

CHINESE ECONOMIC GROWTH AND ITS FALLOUT ON SOUTH ASIAN COUNTRIES

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INTRODUCTION

“Let China Sleep, for when the Dragon awakes, she will shake the world.”
–Napoleon Bonaparte¹

China is now the most irresistible force in the world economy. Its economy is growing at a faster rate. Presently, Chinese economy is the second largest economy in the world after USA². History of Chinese economic growth is of more than half a century old which started from agricultural development and grew through industrialization under the centralized control. From Mao Zedong to Deng Xiaoping, the Chinese economy went under several reforms turning the country from starvation to a country of economically rising power. According to World Bank³, China has sustained an average of 8% Gross Domestic Product (GDP) growth annually, achieving one of the highest rates to 11.90% in 2009.

China is known as one of the largest recipients of Foreign Direct Investment (FDI) and a global manufacturing hub. Though due to the world financial crisis FDI in China fell slightly low but according to statistics of China’s Ministry of Commerce (MOFCOM), in 2009, financial total FDI was US\$ 92.4 billion and expected to be US\$ 100 billion in 2010⁴. China’s FDI outflows took off to US\$ 52.2 billion in 2009 as a result of the government’s adoption and promotion of a “go global” policy aimed at establishing the country’s investors as international players. Besides Africa, Europe and Latin America, China’s outward FDI now focuses on the South Asian neighbours in the quest of its dominance in Indian Ocean to ensure Sea Lines of Communication (SLOC) and also in search of energy to maintain its steady GDP growth.

Like China, India is the largest economically growing country in the South Asia with average GDP 6-7%⁵. As India has entered the global economic and

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1. Ferylbob, Napoleon and his view on China, available at: <http://wanderingchina.blogspot.com/search/label/Napoleon>, accessed on August 11, 2010.
 2. Cover Story, ‘The Irresistible Force that is CHINA’, Dhaka Courier, December 04, 2009, pp. 11-14.
 3. China’s GDP Growth Rate, available at: <http://www.investorvillage.com/smbd.asp?mb=4245&mn=522085&pt=msg&mid=8825289>, accessed on August 02, 2010.
 4. Cheng, Shaoming, ‘The Pattern and Magnitude of China’s Outward FDI in Asia’, Morgantown, USA, 2003.
 5. India: the economy, available at: http://news.bbc.co.uk/2/hi/south_asia/55427.stm, accessed on July 31, 2010.

energy market, it has encountered an important competitor, China, a rising military power with a vast appetite for oil and other raw materials. Resources available in the South Asian countries like Bangladesh, Myanmar, Sri Lanka, Nepal etc drawn China's attention. Therefore, much of her recent military, diplomatic and economic policy has been aimed at exploiting a maritime geography that would enable it to flank Asia's major sea-lanes and trading routes. Both China and India are now working on acquiring other sources of energy and their efforts are focused on oil, natural gas and nuclear energy. Therefore, they will compete to invest in other countries for their energy requirement. It is therefore worthwhile to study Chinese economic growth which should also cover Chinese political, economic and security relations with the South Asian countries and fallout of Chinese economic growth on South Asian countries.

