

The rise of China in the 21st century and its implications for Sino-Indian relations

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Abstract

This article focuses on China's emergence as a superpower and its growing international status represents a major challenge to world order. There has been a significant power shift in world order due to rise of China as a regional and global power. It also represents the dynamics and the future impact of power shifts for India. There is an analysis that how the China's rise will create tension for India. No Doubt, the economy of China is more developed than that of India and is moving faster than India. Uneven rise of China creates obstacles in the development of their friendship. The relationship is not balanced one. It traces out that the rise of China has led both countries towards competition. It is also prediction that these areas of competition can lead them towards conflicts in future. It analyses the reason behind the rise of China which make China different from rest of the third world including India and how India can bridge the gap is also included. This article also gives attention to the scope for bilateral economic and trade cooperations between two them. This section concentrates on that both are economically interdependent that has led them towards cooperation in future. China is India's largest trading partner. Economic interdependence will remain the area of cooperation in future as the same. In conclusion, it gives a brief summary the rise of China as a global power and its implications for India.

Introduction

The end of the cold war and the collapse of the Soviet Empire have undermined much of the global power structure that has characterized international politics for several decades. The international system is no longer bipolar. Instead, one superpower that is United States of America (USA) is predominant, with a number of regional powers becoming increasingly

important. Enjoying a relatively stable international environment and with the implementation of the open-door policy, China has recorded remarkable economic performances. In addition to this, 2008/2009 financial and economic crisis has brought a significant changes and shifts in world economies and power. It is the most serious global crisis since the Great

Depression. The crisis started in the US and spread throughout the world. Due to this, in 2008 world output growth fell from 5.2% in 2007 to 3.0% in 2008 and to negative 0.8% in 2009 (Draft Paper for Chinese Economic Association Conference: Global Economic Recovery: The Role of China and Other Emerging Economics, 2012). Due to this, USA is encountering difficulties in pursuing its global agenda. Its financial system has been experiencing growing turmoil (RaymondLotta, 2009). Most impressive was China which managed growth of 8.7%. This was in part because China was not directly exposed to the financial problems that plagued the advanced economies. China was negatively affected by the collapse of demand for exports of goods and services. Thus, there has been a significant power shift to developing world in general and to China in particular. In a word, China is widely perceived as a rising power.

A rising is defined as a advancing or becoming higher or greater in degree or value or status. In the same way, rising in the context of a nation or a state means its advancing or becoming higher in power and status. The 'rise of China' discourse articulates the transformation of China's internal structure and growth of its comprehensive national strength. In the last 32 years the People's Republic of China (PRC) has risen to become a major regional and global power.

While the rise of China has inspired awe and respect in the shorter term, it has also brought uncertainties about its

long term implications in general and for India in particular. There is no doubt on it that the rapid growth of China, together with its increasing assertiveness, represents a challenge to the established global order. The dynamic rise of China as a global, economic and political sector is a major topic of current academic and political debates around the world (Jing Gu, John Humphrey and Dirk Messner, 2008). In India too, it is generating a lot of excitement. On the one hand, it is considered to be a challenge and on the other, an opportunity. In this context, the critical question arises here is that what is the multi-dimensional nature of the rise of China and its implications for India (Harsh V. Pant (ed.), 2012). There are so many questions in the mind of people.

This article is divided into two sections. The first section discusses the Rise of China as a global power and reasons behind the rise of China. The second section examines the implications of the rise of China on Sino-Indian relations. This section observes why does India lag behind China in economy and how it can bridge the gap? How the rise of China has led both the countries towards competition? How does China expand its influence in Asia and how is it affecting India's interest there? It also analyses that both are economically interdependent that has led them towards cooperation and by strengthening cooperation in economic field, understanding at the political level can be enhanced and what will be their mutual gains?

