

The Sino-Indian Border Dispute: Implications of China's Economic Reforms on the 1987 Border Conflict

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Abstract

This thesis builds on the existing works on the conflictual Sino-Indian relationship since birth of respective nations to the late 1980s. The first part of this thesis aims to examine the Sino-Indian relationship in two periods, 1947-1962 and 1978-1987. It investigates how two similar conflicts at the same border had different outcomes. I focus on the existing literature to determine the various factors that led to conflict in both periods. By employing the comparative political method, I show that economic interdependence factor was the variable that deescalated border conflict in 1987. The second part of the thesis applies the liberal view of economic interdependence and theory of trade expectations in the Sino-Indian case of the late 1980s. I argue that economic interdependence can explain the absence of war between the two nations. It shows that China's economic reform and "open door policy" had a huge impact on China's prioritizing foreign trade and economic development since the reform was closely linked to the survival of communist regime. Thus China chose cooperation over war in the border conflict with India. As a result, border conflict between India and China did not escalate into a fully-fledged war in 1987.

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List of Abbreviations

CCP - Chinese Communist Party

CPC- Communist Party of China

LAC - Line of Actual Control

MFN - Most Favored Nation

NEFA - North East Frontier Agency

PLA - People's Liberation Army

PRC - People's Republic of China

ROI - Republic of India

SFF - Special Frontier Force

Introduction

Having emerged as independent countries in 1947 and 1949 respectively, India and China soon claimed the ownership of disputed regions along their long border. In 1962, they fought a short border war after numerous failed negotiations on demarcating the border. The disputed border was the legacy of British colonial rule in India and China's reassertion of her control over Tibet. In 1914, Sir McMahon of British India convened a conference to discuss the status of Tibet and to delimit the border between Tibet and India, with parties from both Tibet and China in Simla. The British representatives secured a treaty known as "Simla Convention of 1914"¹ signed only by delegations from Tibet and British India but not the Chinese.² The agreement established the border known as the "McMahon Line".

The Indian government complied with the Simla Convention concerning her border with Tibet and then with China after China's take over Tibet in 1949, whereas China rejected the validity of the McMahon Line.³ In the early 1950s, India and China signed friendship treaties where India was one of the first democratic nations to recognize

¹ Simla Convention is not to be confused with Simla Agreement, a treaty between India and Pakistan concluded in 1972.

² Amit Ranjan, "India-China Boundary Dispute: An Overview" *Asian Affairs*, 47, No. 1, (March, 2015), 103.

³ Parshotam Mehra, *Essays in Frontier History: India, China, and the Disputed Border*, (New Delhi: Oxford University Press, 2007), 24-31.

the Communist Party as the legitimate government of China. In hope of better relations with China, India aggressively pushed the international community to include Communist China in the Security Council of the United Nations, replacing the Republic of China (ROC) – Taiwan under Nationalist (Kuomintang) government.⁴ However, the territorial issue caused more confrontations in the late 1954 with China issuing a map showing the disputed territories as hers, and also building a highway in the Aksai Chin, one of the disputed areas along the Western border. The Tibetan Uprising of 1959 and the subsequent welcoming of the Dalai Lama in India along with thousands of his fellow Tibetans exacerbated the situation.⁵

The final straw that pushed China to attack was Nehru's "forward policy" which increased Indian military presence in the disputed territories.⁶ This eventually led to the short Indo-China war of 1962 that ended with the Chinese victory. There is broad agreement among scholars that the border conflict escalated because of India's miscalculations of China's willingness and ability to wage war and China's misconception of India's intentions with regards to the issue of Tibet.

The situation at the border remained relatively the same as before the war with no significant commitment to resolve the issue, and relationship went sour as a result. The war

⁴ Shang Quanyu, "Sino-Indian Friendship in the Nehru Era: A Chinese Perspective" *China Report*, 41, No.3, (2005), 237-252.

⁵ John Garver, "China's Decision for War with India in 1962" Stanford University Press, Ed. Robert Ross and Alastair Johnston, (2005), 9-29.

⁶ Neville Maxwell, *India's China War*, (Dehradun: Natraj Publishers, 1970), 189-288, Graver, "China's Decision for War with India in 1962", 32.

did not bring any meaningful changes or agreements between the two nations except the need to restart negotiation in order to prevent future clashes at the disputed border. Any available trade they had before the war was ended and the relationship remained frozen for almost two decades. Up to this day both sides have failed to reach any meaningful border agreement despite repeated efforts. The war simply deepened the sense of mistrust between the two nations, and prompted both sides to rebuild the border infrastructure like roads, military posts, and weapons.⁷ Tensions resulted in new border incidents first in 1967, and then a more confrontational one in 1987.

The latter incident created an atmosphere similar to that of the 1962 war, with both sides rebuilding military posts near the border.⁸ Thus, many analysts and Western countries predicted war between the two Asian giants. This also led to high-level meetings like the one in 1962, with talks eventually resuming and both counterparts refraining from an immediate attack. These two very similar incidents thus resulted in very different outcomes: a full-scale war in 1962 and its prevention in 1987, although many factors that caused war in 1962 were also present in the 1980s. Somehow the two nations managed to prevent escalation of the border conflict in 1987 even though tension and mistrust between them were at the highest point in their history.

Hence the puzzle is how these two states reached a deal in 1987 but failed to do so before the 1962 war. It is surprising because the tension and military buildup in the later

⁷ Taylor Fravel, *Strong borders and Strong Nations*, (New Jersey: Princeton University Press, 2008), 173-219.

⁸ Ibid.

incidents were much higher than during the previous one that led to war. Therefore, this thesis seeks to answer how two very similar incidents lead to different outcomes, and what factors contributed such differences. The events leading to the war in 1962, and the events leading to 1987 confrontation at the border were similar in many ways. Thus, it raises further questions like what factors were the leading causes of the war in 1962 and whether these same factors were also present in the 1987 case.

To identify these major factors, I mainly relied on the vast existing literature on the 1962 war and the subsequent conflictual Sino-Indian relationship. I use the comparative political method to figure out the main factor that may have deescalated the border tension in 1980s. In applying the method, I show that the major factor playing a role in preventing a war in the later period may have been China's changing perception of the world due to the need for China to carry out economic reform in order to prevent domestic chaos such as rebellion against the regime and political division in China itself. This I argue with the help of the liberal view of economic interdependence. I demonstrate that China's need for international trade was too important during the reform era since it was key in sustaining the economic growth and hence a war with India would have been too costly.

Although many scholars have written a lot about Sino-Indian war of 1962 and the subsequent relationship of the two nations but no one has studied in depth the 1980s border conflict and the massive military buildup in the eastern sector of the disputed border, then

known as North East Frontier Agency (NEFA).⁹ In addition, very few analysts have carried out studies of linking border tension with the economic interdependence in the case of Sino-India in the 1980s.¹⁰ Thus, this thesis intends to bridge the existing literature gap on Sino-Indian relationship in the 1980s, and also to link the border conflict with economic interdependence and trade between them.

The thesis is divided into four chapters. Chapter 1 presents my research methodology for the thesis. Next chapter (2) offers a condensed review of the most relevant works on the Sino-Indian war and subsequent conflicts in the 1980s. Chapter 3 focuses on the factors leading to the 1962 war and later incidents in 1986-7 and compares the two periods to determine the major factor that may have prevented the border conflict from escalating into a full war, using the “method of difference”. In the last chapter (4), I lay out the economic interdependence theory framework and then proceed with China’s economic reform and the “open door policy” under the leadership of Deng Xiaoping. I employ liberal view of economic interdependence and theory of trade expectations to test the Sino-Indian case of the 1980s. And I argue that economic independence indeed was key in preventing the war since economic development was vital for China as the survival of the Communist Party depended on it. Finally, I conclude with a brief summary of my research findings and lessons for further research.

⁹ North East Frontier Agency is an Indian name given to the region, and China refers it as “Southern Tibet.”

¹⁰ For more information, see chapter 2.

Chapter 1

Research Design

This thesis attempts to tackle two issues. The first part seeks to address two periods in the Sino-Indian relationship, and the second part does a theory testing. In the first part, the research design employed is comparative historical analysis. I refer to relevant literature ranging from scholarly books, official documents, and statistical data to journal articles and newspapers. With this method, it becomes possible to effectively identify and examine the various factors that were crucial in escalating the border conflict in the 1960s and 1980s and find out what has changed between those two time periods. The main conclusion from this analysis suggests that economic interdependence that resulted from economic reforms in China played a significant role in the bilateral relationship between India and China in the 1980s. This in turn helped de-escalation of border conflict in 1987.

In the second part of my thesis, I utilize the liberal view of economic interdependence and theory of trade expectations on the Sino-Indian relationship in the 1980s to explain how and why China's economic reforms were important to the de-escalation of the border dispute. Going further, I closely look at the connection between the Chinese regime and economic development in the 1980s, and I argue that China's reform process was directly linked to regime survival. Therefore, the importance of economic development was key in shaping the Chinese foreign policy behavior.

The direction of research focuses on China's foreign policy making process towards India amid the border clashes. Thus, this research does not engage in the complicated

historical debates on the border issue other than pointing out the divergent narratives that scholars have helped to advance thus far. Thus, the task of this thesis is confined to understanding of the above-mentioned two periods in the bilateral relationship of India and China.

I focus mainly on China for three reasons. Firstly, most scholars and analysts who have focused on Sino-Indian issue agree that India was weaker than China and hence never planned to attack China.¹¹ This still applies to today's India. However, that does not mean that India did not pursue provocative policies towards China in hope of having the whole disputed territory. Thus, the consensus is that India would have never started a war at least full-scale without China attacking first.¹²

Secondly, with regards to the border dispute, China was more worried because of the Tibetan issue that is intertwined with the border issue. For China, the issue of Tibet is important as a matter of national territorial integrity as well as strategically in case of a war.¹³ Thirdly, there is very little research on Chinese decision-making process with regards to India and border conflicts in the 1980s. Considering these three reasons, in the case of a serious border clash, China's intentions and calculations may very well influence

¹¹ James Barnard Calvin, *The China-India Border War (1962)*, (Quantico, VA: Marine Corps Command and Staff college, April 1984);

<http://www.globalsecurity.org/military/library/report/1984/CJB.htm>

¹² Ibid.

¹³ John Garver, *Protracted Contest: Sino-Indian rivalry in the twentieth century*, (Seattle: University of Washington Press, 2001), 36.

the outcome: either peace or war. I believe that this thesis can shed some light on Chinese calculations and perceptions of Indian actions.

My research design is based on comparative historical analysis, specifically employing John Stuart Mill's "method of difference". Mill describes it in the following way:

*[...] if an instance in which the phenomenon under investigation occurs, and an instance in which it does not occur, have every circumstance save one in common, that one occurring only in the former; the circumstance in which alone the two instances differ, is the effect, or cause, or a necessary part of the cause, of the phenomenon.*¹⁴

Mill's method of difference is well suited in my case as it enables me to trace and point out what factors may have been key in preventing a border war between India and China in the 1980s. Following this method, I compare the major events from two time periods: one from 1954 to 1962, and the other from 1980-1987. I have chosen the aforementioned time frames because both culminated with border skirmishes in 1962 and 1987 respectively. Studying closely the events or policies in the run-up period and identifying similarities and differences could reveal what led to those skirmishes.

