policy; engaging in proactive and flexible economic diplomacy while maintaining a firm stance on sovereignty with regard to territorial claims in the East and South China Seas. China is involving the participation of EU under “One Belt, One Road” for having concrete economic co-operation deals which reflects China’s interest in developing co-operation with the EU. In the broader context, China’s ambition is to reshape the global order by creating new international institutions to end US hegemony in the world affairs. Latest attempt in this regard is launching of Asian Infrastructure and Investment Bank (AIIB) in which 14 EU member states have already applied for joining the new bank.

Trade relations between EU have developed to such an extent that the EU Chamber of Commerce in China was established in the year 2000 by 51 member companies with the goal of having a common voice for the various European business sectors operating in China. The EU Chamber of Commerce in China has now more than 1800 members operating in seven chapters in 9 cities of China. The Chamber is recognized by the European Commission as well as the Chinese Authorities as the official representative of European business enterprise in China. EU and China are involved in important trade and investment negotiations particularly the negotiations on Trans-Atlantic Trade and Investment Partnership (TTIP). At WTO level, EU and China are in the process of revision of Information Technology Agreements (ITA). Both parties are currently engaged in negotiations on Environmental Goods Agreement (EGA).

(72) The Silk Road Economic Belt and the 21st Century Maritime Silk Road (May, 2015). *Fung Business Intelligence Centre*
http://www.pcci.gr/evepimages/TheSilkRoad_F16346.pdf

(73) Ekman, A. (2015). China: Reshaping the Global Order. *Paris: Institute for Security Studies, Issue Alert*.
<http://eng.mod.gov.cn/Database/WhitePapers/>

NOTE: (70) already mentioned on Page 42.

EU and China are also involved in negotiating Bilateral Investment Agreement (BIA). The economies of both China and EU are interlinked. EU is China's top trading partner (429 billion euros/ 13.4 percent of total share) followed by US (396 billion euros/12.4 percent of total share). US is the number 1 trading partner of the EU (484 billion euros, being 14.2 percent of total share) while China is 2nd (428 billion euros/ 12.5 percent of total share).^{(74) (75)}

Following figures explicitly explain the trade relations between EU and China in goods as well as in services and also FDI:-

Table: The EU-China Trade Relationship

Trade in goods

- EU exports to China 2013: **€148.3 billion** (+80% compared to 2009)
- EU imports from China 2013: **€280.1 billion** (+30% compared to 2009)

Trade in services

- EU services exports to China 2013: **€32.2 billion** (+71% compared to 2009)
- EU services imports from China 2013: **€20.6 billion** (+47% compared to 2009)

Foreign Direct Investment

- EU outward investment to China 2013: **€8.2 billion** (+1% compared to 2009)
- China inward investment to EU 2013: **€1.1 billion** (+1100% compared to 2009)

Source: DG Trade, European Commission

SOURCE LINK: <https://www.businesseurope.eu/sites/buseur/files/media/imported/2015-00194-E.pdf>

Presently the trade and political relations and economic interdependence between the European Union and China are working normally. There being no major conflicts between the European Union and China, the relations between the two seem to be continuing and the political dialogue between the two sides is relevant. China is the European Union's second largest trade partner after the United States. The dialogue between the two sides comprise of competition policy, consumer products safety, customs co-operation, education and culture, energy, environment, space co-operation, Intellectual Property Rights (IPRs) and various other sectors like agriculture, civil aviation and transport etc.

(74) For details see <https://www.businesseurope.eu/sites/buseur/files/media/imported/2015-00194-E.pdf>

(75) For details see <http://www.eurochamber.com.cn/en/european-chamber-background>

After having discussed the Sino-European relations, it would be appropriate to analyze Sino-Japan Relations, both being the Asian giants. Jiang Zemin, General Secretary of the Chinese Communist Party during his Speech to the Committee on Non-Governmental Organizations in 1992 said

“China and Japan are friendly neighbors separated only by a strip of water, and the people of the two countries have forged a profound friendship through their exchanges for more than two thousand years Culturally our two countries have a lot in common that makes it easier for us to communicate with each other and help increase our mutual understanding and trust.” (Burns, 2000) ⁽⁷⁶⁾

Relations between China and Japan are very critical for maintaining security and peace in Asia. The relations between the two countries have remained very complex on account of bitter historical incidents like Nanjing Massacre or Nanking Massacre, also known as Rape of Nanjing or Rape of Nanking during the second world war. The issue of recognition of Taiwan by Japan has also remained a stumbling block in the development of Sino-Japan relations. The Nanking Massacre occurred over 6 weeks starting on December 13, 1937 during the second Sino-Japanese war in which China claimed Massacre of 3 lakh Chinese along-with massive rape of the Chinese women at the hands of soldiers of the Imperial Japanese army at the time of capture of Nanking. Subsequently international military tribunal for the Far East and the Nanking war crimes tribunal tried and executed those who were found guilty. The international military tribunal for the Far East estimated that over 2 Lakh Chinese were killed in the incident. China has been complaining that Japan’s refusal to acknowledge its war wartime crimes during World War II to its satisfaction did not let the warm relationship to grow between the two countries. At the end of World War II, Japan surrendered before the allies lead by US and thereafter US established its military basis in Japan. The Treaty of mutual co-operation and security between US and Japan, 1951, also caused mistrust between China and Japan. This is evident from the Sino-Soviet treaty of friendship and alliance, 1950, which included a clause that each side would protect the other side in case of attack by “Japan or any State allied with it.” (Fogel, 2000) ⁽⁷⁷⁾

In the recent past the dispute over the Senkaku Islands in the East China Sea also caused hostilities between the two countries. In September 2012, Japanese government purchased three Islands out of Senkaku Islands in East China Sea from a private Japanese owner which heightened tensions between the two countries and there were massive anti-Japan demonstrations in China. It also affected the trade relations between the two countries in the latter half of 2012. However, both sides exercised restraint and did not let the conflict take the shape of military intervention against one another (Heflin, 2000) ⁽⁷⁸⁾.

