
India-China Economic Relations: Implications for Pakistan

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Abstract

India-China revisited their foreign policy post-Cold War. Bilateral economic relation was initiated to enhance trade and this was not restricted to trade but limited to just trade but also extended to various energy and developmental projects. The ameliorating relations between these two countries created concern for already Chinese dependent country i.e. Pakistan. The apprehension was well justified as the improved relations of China with India would eventually mean China's attention is shifted to a relatively stable and stronger nation that would not only provide access to China of a route to Central Asian countries but will also improve China's diplomatic and economic standing in the world. Although Pakistan has got the support of China in many national as well as international conflicts, a stable partner like India will lead to progress and improvement of trade and co-operation in another field. This would make China rethink its partnership with Pakistan. However, Pakistan has attempted to keep China's interest at distance from India's obvious allure; it would be a matter of time before China moves its attention to India if Pakistan's contemporary domestic economic, political, and security conditions do not improve shortly. Consequently, India-China's economic relations can pave the way for a much stronger alliance, which would cause a severe geostrategic and geopolitical hindrance for Pakistan.

Keywords: GDP, FDI, Geostrategic, Geopolitical

Introduction

Since the end of WWII, few unknown actors have been added to the system of the new World Order to sustain the balance. After the end of the Cold War, the world paved the way for a culture of security and economic interdependence. The developing nations mainly emphasized this trend. Amongst major Asian states, China and India are rapidly rising economic powers, and key actors of this plot also consider Asian giants.

It is important to emphasize that the concept of a unipolar world came hand in hand with the theology of interdependence, and shortly after the passage of it two decades; states find themselves interlocked into deep security interdependence, leading to an impending threat to their peace and economy. The best example (European Union) of this state would be the 'Pakistan-India-China' trilateral cooperation.

On the one hand, China is fully capable of taking care of its borders, but it depends on other countries like Pakistan, to reach the markets of the gulf and European countries for the smooth running and growth of its economy. While on the other hand, India is interdependent on other nations for both; economy and security. India's economy is aided by China and the USA, while for security; it looks towards Russia, France, and the USA. Whereas, Pakistan being a very resourceful (full of natural resources and very intelligent and hardworking youth) country, depends mostly on China for economic and defense needs.

China as an Economic Power

Napoleon Bonaparte once revealed, "When China awakes, the whole world shakes," a vision came true after a long time of Napoleon's prediction. It's a fact that China's economy is a merger of the growing economy with the evolution based on the policy of industrialization reforms and a completely new infrastructure of "Socialist Market Economy" with Chinese characteristics (Wei, Xie, & Zhang, 2017).

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Currently, China is the 2nd major economic power after the United States of America globally, and it is expected to become the largest economic power within the next five to ten years. China is now recognized as a dominant and major global economic power. From 1979-2012, China's (GDP) has grown at a mean yearly rate of roughly 10 percent. It is expected that during this period, 500 million people in China have been raised out of extreme poverty (Esmail & Shili, 2017).

Now discussing what China did from 1979 to 2018, which caused the uplift of China's economy to such a great level. Looking at the trends, China has well-adopted to raise capital investment it did with the aid of local and foreign savings; and a big development of ideas led by Chinese economists that contributed to the huge industrial revolution and large productivity growth.

A few Chinese leaders like Deng Xiaoping and its well-known slogan, "Get rich!". Individual development (individualism) and consumption (supported by neo-Keynesian policies in 1997) became the leading policies of China towards reaching the greatest economic power. Since 1979, China switched to foreign investment and trade also adopted free-market reforms, which led to the development of the "Socialist Market Economy". China is a leading emerging economic power and the biggest manufacturer in the world, merchandise trader, and owner of foreign reserves. The growth of China became prompt in the 1990s (Yearbook, 1991). In 2006 China's exports grew to a staggering US\$ 974 billion in 2006 from US\$ 78 billion in 1993 (Shenglong & Angang, 2010).

