

GEOPOLITICAL FACTORS AFFECTING TRADE BETWEEN SOUTH-ASIAN COUNTRIES AND INDIA-CHINA

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ABSTRACT

India and China have shown keen interest in expanding their influences in terms of trade in the whole world through heavy investments and an increase in exports. Economically, India has had its fair share of struggle since Independence, for instance, the balance of payment crisis in 1991, which would have put the country in a debt trap had the acting government, not 'liberalised' the Indian economy. Similarly, China too had to struggle after its independence in 1949, that too under the harsh and incompetent regime of Mao Tsung. However given the oddest circumstances both these nations modernised themselves in a short period. A lot of credit for their success should be attributed to their foreign policy, especially towards South Asia. This paper would majorly focus on the bilateral relations of India and China with Bangladesh and Pakistan and how geopolitics has had an impact on it.

Keywords: Bangladesh, Bilateral relations, China, Diplomatic relations, Economics, Geopolitics, India, Investments, Pakistan, Strategic posts, Trade

INTRODUCTION

Throughout history, geopolitical factors have influenced the geographical orientation of countries in the direction of either land or sea power. According to political scientists like Alfred Thayer, empires that expanded overseas were very powerful as these empires had access to strategic coastlines, advantageous geographical positions, new and large amounts of human capital and natural resources, and, most important, trade routes to other areas (*Cmde V Venugopal Menon, 2021*). A powerful country wishing for prosperity and economic advancements would want to have access to unlimited resources and other regions abundant in resources might attract these countries. There are 2 ways in which this country can have access

to them, which are either annexing other countries and serving its 'mother country' (the invading power) or trading in the "mother country's" favourable terms. This is somewhat like what happened when the British invaded India and then it served its 'mother country' by providing resources.

Trade doesn't happen in empty space, there is an action and there is a reaction amongst countries and they are joined through land or sea, thus establishing geopolitical relations.

China is the world's largest manufacturing economy, the world's fastest-growing consumer market, and the second-largest importer of goods (*Cyclical Risks and Structural Imperatives, 2019*). Amongst the world's economies, China is the world's 2nd largest which is worth \$18 trillion as of 2021; it commenced its economic reforms in 1978 under the premiership of Deng Xiopeng, consequently, China came out to be the fastest-growing economy in the world, with growth rates averaging 10% annually in the past 30 years. (*NewsOnAir, 2021; Sumathi Bala, 2021*). Meanwhile, India is the world's 6th largest economy with a GDP of over \$3 trillion. The 21st century has seen an annual average GDP growth of 6% to 7%, and from 2013 to 2018, India was the world's fastest-growing major economy, overtaking China (*BBC News, 2019*).

India and China have a strategic circle in the geopolitics of Asia. To begin with, India is one of the most dominant developing countries in world politics, while on the other hand, China is a formidable communist regime in the existing hierarchy of major powers. Both countries maintain an arsenal of nuclear weapons and China being a member of the UNSC, makes India a de facto nuclear power. Both these countries share mutual borders, parts of which are disputed areas, large enough to be called territorial disputes in the past. In the 1950s India and China made a historical decision of establishing diplomatic relations and from the 1980s both the countries started working towards resolving the border disputes. However, these nations are allying with their neighbours to have a sphere of influence in South Asia. China maintains a close relationship with Pakistan and has significant influence in Sri Lanka while India fearing an increase in Chinese takeover in terms of its influence has maintained close ties with Bangladesh (The Hindu BusinessLine, 2017)

METHODOLOGY

Research Aim

The objective of this study is to find out how geopolitics affect trade between the South Asian countries and Asia's two big giants, India and China. The paper focuses on 2 countries Pakistan and Bangladesh and factors in geopolitics as a reason for the trade disparity shown to India or

China.

Data Collection

All the data used in this paper is secondary data and has been collected from Organisation of Economic Co-operation and Development (OECD) (www.oecd.org, accessed 2021), research papers, reports, and newspaper editorials

Data Analysis

This research is an analysis of bilateral relations between South Asian countries. I am inclined towards replacing trade with bilateral relations since a lot about trade is not talked about. The countries that have been chosen are India, China, Bangladesh, and Pakistan. . The relations between India-Bangladesh, India-Pakistan, and China-Bangladesh, China-Pakistan are analyzed under the optics of trade, investment, and geopolitics.

DISCUSSION

China has made significant efforts to establish another trade route based on the Silk Road known as the 'Belt and Road Initiative,' which aims to build a single large market through both international and domestic markets, resulting in an innovative pattern of capital inflows, talent pools, and technology databases. This project has resulted in a significant increase in Indian diplomacy in Bangladesh in recent times. China has been working hard to persuade Asian nations to accept this plan as a guarantee of economic cooperation with China and, as a result, prosperity for the local population.