PATTERN OF CHINESE ECONOMIC GROWTH

Growth before Modernization

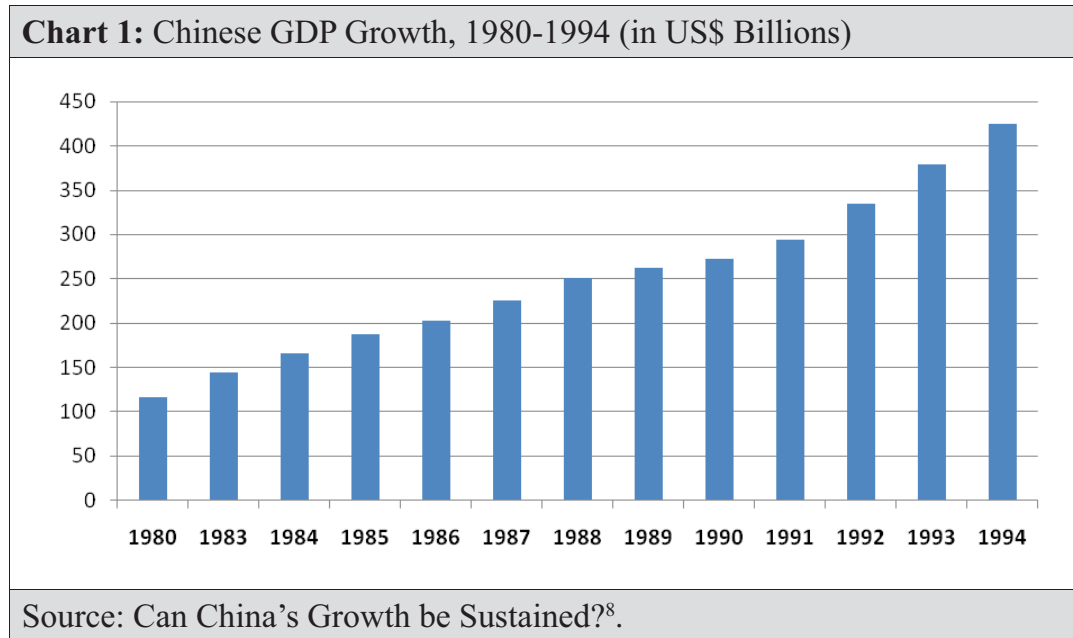
Since 1949, Peoples Republic of China (PRC) mainly relied on agriculture where land and peasants were brought under agricultural collectives. This phase of collectivization brought widespread famine in the country in 1956 but allowed rising of capital for industrialization. From 1958 to 1963, China went under further round of collectivization with emphasis on light industry and construction projects leaving productive land left unplanted. This brought country wide famine, droughts and floods killing estimated 2 million people but Chinese economy initially grew and by 1958, agricultural production almost doubled from 1949, coal production quadrupled and steel production grew five times.

Growth since Modernizations

After the death of Mao in 1976, Deng Xiaoping's pragmatic Four Modernizations programme comprised of agriculture, industry, national defence and science and technology expanded rural income and incentives, encouraging experiments in enterprise autonomy, reducing central planning and establishing FDI in Mainland China. Thus, Deng's reforms shifted China's development strategy to emphasize on light industry and export-led growth⁶. After Deng, Jiang Zemin maintained political stability, kept things on track in the difficult years of the late 1990s and healthy economic development. Under Jiang's leadership, Mainland China has sustained an average of 8% GDP growth annually, achieving one of the world's highest rates of per capita economic growth, and became the world's fastest growing major

6. Hodder, Rupert, 'The Creation of Wealth in China', London, Belhaven Press, 1993, p.71.

economy⁷. China's GDP growth from 1980 to 1994 is shown at Chart 1.



Economic Development (2002-Present)

The China's economy grew at an average rate of 10% per year during the period 1990-2004; the highest growth rate in the world. After Jiang Zemin, both President Hu Jintao and Premier Wen Jiabao launched Economic Stimulus Plan to specifically deal with global financial crisis of 2008-2009. By the end of 2009, it appeared that the Chinese economy was showing signs of recovery⁹.