(76) Burns, K. G. (2000). China and Japan: economic partnership to political ends. *Economic Confidence-building and Regional Security*, Washington, DC: Henry L. Stimson Center, 27-58. From <http://www.stimson.org/images/uploads/research-pdfs/burnspdf.pdf>

(77) Fogel, J. A. (2000). *The Nanjing Massacre in history and historiography* (Vol. 2). University of California Press.

(78) Heflin, W. B. (2000). Diayou/Senkaku Islands Dispute: Japan and China, Oceans Apart.

PRC came into being in October 1949 and at that time Japan was a defeated country and its military power was in shambles. Formal diplomatic relations between Japan and China got established in September 1972 after the initiation of process of reconciliation between US and China as a result of secret visit of US Secretary of State Henry Kissinger in 1971 and first State visit of US President Richard Nixon to China in 1972.

Japan being an ally of US could not establish formal diplomatic relations with China till the start of process of reconciliation between US and China in 1971 and 1972. Between 1949 and 1972, the economic and political relations between Japan and China got managed through non-governmental organizations (NGOs) like Chinese People's Institute of Foreign Affairs (CPIFA), which used to receive politicians from different parties of Japan. In 1952, the Chinese Commission for the Promotion of International Trade (CCPIT) succeeded in signing of agreements with some members of the Japanese Parliament. The Chinese State Council's Office of Foreign Affairs succeeded in arranging agreements regarding repatriation of Japanese prisoners of war with Japanese Red Cross. After the rupture in the Sino-Soviet relations in the late 1950s and beginning of 1960s, economic necessity caused the PRC to reconsider its trade relations with Japan. (Barnouin, Barbara, and Changgen, 1998) ⁽⁷⁹⁾

During 1960s, trade agreements at unofficial level took place which facilitated the purchase of industrial plants by PRC from Japan which were partly financed through medium term credits from Japan Export-Import Bank. This also permitted PRC to open a trade mission in Tokyo in 1963. The economic relations between the two countries have played pivotal role in providing solid foundation of relationship between the two countries despite various troubled areas. In 1950s, the bilateral trade between Japan and China was barter based with a total share of 4.7 million US dollars. It went up to 151 million US dollars by 1956 and by 1965, bilateral trade between China and Japan reached a total of 621 million US dollars. However, these trade relations at unofficial level between China and Japan met a setback during Chinese Cultural Revolution. After the death of Mao in 1976, a period of economic reforms started in China which facilitated long term private trade agreements in February 1978, according to which trade between Japan and PRC would increase to the level of 20 billion US dollars by 1985. Japan agreed to export plants and equipment, technology, construction materials and machine parts in return for coal and crude oil.

According to Burns, 2000 ⁽⁷⁶⁾ Official Development Assistance (ODA) from Japan to China began in 1969 and over the years has approximately reached the level of 3.1331 trillion Yen in loan aid, 195.7 billion Yen in grant aid and 144.6 billion Yen in technical co-operation until June 2005. By 1972 Japan and China had established diplomatic relations and agreed to conclude a separate peace treaty. The Treaty of Peace and Friendship between Japan and PRC came into force in October 1978. Japan kept on investing in the PRC during the early 1990s. China-Japan bilateral trade grew more than tenfold between 1979 and 1999.

(79) Barnouin, B., & Yu, C. (1998). *Chinese foreign policy during the Cultural Revolution*. Kegan Paul Intl.

NOTE: (76) already mentioned on Page 47.

By 1992, China was Japan's fifth largest trading partner, and a year later, China overtook Germany, Taiwan, and South Korea, to become Japan's second largest trading partner after the United States.

By 2001 China's international trade was the 6th largest in the world and in the next four years it was just after Japan, the fourth largest. Though Chinese and Japanese leadership claimed that "Ice Melting" took place between Japan and China between 2006 and 2010 but the fundamental problems relating to history and disputed territory have remained unresolved. During 2010 China overtook Japan as the World's second largest economy after the US. (Also see Wikipedia) ⁽⁸⁰⁾

According to Drysdale (2015) ⁽⁸¹⁾, presently China-Japan economic partnership is one of the biggest in the world. The trade relationship between the two countries is the third largest in the world, equal to 340 billion US dollars in 2014. China, being the Japan's largest trading partner accounts for one-fifth of its trade while Japan is China's second largest partner. Japan's stock of direct investment in China was more than 100 billion US dollars in 2014, even larger than US by 30 billion US dollars. Economies of both the countries are deeply complementary which is unmatched with any of China's economic relationships with any other country. Despite this political tensions and security rivalry between the two dominate the headlines.

Sino-Indian Relations: India became an independent sovereign state when it achieved independence from the British rule in August 1947. After the establishment of PRC in October 1949, the relations between the two Asian giants have been marred with occasional conflicts, including armed conflict, and there have also been occasions of co-operation, due to exigencies of circumstances, particularly in the economic field. The disputes have been not only on account of disputed border areas but also on account of having supremacy not only in the Indian Ocean but also in the region along-with international affairs. The security dilemma in Sino-Indian relations is related, on the one hand, to Chinese efforts to establish and expand political and security relations with the countries in the South Asia Indian Ocean and on the other hand, Indian efforts not to let the Chinese efforts succeed and rather to establish its own supremacy in the region. Both sides view each other's efforts as threatening and adverse to national security (Garver, 2002) ⁽⁸²⁾.

Both India and China share a long border spread over 4500 km between Northern India and Tibet along-with Himalayan Range where the disputed territory between the two is 3225 km long. Occasional skirmishes between India and China have been taking place in the disputed border area at a small scale for many years. However, a major armed conflict took place when the Chinese troops attacked Aksai Chin in Laddakh and North East Frontier Agency across McMahon Line on 29th October 1962 which resulted in crushing defeat to the Indian side and thousands of its troops got killed, wounded and captured. China declared cease fire on 20th November 1962 and withdrew its troops from the occupied disputed areas.