CHINA AND BANGLADESH

China and Bangladesh first conceived the idea of a deep seaport in Sonadia in 2006, an island on the South-Eastern coast of Bangladesh. Bangladesh was eager to build a port in Sonadia since the existing ports at Chittagong and Mongla are crowded and have a shallow draft which doesn't allow ships of higher tonnage cannot dock at these ports. Currently, these ships dock off at Sri Lanka and Singapore and are brought through smaller vessels which results in delays and additional costs. A new deep-sea port was expected to cut these costs and save time; this port would also pave a regional trans-shipment hub for landlocked areas like China's Yunnan province and India's northeastern states. China agreed to finance this project and both the leaders of China and Bangladesh were supposed to sign a formal agreement during former's visit to Beijing in July 2014 but that didn't happen. (*The Economic Times, 2022*).

The stories of Sri Lanka's Hambantota, which now is official Chinese territory in light of Colombo's inability to pay back the loans it had earlier been issued by Beijing were an important factor in Dhaka's decision to resist pressure for a handover of Sonadia to China.

With India's relations with Bangladesh showing an upward trajectory, New Delhi has shown interest in developing a new deep-sea port, Payra. This is a big leap forward by India into establishing strategic ties between the 2 countries. The Sheikh Hasina Government has repeatedly stated that China's plans to build a deep-sea port in Sonadia have been scrapped even though there was no formal termination, however, the government formally revoked the Sonadia Deep Sea Port Authority Act 2012 and announced the cancellation of the project (*The Times of India, 2016*).

For India, the Sonadia Port, like Hambantota and Gwadar Port (a Pakistani coasts near India), were supposed to be part of China's "string of pearls" strategy to encircle India in its coastal region (*Prabhas K Dutta, 2017*). The Sonadia Port would also have brought China closer to the Andaman and Nicobar Islands. The official reason given for the project's cancellation is that building the port would harm the environment. There have been fears that if Bangladesh is unable to repay the loans, China will put pressure on it to hand over the strategic port.

Bangladesh has adopted a new infrastructure development strategy, which involves drawing financial support from many countries to avoid over-dependence over a single nation (*Mint, 2021*). Thus, even though Bangladesh is an important part of China's Belt and Road Initiative, it is simultaneously partnering itself with more nations like India, the USA, and Japan to limit Chinese influence. The Payra Sea Port, which has brought a large number of investments from Japan and private Indian companies, is much closer to the Indian Coastlines (*Bhattacharjee, R, 2016*).

CHINA AND PAKISTAN

Both countries have enjoyed success in terms of trade and foreign investment. Data shows that China is Pakistan's largest and the most important trade partner, and India is down to a rank of 51st (*OECD.Org - OECD, 2019*). So what factors affect this data apart from the necessity of the goods. When the People's Republic of China was established in 1950, Pakistan and the former shared a relationship tinged with suspicion but not hostility, however nearly a decade after China's establishment, the two countries forged friendly bilateral relations despite the vicissitudes of international politics. A major strength of Sino-Pakistan bilateral ties is the absence of any conflicting interests or pending concerns. There is no conceivable goal that either

country might do something in their interest at the expense of the other's cost, resulting in a relationship free of suspicion, which does not apply to China's relations with India or with its neighbors. (*Bennett-Jones, 2021*)

The majority of China's economic assistance are in the form of loans and projects. Several high-profile projects have been established since the early 1970s, including the Karakoram Highway (KKH), the Heavy Mechanical Complex (HMC) and Heavy Forge and Foundry (HFF) in Taxila, the Machine Tool Plant in Karachi, the Gwadar port, nuclear power plants at Chashma, and several similar projects in the defence production sector, including the Heavy Rebuild Factory, which later became Heavy Industries Taxila (HIT). These projects have symbolic value and contribute significantly to the country's economy and defence. (*Fazhur-ur-Rahman, 2011*). In order to maximise the benefits of China's economic cooperation, it is critical to investigate China's approach to economic assistance, as well as the experience of some of these projects. According to estimates, total Chinese investments up to 2007 were around 20 billion dollars; another figure mentioned in 2010 was around 25 billion dollars, 8 of which included projects to be pursued under available Chinese loans, such as the Mangla Dam and the renovation of the Karakoram Highway. Pakistan and China have co-sponsored the Pakistan-China Economic and Trade Development Programme, which includes specific projects and goals. Economic and Trade Development Program with specific projects and goals. When then-Prime Minister Wen Jiabao visited Pakistan in December 2010, an investment worth about \$ 14 billion was announced in the second phase of the Pakistan China Economic and Trade Development Program from 2012 to 2016. In addition, as part of the Pakistani government's incentives, there were early partnerships with the private sector, especially in telecommunications, energy and metals sectors. Pakistan's Department of Commerce estimates that cumulative private sector investment by 2010 has reached a whopping \$ 1.37 billion. (*Fazhur-ur-Rahman, 2011*).