Most scholars point out that the important factors leading to misperception, miscalculations and an eventual war in 1962 were: the issue of Tibet, international pressure,

¹⁴ John Stuart Mill, *A System of Logic, Ratiocinative and Inductive* (Buffalo: University of Toronto Press, 1974), 391.

regime stability (domestic problems), and expansionist military policies (massive military buildup along the disputed areas to consolidate control – more detailed information can be found in Chapter 2 and 3).¹⁵ Most of these independent variables were present in the 1960s, had a role in the border skirmish and continued to contribute in creating a similar atmosphere in the later period. However, one independent variable – international pressure – changed from the first period to the second. This change can be traced directly to China’s economic policy because China needed the international community for trade, investments, and cooperation to sustain her economic reform and growth.¹⁶ Hence, I conclude that China’s economic reform and the “open door policy” contributed in reducing the border conflict.

Based on the above finding, I proceed to employ the economic interdependence and theory of trade expectations to show how economic liberalization in China prevented the Chinese government from waging war with India in the 1980s. The theory of economic interdependence claims that nations in a bilateral trade relationship with each other refrain from waging wars and make peace to avoid economic losses from the war.¹⁷ The losses for China would consist of negative image of China, war cost, and disruption of economic

¹⁵ Garver believes that China’s decision to attack India in 1962 was motivated by Chinese fear of Indian actions of restoring Tibetan independence, among other factors. Meanwhile, Maxwell argues that India’s expansionist policies provoked Beijing as India refused to negotiate the border issue. Other scholars – like Fravel – conclude that China decided to attack India because of fear of losing bargaining power at the disputed areas due to India’s aggressive policies.

¹⁶ Robert Schaeffer, *Red Inc.: The Dictatorship and the Development of Capitalism in China*, (Paradigm Publisher, 2011), 67-68.

¹⁷ Dale Copeland, “Economic Interdependence and War: A Theory of Trade Expectations,” *International Security*, 20, No. 4 (Spring 1996), 8-9; Erik Gartzke, Quan Li, Charles Boehmer, “Investing in the Peace: Economic interdependence and International Conflict,” *International Organization* 55, 2, (Spring 2001), 391-438.

activities. Of far more significance would have been the loss of international market and investors in the Chinese market, which was the root cause of robust Chinese economic growth.¹⁸ Therefore, the risk of economic failure due to alienation from the international community in the case of war would have jeopardized the legitimacy of the Chinese government and hence its survival.

The theory of trade expectations further adds that although a bilateral trade relationship can reduce likelihood of war, a more important factor in preventing it is the countries' expectation of future trade growth. Thus, the economic interdependence has good explanatory power due to numerous additions like the inclusion of future trade expectation, integration of financial and monetary policies as indicators of future trade expectations. This can be further expanded with the inclusion of two elements, namely consideration of economic interdependence not just with the rival country but also globally. Moreover, the theory attains higher explanatory power when economic development is tied to regime survival, especially in the case of authoritarian regimes.¹⁹

In China's case in the 1980s, not only had she started trading with India and the rest of the world, but also had high future trade expectations with her trading partners.²⁰ During the market liberalization in China, foreign trade was one of the key elements of successful economic reform and growth. Economic reform was of paramount importance for the state

¹⁸ Schaeffer, *Red Inc.*, 78-82.

¹⁹ Javier Corrales links Cuba's economic reform with regime survival, see; Javier Corrales, "The Gatekeeper State: Limited Economic Reforms and Regime Survival in Cuba, 1989-2002" *Latin American Review* 39, No 2, (June, 2004), 35-36.

²⁰ Copeland, "Economic Interdependence and War", 5-41.

and, to succeed with the reform, China desperately needed international investments in the Special Economic Zones (SEZ).²¹ Therefore, China's economic policy dramatically changed the importance of international community and thus a war was too costly, as it would have tarnished China's reputation and diminished trust in her plan of economic reform. For that reason, one can conclude that economic policy was the main factor that prevented escalation of the border conflict into a full war in 1987.

To go a step further, I argue that economic reform was directly linked to regime survival in China. To make the case that the regime survival of CCP depended on economic reform, I utilize Deng Xiaoping's economic reform speeches and official statements during the reform era. All these documents indicate that the economic policy was thus of outmost importance in securing stability in the country as well as for the regime survival.²² Therefore, one can effectively claim that the China's vital national interests during the 1980s were intertwined with economic development, and any failure would have threatened the regime and the country as a whole.

Being a Tibetan researching China, it is sometimes hard to be objective due to personal bias; however, I have taken measures to be more balanced in my research with the help of my colleagues and my supervisor. As a result, I believe that I have remained professional through the thesis. In addition, this thesis has limitations due to lack of fresh

²¹ Barry Naughton, "Deng Xiaoping: The Economist" *The China Quarterly* No. 135 (1993) 491-514.

²² Lowell Dittmer, "The 12th Congress of the Communist party of China" *The China Quarterly* No. 135, (1983), 115-116.

data sources, and inaccessibility of materials due to time and language constraints since I cannot read Mandarin or Hindi. Furthermore, it is impossible to take account of all the existing literature in this thesis due to the vast literature on the subject in a short period.

Given the research limitations, however, by following the described research design, this study can effectively answer how China and India avoided an escalation of border conflict into a full-fledged war in 1987. In the next chapter, I carry out an overview of the literature on the Sino-Indian border war and the countries' bilateral relationship.

Chapter 2

Literature Review on Sino-Indian Relationship Between 1947 -1962 and 1978-1988

The subject of Sino-Indian border issue presents a vast and rich literature, featuring scholars from diverse backgrounds and theoretical frameworks. Much of the existing literature primarily focuses on the 1962 conflict, and hence pays very little attention to the later border incidents between the two nations. However, writings of scholars like John Garver, Neville Maxwell, Allen Whiting, Taylor Fravel, Steve Hoffmann, Surjit Mansingh, Parshotam Mehra, and Andrew Kennedy are important to provide us with a good overview of the bilateral relationship of mistrust and insecurities.²³ These scholars have invested much time in producing works that deal with almost all possible angles of the border war and relations between the two countries in the pre-1962 period. Thus, the literature review on the bilateral relationship is focused on the 1962 war and border incidents between late 1986 to early 1987.

The goal of this literature review is not to recount the arguments of every scholar who has written on the issue but rather to identify the overall trends and juxtapose the broad arguments on a particular issue so that one can clearly see the major debates and the grey areas that this thesis can contribute to. Even though most scholars agree that the border skirmish escalated into a full war due to misperceptions and miscalculations from the involved parties but they argue from different perspectives and prioritize different

²³ Most of these scholars have extensively written on the Sino-Indian war and they are well regarded within the Sino-Indian scholars. However, the literature review also included more authors who have focused on the Sino-Indian war as well as bilateral trade relationship.

factors. Thus, this review tries to put different arguments in the context of the bilateral relationship of India and China as discussed in the literature.

In discussing the Sino-Indian war, some scholars distribute the blame on both parties, while others blame one or another depending on the angle of analysis and the data available to them. Scholars like Garver and Hoffman argue that the war was the result of misperceptions of each other's policies and actions, and thus both parties were at fault. Other scholars like Fravel, Maxwell, and Whiting all think that India was at fault more so than China since India provoked China at a time when China was going through domestic and international problems. India did not give China an option other than attacking as India refused to settle the border. Indian scholars like Mansingh and Mehra believe that China caused the war by betraying Indian friendship.

Scholars like John Garver argue that both China and India were at fault for misunderstanding each other's intentions.²⁴ Garver analyzes the Sino-Indian border war by looking at various factors. He emphasizes that the source of conflict cannot be confined to one or two particular issues, but rather intertwined factors, such as the geopolitics of the Cold War, the Tibetan issue, long shared borders, and regional rivalry for political influence on other states. Garver emphasizes that the border dispute between India and China extends beyond conventional ownership of the disputed territories because of its direct implication for their divergent historical narratives in regards to the

²⁴ John Garver, "China's Decision for War with India in 1962", 2.

issue of Tibet.²⁵ For him, the link between the border dispute and Tibetan issue is the core of disagreement because of the historical India-Tibet-China relationship.²⁶

In agreement with Garver, Steve Hoffman extends the argument that China had reason to fear Indian stands on the Tibetan issue, especially after New Delhi's rejection of a package deal to swap Aksai Chin and North-Eastern Frontier Agency (NEFA).²⁷ These two regions are the major disputed territories between the two countries. Aksai Chin is located in the northwest of India, and NEFA is in the eastern wing of the Himalayas. Thus, Garver and Hoffman offer very useful insights into the wider historical context of the relationship between the two nations.

Other scholars like Fravel, Maxwell, and Whiting all blame India for the war.²⁸ They argue that China was rational in her foreign policy behavior, while India was aggressive and unrealistic with her policies towards China. Maxwell was one of the first authors to produce a book on the Sino-Indian border war and his thesis argues that India was to blame for the border war because of her reckless "Forward Policy"²⁹ towards China at the border, support for the Tibetan cause, and refusal to negotiate. For him,

²⁵ Garver, *Protracted Contest*, 5-6.

²⁶ Garver, "China's Decision for War with India in 1962", 2.

²⁷ Steve Hoffman, "Rethinking the Linkage between Tibet and the China-India Border Conflict" *Journal of Cold War Studies* Vol. 8, No. 3, (summer, 2006), 176-177.

²⁸ Neville Maxwell, *India's China War*, (Dehradun: Natraj Publishers, 1970); Allen Whiting, *The Chinese Calculus of Deterrence: India and Indochina*, (Ann Arbor: The University of Michigan Press, 1975); Taylor Fravel, *Strong borders and Strong Nations*, (New Jersey: Princeton University Press, 2008).

²⁹ India decided to increase her military presence in the disputed areas after seeing increasing number of Chinese army in both disputed regions. The Forward Policy was initiated in 1959 but it became more prominent in 1961 as India rapidly increased her military in the border.

China had no option but to attack India because of India's aggressive and expansionist policies.³⁰

Whiting echoes Maxwell's arguments. In his own analysis, he concludes that China rarely uses military force and thus reasons that China's decision to wage war against India was due to miscommunication and India's aggressive policies.³¹ Taylor Fravel has written extensively on China's decision-making process and influence of domestic factors like instabilities and economic problems. In his analysis of the Chinese border disputes, Fravel states that China effectively uses "diversionary peace"³² approach to resolve border conflicts when faced with internal problems.³³ His overall analysis of the Chinese foreign policy behavior in times of internal problems is noteworthy considering the rich empirical data that his argument is based on.

Those who argue that China was to blame for the war extend the argument that India was simply defending her land and see China as an aggressive and expansionist state. According to the writings of Mehra and Mansingh, historical and legal ownership of the disputed areas belongs to India.³⁴ Mansingh argues that Indian policies were never meant to provoke China. He goes into great length to show Indian friendship towards

³⁰ Maxwell, *India's China War*, 510.

³¹ Whiting, *The Chinese Calculus of Deterrence*.

³² Diversionary Peace theory describes that internal insecurities make it harder for the leaders to pursue war and hence turn for cooperation and peace with its neighbors in order to secure territorial integrity.

³³ Taylor Fravel, "Regime Insecurity and International Cooperation: Explaining China's Compromises in Territorial Disputes" *International security*, Vol. 30, No. 2 (2005), 49.

³⁴ Parshotam Mehra, *Essays in Frontier History: India, China, and the Disputed Border*, (New Delhi: Oxford University Press, 2007); Surjit Mansingh, "India-China Relations in the Post-Cold War Era," *Asian Survey*, 34, No. 3 (Mar., 1994), pp. 285-300.

Beijing in the 1950s when Mao needed the help most.³⁵ Mansingh argues that China betrayed India's friendship by starting the war.

In contrast to Fravel, Mansingh presents his argument through the lens of “diversionary war”³⁶ theory where he states that China waged war in order to divert her citizens' attention away from domestic issues. Therefore, he writes that the 1962 war was the result of China's internal threat caused by the Tibetan uprising³⁷, and the failure of the “Great Leap Forward”³⁸. Thus, he believes that China should be held accountable for provoking the war in 1962.