(80) For details see Encyclopedia Wikipedia. https://en.wikipedia.org/wiki/China%E2%80%93Japan_relations#cite_note-Ref_ac-1

(81) Drysdale, Peter. (2015, September 28). The geo-economic potential of the China-Japan relationship. *East Asia Forum*. <http://www.eastasiaforum.org/2015/09/28/the-geo-economic-potential-of-the-china-japan-relationship/>

(82) Garver, J. W. (2002). The security dilemma in Sino-Indian relations. *India Review*, 1(4), 1-38.

China claimed whole of North East Frontier Agency which was now Indian State of Arunchal Pradesh and this area was also occupied in 1962 war. China claimed that Aksai Chin formed part of Xenjjiang while India claimed it to be part of Kashmir. McMahan Line was drawn by Henry McMahon, Foreign Secretary of the British Indian Government in 1913 at a conference between the representatives of GB, China and Tibet to resolve the border disputes amongst the three countries. This border conflict of 1962 took place despite India and China having negotiated an agreement on the Five Principles of Peaceful Co-existence in 1954 by which both had agreed to resolve their disputes peacefully. (Shafiq, 2011) ⁽⁸³⁾

As analyzed by Athwal (2007) ⁽⁸⁴⁾, relations between China and India remained hostile during the cold war. In 1998 India conducted nuclear test which added further to the tensions. Both have been modernizing their navies and increasing their presence in the Indian Ocean Region. China continued to co-operate with Pakistan, both militarily and economically, and has deep interest in Gwadar Port, located in the Baluchistan Province of Pakistan, and is providing funds and technical assistance for developing this deep water port. China has also been strengthening its ties with Myanmar. This enhancement of military and economic ties with Pakistan and Myanmar is viewed adversely by India as an attempt to encircle it. Therefore, India has started deepening its economic and strategic ties with other Asian States like Vietnam, Laos, Philippines, Thailand, Cambodia, Japan, Indonesia and South Korea. Many analysts view that both China and India were engaged in regional struggle for power. India has the aspiration to have parity with China in the region as well as in international affairs while China considered India to be the only country in Asia which could challenge its leadership. On the other hand, dependence of both the countries in the field of energy by importing oil and gas to sustain their economic growth has forced them to co-operate, to share this vulnerability and push them towards convergence. Despite conflicts, both China and India have been attempting to let the bilateral trade grow.

This rapprochement in the Sino-Indian relations started in the late 1980 when Rajiv Gandhi became the first Indian Prime Minister in 32 years who paid State visit to China on 19th December 1988. During this visit, both countries signed agreement to setup Joint Working Group and both countries agreed to expand bilateral co-operation in non-commercial fields (Ahesar, Memon, & Mahesar, 2015) ⁽⁸⁵⁾.

According to Mitchell and Bajpae (2007) ⁽⁸⁶⁾, India and China co-operated in the creation of G-33 (developing world) at the WTO to promote more equitable international trading system including convergence of views on the elimination of trade distorting subsidies on agriculture.

(83) Shafiq, N. (2011). India versus China: A review of the Aksai Chin border dispute. *Journal of Political Studies*, 18(2), 207-223.

(84) Athwal, A. (2007). *China-India Relations: Contemporary Dynamics* (Vol. 3). Routledge.

(85) Ahesar, P. A., Memon, A. P., & Mahesar, A. H. (2015). SINO-INDIAN RAPPROCHEMENT IN THE CHANGING DYNAMICS OF THE SOUTH ASIAN REGION. *The Government-Annual Research Journal of Political Science*. 4(4).

(86) Mitchell, D. J., & Bajpae, C. (2007). China and India. *The China Balance Sheet in*, 151-169.

Visits of senior military officials of India and China in each other's country have increased. In 2003, joint naval exercises took place between Indian and Chinese navies in East China Sea.

Similar exercises took place in December, 2005 in the Indian Ocean. In May 2006, both countries signed Memorandum of Understanding (MOU) of defense co-operation which institutionalized high level exchanges of the defense forces of both the countries and formalized Joint Military Exercises as well as training programs.

According to a document titled 'Economic and Trade Relations' (Embassy of India, Beijing, China)⁽⁸⁷⁾, the economic co-operation between the two countries has got institutionalized. Besides India-China Joint Economic Group (JEG) on economic relations and trade, science and technology and India-China Strategic and Economic Dialogue (SED), financial dialogue has also started between the two countries since 2006. This financial dialogue got initiated during Chinese premier Wen Jiabao's visit to India in April 2005 and since then financial dialogues have been held in 2006, 2007, 2009, 2010, 2011, 2013 and 2014. Both sides held in-depth discussions on the challenges facing the global economy, macro-economic policies and progress on structural reforms. Many Indian banks and companies have established their branches/offices in china and similarly many Chinese banks and companies have established their branches/offices in India.

Tourism has developed and people to people exchanges have taken place between India and China. India-China bilateral trade during 2014 was 70.25 billion US dollars; India's exports to China were 11.98 billion US dollars while China's exports to India were 58.27 billion US dollars, a trade deficit of 46.29 billion US dollars for India. India-China bilateral trade in 2000 was 2.92 US billion dollars which reached 41.85 billion US dollars in 2008 and thus China replaced United States of America as India's largest trade partner in goods.