GDP Growth

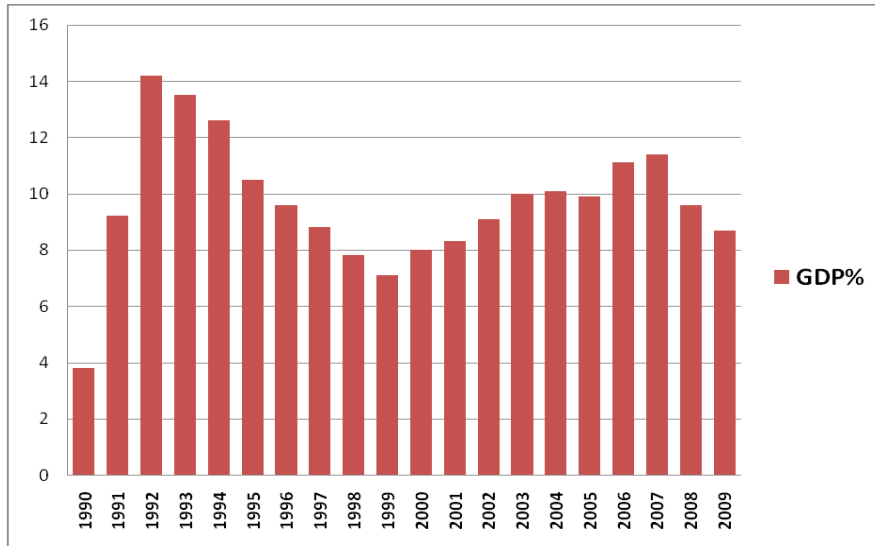
China's economy started growing since 1978. Between 1983 and 2008 double-digit real GDP growth was around 10% per year in real terms. In 2008, the global economic crisis began to reduce China's growth rate. Remarkably, GDP in China again expanded at an annual rate of 10.70 % in the first quarter of 2010. Chart 2 shows Chinese GDP growth from 1990-2009.

7. People's Republic of China, available at: http://en.wikipedia.org/wiki/People's_Republic_of_China, accessed on May 03, 2010.

8. Available at: <http://www.ccer.edu.cn/download/7214-2.pdf>, accessed on July 20, 2010.

9. Economy of the People's Republic of China, available at: http://en.wikipedia.org/wiki/Economy_of_the_People's_Republic_of_China, accessed on March 23, 2010.

Chart 2: Chinese GDP Growth 1990-2009 (Real Annual Growth Rate %)

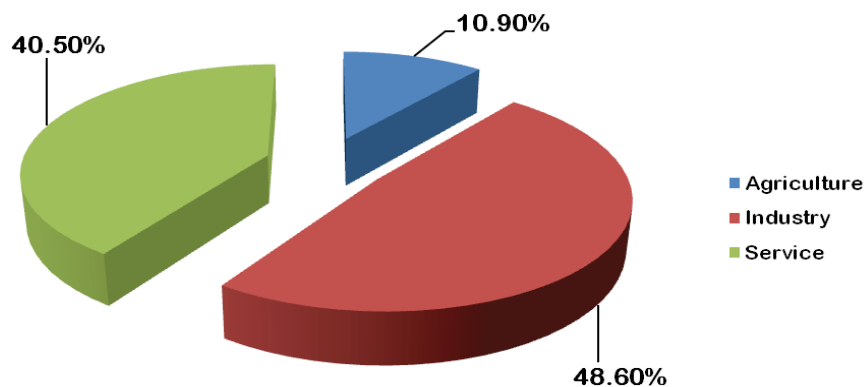


Source: Yao, Shujie and Dan Luo, Chinese Economy 2009: Leading the World Economy out of Crisis¹⁰.

Size and Structure of the Economy

Major contributors to the Chinese economy are agriculture, industry, and services. Chart 3 shows major contributing sectors to the Chinese economy.

Chart 3: China's GDP – Composition by Sector



Source: China GDP-Composition by Sector¹¹.

10. Available at: <http://www.nottingham.ac.uk/cpi/documents/briefings/briefing-59-sy-econ-review-2009.pdf>, accessed on August 10, 2010.