Key Factors of China's Economic Development

The agriculture sector was the most dominant contributor to China's economy. Now let's have a look at the factors contributing towards the development of China as an economic power:

a. Agricultural Sector

Historically, the Chinese economy is broadly grounded in agriculture. But the conditions were not favorable for China to enhance agriculture; for instance, limited natural resources, low per capita income, lack of fertile land, and water resources even less than the world average. Moreover, a weak level of industrialization, low value-added agriculture products, worse environmental conditions, and ecological safety problems were causing a serious threat and imposing a huge barrier in Chinese agricultural development.

It was just a start for economic reforms in the Chinese agricultural sector, which made way to high-level income growth, and China presented as a main international economic growth achiever. According to a recent report, 18 percent of the world's cereal grains, 29 percent of the meat, and 50 percent of the world's vegetables are produced by only China. This unexpected achievement has made China the leading agri-economy and has placed it as a major worldwide producer of pork, wheat, rice, tea, cotton, and fish. By utilizing very limited space, China generates roughly 20 percent of the global availability of food that is considered a wonder since the initial setbacks faced in the 1960s and 1970 by the agricultural sector of China (Carter, 2011).

b. Industrial Sector

Before the economic uplift, China was lagging behind even the other developing countries in the industrial sector. It was due to the enormous efforts of Chinese economists, who made a massive industrial revolution by making industrial capitalism advanced. Chinese rigorous pursuit to be advanced technologically and the interest of foreign firms to China's industrial and manufacturing success led to the "stage skipping" process, through which immature Chinese industrial structure gained at once immense importance in the world's economy. It also made China the world's leading manufacturer and caused high productivity growth. China produced maximum exports to Europe, America, and many other countries.

In 2013, Chinese manufacturing contributed 35 percent of the GDP; this sharing was greater than the US. Manufacturing played the main contribution to the Chinese economy vis-a-vis the US and Japan. By 2013, gross value added manufacturing was equal to 28.9 percent of GDP; as compared to the United States it's 12.1 percent and 18.7 percent in Japan (Zhao & Yang).

c. Employment Sector

China mainly focuses on the prosperity of its natives. For instance, China is an ideal country to provide social and legal security to internal migrants. It provides a lot of employment facilities, even to the working class and relatively poor citizens living in urban areas. Since the population of China is vast, China worked hard to solve the problems of unemployment of its citizens. In 2003, 7443.2 lac individuals were working in China, out of this, 2563.9 lac were deployed in urban areas

(35%) and 487930000 in rural areas (66%). During 1990-2003, China annually increases 7.45 million jobs (Esmail & Shili, 2017).

d. Financial Sector

This factor plays a vital role in Chinese economic development. After 1978, the Chinese introduced significant reforms to improve the financial sector. The banking sector is the bearer of these reforms with significant development of the capital market after China accedes to the World Trade Organization, which led to a marked success of China in the trading sector. In 1994, the banking sector of China established the Development Bank, the Export-Import Bank of China, and the Agricultural Development Bank of China to regulate the lending policy of the Big Four, which are four major international accounting and professional services firms. Price water house Coopers, Ernst & Young, Deloitte Touché Tohmatsu, and KPMG make up the Big Four.

During recent years, China mainly focused on the modernization of the financial and banking system. Due to these efforts, Chinese non-trade loans decrease from 17.4 percent by end of 2003 to 1.8 percent in mid of 2009. This massive decrease of NPLs was linked to an equally outstanding surge in capital ratios in the banking sector. Since 2005, China has reinforced the legal and institutional base for the capital markets and abolished key hurdles towards expansion. The revised law for companies and securities was implemented in 2006, and the Law on Securities Investment Funds was adopted in 2004.

The success of the new texts was improved through the application of the reformed bankruptcy law, which was implemented in June 2007, and modified law on insurance was implemented in October 2009 (Elliott & Yan, 2013).

e. Trade Sector

International Investment and trade help economic development as they cause a lot of increased job opportunities, investment, high income, and decreased prices. Countries that are members of the international economic forum take relief from economic firmness and improve wellbeing. As per trade statistics, China has gradually earned a key role in global trade because of its significance for traditional and major trading associates like the United States, India, and the European countries (Lardy, 1993).