(87) For details see <http://www.indianembassy.org.cn/DynamicContent.aspx?MenuId=97&SubMenuId=0>

Bilateral trade between India and China during financial years 2009-2010 to 2013-2014 has been showing a large trade deficit for India as is evident from the following figures:-

Bilateral Trade Figures (Financial Year)

Year	Export to China	Growth (%)	Imports from China	Growth (%)	Trade Deficit
2009-2010	11.61	24.21	30.82	-5.15	19.21
2010-2011	15.5	33.27	43.5	41.06	28
2011-2012	18.1	16.75	54.7	27.22	36.57
2012-2013	13.57	-25.12	52.24	-5.54	38.66
2013-2014	14.82	9.53	51.03	-2.32	36.21

In USD billion

[Source: Directorate General of Commercial Intelligence and Statistics]

SOURCE LINK: <http://www.indianembassy.org.cn/DynamicContent.aspx?MenuId=97&SubMenuId=0>

Bilateral investment between India and China has not grown with the same volume as was the case with bilateral trade. Bilateral investment of China in India was just 16 million US dollars in 2007 which reached the level of 49.1 million US dollars in 2008 and again registered a shortfall to 33 million US dollars (non-financial) in 2010. Till 2013 the cumulative China's non-financial investment in India was 2.763 billion US dollars. In 2014, non-financial investment of China in India was 243 million US dollars. On the other hand, Indian investment in China was 52 million US dollars in 2006 while it reached 34 million US dollars in 78 projects in 2007. Till 2014 cumulative Indian FDI in China was 0.564 billion US dollars. The relevant data regarding bilateral investment between India and China from 2007-2014 is as under.

Chinese Investment in India

2007- US\$ 16 million

2008- US\$ 49.1 million

2010- US\$ 33 million (China's non-financial investment in India)
 2011- US\$ 95.90 million (China's non-financial investment in India)
 2012- US\$ 154 million (China's non-financial investment in India)
 Till Dec 2013-US\$ 2.763 billion (cumulative, China's non-financial investment in India))
 2014- US\$ 243 million (China's non-financial investment in India)

Indian Investment in China

2006 – US\$ 52 million
 2007- US\$ 34 million in 78 Projects
 2008- US\$ 257 million in 92 projects
 2010- India's FDI in China- 77 Projects; investment of US\$ 55 million.
 2011- India's FDI in China- 130 Projects; investment of US\$ 42.17 million
 2012- India's FDI in China- US\$ 44 million
 2014_India's FDI in China - US\$ 50.75 million
 Till 2014- Indian Investment in China (cumulative): US\$ 0.564 billion

Chinese Project Contracts in India

2007- Contract signed - US\$ 4.56 billion, turnover realized - US\$ 1.99
 2008- Contract signed - US\$12.9 billion, turnover realized - US\$ 4.3 billion
 2010- Contract signed - US\$ 6.9 billion, turnover realized - US\$ 5.8 billion.
 Jan-Dec, 2011- Contract signed - US\$ 14.06 billion, turnover realized - US\$ 7.44billion.

Cumulative value of Contractual Chinese investment (Projects) till Dec, 2011 was US\$ 55.61 Billion. The overall turnover realized from these projects till Dec, 2011 was about US\$ 26.82 billion.

By the end of June 2012, the total value of contracts entered into between India and China was US\$ 57.59 billion with realized turnover of US\$ 29.78 billion.

By the end of Feb 2013, the total value of contracts entered into between India and China was US\$ 60.21 billion with realized turnover of US\$ 34.3 billion.

2014-Contract signed-US\$ 1.567 billion, turnover realized-US\$ 2.536 billion

Till 2014-Contract signed-US\$ 63.703 billion, turnover realized-US\$ 41.06 billion

[Source: Ministry of Commerce, People's Republic of China]⁽⁸⁸⁾

Analyzing the Sino-Indian economic relations, China Business Review in its article titled ‘China and India; Greater Economic Integration’ by Gupta and Wang ⁽⁸⁹⁾ observed that despite deeper integration ahead, distrust lingers on. In exact words of the authors:

“Not all is smooth sailing, however. Concern over China’s expanding trade surplus has grown in India over the last two years. The recent global economic crisis, which has slowed economic growth in China and India, appears to have exacerbated the severity of these concerns. Over the last 24 months, India has issued several antidumping measures against products such as yarns and fabrics, nylon tire cords, and aluminum products from China. Both governments appear keen to resolve these issues through mutual discussions rather than taking them to the WTO, however. A major obstacle to bilateral investment that needs to be bridged is one of lingering distrust stemming from the brief war of 1962 and unresolved border disputes. In an example of this distrust, in July 2008, the Indian government prevented companies from China and two other countries from investing in port infrastructure projects in the country for security reasons.”

The relationship between China and Pakistan are so close that these have been described as ‘*Higher than the mountains, deeper than the oceans, sweeter than honey, and stronger than steel. It is also an all-weather and time-tested relationship*’. Pakistan was the third non-communist country and the first Muslim country to recognize PRC. Pakistan was one of the few countries who severed relations with ROC (Taiwan) in 1950 and recognized PRC as the legitimate Mainland China. Formal diplomatic relations between Pakistan and China were established on 21st May, 1951. Since then both the countries have kept the mutual relationship which has been growing over years in the form of close strategic allies ⁽⁹⁰⁾.

(88) For details see Economic and Trade Relations. Embassy of India, Beijing, China

<http://www.indianembassy.org.cn/DynamicContent.aspx?MenuId=97&SubMenuId=0>

(89) For details see <http://www.chinabusinessreview.com/china-and-india-greater-economic-integration/>

(90) Pakistan-China Relations. Embassy of Islamic Republic of Pakistan, Beijing, China.

http://www.pakbj.org.pk/Bilateral_Relations

High level visits of Heads of States/Governments and other dignitaries keep on taking place between the two countries. Following remarks by the Pakistan's Prime Ministers and Chinese Presidents explicitly explain the nature of relationship between the two countries:-

"I should like to make it clear beyond all doubt that we have friendly relations with the People's Republic of China and that nothing will be permitted in any way to endanger those relations. Our relations with China are an independent factor in our foreign policy and not contingent on any other. In the best interests of Pakistan, we shall maintain the spirit of goodwill, friendship and cordiality with the great People's Republic of China. I declare that our friendship with China is not tainted by any form of bargain or barter. It is steadfast amity between two neighboring Asian States". (Zulfiqar Ali Bhutto, 1962)