11. Available at: http://www.indexmundi.com/china/gdp_composition_by_sector.html, accessed on May 29, 2010.

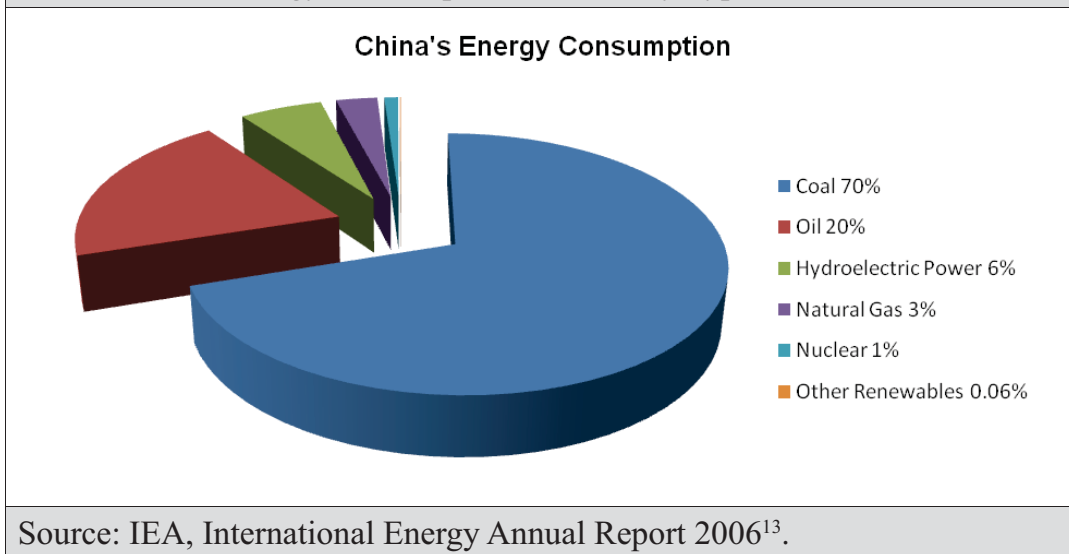
Manufacturing Sector

Chinese manufacturing sector is the heart and soul of its economic strength. Many factors like cheap labour, good quality infrastructure and the huge size of the domestic market have made the country one of the most attractive place in the world to invest. China's manufacturing sector now ranks the 4th in the world after the US, Japan and Germany.

Energy Consumption

China's 70% energy requirement is fulfilled domestically from coal and 20% oil is imported from Africa, Middle East and Central Asian States (CAS)¹². As a rapidly growing country, China's energy needs are likely to balloon over the coming decades. China's recent diplomatic, military and investment relations are significant with the countries like Myanmar, Sri Lanka, Bangladesh and CAS in the quest of energy search. Chart 4 and 5 shows total energy consumption in China by type and for robust growth energy demand respectively.

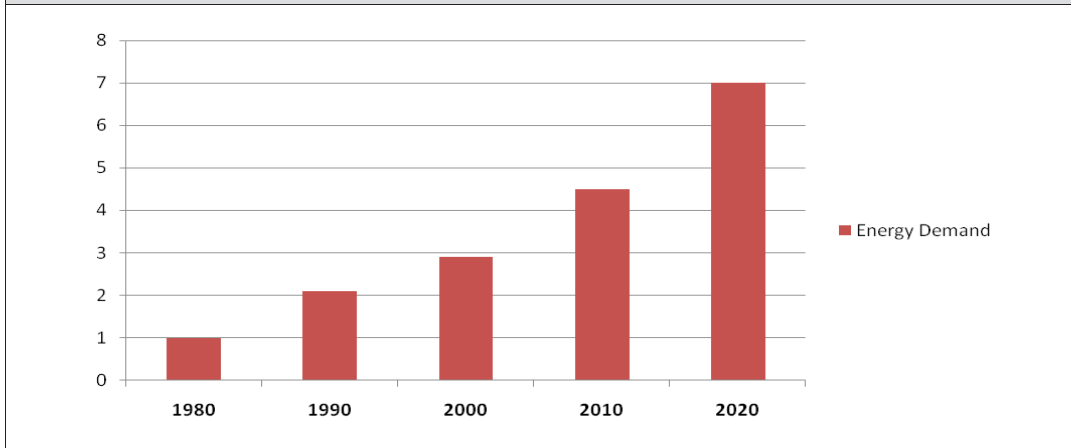
Chart 4: Total Energy Consumption in China by Type



12. Sautman, Barry, Trade, Investment, Power and China in Africa, available at: <http://www.zcommunications.org/trade-investment-power-and-the-china-in-africa-discourse-by-barry-sautman>, accessed on April 02, 2010.