Mehra also extends similar argument like Mansingh where he states that New Delhi's intention was that of friendship with China for a peaceful Asia.³⁹ However, he argues that Nehru's soft approach of appeasement towards China by supporting the Chinese claim over Tibet, and helping China to secure the UN seat did not help India to achieve her goal of peaceful Asia nor friendship with China. Agreeing with such analysis, Shruti Pandalai explains that the Indian perception of China was based on the idea that India had stronger legal claim over the disputed territories, and hence the Chinese attack on India was a “great betrayal” of Indian friendship.⁴⁰

³⁵ Surjit Mansingh, “India-China Relations in the Post-Cold War Era,” *Asian Survey*, 34, No. 3 (Mar., 1994), pp. 285-300.

³⁶ Diversionary war describes that a state resort to war with other states in order to divert citizen's attention away from domestic instabilities.

³⁷ The 1959 Tibetan uprising was one of the largest uprisings against the Chinese rule of Tibet in the history that lead to the Dalai Lama's flight to India where he was granted political asylum by the Indian Government.

³⁸ The Great Leap Forward was Mao Zedong's economic development campaign aimed to achieve great economic success through industrialization and collectivization from 1956-61.

³⁹ Mehra, *Essays in Frontier History*, 168-169.

⁴⁰ Shruti Pandalai, “Enduring Legacy of 1962: Cementing the Conflict of Perceptions in Sino-Indian Ties” *Journal of Defense Studies* Vol. 6, No. 4, (October, 2012), 211-213.

In analyzing the bilateral relationship, some scholars look at the relationship through foreign policy perspectives of the two nations by focusing on the leadership style. Andrew Kennedy explores the China-India border issue through the “national efficacy theory” by analyzing leadership style. His conclusions also fall broadly in line with those of scholars like Garver and Mansingh as he writes that the war was the result of misperception of each other’s intentions rather than India or China alone bearing all the blame. He states that Nehru had the moral efficacy beliefs while Mao had martial efficacy beliefs, meaning that Nehru’s leadership style was more cooperative and Mao’s style was militaristic in nature.⁴¹ Fravel and Whiting also take the approach of analyzing China’s behavior in dealing with the border dispute and wars with other nations besides India. All three studies reveal that China’s decision making was rational and thus the blame for the war falls on India more so than on China.

In the limited scholarship on the border clashes in the 1980s, authors have argued that both sides became more aggressive in exerting ownership of the disputed areas. However, Fravel is the only one who dedicates more than a few pages to the 1980s incidents in detail, whereas the rest of the scholars mention the 1980s incidents only briefly, devoting either a page or a few sentences to it. In the available literature, scholars argue that border tension escalated due to failed talks, and with the introduction of new policies from both India and China.⁴² Thus, the following review aims to identify factors that worsened border conflict between the two states in the 1980s.

⁴¹ Andrew Kennedy, *The International Ambitions of Mao and Nehru: National Efficacy Beliefs and the Making of Foreign Policy*, (New York: Cambridge University Press, 2012).

⁴² China made new claims in the NEFA region of Tawang, and India responded angrily and eventually declaring NEFA as an Indian state.

With multiple border incidents years after the war, Fravel points out that the Chinese claim of disputed areas became more demanding as India took steps to consolidate her claim over the disputed region.⁴³ He further argues that incidents in 1967 and 1986 brought an intense military buildup at the border greater than that of 1962.⁴⁴ Fravel believes that China's decision to claim new regions signals her displeasure with India's increasing military posts in the disputed areas.

John Garver offers an interesting analysis of resumed border talks between the two countries and how such talks further complicated the dispute. He states that China did offer a territorial swap like the one in 1960, with India ceding Aksai Chin and China the NEFA (Arunachal Pradesh)⁴⁵ region. However, India rejected the offer, believing that both these regions were rightfully hers.⁴⁶ David Scott and Garver argue that, with the failure to swap the disputed regions, China reasserted her claim in some areas of Arunachal Pradesh that China had never claimed before. As a result, India officially incorporated the region into a union state to oppose the Chinese claim.⁴⁷

Garver further adds in his recent article that China's reassertion of territory claim in Arunachal Pradesh was deliberate to keep the border issue unresolved so as to retain a bargaining chip in case of Indian support to restore Tibet's pre-1950s status as a buffer state.⁴⁸ Pandalai also argues in line with Garver as she states that China continues to doubt Indian treatment of the Tibetan cause even though India officially declared her

⁴³ Fravel, *Strong borders and Strong Nations*, 197-201.

⁴⁴ Ibid.

⁴⁵ NEFA was renamed in 1971 by India as Arunachal Pradesh, became an Indian state in 1986.

⁴⁶ Garver, *Protracted Contest*, 104-105.

⁴⁷ Ibid. 104-105; David Scott, "Sino-Indian Territorial Issue: The 'Razor's Edge'?" in *The Rise of China: Implications for India*, (Cambridge University Press in India, 2011), 4-9.

⁴⁸ John Garver, "The Unresolved Sino-Indian Border Dispute: An Interpretation" *China Report* 47: 2, (2011), 102.

support for China's position on Tibet.⁴⁹ Thus, the 1980s literature on diplomatic ties between India and China present us with a quite similar story where both sides fear each other's intentions and lack trust despite diplomatic talk of friendship and peace.

Adding to that, David Anderson and Isabel Geiger have shed light on the Sino-Indian trade relationship in respect to the border dispute. They analyze the transformation of bilateral trade between the two countries and they find that India and China virtually conducted no trade with each other until the late 1970s due to the border dispute and the lack of diplomatic ties. However, they argue that the bilateral trade significantly picked up after the Chinese economic reform in the late 1970s that transformed China's perspectives towards the international community.⁵⁰ Anderson and Geiger also suggest that bilateral trade enhanced diplomatic ties between the two despite their differences.

Biswajit Nag and Rittwik Chatterjee also examine India and China's bilateral trade and investment relationship, and argue that the two nations officially established trade relationship in 1978 just as Deng initiated the economic reform in China.⁵¹ Furthermore, they present multiple trade agreements and deals including the signing of the Most Favored Nation (MFN) status between them in 1984 that enabled a robust economic relationship.⁵² In his analysis of the unresolved border issue between India and China, Garver argues that one of the reasons of Chinese soft approach towards India in

⁴⁹ Pandalai, "Enduring Legacy of 1962", 214-216.

⁵⁰ David Anderson and Isabel Geiger, "Sino-Indian Trade Relations and the ongoing Border Dispute" *China and Eurasia Forum Quarterly* 8, No. 4 (2010), 130-132.

⁵¹ Biswajit Nag and Rittwik Chatterjee, "Bilateral Trade and Investment between India and China: Measuring Relative Competitiveness in Each Other's Market", *Foreign Trade Review* Vol. 44, No. 2 (July, 2009), 35-36.

⁵² Nag and Chatterjee, "Bilateral Trade and Investment", 35-36.

the 1980s was indeed to foster favorable macro-economic conditions for the economic reform and development.⁵³

Despite the rocky diplomatic relationship after the war, many studies reveal that the bilateral trade continued to grow especially in the early 1980s. Barry Naughton argues that Deng Xiaoping transformed the national interests of China with his economic reform that he started in 1978 following the death of Mao Zedong⁵⁴. He refers to Deng as “a politician, a manager and a generalist whose most successful role was as the political godfather of economic reform.”⁵⁵ For Naughton, Deng was a leader who believed in science and technology and their ability to transform society. He notes that Deng was impressed by other nations’ achievements in economic development, and saw the need for China to reform to achieve success. Naughton’s research validates the importance of economic reform for the Chinese Communist Party through the eyes of the man who initiated these reforms.

Studying Chinese economic reform and practices, Christian Ploberger traces political economic regime in China. He reasons that the reform process in China was a response to the catastrophic communist political economic regime, including the failures of the “Cultural Revolution”⁵⁶ and severe economic conditions due to misguided

⁵³ Garver, “The Unresolved Sino-Indian”, 101.

⁵⁴ In China, 1978 marks the year when economic reform started, there were two phases of the reform, first phase was from the late 1970s to early 1980s involving de-collectivization of agriculture, opening of foreign investment and permission to start businesses. The second phase in the late 1980s and early 1990s started the privatization of business and lifting of price control and other restrictions.

⁵⁵ Naughton, “Deng Xiaoping: The Economist”, 491.

⁵⁶ The Cultural Revolution was a socio-political campaign by Mao to impose his political ideology to the country through eliminating rivals and competitions. The campaign started in 1966 and lasted until Mao’s death in 1976.

policies.⁵⁷ Ploberger stresses that the economic development and reform process carried out so as to protect and project the Communist Party as the savior of China to regain legitimacy among the masses.⁵⁸ He also shows the transformation of Chinese socio-political narrative within China and on the international stage.⁵⁹

Robert Schaeffer also contributes to the study of China's economic reform process and how the actual reform was embedded with the political needs of the Communist Party. He argues that Deng did not have much choice regarding the decision of economic reform, as it was necessary for the party to remain in power and to consolidate support of the masses.⁶⁰ In addition, Schaeffer shows the importance of foreign trade, foreign direct investment, and developmental aids for the success of the Chinese economy during the reform stage.⁶¹ Gregory Chow also sheds light on China's economic reform. In his research, he extends the argument that China's economic reform in the late 1970s was necessary for the Chinese government to garner the support of her people, among other things.⁶²

Having reviewed the existing literature on the Sino-Indian war and bilateral relationship of 1980s, there is a general consensus in understanding the border war of 1962 despite different theoretical frameworks. The war was the result of multiple factors including the lack of meaningful diplomatic relationship, misunderstanding of each other's intentions, different narratives of historical claims of the border areas, different

⁵⁷ Christian Ploberger, "China's reform and opening process: a new model of political economy?" *Journal of Chinese economic and Business Studies* 14:1, (2016), 72-74.

⁵⁸ Ploberger, "China's reform and opening process", 74-76.

⁵⁹ Ibid. 81-84.

⁶⁰ Schaeffer, *Red Inc.*, 71-72.

⁶¹ Ibid. 78-82.

⁶² Gregory Chow, "Economic Reform and Growth in China", *Annals of Economic and Finance* 5, (2004), 128.

views on the Tibetan issue, and aggressive policies in the border areas. It also becomes clear that India and China not only lacked diplomatic ties in the late 1950s and early 1960s, but also had no bilateral trade. However, moving towards the 1980s, a significant improvement between them was bilateral trade agreements and ties that coincide with Deng's economic reform in China. Furthermore, through the literature review, it has become clear that the economic reform in China was not only necessary but also an important way to maintain the authority of the Communist Party of China intact.

All the scholars who focused on China's 1980s economy and reform explored how economic reforms in China were implemented and why they were successful, but they did not connect the economic reform to China's foreign policy behaviors, which is what this thesis intends to do. Therefore, this thesis seeks to build on the understanding gained from the existing literature (preoccupied with the 1960s) and to analyze why the incidents in 1987 did not lead to a war, whereas similar incidents caused the 1962 war. This is an important attempt because the existing literature either did not pay enough attention or did not touch upon the issue when discussing the bilateral relationship of the two countries. In making the case, this thesis not only contributes to filling the research gap concerning the Sino-Indian relationship in the 1980s, but also helps to test the explanatory power of economic interdependence and the theory of trade expectations.