In December 2011, China became a part of the World Trade Organization owing to its rapid trade development and intense structural changes in its economic sector has continued to develop. After this addition, the Chinese government began to decrease tariffs, prolonged trade rights and relaxed its administration to appeal to foreign direct investment (FDI) (Li, Liu, & Parker, 2001).

The export of China reached a level of US\$ 23 trillion in 2014 from a level of US \$ 14 billion in 1979 that is almost a per annum growth of 18 percent from 1990 to 2014. In contrast, the import of merchandise surged from US\$ 18 billion to about US\$ 2.0 trillion with annual progress of 16.6 percent in the same duration (UNCTAD, 2014).

India as an Economic Power

The Indian economy is a developing economy. Now, India is known as the world's 6th largest economy and 3rd largest by purchasing power. Major components for India's growing economy are:

- a. Huge working population.
- b. Greater literacy rate.
- c. Increase in the consumer market.
- d. Focus on home-based manufacturing

The service sector is considered the major sector of India's economy. The agricultural sector has contributed greater than the world's average of 6.4 percent to India's economy. On the other side contribution of the industry and Services sector is lesser than the world's average of 30 percent. The share of each sector in the GDP of India is as follows:

- Agriculture: 17.4% of GDP, 49% of employment;
- Industry: 25.8% of GDP, 20% of employment;
- Services: 56.9% of GDP, 31% of employment.

As the rate of the Indian economy is growing, we can say that, in the future, India will be one of the major economies on the globe ("India, a fast-emerging economy," 2020).

Tools for Growing Indian Economy

Doubling-up the Farmer's Income

Mostly the population of the country belongs to farmers. The policymakers suggested increasing production in the agricultural sector by adopting the use of upgraded technology and moving from low to high-value action in sectors like horticulture, dairying, poultry, piggyery, fisheries, and forestry (Bosworth, Collins, & Virmani, 2007).

Jobs Opportunities

The NITI Aayog pegs (policy think tank) India's joblessness ratio between 5 percent and 8 percent at present. India is hovering to attract many manufacturing jobs as firms moved their base from China due to high wages and aging manpower there. On the other hand, India would become a natural home base for these companies due to its large workforce with cheap wages (Hussain & Kumar Chakraborty, 2012).

Better Infrastructure

The Indian government has been mainly concentrated on the infrastructure sector, both physical as well as digital. They also established a separate safety unit and the appointment of a national safety officer. India believes in reducing railway fatalities by a significant amount during 2019. In aviation, they want to lower the Aviation Turbine Fuel (ATF) cost giving a chance for more Indians to fly.

Digital India

India has worked hard to digitalize its every division. The Indian government has also made many programs that offer their youth digital teaching courses. It has also added digital teaching courses to its curricula.

Become a Global Soft Power

For the last few years, the Indian government has strived to project itself as a regional soft power. India has made many friendly contacts with other countries, and this helped it much to grow its international market.

Skills and Welfare

According to some reports, by 2030, India will have the world's largest working-age population of 962 million people. It has also worked hard to increase the quality of school education. By conducting a national-level survey, the government can understand the quality of education and come up with remedial measures, and gives more independence to higher-education institutes ("Sector-wise contribution of GDP of India," 2019).

Importance of India-China Economic Relation

The year 2017 creates fierce for India-China relations. China's reluctance to back India's nuclear supplier's Group (NSG) membership bid ruined ties. At the end of the year 2017, there were some positive steps taken on the part of both government officials to improve the diplomatic relations a bit. In 2018 the agitation of diplomatic activities between these two nations continued. They not only focused on alleviating security issues but also considering the importance of decreasing Economic hindrances in the development of strong diplomatic relations.

Towards the end of a recent meeting between India-China, they agreed to joint co-operation in different fields. The two countries tried to discover new ways to improve bilateral trade and investment cooperation, trying their level best to decrease the trade imbalance, and started dialogs on Free Trade Agreement (FTA). The government officials from both countries who joined in the 5th round of bilateral Strategic Economic dialogue discuss further means to enhance the economic co-operation and clear any difficulties coming in the way. All these steps taken on the part of China and India in the development of the economic relations were a testament to the fact that despite the security and geopolitical challenges, both countries increase bilateral economic cooperation (Athwal, 2007).