"Pakistan was one of the first countries to recognize New China. Ever since our diplomatic relations began in 1951, we have enjoyed mutual understanding, respect, trust and support and our friendship and cooperation have flourished. We are truly good neighbors, close friends, trusted partners and dear brothers". (President Hu Jintao, Islamabad, 24 November 2006)

"Our close and friendly relations with China have been and will remain the cornerstone of our foreign policy. We believe that our friendship and cooperation will only gain in strength in the future, fortified by our common resolve to imbue it with ever greater vigor and vitality" (Prime Minister Syed Yusuf Raza Gilani on the occasion of 60th anniversary of the founding of the People's Republic of China, 29 September 2009).

While addressing the joint sitting of Pakistan's Parliament in Islamabad, Chinese President Xi Jinping said, as reported by International The News (22nd April, 2015)⁽⁹¹⁾

"Pakistan and China would fight the challenges of terrorism together. China considers Pakistan as its 'Iron Brother'. I remember the time when China was completely isolated in the world. Pakistan was the country that stood by us in testing times..... it is just like coming to the home of a dear brother," he added. "We Chinese refer to Pakistanis as our good friends, good neighbors, good partners and brothers. We would elevate our relations to all-weather strategic partnership..... Regardless of changes at the international level, we will continue to see Pakistan in strategic and long-term perspective. "

(91) For details see <http://www.thenews.com.pk/print/12125-pakistan-is-chinas-iron-brother-president-xi>

On the one hand, Pakistan has benefitted from its relations with China politically, diplomatically, economically and militarily. Pakistan has used its close ties with China as a counter weight against India and US and earlier against the axis between Soviet Union and India. China has been supporting Pakistan on its principled stand on Kashmir while, on the other, Pakistan has helped China in its entry in the UN as well as WTO. Through Pakistan's diplomatic efforts China got access not only to the Muslim World but also to the West and has worked as a conduit in establishing relations between China and US. The famous secret visit of US Secretary of State Henry Kissinger from Pakistan to China in 1971 and after few months visit of US President Richard Nixon to China in 1972 are the major milestones in the growth of diplomatic relations between China and US. (Small, 2015) ⁽⁹²⁾

After settling the border dispute, China and Pakistan signed an agreement in 1963 for the construction of road known as "Silk Route" linking China's Xinjian-Uygur autonomous region with the northern areas of Pakistan which helped starting trade through land route between the two countries. During the visit of Chinese President Jiang Zemin to Pakistan comprehensive friendship between the two countries got established. In 2003, China and Pakistan signed preferential trade agreement (PTA) and thereafter joint feasibility study for a bilateral free trade agreement started between the two countries which was signed on 24th November 2006 and it came into force on 1st July 2007. For the first time FTA included both bilateral trade and investment. (Kayani, Farrukh N., et al 2013) ⁽⁹³⁾

Pakistan and China signed trade agreement in 1963. Border trade through land route started via Karakoram Highway which was constructed during 1959-1979 and was opened in 1978. It connected Xinjiang with Gilgit-Baltistan through Khunjerab pass. It is also known as Pak-China friendship highway and serves as a popular tourism attraction. China and Pakistan signed an agreement about nuclear co-operation in 1986, as a result of which a 300 MW nuclear power plant was built at Chashma, in Punjab province of Pakistan, which was completed in 1999.

During the visits of Pakistan's President to China in 2000 and Chinese President's visit to Pakistan in 2001 both countries signed six agreements which included Economic and Technical Co-operation, Tourism Co-operation, Lease Agreement on Sandak copper-gold project (located in Baluchistan province of Pakistan), supply of locomotives to Pakistan railways, supply of passenger coaches to Pakistan railways and white oil pipeline. China also agreed to provide assistance of 50 million yuan through economic and technical co-operation. Phase-1 of Gwadar Port (located in Baluchistan province of Pakistan) was completed in 2005 with Chinese investment. Second phase of construction of Gwadar port is in progress.

(92) Small, A. (2015). *The China-Pakistan Axis: Asia's New Geopolitics*. Oxford University Press.

(93) Kayani, F. N., Ahmed, M., Shah, T. A., & Kayani, U. N. (2013). China-Pakistan Economic Relations: Lessons for Pakistan. *Pakistan Journal of Commerce and Social Sciences*, 7(3), 454-462.

In February 2013, Pakistan signed an agreement with China and handed over the operation of Gwadar Port to China, although the ownership of the port will remain with Pakistan. This deep water sea port will connect China to the oil rich Arab countries and has the potential of generating revenue of billions of US dollars and to create jobs for two million people. This port will further enhance trade relationship between Pakistan and China (Nilofer, Wiang & Ishtiaque, 2014) ⁽⁹⁴⁾.

The volume of trade between China and Pakistan crossed the figure of 12 billion US dollars in 2012 and according to Pakistan's Ambassador, as reported by The Daily Nation (29th January, 2013) ⁽⁹⁵⁾, there is every likelihood that the bilateral trade would reach the level of 15 billion US dollars in the next few years. Trade between the two countries increased by 17.6 percent in 2012, bringing it to a total of 12.4 billion US dollars. The two way trade between the two countries was 10.6 billion US dollars in 2011. Pakistan's exports to China increased by 48.2 percent bringing it to 3.14 billion US dollars while Pakistan's imports from China increased by 9.9 percent bringing it to 9.2 billion US dollars. The major items of exports from Pakistan to China have been textiles and textile articles, vegetable products, ores and mineral products, leather goods and base metals. On the other hand major imports in Pakistan from China have been machinery and mechanical appliances, textile and textile products, metals, chemical products, mineral ores and transport equipment etc.