Chapter 3

The Sino-Indian Relationship in 1947-1988

Republic of India and People's Republic of China enjoyed a period of friendship based on mutual recognition of each other's need as friendly neighbors during the early 1950s. During the friendship period, they made many agreements with the idea of peaceful coexistence.⁶³ However, divergent national interests of the two regional powers soon shattered their shared goals of peaceful region and good neighbors. The historical legacy of border dispute took center stage of this contentious relationship as each state was determined to stand up for that she saw as rightfully hers. Failed talks and misguided policies eventually caused the border war of 1962, leading to even more adversity. As a result, more border skirmishes occurred in the late 1960s and early 1970s, resulting in dramatic increase of military units stationed along the border. The situation in the border areas with massive military units on both sides resembled that of the early 1960s. Yet, unlike before, negotiations prevailed in 1987 and normalized the relationship.

Thus, the following sections will discuss the cause of the 1962 war and the subsequent rocky relationship of the 1980s. First section will provide an overview of the 1962 border war, and also tries to bring out major factors that caused the war. It will be argued that the major factors of the war were the different narratives on the Tibetan issue, Indian "Forward Policy", China's domestic issues, and international pressure. These

⁶³ India made various agreements with China in order to establish friendship, including recognition of Communist Party of China as the legitimate government of China, establishing diplomatic relations with CCP while ending relationship with Taiwan, and also helping China to replace Taiwan from the United Nations' Security Council; See Quanyu, "Sino-Indian Relationship" 237-252.

issues exacerbated the already existing border dispute, thus causing the war. Section two covers the fragile relationship that consists of even more incompatible territorial claims on top of the existing dispute. In addition, it also tries to show various factors that caused intense military buildup and border skirmishes. The causes of border conflict in the 1980s were also Indian military policy towards China at the border, the Tibetan issue, China's domestic problems, and international pressure. In the final section, I compare these two time periods with the help of Mill's "method of difference" approach to identify what factors explain different outcomes. In doing so, I show that economic interdependence contributed significantly to reducing the tension and avoiding the war in the 1980s.

3.1 Sino-Indian border dispute and the 1962 War

The border dispute between India and China predates both modern India and China. Each party claims to have stronger historical legitimacy for control over the disputed territories of the North-East Frontier Agency in the east and Aksai Chin in the northwest of India. India incorporated the NEFA region as a state now known as Arunachal Pradesh, whereas China refers to the region as "Southern Tibet."⁶⁴ Analysts of the Sino-Indian conflict have also failed to reach any consensus on the ownership of these territories.⁶⁵ These regions are still claimed by both, but India controls the eastern disputed area incorporated into Arunachal Pradesh state, while China effectively controls

⁶⁴ PTI, "China calls Arunachal Pradesh 'southern Tibet'", The Times of India, August 30, 2012, accessed May 20, 2016, <http://timesofindia.indiatimes.com/india/China-calls-Arunachal-Pradesh-southern-Tibet/articleshow/16005122.cms>.

⁶⁵ Indian scholars like Mansingh and Mehra argue that India has a stronger legal claim of these territories based on the treaties signed by British India with Tibet. Meanwhile, scholars like Maxwell and Whiting believe that China has a stronger claim since most of these territories traditionally were controlled by the Tibetan government that was under the Chinese government. In addition, they argue that the British treaties were never recognized nor signed by China, and thus illegal.

the Aksai Chin region crossed by a highway that China built to link Xinjiang and Tibet. Arunachal Pradesh is home to more than a million Indian citizens⁶⁶ and also holds strategic importance for both Indian defense and water resources of Brahmaputra. On the other hand, Aksai Chin is a mountainous uninhabited region but vital for China to maintain control over Tibet through the National Highway.⁶⁷ In the disputed regions, two sides follow the so-called Line of Actual Control (LAC) even though the two parties do not agree on the legality of the line. The LAC is the line that separates Chinese-held territories from the Indian held-territories within the disputed areas. In the Aksai Chin region, there is no common LAC since the two parties observe a different LAC, whereas in NEFA region the McMahon Line is the LAC.⁶⁸

The early period of the bilateral relationship between India and China was characterized by acts of friendship that, however, built on different narratives on various issues like the border and Tibet. In 1954, the two nations signed the “Five Principles of Peaceful Coexistence” or “Panch Sheel” to settle the issue of Tibet by India formally recognizing China’s authority over Tibet, and in return China allowing India to trade with Lhasa, thus establishing friendship between the two nations.⁶⁹ Thus, the early period of the relationship, which many scholars refer the period as the “honeymoon period”, was marked with the famous phrase “Hindi-Chini bhai-bhai”⁷⁰. However, friendship did not last long due to deep differences in the historical narratives of the border issue and

⁶⁶ Scott, “Sino-Indian Territorial Issue”, 2.

⁶⁷ Ibid.

⁶⁸ Virendra Sahai Verma, “Sino-Indian Border Dispute at Aksai Chin: A Middle Path for Resolution” China-India Border Dispute WordPress, March 29, 2010, accessed May 19, 2016, <https://chinaindiaborderdispute.files.wordpress.com/2010/07/virendravermaborderdispute.pdf>.

⁶⁹ Quanyu, “Sino-Indian Friendship in the Nehru Era”, 240.

⁷⁰ Lit. ‘Indians and Chinese are brothers’ (Hindi).

national interests. A strong mistrust of each other's intentions developed that eventually caused the border war in 1962.

As discussed in the previous chapter, many analysts have studied the causes of the 1962 border war between India and China, and most agree that the Tibetan issue complicated the border dispute. According to Maxwell and Whiting, India's support of the Tibetan cause worried China gravely as China considered that India was undermining China's control over Tibet by supporting the Dalai Lama and the Tibetan refugees.⁷¹ Garver refutes the accuracy of Chinese perception of India's Tibet policies but nevertheless states that the Tibetan issue was indeed one of the major causes of the 1962 war.⁷² Therefore, scholars mostly agree that the Tibetan issue played a crucial part in causing the border war.

Complications arose when India angrily voiced her displeasure with China's actions in Tibet. China's complete control over Tibet saw an increasing number of People's Liberation Army (PLA) near the Indian border and India could no longer treat Tibet as a buffer state. This made India very insecure and thus India officially published political maps showing disputed territories as hers. China's suspicion towards India worsened in 1959 as India welcomed the Dalai Lama and his followers after the failed Tibetan uprising against the Chinese occupation of Tibet. In addition, China increased her military posts along the NEFA region that China argued was to fight against the Tibetan rebel groups.⁷³ However, from the Indian perspective, this move from China was seen as China's intention to control the area that India believed of hers. Thus, Nehru also

⁷¹ Maxwell, *India's China War*; Whiting, *The Chinese Calculus of Deterrence*.

⁷² Garver, "China's Decision for War", 2.

⁷³ Calvin, *The China-India Border War*.

increased Indian military presence in the disputed region to defend and to stop the Chinese advance on what Nehru saw as Indian soil.⁷⁴ This in turn made China to believe that India was seriously supporting Tibetans and even the Tibetan rebels to undermine China's control over Tibet.

Different historical narratives of the situation of Tibet not only worsened the border dispute but also overshadowed diplomatic ties and various policies. In Chinese view, the Indian "Forward Policy" intended to overthrow the Chinese rule of Tibet and to turn Tibet into an Indian protectorate.⁷⁵ The Chinese saw the Indian military deployment in the border region as an act of expansionism with imperialistic objectives.⁷⁶ This misperception of the Indian "Forward Policy" made China insecure of her control over Tibet. It also angered Chinese policymakers as they felt that India did not respect China. This evoked past experiences of China's humiliation at the hands of foreign imperialists.⁷⁷ Therefore, China wanted to punish India for what she saw as Indian imperialistic ambitions towards China.

According to the analysis by the Chinese military historian Xu Yang, Indian Forward Policy was the decisive factor in causing the war since the Chinese saw the policy as aggressive, imperialistic, and aiming to undermine China's control of Tibet.⁷⁸

⁷⁴ Ibid.

⁷⁵ Garver, "China's Decision for War", 6.

⁷⁶ Maxwell, *India's China war*, 307.

⁷⁷ In China, the period between 1839 and 1949 is known as the "Century of Humiliation" when China lost wars and territories and had to put up with many unfair treaties with foreign powers like the British. According to Alison Kaufman, these past experiences made China wary of foreign powers including India and motivated her to increase her power. Alison Kaufman, "The 'Century of Humiliation' and China's National Narratives" (Testimony presented before the U.S-China Economic and Security Review Commission Hearing on "China's Narratives Regarding National Security Policy, Washington DC, March 10, 2011).

⁷⁸ Cit. from Xu Yan, *True history of the Sino-Indian border war*, (Hong Kong: Cosmos Books Ltd., 1993) in Garver's article "China's Decision for war", 7.

Maxwell argues that the Forward Policy not only in theory made China insecure but it also provoked the Chinese military in the border region on multiple occasions. Sometimes the Indian military would even push beyond the Line of Actual Control (LAC).⁷⁹ He states that the repeated incursions and attacks on the Chinese military gave no choice for the PLA even after numerous requests from Beijing to negotiate. Thus, Maxwell believes that the China viewed Forward Policy as Indian aggression towards Chinese territories, intending to undermine China's control over Tibet. Fravel also reaches similar conclusions and argues that China had to attack the Indian army to ensure protection of China's sovereignty and territory.⁸⁰ Thus, Indian Forward Policy significantly contributed to Chinese decision to start the war in 1962 whether or not Indian policy was intended to undermine Chinese rule of Tibet.

Another factor that also influenced China's decision was China's own domestic issues like economic stagnation, failed policies, droughts, and ethnic unrests. In 1958, Mao Zedong dreamed of surpassing the economy of the United States and Great Britain in 15 years and thus started an economic revolution campaign known as "The Great Leap Forward" to industrialize the Chinese economy. The campaign failed miserably due to the lack of real economic planning and human capital. Scholars estimate that the campaign caused anywhere from 16 to 29 million deaths in China because of famine.⁸¹ This caused a huge turmoil in Chinese society, with rebellions and protests against the leadership arising in high numbers all over the country.

⁷⁹ Neville Maxwell, "China's "Aggression in 1962" and the "Hindu Bomb"" *World Policy Journal*, Vol.16, No. 2 (summer, 1999), 115.

⁸⁰ Fravel, *Strong Borders and Secure Nations*, 175-176.

⁸¹ Schaeffer, *Red Inc.*, 19-27.

Amidst this domestic chaos, one of the biggest uprisings against the Chinese rule took place in 1959 in Tibet. These internal problems reduced the legitimacy of Communist Party's authority over people in Mainland China as well as in peripheries like Tibet and Xinjiang. Thus, according to John Rowland and Whiting, China employed propaganda to persuade Chinese citizens that India was interfering with China's internal issues and was on the verge of annexing Chinese territory in order to divert their attention away from domestic problems.⁸² With the propaganda, Chinese people and media shifted their focus to the border issue, and numerous reports of Indian aggression in Chinese media reinforced China's determination to stand up against the "expansionist" India.

Fravel and Whiting also argue that China made the decision to attack India after realizing that the Indian actions at the border would only add to the magnitude of problems for China on top of her economic crisis due to the "Great Leap Forward."⁸³ Even though Fravel denies that China uses diversionary tactics but, in the case of 1962, he believes that China had to attack as India was targeting "China's most vulnerable frontier region" at a time when China was weak at home due to internal problems.⁸⁴ Regardless of whether China used diversion strategy, there is fairly reasonable evidence that the internal problems in China also contributed to China's decision in waging the war with India.

International factors also influenced Beijing's decision to go to war in some ways. In the early 1950s, China had a close relationship with Moscow as the Soviet Union was supporting China economically. Furthermore, China had great hopes of forming alliances

⁸² John Rowland, *A history of Sino-Indian Relations: Hostile Coexistence*, (New York: D. Van Nostrand Company, 1967) 120-125; Whiting, *The Chinese Calculus of Deterrence*, 114-116.