13. Available at: http://www.ieawind.org/AnnualReports_PDF/2006%20AR%20IEA%20Wind/2006%20IEAWind%20AR.indd.pdf, accessed on July 20, 2010.

Chart 5: China's Robust Growth in Energy Demand (In %)

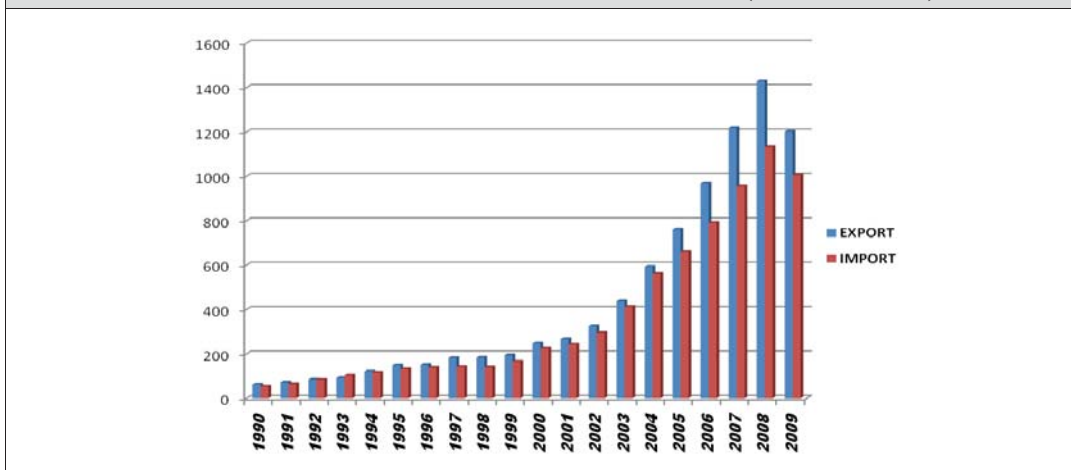


Source: China Output Tops Forecast as 'Robust' Demand Aids World Growth¹⁴.

China's International Trade

International trade has been used to bring in new equipment and technologies and to meet scarcities in the domestic economy since China has sought to modernize its economy. Exports have been used as a means of producing foreign earnings to pay for the imports. Chart 6 shows Chinese export import trade with the world.

Chart 6: Chinese International Trade with the World (US\$ Billions)



Source: Yao, Shujie and Dan Luo, Chinese Economy 2009: Leading the World Economy out of Crisis¹⁵.

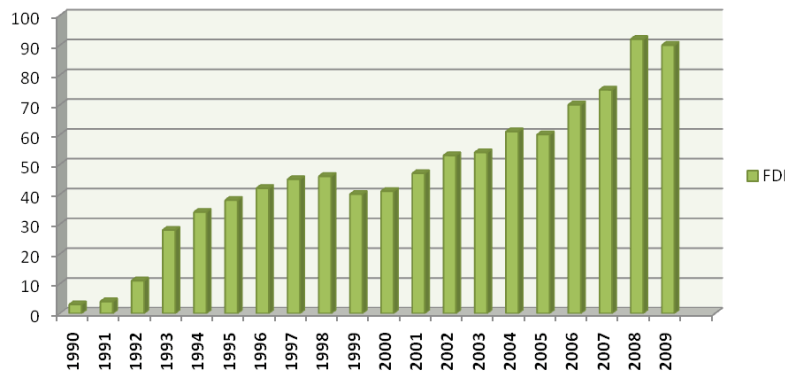
14. Available at: <http://www.businessweek.com/news/2010-09-11/china-output-tops-forecast-as-robust-demand-aids-world-growth.html>, accessed on June 17, 2010.