Bilateral trade between China and Pakistan, though increased from 1 billion US dollars in the year 2000 but the balance of trade has always been in favor of China. One of the reasons for this imbalance is that Pakistan's exports to China originate mainly from four items namely cotton, rice, leather, sports goods and raw materials like chrome and copper ore etc. For example copper and gold from Sandek copper-gold project was exported to China in semi-finished form and re-exported to Pakistan after value addition. Chrome ore was exported from Pakistan to China in raw form and was re-exported to Pakistan after value addition. Despite signing of Free Trade Agreement between China and Pakistan in 2006, which got enforced on 1st July, 2007, the balance has always remained tilted in favor of China as compared to Pakistan (Rahman, 2011) ⁽⁹⁶⁾.

(94) Nilofer, M.,Wiang.S.W., Ishtiaque.M. (2014). The Growing Ties between Pakistan and China and its Impact on the Economy of Pakistan. *International Journal of Research in Humanities, Arts and Literature*, 2(12), 49-54.

(95) Pakistan-China Trade Volume Crosses \$ 12 b mark for the first time (2013, January, 29). <http://nation.com.pk/business/29-Jan-2013/pakistan-china-trade-volume-crosses-12b-mark-for-first-time>

(96) Rahman, F. (2011, January). Pakistan-China trade and investment relations. In *seminar on Pakistan-China Relations-2011: Year of Friendship, Islamabad* (pp. 11-12).

According to Rahman, (2011), the factors inhibiting the growth of Pakistan's economic relationship with China are:-

“1. Infrastructure deficit, particularly in energy 2. Poor innovation and technological infrastructure 3. Low labor productivity 4. Low levels of manufacturing value addition 5. Little Foreign Direct Investment (FDI) in manufacturing and exportable sectors 6. Anti-export bias in taxation 7. Increasing costs of exports as compared to imports 8. Lack of product and geographical diversification in exports 9. Absence of economies of scale in the production processes, especially in the Small and Medium Enterprise (SME) sector, which accounts for a vast majority of the enterprises in the country.”

According to an article titled ‘China-Pakistan Economic Corridor gains Momentum in Pakistan’⁽⁹⁷⁾, published in Daily Times dated August 9, 2015, in the year 2015, a mega project for development of infrastructure in Pakistan, known as China-Pakistan Economic Corridor (CPEC), has been initiated by China under its scheme of “Road and Belt”, involving investment of an amount of 46 billion US dollars. The CPEC includes a 3,000-km network of roads, railways and pipelines linking Kashgar in Northwest China's Xinjiang Uygur Autonomous Region and Southwest Pakistan's Gwadar Port and the project is scheduled to be completed within four years. It aims at reviving the ancient trade routes that span Asia, Africa and Europe.

During Chinese President Xi Jinping's visit to Pakistan in April 2015, it was agreed that CPEC would cover 4 areas, the Gwadar Port being at center, transport infrastructure, energy and industrial cooperation to achieve a win-win result and common development. A fast track developmental work on the CPEC has already started. The largest solar power plant in the world located at Bahawalpur (in the Punjab Province of Pakistan), involving cost of 1.5 billion US dollars is expected to be completed by the end of 2016. According to Chinese Zonergy Company Limited, the first 50 mw of the project is near completion and is going to be energized soon. Before the end of 2015, 300 mw will be added to Pakistan's national grid. The 1.65 billion-dollar Karot hydropower plant, the first investment project of the Silk Road Fund, is being developed by the China Three Gorges Corporation. Construction of the 720 mw project will begin at the end of 2015 and the plant is expected to be put into operation in 2020. The Port Qasim (near Karachi, Pakistan) coal-fired power plant, involving the cost of 2.085 billion US dollars, is the first project started in the energy sector under the CPEC framework, being constructed by Power China Resources Limited, would start operation by the end of 2017. In the field of transport infrastructure. China Road and Bridge Corporation has undertaken realignment of the Karakorum Highway (KKH) at Atta-bad Barrier Lake which is near completion.

(97) For details see <http://www.dailytimes.com.pk/national/19-Aug-2015/china-pakistan-economic-corridor-gains-momentum-in-pakistan>

The KKH, the only land route between Pakistan and China, will re-open to traffic after being cut off by a barrier lake for over five years. The contracts for constructing two other road projects, Karachi-Lahore Motorway involving 3.5 billion US dollars and 920 million US dollar Karakoram Highway upgrade Phase-II would be awarded to Chinese companies through bidding. And these are earmarked for early completion. A 502 km out of the 870-km road network linking the Gwadar Port with the rest of Pakistan has been completed. The Gwadar Port started its long-awaited operations on May 11, 2015 as the first private container vessel docked at the deep-sea port. Local fish was exported to the international market through containerized shipment.

Furthermore, for industrial cooperation, the two countries are planning industrial parks; Pakistani government has proposed 29 industrial parks and 21 mineral economic processing zones in all the four provinces of Pakistan. A joint working group would decide and identify the industrial parks. The CPEC is being claimed by the Pakistani government as a game changer and a once-in-a-lifetime opportunity.