⁸³ Fravel, *Strong Borders and Secure Nations*, 182.

⁸⁴ Ibid.

with the communist nations around the world to fight against what China saw as Western imperialists if needed.⁸⁵ However, the Soviet Union slowly moved closer to India and further away from China. Since China did not like the Soviet-Indian alliances on top of a border dispute with India, she had more reason to label India as a follower of “Western imperialists” in order to harm India’s relationship with Moscow.⁸⁶

Others also argue that the United States played a role in the Sino-Indian war as the US covertly helped along with India to undermine the Chinese control of Tibet.⁸⁷ Nehru denies such cooperation with the US but, from China’s perspective, it also contributed to suspicions regarding Indian policies and intentions towards China. These international factors in connection with the border policies made Chinese government feel insecure and threatened and hence the idea that China must teach India a lesson by force.⁸⁸ Therefore, to some extent, the Chinese decision to wage the war with India was influenced by the international factors of alliance.

Scholars of the Sino-Indian relationship agree that, in the early 1950s, India and China enjoyed a “honeymoon period” in their relationship.⁸⁹ However, that did not last long due to the emergence of different interpretations of the inter-state boundary as well as rising tensions surrounding the issue of Tibet. Thus, many China scholars including Maxwell and Whiting argue that India’s friendship towards China was not sincere as

⁸⁵ Robert L. Worden, Andrea Matles Savada and Ronald E. Dolan. “Sino-Soviet Relations” in China: A Country Study, 1987, accessed May 15, 2016, <http://countrystudies.us/china/128.htm>.

⁸⁶ J. N Mahanty, “Sino-Indian Relations in the Post-Cold War Era” *The Indian Journal of Political Science*, Vol. 57, No. ¼ (1996), 90.

⁸⁷ Rup Narayan Das, *The US Factor in Sino-Indian Relations: India’s Fine Balancing*, (New Delhi, Institute for Defense Studies and Analyses, 2015), 15.

⁸⁸ “Teach a lesson” became the word for Chinese intent of waging a war to punish in 1962, and China rarely uses the phrase unless they wage a war. First time was in 1962 before attacking India, and second time was before the Vietnam War, and the last time was in 1987 against India when the two faced each other at the border.

⁸⁹ Quanyu, “Sino-Indian Friendship in the Nehru Era”, 240-41.

India kept interfering with China's internal politics concerning Tibet in addition to her expansionist policies at the border. On the other hand, scholars like Garver, Mehra, and Jayapalan argue that India's friendship towards China was in fact sincere despite their differences on the border issue and the Tibetan problem.⁹⁰ They all point out a number of favors India did to China in order to win China's friendship, including China's UN recognition, mediating during the Korean crisis, and validating China's control over Tibet.

Either way, divergent national interests on the international arena, a border dispute with increased military buildup along the border region, and different narratives on the Tibetan issue along with domestic problems all caused deep mistrust in each other's intentions and actions. Hence, tension at the border escalated from military posts in the disputed areas into attacking each other's army when negotiations failed.

3. 2 Contentious Relationship in the 1980s

As I have discussed the causes of the 1962 war in the previous section 3.1, here I explore the contentious relationship in the 1980s between India and China by focusing on factors that contributed to intense border conflict. Aggressive military policies, the Tibetan issue, China's domestic problems, and international factor were causes of the 1987 border conflict just like the 1962 war. However, there was a significant change in

⁹⁰ Garver, *Protracted Contest*; Mehra, *Essays in Frontier History*, 168; N. Jayapalan, "India and China" in *Foreign Policy of India*, (New Delhi: Atlantic Publishers and Distributors, 2001), 201-205.

the international factor from 1960s to 1980s due to economic reasons for both India and China. Thus, in the following, I show how each of these contributed to the 1980s conflict.

In the aftermath the border war, China withdrew beyond the McMahon line in NEFA, and both sides resumed control of the same areas as before the war. However, the border war pushed the two nations further away from each other, and any remaining trust and sense of friendship of the pre-war period was lost.⁹¹ This made the border issue even more contentious and, as a result, the disputed areas became more militarized than ever in the 1980s. Furthermore, China's victory in the war did not help with her international image, as both the United States and the Soviet Union supported India after the war. The US perception of China as an expansionist communist state was confirmed by the act of war.⁹² Hence, diplomatic relations between India and China remained frozen until in the late 1970s when they resumed diplomatic talks.⁹³ With the return of high-level meetings and some economic cooperation agreements, the two parties resumed border talks in the early 1980s. However, instead of leading to a peace deal talks ended with confrontations as both sides held exact same positions as they did in the 1960s.

Soon after the 1962 defeat, India started to recruit Tibetans to join Indian military in case of another war against China. The highly trained Tibetan military force was named the Special Frontier Force (SFF), which numbered roughly around 4,000, with the goal of sending them into Tibetan territory if another war breaks.⁹⁴ Moreover, in the late 1970s, India substantially relaxed the activities of Tibetans resident in India by allowing them to establish official relationship with foreign nations and also freeing from

⁹¹ Pandalai, "Enduring Legacy of 1962", 211-215.

⁹² Daniel Cheong, "Rapprochement and Sino-Indian war of 1962" (2015), 55-56.

⁹³ Ibid. 57.

⁹⁴ Garver, *Protracted Contest*, 62-75.

any remaining restrictions on the movement of the Dalai Lama inside and outside of India.⁹⁵ As a result, the numbers of the Dalai Lama's meetings with foreign dignitaries rapidly increased starting from 1986.⁹⁶ These practices made China anxious again in the late 1970s on top of the increasing Tibetan resistance against Chinese rule in Tibet after failed talks with the Dalai Lama. Thus, during the Sino-Indian border talks in the late 1970s and early 1980s, the Tibetan question always had priority on the Chinese agenda as China did not trust India's position on the Tibetan question.⁹⁷

China in the late 1970s faced huge domestic problems from economic stagnation to political chaos after the death of Mao and Enlai. Schaeffer argues that the crisis of succession for political power made China very fragile, especially after seeing fall of communist countries in Europe. In addition, China witnessed increasing number of protestors due to lack of jobs, corruption, and poverty, where almost 300 million were farmers with very little food to eat.⁹⁸

According to many scholars, during the border talks in the early 1980s, China once again offered a package deal of swapping the two regions like in the 1960 offer, and yet again India rejected the offer, believing that she had a stronger legal claim than China did.⁹⁹ Furthermore, India refused to negotiate unless China withdrew from the disputed regions. This made the border negotiations harder and China eventually dropped the offer

⁹⁵ Ibid.

⁹⁶ Tenzin Dorje, "Diplomacy or Mobilization: The Tibetan Dilemma in the Struggle with China" in *China's Internal and External Relations and Lessons for Korea and Asia*, ed. by Jung-Ho Bae and Jae H. Ku, (Korea Institute for National Unification, December, 2013), 79-83.

⁹⁷ Garver, *Protracted Contest*, 62-75.

⁹⁸ Schaeffer, *Red Inc.*, 72-73.

⁹⁹ Pandalai, "Enduring Legacy of 1962", 211-212.

of swapping the territories, and instead agreed to negotiate sector by sector as India wished.

With the sector-by-sector approach negotiation, China asserted a territorial claim in the NEFA that she had not made before.¹⁰⁰ As a result, the border talks went sour and both sides restarted a military buildup in the disputed regions. As China exerted more territorial ownership than it did in the past, India responded with an incorporation of NEFA into a proper Indian state.¹⁰¹ This further pushed China's military in establishing military posts well into what India saw was her territory in early 1987.¹⁰² India protested angrily over the issue and also increased her military presence in the region. This policy of increasing military by India according to Maxwell was "a kind of after-birth of the Indian forward policy" that almost brought two sides to the point of a war.¹⁰³

This caused the so-called Sumdorong Chu Incident of 1987 in Sumdorong valley located in Tawang district, Arunachal Pradesh. This location was important for strategic purposes in case of a war, and it was also one of the fighting grounds in the 1962 war. This incident was by far the largest in the 1980s between the two sides. According to Mandip Singh, the PLA moved 20,000 troops towards the border, while the Indian army simultaneously conducted air and land military exercises near the border.¹⁰⁴ During the

¹⁰⁰ Fravel, *Strong Borders and Secure Nations*, 199; Garver, "The Unresolved Sino-Indian Border Dispute", 111.

¹⁰¹ Garver, "Sino-Indian Rapprochement and Sino-Pakistan Entente" *Political Science Quarterly* 111, No. 2 (1996), 340-341.

¹⁰² Claude Arpi, "The Sumdorong Chu Incident: A strong Indian stand" *Indian Defense Review*, May 04, 2013, accessed May 08, 2016, <http://www.indiandefencereview.com/the-sumdorong-chu-incident-a-strong-indian-stand/>.

¹⁰³ Maxwell, *India's China War*, 508.

¹⁰⁴ Mandip Singh, "Lessons from Somdorong Chu Incident" *Indian Strategic Studies*, April 16, 2013, accessed May 09, 2016, <http://strategicstudyindia.blogspot.hu/search?updated-max=2013-04-27T11:50:00%2B05:30&max-results=5&reverse-paginate=true&start=1959&by-date=false>.

time, Deng Xiaoping also used the similar tone of language to that of 1962, saying that it was time to “teach India a lesson.”¹⁰⁵ These actions created an intense situation along the border and many predicted a war. In the face of border incursions and massive military buildup on both sides of the border, India and China reacted diplomatically to calm the situation down. The representatives from both sides met and agreed to resume border talks without any further incidents. The success of the talks is puzzling considering that similar talks between Nehru and Zhou Enlai¹⁰⁶ failed in the early 1960s when the border tension was at a similar level if not lower.

3.3 Comparative Analysis of the Two Periods

Two very similar situations in the Sino-Indian relationship produced very different results. In both 1950s and 1980s, India and China juggled between negotiations and provocative policies and exchanges. In the first case, there was a full-scale war while the second case resulted with no war. Thus, in this section, I use Mill’s method of difference approach to identify any changes in the national narratives of India and China towards each other. In particular, I look at the major factors that led to the war in 1950s, and then compare that to the 1980s to see if any of the same major factors were present, and also analyze how such factors contributed to the rise of tension and incidents in the 1980s.

According to method of difference logic, if all other things being equal, different effects are likely arise from different causes. The Figure 1 below presents all independent

¹⁰⁵ Ibid.

¹⁰⁶ The first prime minister of China, the right hand of Mao Zedong until his death in 1976.

variables (IV) are factors either contributing to either war or preventing war (Dependent variable). In the following diagram, variables 1 through 3 are same in both cases, and the only difference is variable 4. Thus, Mill’s method of difference logic allows us to state that variable that prevented war is variable E from the second case.

Figure 1 Mill's Method of Difference

Case	IV (1)	IV (2)	IV (3)	IV (4)	DV
1	A	B	C	D	War
2	A	B	C	E	No war

Source: Author’s creation

Following the same logic as described above, the present case of Sino-Indian can be presented in the same way. The two cases in the Sino-Indian are two time periods in the Sino-Indian relationship. As the chart in Figure 2 shows that the independent variable of international pressure is the key in explaining the result of war or no war. In the following, I will explain each factor in detail to show that difference of international pressure was “an indispensable part of the cause”¹⁰⁷ of either war or no war.

¹⁰⁷ From the logic of the method, Mill describes that the effect of the different IV is necessary part of the cause.