15. Available at: <http://www.nottingham.ac.uk/cpi/documents/briefings/briefing-59-sy-econ-review-2009.pdf>, accessed on August 21, 2010.

Chinese Inflow and outflow of FDI

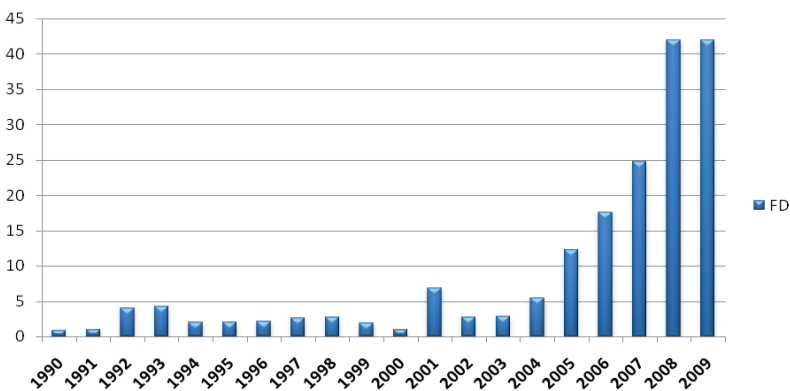
Since 1980, FDI inflows grew steadily but remained relatively low. Accession to the WTO in 2002 promoted China to top position as an FDI destination. By 2009, contracted FDI was more than double utilized FDI. China's outward FDI also has grown tremendously, and was driven by China's increasing needs to secure overseas energy and raw material resources. Chinese FDI in South Asia is very negligible compared to other trading partners. Chinese FDI inflows and outflows are shown at Chart 7 and 8.

Chart 7: Chinese Inflow of FDI 1990-2009 (US\$ Billions)



Source: Yao, Shujie and Dan Luo, Chinese Economy 2009: Leading the World Economy out of Crisis¹⁶.

Chart 8: Chinese Outflow of FDI 1990-2009 (US\$ Billions)



Source: Yao, Shujie and Dan Luo, Chinese Economy 2009: Leading the World Economy out of Crisis¹⁷.