After the 1965 war between India and Pakistan, US imposed embargo on sales of weapons to Pakistan. China started supplying weaponry to Pakistan after this embargo. In the 1970s, when US imposed nuclear related sanctions on Pakistan, China supported Pakistan by offering required military assistance. In 1979 when Soviet Union invaded Afghanistan, China and Pakistan developed common interest since Pakistan feared that Soviet Union's next move would be against Pakistan in order to have an access to a warm water port. After 9/11 China began taking more interest in the internal security of Pakistan which deepened the security co-operation between the two countries. China sold nuclear reactors to Pakistan for its civilian nuclear energy projects. China also supplied military aircraft and other conventional weapons. China is supporting Pakistan in its war against terrorism. Xinjiang, having more than 9 million Uighurs, Muslim population of Turkish origin, which is China's largest gas producing and second largest oil producing region, where separatist sentiments have always remained high, is of core importance to China. China needs support of Pakistan since Western part of Xinjiang borders Northern areas of Pakistan. This is also one of the important factors for supporting Pakistan militarily in addition to the shared enmity with India. Pakistani forces captured many Uighurs fighters while crossing border so that they may not be able to carry out terrorist attacks in China. China supplied 50 JF-17 fighter jets to Pakistan and assisted Pakistan in building its first indigenously built frigate. Military to military co-operation between China and Pakistan includes supply of weapons, intelligence sharing, counter terrorism and joint military exercises. Such joint military exercises between the two armies took place in 2011. Joint manufacture of JF-17 Thunders has started in Pakistan. China also supported Pakistan in developing its nuclear capability and missile strategy (Kabraji, 2012)⁽⁹⁸⁾

(98) Kabraji, R. (2012). *The China-Pakistan Alliance: Rhetoric and Limitations*. Chatham House.

In addition to JF-17 thunder fighter aircraft, joint manufacturing of K-8 Karakorum advance training aircraft and Al-Khalid tanks has also started in Pakistan. The Chinese have designed tailor made advanced weapons for Pakistan's military and many joint production ventures are in operation. In April 2015 China agreed to the sale of 8 conventional submarines worth five billion US dollars to Pakistan. This is considered as the biggest ever arms sales by China in its history (Small, 2015) ⁽⁹²⁾.

4. CHINA'S MILITARY BUILD UP

Chinese army is officially called People's Liberation Army (PLA) and it was founded on August 1, 1927 and at that time it was mainly composed of infantry. During the agrarian revolutionary war (1927-1937), a small number of cavalry, artillery, engineering and signal troops were added. Tanks and chemical defense forces got added during the liberation war (1946-1949). PLA has continuously undertaken the policy of reforms and opening up by following innovation, modernization and regularization for safeguarding National Sovereignty and security. Peace and development being the principal themes of the times, PLA has made a strategic shift in its guiding principle from preparation for "an early, large scale and nuclear war" to peace time construction. PLA consists of Army, Navy, Airforce and strategic support force. With about 23 lakh personnel, it is the World's largest military force. It operates under the Central Military Commission (CMC) of the Chinese Communist Party and thus the principle of civilian control over the military is being followed. The Chinese Ministry of National Defense, which works under the State Council, is not the controlling authority over the PLA and rather it is CMC. Although military service is compulsory in China but it has not been strictly enforced due to large number of available volunteers from Chinese population. ^{(99) (100)}

The PLA co-ordinates with more than 20 departments of government including Public Security, Civil Affairs, Water Conservancy, Forestry, Earthquake, Oceans and has established 8 categories of professional State level emergency response teams in the seven military regions. PLA has developed five specialized forces namely flood and disaster relief force, post-earthquake, emergent rescue force, and emergent rescue force for nuclear, chemical and biological disasters. Emergent relief force for transportation facilities and international peace keeping force. (Kamphausen, 2013) ⁽¹⁰¹⁾

(99) For details see Encyclopedia Wikipedia. https://en.wikipedia.org/wiki/People%27s_Liberation_Army

(100) For detail see About PLA. Ministry of National Defense, The people's Republic of China. <http://eng.mod.gov.cn/Database/AboutPLA/index.htm>

(101) For details see http://carnegieendowment.org/files/2008DefenseWhitePaper_Jan2009.pdf

NOTE: (91) already mentioned on Page 56.

According to White Paper about China's National Defense (2008) ⁽¹⁰²⁾, the Chinese Navy was founded on April 23rd, 1949 and it is responsible for safeguarding China's Maritime security and maintaining the sovereignty over territorial waters along-with its Maritime rights and interests. The navy is composed of submarines, surface ships, aviation, Marine Corps and coastal defense wings. Between 1949 and 1955, surface ship force, coastal defense force, aviation, sub-marine force and marine-corps were set up.

From 1955 to 1960, China succeeded in establishing its own Fleets. In addition to conducting in shore defensive operations, the navy started off-shore defensive operations in 1980s. In the last more than six decades, a modern force for maritime operations has taken shape consisting of combined arms with both nuclear and conventional means of operations. Chinese navy has got three Fleets and eight educational institutions. The submarine force is equipped with nuclear power, strategic missile submarines, nuclear powered attack submarines and conventional submarines. The surface ship force consists of destroyers, frigates, missile boats, mine sweepers and landing ships etc. The aviation wing consists of fighters, fighter bombers, patrol aircrafts and helicopters. The coastal defense force is equipped with shore to ship missiles and possesses high coastal defense capability.

The Airforce was founded on November 11, 1949. It is responsible for safeguarding the country's territorial airspace and territorial sovereignty and to maintain a stable air defense system. It is composed of aviation, ground air defense, airborne, signal, radar, technical reconnaissance and chemical defense sections. Since 1990s it has developed third generation combat aircrafts, ground to air missiles and computerized weapons. It has developed capability from territorial air defense to offensive operations. The air force has its own air command in each of the seven military regions. It has a number of educational, research and training institutions.

Another important component of PLA is Second Artillery Force, established on first July 1966, to deal with nuclear threats and to break nuclear monopoly of other countries. China began to develop strategic missile weapons in 1956 and in 1990s it established its conventional missile force. The second artillery force has grown into a lean and effective strategic force with both nuclear and conventional missiles, capable of both land based strategic nuclear counter attacks and precision strikes with conventional missiles. Second artillery force is under the direct command of CMC and is China's core force for strategic deterrence. Its main responsibility is to deter other countries from using nuclear weapons against China and for conducting nuclear counter attacks. China claims to stick to its policy of "no first use of nuclear weapons" and to exercise use of nuclear capability in self-defense. If China comes under nuclear attack, the nuclear missile force would use its nuclear missiles against the enemies.