Figure 2 Adaptation of Mill's method to Sino-Indian Case

Case	IV (1)	IV (2)	IV (3)	IV (4)	DV
1960s	Tibetan issue	Indian Forward Policy	China's internal problems	Minor international pressure	War
1980s	Tibetan issue	Indian Forward Policy	China's internal problems	Major international pressure	No war

Source: Author's creation

As mentioned in the previous sections, the factors that contributed to border war in the 1962 were the Tibetan issue, China's domestic instabilities, Indian Forward Policy, and international factors (mostly concerned with the US and USSR). Looking at the China-India relationship in the 1980s, the Tibetan issue remained relatively the same as it was in the 1960s. There was no major uprising but the Indian government had started to use the Tibetan card against China in order to send a message, and also international sympathy towards the Tibetan cause increased rapidly in the 1980s.¹⁰⁸ With regards to China's domestic problems, the Cultural Revolution was another major failure like the previous Great Leap Forward campaign, and left the Chinese economy in ruin with millions starving, soon followed by a political chaos due to the death of Mao and Enlai.¹⁰⁹

¹⁰⁸ Garver, *Protracted Contest*, 66-75; Claude Arpi, *Dharamsala and Beijing: the negotiations that never were*, (New Delhi: Lancer Publisher and Distributors, 2009), 36.

¹⁰⁹ Schaeffer, *Red Inc.*, 67-68.

These drastically reduced the legitimacy of the Communist Party. To overcome the chaos and instability, Deng introduced the economic reforms.

Indian policies towards the disputed regions remained same as in 1962 with even more aggressive military buildup along the disputed areas.¹¹⁰ According to Fravel and Mandip Singh, military buildup in the border during the 1980s incidents was much higher than that of 1962.¹¹¹ All these factors were present both in the 1962 war and 1987 incident. However, the international conjuncture changed dramatically from 1962 to 1987. For example, China's anti-West and anti-imperialist foreign policy was almost gone in the 1980s, soon after Deng's economic reform.¹¹² When explored carefully, the transformation of Chinese outlook had everything to do with China's economic reform plans. As explained before, China's economic reform was not an option but necessary for the regime to remain in power and to regain legitimacy of her rule. And the only way the reform could succeed was through opening up China's market for investment and trade. Thus, China could not risk of ruining her image by waging war with India as it happened in 1962. For that, the international pressure in the 1980s for China was higher and a war would have been too costly both politically and economically for China.

¹¹⁰ Mandip Singh, "Lessons from Somdurong Chu Incident" Institute for Defense Studies and Analysis, April 26, 2013, accessed May 16, 2016, http://www.idsa.in/idsacomments/CurrentChineseincursionLessonsfromSomdurongChuIncident_msingh_260413.

¹¹¹ Fravel, *Strong Borders and Secure Nations*, 200; Singh, "Lessons from Somdurong Chu Incident"

¹¹² The Selected work of Deng Xiaoping, "Hold High the Banner of Mao Zedong Thought and Adhere to the Principle of Seeking Truth from Facts", Deng Xiaoping works wordpress, September 16, 1978, accessed May 19, 2016, <https://dengxiaopingworks.wordpress.com/2013/02/25/hold-high-the-banner-of-mao-zedong-thought-and-adhere-to-the-principle-of-seeking-truth-from-facts/>.

Having reviewed the bilateral relationship of India and China in the 1980s, the situation was not much better than in the pre-war period. Diplomatically, the relationship remained sour because of the war and a number of incidents that followed in the border regions. As pointed out, the nature of Sino-Indian relationship remained roughly the same throughout the 1950s until 1988, with the exception of the border war in 1962. However, the development of economic interdependence through the time is noteworthy as the economic data suggest. The bilateral trade between India and China were close to none in the 1950s, and China virtually had no trade with other countries as well. However, economic reform and open door policy dramatically increased China's economic interdependence in the early 1980s. Hence, this thesis advances the argument that China's economic reform with the open door policy was in fact the main factor that made war impossible with India in the 1980s. In the next chapter, I discuss China's economic reform and how economic interdependence reduced the possibility of war by using the theory of trade expectations to advance my arguments.

Chapter 4

China's Economic Reform and Its Implications for the Sino-Indian Border Conflict

India and China did not have bilateral trade relations until the late 1970s mostly because both states' economies were virtually confined within their own borders, and the border war discontinued any official trade relations they had had since the 1950s.¹¹³ The year 1978 marks the formal re-establishment of trade relationship between India and China. It was not a coincident that 1978 was also the year when People's Republic of China started her economic reforms. India also implemented limited reforms in the 1970s and the two countries went from virtually no bilateral trade for two decades to trading in volumes of more than 200 million US dollars annually in the late 1980s.¹¹⁴ Furthermore, the two nations signed many trade agreements including the Most Favored Nation status in 1984 despite unsuccessful border talks. Hence, there is a strong case to argue that the economic interdependence reduced the possibility of war between India and China.

This chapter traces China's economic conditions prior to the reform era and explains why China had to introduce economic reforms in the late 1970s. In doing so, it also explores Sino-Indian economic relationship until the late 1980s to see the trend of bilateral trade, and bilateral trade dialogues and agreements. Finally, the chapter analyzes the implication of China's economic reform towards her attitude to the international community. This chapter is divided into two major sections, first section covers the theoretical framework of the liberal economic interdependence, and the last section

¹¹³ Before the relationship went sour, Sino-Indian trade was USD 25.5 million in 1956. See more in Anderson and Geiger, "Sino-Indian Trade Relations and the Ongoing Border Dispute", 129.

¹¹⁴ OCE-ATLAS, "China's export to China", accessed May 13, 2016.
http://atlas.media.mit.edu/en/visualize/tree_map/sitc/export/chn/ind/show/1986/.

applies the theory on the Sino-Indian case. Within the last section, it is further divided into four subsections, where the first subsection explores China's reform process, the second subsection applies economic interdependence theory on the Sino-Indian case of the 1980s. Third subsection shows China's entry into the global market and why it was important for China, and the last subsection closely examines the link between China's economic reform and regime survival.

In the following, I briefly examine literature on the liberal theory of economic interdependence and lay out the main indicators of economic interdependence that reduces possibility of war. Applying them, I can effectively argue that Sino-Indian economic interdependence in fact had a huge impact on leadership's calculations of whether to wage a border war in the 1980s. In the subsequent section, I apply interdependence theory in the case of Sino-Indian relationship to argue that Sino-Indian bilateral trade and future trade expectations explain the decision not to engage in war even though border problems were high. The last section covers China's trade with India and with the rest of the world in the 1980s, and how China's economic transformation drastically changed her attitude towards India and the prospect of war. I further argue that China's incentives for cooperation increased not only because of bilateral trade with India but also with the rest of the world. In addition, economic development was vital for Chinese regime survival in the 1980s.

4.1 A Review of Liberal Theory of Economic Interdependence

The liberal theory of economic interdependence claims that when states are highly interdependent economically, the incentive to wage war is either absent or reduced

significantly because the states recognize that they can benefit from cooperation more than from war. In addition, many liberal scholars argue that the modern state's conditions make war very unprofitable due to the rise in the cost of war itself, opportunity costs associated with war in terms of the reduction of trade and diplomatic ties – not just to the opponent country but to the global community.¹¹⁵ Wars are not only costly to fight, but the consequences of wars can have both short and long term negative impacts both on economic development and international image of the state. Already Norman Angell wrote that “war is commercially suicidal”¹¹⁶ due to increasing cost of war and decreasing benefits from it. More recently, Arthur Stein argues that international trade is the most important element of interdependence between states since trade increases prosperity in a country and thus encourages social groups to trade who in turn pressure the government to maintain more peaceful relations with others.¹¹⁷

Richard Rosecrance builds on the liberal theory and argues that states predominantly seek trade, understanding its benefits. The incentive to fight is absent in our interdependent environment because “trading states recognize that they can do better through internal economic development sustained by a worldwide market for their goods and services than trying to conquer and assimilate large tracts of land.”¹¹⁸ However, he states that in order to have a high level of economic interdependence and peace, a state must have open economy as a precondition.

¹¹⁵ Susan McMillan, “Interdependence and Conflict” *Mershon International Studies Review* 41, No. 1 (May, 1997), 36-38.

¹¹⁶ Norman Angell, *The Great Illusion*, (New York: G.P. Putnam's Sons, 1933), 33.

¹¹⁷ Arthur Stein, *Governments, Economic Interdependence, and International Cooperation*, (New York: Oxford University Press, 1993), 266.

¹¹⁸ Richard Rosecrance, *The Rise of the Trading State: Commerce and Conquest in the Modern World*, (New York: Basic Books, 1986), 13-14.

Dale Copeland also contributes to the development of liberal interdependence theory with the future trade expectations model. He argues:

*High interdependence can be peace-inducing as liberals maintain, as long as states expect future trade levels to be high in the future: positive expectations for future trade will lead dependent states to assign a high expected value to a continuation of peaceful trade, making war the less appealing option.*¹¹⁹

Copeland further adds “the expected value of trade will not be based on the level of trade at a particular moment in time, but upon the stream of expected trade levels into the future.”¹²⁰ Like Rosecrance, Copeland further states that a country can expect an increase in bilateral trade in the future if the other country has open trade policies, a competitive market with fewer governmental restrictions, and an ability to export or import.¹²¹ In addition, the importance of economic development for the state also indicates future trade expectations. A country prioritizing economic development signals the potential for future trade and engagement with others and, as a result, avoidance of war.

The theory of economic interdependence argues that interdependence can induce peace and cooperation rather than war in several ways. Firstly, trade promotes economic development in a state and thus reduces internal tensions that may push leaders to wage war. Secondly, interdependence improves mutual understanding between two nations. Thirdly, trade incentivizes companies to influence government policies to favor cooperation over conflict. Finally, economic interdependence helps to establish closer political ties between trading countries.¹²² Incentives of trade are based on the efficiency of free trade and its benefit in improving the economy.

¹¹⁹ Copeland, “Economic Interdependence and War” 17.

¹²⁰ Ibid. 20.

¹²¹ Ibid. 23.

¹²² Ibid. 8.

In short, liberal theory of interdependence argues that war is costly. The opportunity cost of war is trade, and states are mostly welfare maximizers in nature¹²³ A state engages in cooperation rather than war since trade is beneficial, whereas war is costly and damaging to the state's interests and aspirations. Furthermore, economic interdependence also promotes mutual recognition between nations, and this also is a factor in reducing the likelihood of war. Such outcomes can be achieved when a country has few characteristics that are important for the success of economic interdependence to play a significant role in reducing conflicts and creating peace. First, a country needs to value economic development as a vital national interest, and secondly she needs to have an open economy and liberal trade policies. In addition, need for foreign investment and aid can further indicate high economic interdependence to her rival countries and others in general. Therefore, the next section demonstrates economic interdependence between India and China and their need for each other for trade and development.

4.2 Economic Interdependence: Sino-Indian Cooperation during the Border Conflict

This section applies the liberal theory of interdependence in the case of Sino-Indian trade in the 1980s by looking at China's rising foreign trade and its significance to her economic growth in the long run, and how these changed China's view of the international community. For both India and China, the 1980s were the times when international image really mattered to them, but more so for China than India due to her

¹²³ Emiel Awad, "Economic Interdependence, Trade, and War: A Theoretical and Empirical Analysis" (MA thesis, Erasmus University Rotterdam, 2013), 13-14.

subscribing to communist ideology. The image mattered precisely because both nations entered the world's economy in high hopes of improving living standards at home and catching up with the rest of the world in economic terms.