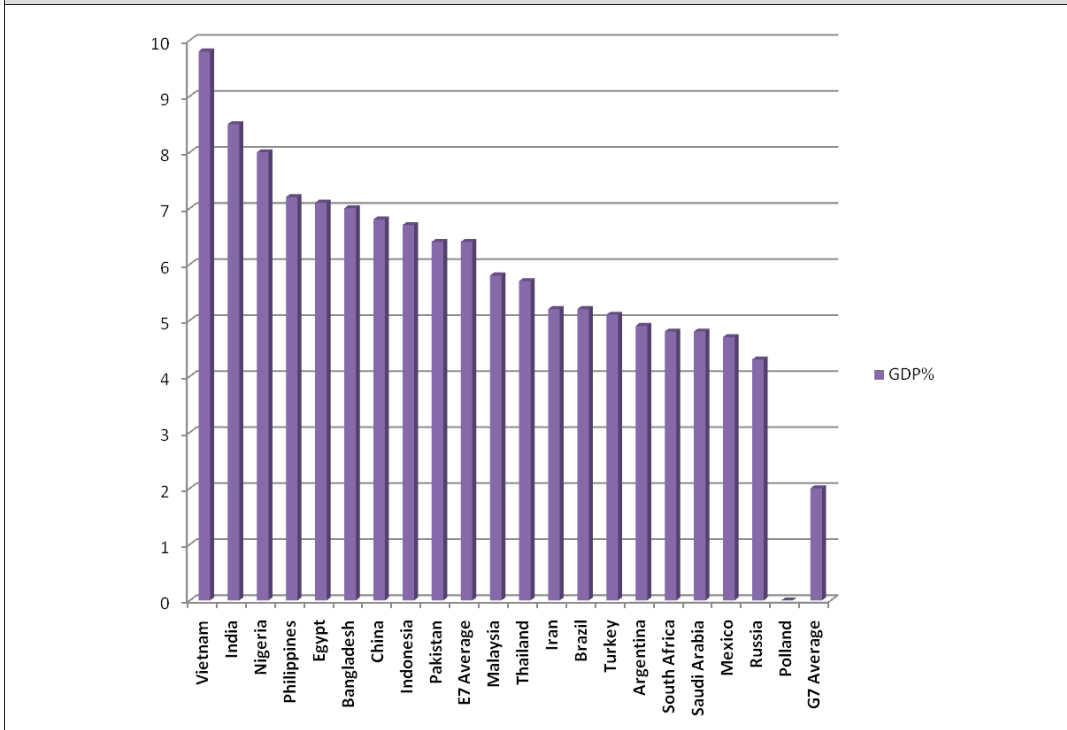
16. Available at: <http://www.nottingham.ac.uk/cpi/documents/briefings/briefing-59-sy-econ-review-2009.pdf>, accessed on July 20, 2010.

17. Ibid.

Projection of Future Economic Growth

In the next ten years, China’s economy is likely to increase at a rate 7% - 8%. By 2020, should price index remains the same as of today, GDP will amount to US\$ 38 trillion¹⁸. By 2050, China’s economy will be just 20 % larger than that of the USA¹⁹. Chart 9 shows projected real growth rate for Chinese economy by 2050.

Chart 9: Projected Growth Rate for Emerging Economies 2007-2050 (US\$)



Source: India to grow to almost 90% of US economy by 2050, China to overtake US economy by 2025, Vietnam may be fastest growing of emerging economies²⁰.

Problems of Chinese Economic Growth

Since 1978, Chinese economy has maintained a steady growth. Corruption and central government’s failure to control affairs of local government level, dependency on outside world for hydrocarbons to continue industrial growth, growing income inequality, inefficient banking sector, undervaluation of yuan,

18. Lee, Joseph, Prospect of China’s Future Economy Growth. , available at: http://www.china-window.com/china_economy/china_economy_guide/prospect-of-chinas-future.shtml, accessed on May 23, 2010.

19. Dadush, Uri, The G20 in 2050, available at: <http://www.carnegieendowment.org/publications/index.cfm?fa=view&id=24195>, accessed on March 12, 2010.

20. Available at: <http://www.pwc.com/in/en/press-releases/india-grow.jhtml>, accessed on July 20, 2010.

overheating economy, shortage of power, and nationwide unemployment are the major hindrance to such growth. Her large industries started shifting in other countries where cheap labours available. Outside buyers' attention have also been drawn by those countries (like Bangladesh, Sri Lanka, India etc) where industrial products like garments/apparels, agricultural products and textile goods are less costly than China. Therefore, China will have to invest to the neighbouring countries in search of energy to continue her economic growth and if necessary will compete with other economically rising countries.

CHINA – SOUTH ASIA POLITICAL AND SECURITY RELATIONS

Sino-India Relations

Since the early 1950s, the relation between India and China was characterized by border disputes that resulted in military conflict²¹. From 1988, both the countries successfully attempted to reignite diplomatic ties the result of which is China's declaration of support to India's bid for a United Nations Security Council (UNSC) seat²². India's nuclear deal with US in late 2008, Chinese access to maritime facilities through Myanmar, Bangladesh, Sri Lanka, Pakistan and Maldives with the ambition of Blue Water Navy in Indian Ocean weakened their relations. Recent visit of Chinese Premier to India, Chinese-Indian relations has gained a new momentum of strategic and cooperative partnership for peace and prosperity of South Asia. However, since India and China are rapidly growing economies in the world with vast appetite for oil and other raw materials, China is likely to become a principal competitor to India in global quest of energy and both these countries will continue investing in other countries of South Asia.