The Rise of China

The economic growth of China, initially started in the late-1970s with domestic and rural reforms, has been increasingly driven by China's industrialization and integration into regional and global markets (Kevin J. Cooney & Sato Yolchiro (ed.), 2008). Basically, the Chinese economic reform refers to the program of economic reforms called "Socialism with Chinese characteristics" in the People's Republic of China (PRC) that were started in December 1978 by reformists within the Communist Party of China (CPC) led by Deng Xiaoping (Clem Tisdell, 2009). From 1978 to 2012, unprecedented growth occurred, with the economy increasing by 9.5% a year. In the contemporary scenario, China has the world's largest population, second largest economy and it has become the world's largest consumer of energy. The PRC also has the fourth largest nuclear arsenal and numerically largest army. It is the largest producer of many industrial goods such as steel and automobiles. Internally, China still advocates socialism but in reality has strong capitalist characteristics. Chinese Gross Domestic Product (GDP) has now reached 8.227 trillion (nominal). (International Monetary Fund, 2013). China is the leading exporter of the world.

At the international institutional level, China is a permanent member of the UN Security Council (UNSC) with veto power. China enjoys growing influence in the World Trade Organization (WTO), the G-20 and the G-77, the International

Monetary Fund (IMF), the Association of South East Asian Nations (ASEAN) and regional security institutions such as the Shanghai Cooperation Organization (SCO). Moreover, at the 2010 Copenhagen Summit, China emerged as a crucial global player due to its high carbon dioxide emissions. China is the world's second biggest economy, using the most copper, aluminum, iron ore, steel and coal. China is now a key source of capital and FDI in the Middle East, Africa and Latin America and has proven adept at acquiring access to these regions, natural resources. It is engaged in competitive struggles for raw materials and elsewhere with the US (and other imperialist power). China has also increasing "soft power". Since the PRC remained a foreign aid recipient country now it has moved towards being an important donor country. According to a 2009 report by the US Congressional Research Service, China's aid to Africa, Latin America and South-East Asia increased from less than one billion dollars in 2002 to an estimated 25 billion dollars in 2007 (Mitch Moxley, 2013).

Some Chinese economists are predicting that if the economy continues to grow at such astronomical levels, China will be in position to surpass the United States in the next few decades. This view fuels speculation about power transition, which is supposed to increase the danger of war. Power transitions usually come with international conflicts. Rising powers want to gain more authority in the global system, and declining countries are afraid of loss of their dominant position

Reasons behind the rise of China

There are five distinguishing features for the rise of China.

- (1) The pursuit of capitalism with a communist political system. Chinese authorities have defended this combination as “seeking truth from facts.” Starting from 1978, Den Xiaoping liberalized the economy without changing the political system. According to the 2013, annual HurunReport, there are 357 known dollar billionaires in China (The China Daily,2013).
- (2) China pursued a policy of state-sponsored capitalism. There was a pronounced reliance on state-owned enterprises.
- (3) China invested heavily in physical infrastructure. With only 55,000 km of railways in 1985, China had a smaller rail network than India (62,000 km). By 2010, with 91,000 km of railways, China had overtaken India which had 64,215 km.
- (4) In sharp contrast to Japan, China became the factory of the world, relying mostly on FDI. After the US, China is the second-largest FDI recipient in the world. While FDI inflows into China from 1979 to 1999 amounted to \$306 billion, annual average non-financial FDI in China was about \$60 billion during 1999-2008. (5 reasons behind the rise of China,

2009).Much of Chinese exports are by foreign-owned firms.

- (5) In the post-reform period, China followed an exchange rate policy designed to promote competitiveness. The renminbi (RMB) which had been rapidly devalued from RMB 1.50 per US dollar in 1980 to RMB 8.62 per US dollar by 1994 was maintained at RMB 8.27 per US dollar from 1997 to 2005. As of 12th July 2013 renminbi exchange rates at 6.13 to the US dollar—its highest official level since currency reevaluation in 2005 (US Dollar to Chinese Yuan Exchange Rate, 2013).