By the 1980s, economic power had become the source of political power in the international arena, and developing countries strived for economic success. With the introduction of economic reforms in both countries, the two also came together for trade relations despite divergent interests and disagreements on the border issue. Furthermore, the neighbors willingly signed an agreement to grant each other the status of the Most Favored Nation, one of the most important indicators of economic partnership.¹²⁴ Thus, employing the theory of economic interdependence and the theory of trade expectations, I argue that economic interdependence indeed made another border war impossible due to high future trade expectations and cost associated with it. In the following, the first section briefly focuses on the reform era in China, the second section examines Sino-Indian trade and future trade expectations, and the last section covers China's increasing needs of international trade and how opportunity cost of war became too much in the 1980s for China.

4.2.1 Era of Economic Reform in China

Chinese economy declined significantly after the 1960s due to the failed Great Leap Forward and the subsequent Cultural Revolution. These campaigns stagnated economic development and caused internal political chaos. In 1976, China's total

¹²⁴ MFN status provides an incentive to trade by lowering foreign trade tariffs and reducing unfair trade practices.

economic growth rate declined below the rate of her population growth, and this damaged people's faith in the government.¹²⁵ Demise of both Mao and Zhou caused a battle within the party to fill the leadership positions and, with the rise of Deng, the regime admitted that China was on "the brink of disaster" as the living conditions in 1977 were worse than in 1957.¹²⁶

In order to save the regime from a collapse, Deng initiated China's economic reforms in 1978 by relaxing the party's strict control over the economy to encourage private business and de-collectivization of agriculture in order to increase food production. For example, following quote by Deng encouraging businessmen to trade and engage with others without needing to seek permission from the government, a rule that was unthinkable before the reform era.

*You should manage the economy according to economic principles. When signing contracts, you should judge from commercial perspectives, signing only those contracts, which will bring about profit and foreign exchange. You should proceed regardless of administrative interference. The full powers mentioned above include the power to employ personnel. You should not hesitate to do anything conducive to socialist economic development.*¹²⁷

Agriculture and market reforms became very successful within a few years. With the rise of income, domestic consumption increased 30%. However, the economy faced

¹²⁵ Schaeffer, Red Inc., 63.

¹²⁶ Ibid.

¹²⁷ The Selected work of Deng Xiaoping, "We should make use of foreign funds and let former capitalist industrialists and businessmen play their role in developing the economy", Deng Xiaoping works wordpress, January 17 1979, accessed May 19, 16, <https://dengxiaopingworks.wordpress.com/2013/02/25/we-should-make-use-of-foreign-funds-and-let-former-capitalist-industrialists-and-businessmen-play-their-role-in-developing-the-economy/>.

immense pressure from inflation due to the lack of investment since most people spent either on consumption or housing. For example, half of China's rural families moved into new houses within eight years of the reform.¹²⁸ Therefore, Deng introduced Special Economic Zones (SEZs) to open up the economy for foreign trade and investments, much needed to curb the high inflation, and also to finance industrialization in the cities. This led to high reliance on foreign trade and investment, as it was key to sustaining economic growth.

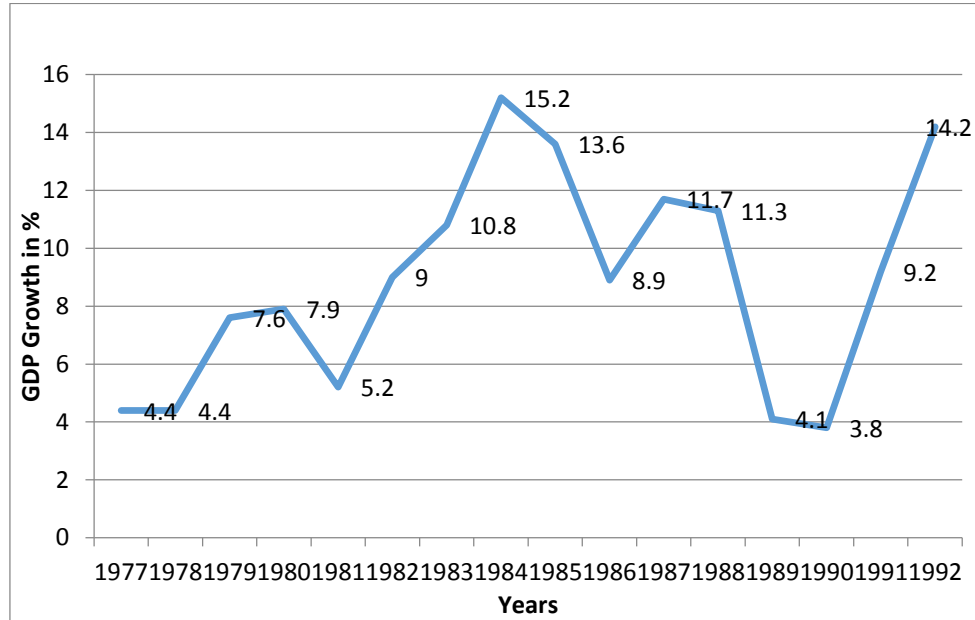
The Communist Party of China's aggressive push for economic reform and development made the reform process fairly smooth as the regime adopted labor and monetary policies that attracted foreign investors. The single-minded focus on economic development fundamentally changed China's perception of economic cooperation with the international community.¹²⁹ Many analysts argue that China's growth rate before the reform era was roughly around 4.4%,¹³⁰ however, the opening up and the restructuring of her economic policies made the reform very successful. China's GDP increased twofold from 5.1 % in 1981 to 11.7% in 1987 as seen in the Figure 3 below.

¹²⁸ Chow, "Economic Reform and Growth in China", 77.

¹²⁹ Ibid.

¹³⁰ Angus Maddison, *The Organization for Economic Cooperation and Development, Chinese Economic Performance in the Long Run*, (Paris: OECD Publication, 1998), 40.

Figure 3 China's GDP Growth (1978-1992)



Source: World Bank¹³¹

As the above graph indicates that the reform in China contributed significantly to her GDP growth. At the beginning of the reform, the growth rate was roughly around 4.4 percent and it continued to rise after the reform at a very high rate with minor setback in 1981. This was caused by lack of investment within the domestic market since most people spent their income for consumption purposes. As a result, the CCP had to actively push for foreign investments through the SEZs to sustain her growth. Likewise, the rapid decline of GDP in 1989 and 1990 were caused by foreign sanctions resulted from the CCP's crack down on the student led protestors in the Tiananmen Square.

¹³¹ World Bank, "GDP Growth (annual %)", accessed May 13, 2016, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?page=6>.

4.2.2 Employing Economic Interdependence Theory in the Case of Sino-Indian relations in the 1980s

As noted in earlier sections, India and China in the early 1980s were in the process of economic reform as both had suffered economic stagnation from closed economies, and both made their entrance into the global economy. As economic reforms started, the two also made progress in diplomatic relations as early as 1976. Two years after rapprochement, they increased their bilateral trade immensely and, after a few high-level meetings, signed the MFN status agreement in 1984. As a sign of better relations, they resumed border negotiations. Within a few years of rapprochement, India and China went from having virtually no bilateral trade to trading more than 100 million USD worth a year.¹³²

The business environment in India was transforming from an autarchic to an open market. The country started implementing policies to participate in international trade in the 1980s just like China. In addition, India and China restored ambassador-level diplomatic relations in the wake of China's reform period. Unlike in their earlier history, the 1980s environment of interdependence made them realize that they needed each other's help in advancing their economic goals. They expressed mutual respect with high hopes for trade. In addition, China significantly softened her aggressive support of Pakistan on the issue of Kashmir amid the reform ear. All this happened despite the border talks faltering.

¹³² OCE-ATLAS, "China's export to China", accessed May 20, 2016.
http://atlas.media.mit.edu/en/visualize/tree_map/sitc/export/chn/ind/show/1986/.

Thus, according to liberal economic interdependence theory, India and China understood the importance of interdependence and established a solid foundation for future trade. Through bilateral trade talks, agreements, and the relaxation of import policies, India and China created favorable environment for business with each other. China's willingness to engage with India can be seen in many of the speeches by the Chinese leadership in the early reform period. For example, in one of the talks on South-South Cooperation in 1982, Deng said in respect to the Sino-Indian relationship:

*We still have many things to do in the fields of trade, the economy and culture and can still increase our exchanges so as to promote understanding and friendship between us. The two countries have broad prospects for cooperation. We hope that we shall develop and that you will too.*¹³³

Thus, as the theory predicts, India and China opted for cooperation since the benefits for cooperation were expected to increase with the rise of bilateral trade and mutual recognition of each other during a time when both were seeking international acceptance in the global market as a respectable nations.

After the 1962 war, the Sino-Indian relationship went very cold with no diplomatic or economic ties. China started an alliance with Pakistan and provided weapons, aid and diplomatic support over the issue of Jammu and Kashmir against India.¹³⁴ At the time, India also recruited Tibetans for Indian military and sought support and aid from the US and the Soviet Union. However, the two countries restarted their relationship in the late 1970s as China reoriented her economy. India signaled her desire

¹³³ Deng, "Promote the Friendship between China and India and Increase South-South Cooperation" A talk with Indian delegation from the Indian Council for Social Science Research, October 22, 1982, Accessed May 21, 2016, <https://dengxiaopingworks.wordpress.com/2013/03/08/promote-the-friendship-between-china-and-india-and-increase-south-south-cooperation/>.

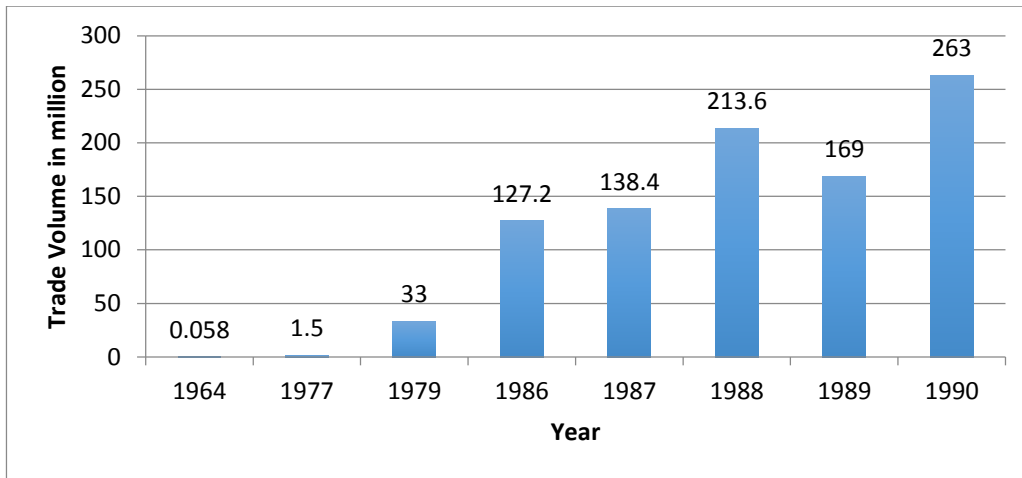
¹³⁴ Anderson and Geiger, "Sino-Indian Trade Relations", 130.

for engagement with China and China did the same by softening her position towards Pakistan. The two thereby restored diplomatic relations in 1978, and trade agreements followed. Despite the escalation of the border dispute in the 1980s, bilateral trade continued to grow slowly.

The process of rapprochement started with China's good will gesture of opening her one seaport to Indian vessels in 1977. India also signaled her willingness to engage with China before two nations officially re-established diplomatic ties in 1978. Despite the fact that both economies were quite closed, they made progress in entering the world market in the late 1970s. In 1964, Sino-Indian bilateral trade was worth barely 58,000 US dollars but, by 1979, it was around 33 million annually. With the economic reforms and opening up of both economies, it reached an estimated worth of more than 127 million US dollars by the end of 1986, as seen in Figure 4 below.¹³⁵ Although the graph does not have data from consecutive years of trade, it is clear that the trend of bilateral trade between India and China was proportional to their efforts to establish a closer relationship based on trade, which continued to rise rapidly despite the disagreements between neighbors.