Loan terms extended to Pakistan to finance various projects or purchases are generally favourable. Usually, Pakistan elicits close friendship and ask the Chinese to match the International Monetary Fund (IMF) interest rates, ignoring the fact that for financing Pakistani projects, the Chinese packages mix interest-free, soft, and commercial loans that are long term and have far smoother terms than those offered by other international sources, which normally do business on fixed market terms. While World Bank and IMF loans are a different story, projects and purchases made in Europe or the United States frequently require upfront payments or onerous commercial financing.

Despite current technological limitations in comparison to the West, China remains Pakistan's most reliable strategic partner for defence and sensitive technologies in the long term. When

considering options for an affordable but adequate defence strategy to meet their future needs, joint research and development with China appear to be the most logical path. Given China's rapid development, its technological shortcomings should be only temporary. In general, this area is at the heart of the strategic dimensions of the two countries relations.

China's top priority region is the Asia-Pacific seaboard, which has historical interests as well as major potentially dangerous problems, particularly Taiwan and the Paracel and Spratly Islands. Despite sporadic commentaries in western and Indian academic journals and media on the subject, these issues, and the possibility of rivalry for Pacific region resources escalating into a confrontation or conflict, particularly with the United States, remain speculative. Pakistan shares a border with China's sensitive Xinjiang province. This factor, in addition to being a strength because it provides a common border, imposes responsibility and requires Pakistan to be cautious and extend the cooperation that China anticipates in order to discourage and neutralise separatist tendencies in the area.

The Chinese built Gwadar Port was in response to a specific request from former President Pervez Musharraf to Premier Zhu Zongzi. The aim was to develop Gwadar as a commercial port, with an eye toward possible Central Asian trade passing through the port. Much of this is pure conjecture. As mentioned earlier, the Pakistani government also allowed China to invest in a new deep-sea port. Much has been written in Pakistani media about the Gwadar port's potential and the possibility of Chinese goods finding an export route via the Karakoram Highway and Pakistani ports. Some Indian and Western analysts saw Gwadar as a potential naval base for China to use to protect its interests in the region (Zahid Ali Khan, 2012).

INDIA AND BANGLADESH

India too has laid hands on expanding its diplomacy in another major South-Asian country which is Bangladesh. India has not shared good relations with Pakistan due to the ongoing Kashmir conflict and this is also reflecting on the value of the trade between the countries. On the other hand, Bangladesh and India have enhanced their bilateral ties through rapid investment.

What is critical for Bangladesh is an urgent need to delve into the minds of policymakers in Delhi. With a legacy of local politics based on political parties' attitudes toward Delhi, it is natural for observers to study pre-election trends in Bangladesh toward a neighbour with which it shares borders on the north, east, and west. Historically, and largely as a result of India's role in helping the Bengali liberation struggle from Pakistan in 1971, the ruling Awami League has maintained close ties with and has been correctly portrayed as friendly toward India. The two

premiers of India and Bangladesh have gone out of the their way to reaffirm their two countries' long-standing friendship.

Bangladesh offers labour at one-third the cost of labour in India, making the former an appealing investment location. Bangladesh has also shifted its foreign policy in favour of India by offering tax breaks, which encourages more Indian investment. Bangladesh's largest development partner in India and development is a key pillar of bilateral cooperation. In 2010, India began institutional assistance to Bangladesh through a Line of Credit (LoC) for various developmental needs. Since then, India has offered nearly \$7.36 billion (across three LoCs) to carry out projects, primarily in the transportation and communication sectors (**The Sentinel, 2021**). Bangladesh has been an area of interest for investment for many countries, companies, and corporations due to a number of unique advantages. Although Indian investment in Bangladesh remains modest, there is growing interest in both the Indian and Bangladeshi sides in accelerating bilateral investments. Indian investment in Bangladesh was also notable during Narendra Modi's tenure. In this regard, during Modi's visit to Bangladesh, two Indian companies, Reliance Power Limited and Adani Power Limited, signed an MoU with the Bangladesh government to invest US\$ 5.5 billion to generate 4,600 MW of electricity. According to the MoU, Reliance Power Limited will invest US\$ 3 billion to generate a 3,000 MW power plant based on imported liquefied natural gas, while Adani Power Limited will invest US\$ 2.5 billion to build a 1,600 MW coal-fired power plant (The Economic Times, June 2015). Notably, it will be the largest investment in Bangladesh.