Implications for Sino-Indian Relations

One of the defining moments of the 21st century is the rise of China and the emergence of India, which, according to many analysts will possibly lead to tectonic shift in the economic and strategic balance of power in the world from America to Asia. Some analysts estimate that China’s rise is faster and more spectacular than India. There is no doubt about it that China has now clearly emerged as a major world power and India needs to seriously think over it. The Chinese are already stronger on almost all fronts. In a National Seminar on “Rise of China: Implications for Asian Neighbours”, on 17 December,

2010, jointly organized by Indian Centre for South Asian Studies, Chennai Centre for China Studies and Centre for Asia Studies in Chennai, B.S Raghavan IAS (Retd.), former advisor to the United Nations, envisioned China both as a challenge and opportunity for Asian neighbours including India (National Seminar on “Rise of China: Implications for Asian Neighbours,” Chennai December 17, 2010). The future of the Sino-Indian relationship will be both competitive and collaborative as the same time. However, the relationship will not be a balanced one. Despite their similarities (population, ancient civilizations, etc), China and India have significantly different economies. Going by the basic facts, the economy of China is more developed than that of India. China is moving faster than India. While India is the 11th largest economy in terms of exchange rates, China occupies the second position surpassing Japan.

There are a number of factors that has made China a better economy than India.

- (1) India was under the colonial rule of the British for around 190 years. This drained the country’s resources to a great extent and led to huge economic loss. On the other hand, there was no such instance of colonization in China.

- (2) Agriculture is another factor of economic comparison of India and China. However, the agricultural Sector of China is more developed than that of India. Unlike India, where farmers still use the traditional and old methods of cultivation, the agricultural techniques used in China are very much developed.
- (3) In spite of being a socialist country, China started towards the liberalization of its market economy much before India. This strengthened the economy to a great extent. While India’s liberalization policies started in the 1990s (The Economics Times, 2010). China welcomed FDI and private investment in the mid 1980s. This made a significant change in its economy and GDP increased considerably.
- (4) Compared to India, China has a much well developed infrastructure. Some of the important factors that have created a stark difference between the economies of the two countries are manpower and labour development, water management, health care facilities and services, communication, civic amenities and so on. All these aspects are well developed in China which has put a positive impact in its economy to make it one of the best in the world.

Areas of competition and conflict

There is no doubt in saying that the rise of China has led both the countries toward competition. The following can be the major areas of competition between the two countries which can lead to conflict in future:

First, China has built up a presence in South Asia that threatens to “encircle” India. China has been taking an increasing active interest in South Asian countries over the past few years, seeking to rally friendship and support in order to surpass India’s dominance in the region. China is entering its neighbouring countries more aggressively through trade, investment and transferring arms and weapons technology (B. S. Sachar, 2010). The largest beneficiaries of this economic aid are Pakistan, Bangladesh, Sri Lanka, and Nepal. Numerous factors account for China’s success in reaching out to the economies in India’s neighbourhood. First, China does not impose conditions for reform, transparency and competitive bidding that would be part of contracts with countries like India and United States organizations like the World Bank. China’s ‘ask no question’ policy represents a real challenge to India (BaldasGhosal, 2011). One of the major barriers to closer economic cooperation within South Asia is the protectionist sentiments and the unwillingness to lower tariffs on many goods and services to protect their own business. South Asian Free Trade Agreement (SAFTA) has not helped much in removing these instances. India-Pakistan tension also contributed to a shift

in trade toward China. India urgently needs to improve economic ties with its neighbours to develop its growth and to help foster peace in the region. Second, China’s low-costs and its fast growing expertise in infrastructure development in its own country, makes an attractive proposition to these smaller countries. Over the last decade, Chinese companies have become the biggest suppliers to ports of cranes used to move shipping containers, displacing South Korean and Japanese companies (Ibid). In such a situation, India will have to match China not only by building its fighting abilities but also acquire assets in immediate neighbourhood.