¹³⁵ OCE-ATLAS, "China's export to China", accessed May 13, 2016.
http://atlas.media.mit.edu/en/visualize/tree_map/sitc/export/chn/ind/show/1986/.

Figure 4 Sino-Indian Trade Volume in Millions (1964-1990)



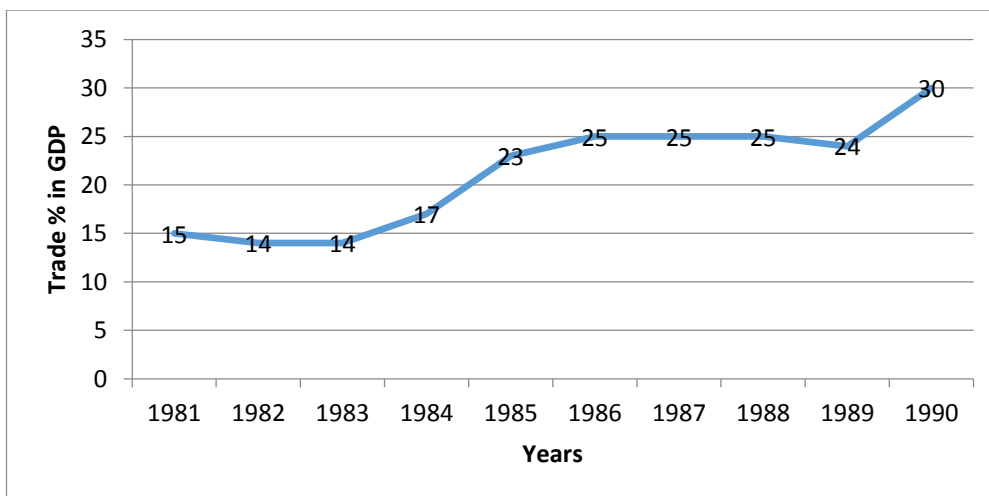
Source: Own compilation from OCE-ATLAS Digital Media data

Even though bilateral trade in the 1980s between them seems very minor, but at that time period, both countries barely had any international trade. However, the bilateral trade continued to rise and by 1990, the trade volume was almost 8 times that of 1979. Therefore, looking at the Sino-Indian situation in the 1980s, the prospect for future trade was high based on all the indicators like the favorable business environments in both countries, as both were in process of reforming their domestic economies to integrate into the global market. Therefore, the Sino-Indian relationship in the 1980s exhibited all the necessary characteristics that suggest would create cooperation over conflict. As both had huge appetite for the world's investment and hence carried out economic and political reforms necessary to attract foreign investments and trade. With the rise of trade and global integration, possibility of war became more costly as the opportunity cost of war skyrocketed by increasing importance of trade for economic development.

4.2.3 China's Entry into the World Market

In need for investments to finance a rapid industrialization, China heavily relied on international institutions like the World Bank for loans and investments worth more than 40 billion USD a year in 1988, which was close to 20 times the investments China received before her reform period in 1978.¹³⁶ China also provided incentives for Chinese businesses attracting foreign investments though relaxation of trade regulations and lowering tariffs first in the SEZ regions. As a result, net Foreign Direct Investment (FDI) increased from literally nothing in 1981 to close to 1 percent of China's GDP in 1987.¹³⁷ By the late 1980s, China's foreign trade accounted for more than 25 percent of her GDP, as shown in Figure 5.¹³⁸

Figure 5 China's Trade Measure as Share of GDP



Source: World Bank

¹³⁶ See Schaeffer, *Red Inc.*, 79.

¹³⁷ World Bank, "Foreign Direct Investment, net inflow (% of GDP)", accessed May 13, 2016, <http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?page=5>

¹³⁸ World Bank, "Trade (% GDP)", accessed May 13, 2016, <http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?page=6>; Chow, "Economic Reform and Growth in China", 131.

Many China analysts identify foreign trade and investments as central to China's economic success as China lacked capital to finance her industries.¹³⁹ Furthermore, Chinese leaders also repeatedly emphasized the need of foreign trade and investment in order to invigorate the economy in many of their speeches to foreign leaders as well as to party members throughout the reform era.¹⁴⁰ China actively sought to enter in many of the world's institutions after the opening up her economy. In 1980, China replaced Taiwan as the member of International Monetary Fund, and in 1986, China joined the Asian Development Bank. These were important steps for China's integration into the world economy and eventual accession into the World Trade Organization in 2001. These were indicative of China's commitment to economic development and thus it would have been illogical for China to ruin her international image by waging a war on India, especially during a time when international community had was critical of communism and communist countries.

Through tracing economic reforms and trade relations of China with other countries, one also notices the transformation of China's attitude towards the international community. China's foreign policy behavior changed significantly, softening the hostile stance towards nations that did not share the same ideology. The change of attitude can be explained by the fact that China needed international community for economic reasons. With the introduction of reforms, China saw the need of international market and investors if reforms were to be successful. Thus, from the perspective of economic interdependence theory, Chinese foreign policy during the

¹³⁹ Garver, *Protracted Contest*, 275; Schaeffer, *Red Inc.*, 180-181.

¹⁴⁰ The emphasis on foreign funds and trade were very popular in Deng's speeches from 1984-1987. See <https://dengxiaopingworks.wordpress.com/selected-works-vol-3-1982-1992/>.

reform era was shaped by the need to project a responsible China towards the international community in order to attract foreign investment and trade.

4.2.4 Regime Survival and Economic Development in Post-Mao China

The importance of economic development in China in the 1980s was more than improving the living standards for Chinese people. I argue that economic development was the source of legitimacy for the Communist Party of China rule in the face of internal problems and thus key for Chinese regime survival. Liberal theory of economic interdependence in fact has good explanatory power in the case of Sino-Indian interdependence and prevention of a major war in 1987. In the case of China, economic interdependence prevented the attack on India because success of economic development was key for Chinese regime survival in the 1980s after brutal political campaigns and failed policies. At the beginning of the reform, the communist party not only lacked people's support but also suffered from internal political divisions. In addition, the collapse of other communist countries in Europe made the situation worse for the leadership, and thus the regime was literally on the brink of collapse.¹⁴¹

Many scholars argue that China's extensive reform was a response to save the party from collapsing, and hence was not optional of China.¹⁴² Schaeffer also argues that the Chinese regime survived from the economic and political crises in the late 1970s because of the economic reform and process of opening to the world, along with the US

¹⁴¹ Schaeffer, *Red Inc.*, 68.

¹⁴² Naughton, "Deng the Economist", 502.

recognition of China.¹⁴³ According to Zhun Xu, the agricultural reform was a political calculation because:

*The potential threat of a peasants' revolt always loomed large to the CCP leaders, who had led a peasant revolution themselves. Even a decade after rural decollectivization, a Chinese vice premier reportedly claimed that no one in the present regime could hold on to power if there were problems in the countryside.*¹⁴⁴

Therefore, the agriculture reform was meant to convince the peasantry that the Party was the savior of Chinese people who could bring economic development to them. Without economic growth, the survival of regime would have been in danger since the regime's source of authority and legitimacy derives from economic development. For example, in one of Deng's speeches on the need of economic reform, he stated: "I stressed the need to concentrate on economic development. In a country as big and as poor as ours, if we don't try to increase production, how can we survive?"¹⁴⁵ This statement was made during a meeting of top military officers and government officials on economic development in 1982 and directly questioned the survival of communist China if China failed to carry out the reform

Therefore, I argue that China's economic reform was linked to regime survival as the single most important reason for rapid economic development and sustaining the development was to keep the regime from falling. Throughout the reform stages, the

¹⁴³ Schaeffer, *Red Inc.*, 68.

¹⁴⁴ Zhun Xu, "The Political Economy of Decollectivization in China" *Monthly Review* 65, No. 1 (2013), <http://monthlyreview.org/2013/05/01/the-political-economy-of-decollectivization-in-china/>.

¹⁴⁵ Deng Xiaoping's speech on economic reform on September 18, 1982, "We shall concentrate on economic development" Compiled by archive.org, 1994, accessed April 20, 2016, https://archive.org/stream/SelectedWorksOfDengXiaopingVol.3/Deng03_djvu.txt

leadership continued to emphasize the importance of upholding the Communist Party principles and how the party was a prerequisite for China's development.¹⁴⁶ All these suggest that China's economic reform and development were first and foremost intended in saving the communist regime, as no political reforms followed unless absolutely necessary for economic development. Therefore, considering the utmost importance of reform and development for the Communist Party of China to stay in power, one can see that economic interdependence certainly was vital and hence a war with India in the 1980s indeed would have been not only be a "commercial suicide" but also self-destruction of the Communist Party of China.

¹⁴⁶ Deng Xiaoping, "The Present Situation and the Task Before Us" Speech at a meeting of cadres called by the Central Committee of the Communist Party of China, Beijing, China, January 16, 1980, Accessed May 22, 2016, <https://dengxiaopingworks.wordpress.com/2013/02/25/the-present-situation-and-the-tasks-before-us/>.

Conclusion

Most scholars of Sino-Indian relationship studied extensively the 1962 war, and the subsequent two countries' economic development later in the 1990s but there exists a research gap on the Sino-Indian relationship in the late 1980s. Thus, this thesis contributes to filling the research gap on the 1980s bilateral relationship of trade and the Sino-Indian border issue. I have shown that the Sino-Indian border dispute in the 1980s was as bad as the conflict in 1962 that resulted in war. However, I have also shown that economic interdependence began to play a huge role in balancing the disagreement over the border with increasing bilateral trade.

Revisiting the Sino-Indian war of 1962 reveals that to start a war indeed requires two parties and that the border war happened because of both India and China's actions. In that regard, John Garver was right to point out that both parties were to blame for the war. The major contributor for the deteriorating the border conflict in 1962 was essentially misperceptions of each other's intentions. One important finding from this research suggests that the lack of bilateral trade and the closed nature of economy in both India and China made the war less costly and hence more attractive through cost benefit point of view.

Moving forward to the Sino-Indian relationship in the 1980s, change of international environment due to rise of trade had a significant influence on the bilateral relationship. The seriousness of the border conflict in 1962 and 1987 was pretty much the same, with very similar factors at play. However, increasing trade relations between the two parties as well as with the third parties directly influenced the success of

negotiation in the later border incident. Thus, despite the criticism on the liberal claim of economic interdependence and peace by realist scholars, economic interdependence indeed holds great explanatory power in general and effectively explains the absence of war between China and India in 1987.

Modernization has brought a fairly open society that is closed linked by interaction among states. Thus, domestic politics and policies have bigger consequences in the international politics and vice versa. As a result, interconnectedness of our world makes accountability a lot easier, and hence wars more costly than ever in history. This also helps to see the relevance of economic interdependence in the field of international relations in our contemporary politics and studies of foreign policy decision-making of the leaders. Economic interdependence makes leaders to act rationally towards one another in order to maintain trade relations and hence we can expect more pragmatic foreign policies from countries that need foreign trade and investment.

The conclusion from this research also contributes to the future research on the economic interdependence and cooperation among nations, especially in the case of developing nations. Developing nations need to value economic development more than developed or big economies in order to maintain sovereignty. This incentivizes nations to adopt softer and more cooperative foreign policies in order to attract international trade, investments, and aid that are an important part of economic development. Cooperation increases mutual need for each other and also helps to avoid misperception of each other's intentions. This reduces aggression towards one another and hence promotes a peaceful relationship.

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