Inequalities and protectionism

According to Indian government official figures, India-China mutual trade has increased from US\$ 38.02 billion to US\$ 71.45 billion in the past decade. There were jumps in 2011-2012 and 2014-2015, mainly because of China growing exports to India, but the trade volume was almost static in recent years (Bajpai, Huang, & Mahbubani, 2015).

New Delhi's viewpoint, there is a significant trade imbalance in favor of China, the main factors which have kept the bilateral trade limited are market access issues and security concerns.

India has the highest trade deficit of US\$ 51.11 billion with China is actual fear for India because this Indian product is unable to contest with Chinese manufactured commodities.

However, Beijing's nationalist policies create hurdles for Indian companies to come into the Chinese markets. But the New Delhi, on the other hand, is encouraging China to open up its market to Indian IT, pharmaceutical industry, and Agri-products as well as to improved Chinese investments in India to cut down their trade deficits. In the pharmaceutical industry, India is specialized and holds 20 percent of the world's basic medication production. Indian companies faced difficulties with entering Chinese markets because of control market access and very restrictive regulatory processes. But any payback moves on the part of India to restrict Chinese imports will be destructive for India. Because Indian manufacturing products are mainly based on cheap Chinese imports in the form of Electronic and IT components.

Reason for Stronger Economic Relation

Growing India-China economic relations can be beneficial for both nations. China's current demography and its economic policies show that it offers a huge potential for Indian goods and services as well as a source of greater investments as a future market.

According to Indian figures in 2019, China-India bilateral trade reached around US\$ 92.89 billion. As compare to the past there bilateral trade figures decline but still, India's exports to China were US\$ 17.97 billion and India's imports from China witnessed US\$ 74.92 billion. Overall India's trade deficit with China stood at US\$ 56.95 billion which is a huge trade imbalance overall (" India-China Trade and Economic Relations," 2020).

Besides this, Chinese companies have taken interest in the capitalizing Indian market, assuring about US\$ 85 billion in different projects at a trade event. Overall, India-China's stronger economic ties can be mutually helpful for both states, keeping in mind the desires of both countries to reach specific aims. In this way, Chinese Investment in Indian firms offers them much-needed capital to uplift their abilities while China gains more technological skills.

Both countries have a longstanding dispute over the Himalayans border that preceded a war in 1962. Dialogues are in progress over the disputed area. India alleged to China that she is illegally occupying an Indian piece of land in the area of Indian-held Kashmir. Chinese are claiming that the rights to land in the northeast state of Arunachal Pradesh are there.

India is worried about China's friendly and ever-growing relationship with its rival, Pakistan. According to Indians, the relationship between China and Pakistan not only includes assistance for Pakistan's nuclear weapons program but also, China's role in a project to upgrade a deep Pakistani seaport at Gwadar. Furthermore, according to India, combined nuclear threats from China and Pakistan are massive. Indians further thinking that China has built up Pakistan's nuclear and conventional capabilities to the highest level. They have further concerned that China has also extended relations with countries surrounding India in terms of security, including Myanmar and Bangladesh, which increases the threat for India.

So, Beijing and New Delhi are taking steps to minimize the security concerns of India. Both countries are planning their first-ever combined naval exercises just to nullify the impact of the Chinese being more biased towards Pakistan. Issues of trade imbalance, market access, and protectionism require efficient handling and diligence. Most significantly, geopolitical circumstances will continue to hit India against China. These may influence economic opportunities for India (Khokhar, 2011).

Implications for Pakistan

Optimist and Opponents

While having a glance at the improving China-India relationships, two groups come forth – the optimist and the opponents. The optimists are of the mind that improving bilateral relations between the two giant powers will bring forth many positive possibilities for the other countries in the region. The opponents think otherwise. The opponents being realists have pointed that the growing relations between the two countries will bring forth much more trouble from NATO and will become the cause of much more instability in the region and other countries will feel threatened by their combined growth.