Second, China’s growing naval presence in and around the Indian Ocean troubling for India. China has been increasing its presence in the Indian Ocean Region (IOR) by following what is popularly termed a “Strings of Pearls” (Gurpreet S. Khurana, 2008) strategy of encircling India by investing in assets and posts in Pakistan Myanmar Sri Lanka and Bangladesh. China is helping up gradation of Chittagong in Bangladesh, Hangyi in Myanmar, Hambantota in Sri Lanka and Gwador in Pakistan (Ibid). These “pearls” are to help build strategic ties with several countries along the sea lanes from the Middle East to the South China Sea in order to protect China’s energy interests and security objectives.

Third, China’s reported plans to build a dam on the river Tsango (which is called Brahmaputra in India) and divert the water of the Brahmaputra to address

the needs of its drought-hit regions have all ingredients to stir up fresh tension in Sino-Indian ties (The Navhind Times, 2011). New Delhi is worried that tomorrow if Beijing actually goes ahead to build a dam and divert water of Brahmaputra river, it will be difficult to make a case against upper riparian China because India hardly has any user rights like dams, power station established on the Brahmaputra river within the country. Fourth, India and China have also become locked in urgent competition for energy in the Middle East, Africa, Central Asia and Myanmar (SandeepDewan, 2013).

As the two face continuing gap domestically between the resources supply and demand, it is natural that they compete to reach out to resource-rich nations in the worked. By 2010 Oil import had accounted for 55% of China's total oil consumption, this is expected to reach 66% in 2020 and nearly 70% by 2030 (D. S. Rajan,2010). China is now the World's second largest oil consumer after the United States. Taking the case of India, it is now the fifth largest energy consumer in the world and is expected to reach the forth position soon. By 2030, India is likely to surpass Japan and Russia to emerge as the world's third largest energy consumer (China Dially, 2010). Imports now contribute to 70% of the oil consumed in India and by 2010; India's dependence on foreign oil is projected to reach more than 90% by 2030 (D. S. Rajan,2010), according to projections from the US Department of Energy. Both countries will compete globally for supplies of

commodities and energy in the Middle East, Africa, Central Asia and Myanmar. Beijing is acting at state levels to influence such nations, which are getting manifested in four ways- conducting high-level diplomatic exchanges, promoting bilateral trade, extending economic aid especially for infrastructure building and even providing military assistance. Russia and Latin America have become China's new markets.

India is making simultaneous attempt at securing and diversifying country's energy sources in that region. In recent years India has taken several initiatives to extend collaboration with Central Asian countries in oil and natural gas sectors, particularly with Turkmenistan and Kazakhstan. India joined the Turkmenistan-Afghanistan-Pakistan-India pipeline project in 2008 to import natural gas Turkmenistan (The Economics Times, 2008). India's increasing interest in Central Asia's energy resources has been accompanied by a growing involvement in the region's security. India has expanded military contacts in Central Asia, allegedly establishing a military and medical facility in Tajikistan. In comparison with China, India is at a disadvantage because of its geography, for it does not share its border with any of the Central Asian countries to facilitate trade. While China shares borders with Kazakhstan, Kyrgyzstan and Tajikistan, as well as Russia. China has taken a clear lead over India in the gas imports from the region as well. India does not share a land border with any of the

Central Asian states. China is also looking at the possibility of pipelines transverse Pakistani and Bangladeshi territory, as part of its "String of Pearls" strategy to bypass the narrow Strait of Malacca, which experiences 40% of the world's piracy and through which 80% of China's oil imports flow (Bajpae, Chietigj, 2005). Construction has recently been completed on a deep-sea port in Gwadar in the Pakistani province of Baluchistan, in which China has provided technical expertise and financing.