INDIA AND PAKISTAN

Since their establishment in 1947, both countries have suffered 4 wars against each other. The roots of this enmity go back to the 1947 partition; under the partition plan provided by the Indian Independence Act, Kashmir had a choice to either join India or Pakistan. The King of Kashmir decided to join India but Pakistan claimed it to be their land. The UN ordered a referendum which never took place. Presently both nations claim Kashmir as their territory but only control parts of it which internationally are recognized as Indian-Administered-Kashmir and Pakistan-Administered-Kashmir.

The Indian-Administered-Kashmir had been given a special status under Article 370 a clause in the constitution which allowed the region its own constitution, a separate flag, and independence over all matters except foreign affairs and defence. However, the Modi government revoked this status when they won the election in 2019. This downgraded diplomatic ties with Pakistan and all trade were suspended (**BBC, 2019**).

Following the 1971 war, Pakistan and India made slow progress toward normalising relations. Indira Gandhi, Prime Minister of India, and Zulfikar Ali Bhutto, President of Pakistan, met in the Indian hill station of Shimla in July 1972. They signed the Shimla Agreement, which stated that India would return all Pakistani personnel (over 90,000) and captured territory in the west and that the two countries would "settle their differences through bilateral negotiations." Diplomatic and commercial relations were also restored in 1976 (*Financial Express, 2021*).

Atal Bihari Vajpayee's visit in Lahore in February 1999 by a bus became a talking point in the whole of Pakistan. The 'bus diplomacy' undoubtedly established a milestone in the history of India-Pakistan ties, even as it positioned India in the critical eyes of its neighbour as a tolerant nation wishing peace. Vajpayee, seen as someone who would not close all channels of communication with its neighbour, went to great lengths to ensure that he visited Minar-e-Pakistan, a symbolic icon of Pakistan's creation, as part of this 'bus diplomacy,' despite stiff opposition from Pakistani security. (**Basu N, 2019**). The Premiers of both nations sat down to find bilateral resolution of problems between them. The commandments of the Shimla Agreement were reiterated in the 'Lahore Declaration. The Lahore Declaration was a major breakthrough in overcoming the historically strained bilateral relations between the two nations in the aftermath of the publicly performed atomic tests carried out by both nations in May 1998 (**Dawn Wire Services, 1999**). These talks led to the Pakistan cricket team touring India for a two-match test series in January and February of 1999. However, by May of that year, it was clear that Vajpayee's "bus diplomacy" had not led to peace; Pakistani soldiers crossed the LoC and neglected the Geneva Protocol and further escalated the situation which led to the Kargil War.

Vajpayee returned to Pakistan in 2004 to attend the SAARC summit, which was very successful in bringing the two countries together after a long time apart. To strengthen the newly formed friendship, the Indian government approved a full-fledged Indian team cricket tour of Pakistan, which will include three tests and five one-day internationals. In addition, thousands of visas were issued to Indians to watch the match. Prior to the India-Pakistan World Cup match in 2015, Prime Minister Narendra Modi was said to be engaging in cricket diplomacy when he invited Pakistan Prime Minister Nawaz Sharif to watch the match with him. Cricket diplomacy has thus long been used to bring the people of India and Pakistan closer together through sport, and for nearly 70 years, the scheduling (or cancellation) of matches has served as a barometer of political relations. The last tour was in 2013 and since then the relations have soured (**The Diplomat, 2017**).

CONCLUSION

It can be interpreted through this paper that geopolitics does affect trade and bilateral relations between countries. China is busy building a ‘string of pearl’ around India; they already have taken control of Pakistan’s Gwadar (West of India) and Sri Lanka’s Hambantota (South of India) deep-sea port through debt-trap diplomacy and they were almost on the verge of cutting a deal with Bangladesh to build another strategic port in Sonadia (East of India), but could not. This has shown that Bangladesh has commendable bilateral relations with India as not only did they reject Chinese plans but also built a port backed up by Indian investments. On the other hand, India and Pakistan have shared sour relations since their partition; there were steps taken towards peace by Atal Vihari Vajpayee and his Pakistani counterpart, Pervez Mushraff and more recently by Manmohan Singh and Narendra Modi, however recent surges in Kashmir has affected trade and investment. China and Pakistan have built a friendly alliance which as mentioned has led to huge amounts of Chinese investments in Pakistan. This too has affected trade and can be proven through data; Pakistan imports \$14.7billion and exports \$2.06 billion to China while the trade with India is valued at a mere \$1.95 billion. (OECD.Org - OECD, 2019).

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