(102) For details see http://carnegieendowment.org/files/2008DefenseWhitePaper_Jan2009.pdf

The operational command of the second artillery force is highly centralized under the CMC. The second artillery force is composed of nuclear missile force, the conventional missile force, the support force, educational and research institutions. It has created a weaponry and equipment system with both nuclear and conventional missiles, both solid fueled and liquid fueled missiles, different launching ranges and different types of war heads.

Perusing the data available in the Global Security's report titled "China's Defense Budget"⁽¹⁰³⁾, it revealed that China's budgeted defense expenditure was 121 billion yuan or 14.6 billion US dollars in the year 2000. In the year 2001, China's defense budget was 17 billion US dollars while in the year 2002 it was 20 billion US dollars which went up to 22 billion US dollars in 2003. In 2005, China's military budget was 29.9 billion US dollars (247.7 billion yuan). In the year 2006, China's official defense budget was 35 billion US dollars, an increase of 15 percent over the previous year. In the year 2011, China's defense budget was 91.5 billion US dollars as against 77.9 billion US dollars in the years 2010. The defense budget was increased by 11.2 percent to 106.4 billion US dollars in the year 2012 as compared to the year 2011. For the year 2013, China's defense budget was 720.2 billion yuan or 114.3 billion US dollars. For the year 2014, China's defense budget allocation was 808.2 billion yuan or 132 billion US dollars. China's defense budget for the year 2015 was 890 billion yuan or 145 billion US dollars.

If the Chinese defense budget figures are compared with the US defense budget allocations, these appeared to be very meager. For example, for the year 2013, US proposed defense budget of 613.9 billion US dollars as against China's 114.3 billion US dollars. The analysts claim that the defense budget figures in case of China are highly understated while the continuous trend shows that China has been increasing its defense budget annually in double digit for the last many years.

(103)For details see China's Defense Budget. *GlobalSecurity.org*.
<http://www.globalsecurity.org/military/world/china/budget.htm>

SUMMARY AND CONCLUSION

Gungwu & Wong, (1998)⁽¹⁰⁴⁾ have done full justice with the working of Chinese economy, in their words

“China is in the midst of great political, economic and social changes, which will intensify each other on account of their speed and scale. History has never before witnessed such a huge country as China industrializing and transforming itself so rapidly and so extensively. Accordingly, China's success or failure in its domestic development carries serious regional and international implications. There is still a great deal of uncertainty as to how soon in the next century China will become the world's most powerful economy. But what is happening in China today has already impinged on many aspects of life for people in the Asia-Pacific region, either in terms of growing trade and investment opportunities from China or in terms of regional security”

Chinese society has undergone tremendous changes in its socio-economic, political and cultural system since the establishment of PRC in 1949. Chinese people have witnessed experiments at such a large scale which have not been experienced by any other nation in the written history of mankind. The experiments like GLF in 1950-1960 and the upheaval caused by the Cultural Revolution during 1966-1976 and the transition from centrally planned economy to socialist market economy in the post 1978 period, are unparalleled in human history. (Tsang 2000)⁽¹⁰⁵⁾

China adopted the Soviet model of preparing and implementing five year plans in order to have rapid economic development. The Treaty of Friendship, Alliance and Mutual Assistance, concluded with Soviet Union in 1950 was a step towards this end. China got both diplomatic and economic co-operation from the Soviet Union as a result of the said treaty. In the 1950s, the Chinese foreign policy was under the Soviet Union's influence and joint stock companies were formed with Soviet Union for economic development, the ownership of which was transferred to China in 1952. China adopted cooperative farming to boost its agriculture. During that period China had hostile attitude towards US and its allies. When the relation between the Soviet Union and China deteriorated, China pursued the policy of isolation during the period of cold war. Mao's policies like GLF and GSC hurt the Chinese economy where after Mao started Cultural Revolution which caused great upheaval in the Chinese society as a whole.

In the 1970s, China started the policy of opening up and reform for economic development. Consequently, China's relations with the West started improving. Diplomatic relations with US and Japan got established in 1972. China started importing foreign technology to modernize its agriculture, industry, science and technology and defense. During the 1970s, China pursued policy of “adjust, reform, rectify and improve.”

(104)Gungwu, W., & Wong, J. (1998). *China's political economy*. World Scientific.

(105)Tsang, M. C., (2000). Education and National Development in China since 1949: Oscillating Policies and Enduring Dilemmas. *China Review*, 579–618. Retrieved from <http://www.jstor.org/stable/23453384>

In 1984, for the first time China accepted FDI and used advisory services by foreign consultancy firms. In the 90s, China further opened up its economy to the foreign world with the intention to join GATT. In 1992, US and China signed MOU on market access which attracted US investors in the fields like electronics, telecommunication and power generation plants etc. During the 1990s, China pursued Deng Xiaoping's policy of "seizing the current opportunity to deepen the reform and open China wider to the outside world promoting development and stability."

In the beginning of the 21st century, China decided to take extensive and intensive part in international economic cooperation. There was a clear shift towards public service oriented government. The continuous policy of reform and opening up and adoption of socialist market economy enabled China to become member of WTO in 2001. Except for China's involvement in Korean War in 1950 and Sino-Indian war in 1962 and border skirmishes with Soviet Union in 1960s, China has always avoided to involve itself in international conflicts leading to war. Its focus has always been on maintenance of internal security, territorial integrity and economic development and for this purpose it has successfully developed economic and diplomatic relations with the West and its neighboring countries. This foreign policy has paid great dividends to China in the form of rapid economic development which made it the second largest economy in the world after US. During most of this period, China's economy has developed at double digit and lately it has established AIIB for infrastructure development, which experts consider it as a counter to World Bank. China has also successfully launched Road & Belt initiative for bringing together the countries in Asia, Europe and Africa. The economic development along-with military buildup through successful diplomacy has undoubtedly established China as a world power.

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