Fifth, China is not only rising economic power but also rising military power. The ongoing Chinese military modernization programme is also a matter of concern for India because Indian strategists feel that the projects are symbolic of China's intentions to apply strategic pressure on India, despite Beijing's declaration that its arms building is only for the purpose of self-defence and not for seeking hegemony in the region. Sixth, Chinese military missiles and nuclear help to Pakistan continues (ZhangGuihong, 2006) but China is not in a position to give a guarantee to India that Pakistan will not leverage such support from China, to fight against India. Not surprisingly, New Delhi perceives that China's military assistance to Pakistan has direct implications for India

In the short term, India can probably do little more than strengthen military defenses including investment in additional mountain divisions and strategic weapon systems. However, this will be ultimately of no use if China

continues to build leverage in all other areas. In the longer term, therefore, India needs to consider a number of measures:

(a) India is in a position to exploit its demographic advantage to compete with China's industrial economy over the next twenty years. Policy tools ranging from the exchange rate to infrastructure should be geared to this end.

(b) The Chinese government has been much more proactive in their decision making which allows them to operate in an efficient and effective manner. It is time India rethinks its strategy in overcoming the political, economic, infrastructural and geographical bottlenecks in facilitating trade and investment in Central Asia, Russia, Middle East, Myanmar and Africa. In Middle East first, New Delhi can match Beijing's strategy by offering something more in return for oil, such as transfer of technology to the oil rich nations in the region. In Central Asia, ties with Kazakhstan will be important for India due to its strategic location in the Caspian Sea, considered third largest oil reserve in the world, also with potential Uranium deposits. In Africa, India's foreign policy should become more resources based; fresh measures are necessary on India's part as a sequel to its Africa summit in 2008 (D. S. Rajan, 2010).

(c) India needs to work harder to improve relations with South Asian countries. India needs to keep a close

watch to avoid any threat of encirclement by building up good relations with small nations in South Asia. There is need to pay special attention to build relationship with the third world.

(d) India should use “soft power” as an active tool for diplomacy. This would include using “Bollywood” (SanjeevSanyal, 2008), prestigious awards, diaspora and ancient cultural ties (as in SEA) to promote India’s world view.

Areas of Cooperation

Despite competition in many areas, economic interdependence will remain the area of cooperation in future as the same. There is no doubt about it that the bilateral trade between India and China has increased manifold in the recent years and as of now, China is India’s largest trading partner. Both the countries are recording high growth rates though China has surpassed India in many areas of economy. When China’s PM Wen Jiabao visited India towards the end of 2010, he brought a trade delegation of around 400 people with him. During his visit, he said, “China and India are cooperative partners instead of rivals. They have common interests in the global economic and trade system” (Chinese Premier Wen Jiabao’s Speech, 2010). Furthermore, he promised to raise bilateral trade to \$100 billion a year by 2015 (Ibid). The two economies account for about 40 percent of the total world population and there is a general

consensus that these two countries will continue to be the engines of global economic growth in the present century.

China and India have greater and greater mutual interests. There are several mutual gains that can be realized through Sino-Indian cooperation. Firstly, rapid economic development shall be derived from deepening the international division of labor. China’s competitiveness has become increasingly stronger in electrical and electronic products assembly in recent years. In contrast, India’s productivity in the manufacturing industry is lower than that in China. India’s competitiveness is primarily reflected in high-tech industries, including software and IT services. In contrast, China’s service sector, especially the software and IT services, lags behind. Thus, China’s hardware processing industry and India’s software and service industries show strong potential for cooperation (Nirmal KumarChandra, 2009). Former Chinese Prime Minister Zhu Rongji first pointed out this possibility during his visit to India in 2002. The then PM of India, AtalBihari Vajpayee, said on his visit to China in 2003 (Ibid)that China’s hardware products and India’s software solution complemented each other, constituting the natural foundation for sustained cooperation between the two countries.

Secondly, enhanced bargaining strength in the process of formulating international rules shall be enabled, so as to protect and promote the two countries’ common interests as developing major powers. Despite the increasing power of

both China and India, each of them individually has no effective means to counterbalance today's global system. Kenneth Waltz defined power as the extent that one affects others more than they affect oneself (Zhangyuan, 2007). A state's power can thus be understood as a combination of that state's capacity to influence others to behave as it wants them to behave and, conversely, to resist the unwelcome influences of others. Based on this definition, India today lacks great power in that, for the most part, it cannot make other important states to comply with Indian demands, nor can it obtain all that it desires in the international arena, although India does have the capacity to resist most if not all demands placed upon it by other states, including the recognized major powers.