Four Pillars

One country that will have the greatest number of implications is Pakistan, whose lifelong enemy will befriend her lifelong ally. Pakistan's relationship with China has been upheld by four basic pillars –

"Diplomatic Support, Energy corridor, Strategic partnership, and Military co-operation." Improving China-India relations will damage all four, thus causing a huge amount of damage to the Pakistan-China relationship (Khokhar, 2011).

Diplomatic Support

Improving relations between India and China, it's almost obvious that the diplomatic support for Pakistan will decrease in the international forum where China would not need the support of Pakistan for its cause when it has a much bigger and stronger ally to support its claims in front of the west. Not only this but since both countries are growing power, they can unilaterally stand up to the western powers as another block of complete power and authority, leaving Pakistan far behind in its shadows. This will place Pakistan in a much weaker position against India in most of its quarrels and will make Pakistan more vulnerable to western criticism over terrorism and other charges. Just like how China pulled back its support for Pakistan when the country was being placed on the watch list by Financial Action Task Force (FATF) and didn't take any hard-line actions against India when it violated Pakistan's border (Jahangir & Anis, 2016).

Energy Corridor

The pinnacle of the Pakistan-China relationship is the energy corridor that is being made by China through Pakistan, which will give Pakistan a huge boost in its economy, but the improving relations with India will prove otherwise. Given China and India have become close economic partners, China will surely shift its energy corridor plan from Pakistan to India, which is a much more stable country in terms of local security and political stability. India will also provide China with much more labor and land and better-developed infrastructure that will severely cut the cost for China. And up to this date, some CPEC projects have been dropped by the Pakistani government due to its inability of repaying the debts it will cause a huge setback for the Chinese investors already and provided a much more suitable area for development, the investors will surely divert their attention to the new paradise compared to the terrorism inflicted Pakistan, causing Pakistan to lose a huge source of economic boom and economic reversibility (Abid & Ashfaq, 2015).

Military Co-operation

The military cooperation between the two countries has been the most prominent aspect of their friendship. From equipment like tanks and fighter jets, China has aided Pakistan even in the testing of its nuclear program. But all this did not help China much and all of the research was profitable to Pakistan. But becoming close allies with India will bring China hand in hand with the 4th biggest military in the world that is already raising its military strength on its own. This will not just allow India and China to start developing more deadly weapons but will also allow both countries to start joint ventures and conduct joint researches, which will not favor just one country but both the countries.

China-India Economic Relations: A Solution to Kashmir Dispute?

The Kashmir conflict, which started in 1947 with the partition of British India, almost led to a nuclear war between India and Pakistan, but even after more than 70 years of struggle, the issue remains unresolved because of the lack of real efforts made by the rest of the world in resolving the Kashmir issue and because of the attitude of India itself. As we are aware that the economic relations between China and India are improving, so the question is whether China can use its economic influence to solve the Kashmir issue, whether it is even interested in solving this conflict, and whether the economic relation and cooperation between India and China could assist Pakistan in solving its conflicts with India, particularly Kashmir issue? Some of the events which show that China is interested in solving the Kashmir issue are as follows:

- a. In May 2017, an article was published by the Global Times, an official media channel of China, according to which China now has an absolute enthusiasm by saying 'vested interest' in resolving the Kashmir conflict between India and Pakistan by playing the role of an arbitrator. China can play a much stronger and bigger role in resolving the conflicts through arbitration because of its massive economic influence, which it can use to deal with other nations of the region. This was the first time that an official media channel of China indicated the interest of Beijing in resolving the Kashmir conflict ("Beijing has 'vested interest' in mediating between Pakistan, India," 2017).
- b. China's intention of resolving the Kashmir conflict is also evident from the fact that it is Foreign Ministry spokesperson, Geng Shuang, who told the media that a constructive role

would be played by China to resolve the Kashmir issue through negotiations and consultations. When talking to The Globe Post, a prominent teacher of the International Relations Department at IUST located in south Kashmir, Dr. Shazana Andrabi told that China might not directly play a role in resolving Kashmir. However, by using its economic influence, China can play a positive role in resolving the Kashmir conflict (Geelani, 2018).