As far as China is concerned, it can influence other countries' behavior in some respects and can resist the demands made by other countries but, in comparison, the impact of other countries on China is larger than China's impact on other countries. The current international economic system is still dominated by the Western developed countries, particularly the United States. As two rising developing great powers, China and India potentially challenge the interests that the Western countries have traditionally enjoyed, and hence face strong resistance from the West. Through Sino-Indian cooperation, the two countries' bargaining strength can be increased in the process of formulating future international rules to guarantee their interests and win favorable rules of the game for developing

countries, including themselves. China and India have cooperated in the WTO and G20 organizations. Both the states are also coordinating at the international level on the Doha Round talks and the international financial crisis. Such cooperation is likely to expand in the future.

Thirdly, higher costs can be avoided in the exploration and exploitation of natural resources and energy. Both China and India are experiencing three similar economic reforms and social shifts: from a planned or heavily regulated economy to a market economy, from an agricultural economy to a modern economy, and from a closed economy to one that is opening up (Ibid). A significant challenge to the world can be foreseen as the two countries follow the Western mode of development at the same time. Currently, the two countries have faced similar resource constraints in their economic development and both have an increasing demand for resources such as copper, iron ore and petroleum, which is viewed as challenge to the world supply of energy and natural resources. Now, one third of China's and two thirds of India's oil consumption depends on imports. If the two countries compete with each other for energy exploration in the world market, the result will be disadvantageous to them both and even the world, and fierce competition in the worst-case scenario could even result in war. Taking account of each other's interests, the two countries can coordinate with each other to explore new energy sources and to undertake technological cooperation for the efficient utilization of energy and natural resources.

Fourthly, border security can be created, laying a favorable foundation for mutual economic development. China and India are undergoing unprecedented domestic development and reforms. They very much need peaceful external environments to succeed in their economic reform policies (Ibid).

Thus, improved relations in one area have a tendency to have a calming effect in other fields. Increased interdependence and growing relations in economic field will go a long way in stabilizing relations between the two most populous Asian states. Now, both the states are also coordinating at the international level on climate change issues, energy and food security. On the environmental front, while India is worried with the clear signs of fast melting glaciers which feed rivers like Brahmaputra, China is concerned about the drought situation in the Tibetan region. Though China's emissions are four times that of India there is need to present a coordinated position on environmental issues at international fora if developed countries continue to shift the blame on large developing countries for their own failures on the climate change front. West may try to arm-twist developing countries like India and China to take on compulsory, time bound emission cuts targets- under threat of trade sanctions and aid cuts. There was a general feeling that India and China must come together as they did at the Montreal Protocol, when they first pressured rich countries to pay up to phase out chemicals that depleted the ozone layer. In this context, India and China have recently agreed to address the

challenge of global warming. Both the states have signed a wide ranging agreement to stand together against the developed world in climate change negotiations in Copenhagen (Denmark), December 2009 (Radosalv S. Dimitrov, 2010). They have firmly stated that developed countries must reduce emissions by 5 pertaining exercise on combating terrorism was also held in India between the two countries (Ibid).

Conclusion

There is no doubt in saying that the rise of China has led both the countries towards competition. According to Indian strategists, these can be the major areas of potential competition between the two countries: (a) Both countries will compete globally for supplies of commodities and energy (b) Brahmaputra water dispute (d) China has built up a presence in South Asia that threatens to "encircle" India. Indian strategists spent too much time trying to understand the immediate motives of the Chinese regime and thinking about specific responses to specific scenarios. But this is also true that economic interdependence could lead both states toward peace. The economic analysts have also expressed their views that the economic growth of China is unrealistic but the slow and steady economic growth of India is sustainable. The economic boom and rapid development of these two countries and need of energy and extended market under the global market are the pulling and pushing factors for the need of improved relation between these two countries.

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