- c. In June 2017, China, by using its economic influence, invited both India and Pakistan to join the Shanghai Cooperation Organization i.e., SCO and various other economic forums through which they tried to reduce the tensions between two countries using an economic forum. China also used its economic relationship with both countries to reduce the tensions between India and Pakistan by inviting the military persons of these two countries to “Peace Mission 2018”, the counter-terror exercises.
- d. In December 2016, China said that it would invite other countries to be a part of the China-Pakistan Economic Corridor (CPEC) after consulting Pakistan and after a week, Commander, Southern Command, invited India to join CPEC and asked for co-operation between neighboring countries (Chen, Joseph, & Tariq, 2018).

So these were some of the events which have shown that China has used its economic influence to reduce the tensions between India and Pakistan, but another question that arises is that why is China so keen to reduce the tensions between these two countries? Some of its reasons are as follow:

- a. India not only has a conflict with Pakistan over Kashmir but there is also a conflict between India and China regarding the border. Today's situation is such that Jammu Kashmir and Ladakh are forcefully occupied by India, which both Pakistan and China have rejected; Aksai Chin is in the occupation of China, which has been rejected by India whereas Azad Kashmir, Hunza, Nagar, and Gilgit Baltistan are occupied by Pakistan which has been rejected by India. Therefore, all three countries are having border disputes in Kashmir thus it resolving the Kashmir issue is in the interest of all China, Pakistan, and India to reduce the border tensions because China wants to become rather is an economic power of the world; therefore wants peace with all its neighbors and leave the border tensions aside (Cohen, 2002).
- b. China has invested billions of dollars in China Pakistan Economic Corridor (CPEC), which also passes through the places which India claims; therefore, by establishing peace between India and Pakistan, China wants to ensure that CPEC isn't disturbed by Indo-Pak tensions and ensure that CPEC is a success (Manish & Kaushik, 2019).
- c. Due to the trade threats from the US to China, the tensions between them are increasing; therefore, China is looking for a new big market for its products, which is India, the third-largest economy in terms of purchasing power parity, just in China's neighborhood. At the same time, China wants to make CPEC and One Belt, One Road project a success, therefore; China wants to ease the tensions between India and Pakistan to gain economic advantage.

Therefore, from this, we can conclude that China wants to establish peace and resolve the conflicts between India and Pakistan because this is also in its economic interest since mutual trust will be improved by cooperation and peace in the region. In the past, China has shown its capability to resolve border tensions through negotiations peacefully. The evidence of this is the China-Pakistan Boundary agreement signed on 2nd March 1963, according to which Pakistan gave up its claim of Aksai Chin territory, whereas China gave Hunza to Pakistan. This shows that China has the potential to resolve such matters peacefully.

China can develop its relations with India through economic co-operation only because it also has border tensions with India. Once its economic relations are developed, it can also try to solve other disputes through negotiations to bring peace and stability in the region to promote trade and improve the economic condition of the region. Therefore, Pakistan and China could use the improvement in China-India economic relations to solve their disputes with India.

Discussion

Ameliorating relations between India and China will hurt Pakistan diplomatically, leaving Pakistan isolated in the region. In terms of the Economy and energy corridor, improving the rapport of India and China will force China to move energy and economic corridor to new ally in the region, ultimately affecting Pakistan China economic corridor. Not only this, close military relations will make the two countries the undisputed authority in the world with the world's 3rd and 4th biggest army

close allies. This will put Pakistan in a tough spot because Pakistan had always looked towards China whenever relations between Pakistan and India got worse. Having such close relations with India will put China in a tough spot, which will be reluctant to provide open support to Pakistan just how it did recently when India invaded Pakistan's airspace and war became imminent.

Conclusion

However, close relations between the countries have ample benefits for the region, it will also pave the way for a much bigger threat of war and bloodshed because it is human nature to become the strongest and show the world your strength and not only this, but this venture will also put Pakistan in a difficult spot with one its closest ally now allies with its rivals. This will put Pakistan in a weak position not only globally but also regionally and will cause its economy to fall rapidly, eventually submitting to India and other bigger powers for support and will also eventually put Pakistan at the mercy of India.

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