Sino-Pakistan Relations

Pakistan maintained "all weather relationship" with China for the last six decades²³. Pakistan is China's strongest link to the Islamic world and therefore China is not going to abandon Pakistan even if her relation with India improves. China-Pakistan military-strategic relations are improving further in the wake of Indo-US nuclear deal. Chinese Premier Wen's visit to Pakistan is of great significance in advancing the all-weather strategic partnership of cooperation between China and Pakistan²⁴. China's development of the Gwadar Port with

21. Sino-Indian Relations, available at: http://en.wikipedia.org/wiki/Sino-Indian_relations, accessed on June 20, 2010.

22. Hunter, Alan and John Sexton, *Contemporary China*, London, Macmillan Press Limited, 1999.

23. People's Republic of China-Pakistan Relations, available at: http://en.wikipedia.org/wiki/People's_Republic_of_China_%E2%80%93_Pakistan_relations, accessed on August 16, 2010.

24. Consolidating China-Pakistan Friendship, Pragmatic Cooperation, available at: <http://www.thenews.com.pk/TodaysPrintDetail.aspx?ID=22432&Cat=2>, accessed on December 27, 2010.

the facility to berth destroyers and other naval vessels²⁵ and recent signing of 35 different arrangements deal in Pakistan for investment of US\$ 25-35 billion indicates such a trend²⁶.

Sino–Bangladesh Relations

The bilateral relations between China and Bangladesh have been one of the priorities to all the successive governments. Bangladesh's location in between South Asia and Southeast Asia is highly important to China, especially important for her land locked south western provinces. Since 1975, China has assisted Bangladesh in infrastructure, power including hydropower and coal mining, industrial plants, telecommunications, flood control, disaster prevention, river training, irrigation and water resources utilization. Bangladesh also sought Chinese assistance to build the deep seaport and direct road link with China.²⁷

Sino – Sri Lanka Relations

Sri Lanka's relations with PRC remained strong over a half-century²⁸. Development of the Hambantota Multi-purpose Project and recent arms support and diplomatic heft at the UN to keep the western-led move in imposing truce of the Security Council agenda while defeating LTTE revolutionary group, are the examples of the strong relations between these two countries. While Indian policy response to her old friend Sri Lanka seems to be ad hoc and not strategic with the immediate and long term interests where as China's policy caters for its interests of today, tomorrow and the day after.

Sino – Myanmar Relations

Myanmar's location on the tri-junction of South Asia, Southeast Asia and China is potentially important for China to achieve its strategic presence in the Indian Ocean and trading outlet for its landlocked inland south-western parts²⁹. Therefore, since 1988, China supports Myanmar's current military regime through the full spectrum of political, strategic, and economic ties disregarding the external pressures. By the year 2050, China is expected to achieve world-class Blue Water Navy status and Myanmar would be crucial for China's

25. Chinese Mulling US\$ 13 billion in Gwadar, available at: <http://eproperty.pk/news/2008/05/09/chinese-mulling-13b-investment-in-gwadar>, accessed on March 21, 2010.

26. Jiabao's Visit to India and Pakistan, available at: <http://www.thenews.com.pk/TodaysPrintDetail.aspx?ID=22432&Cat=2>, accessed on December 27, 2010.

27. <http://www.weeklyblitz.net/796/Sino-bangladesh-relations>,

28. RATATHOTA.COM, Sino-Sri Lanka Relations: Durable Partnership, Mutual Benefit, available at: <http://digitallife.lk/oopadoopainfo/wordpress/?p=1299>, accessed on 05 July 2010.

29. Burma-People's Republic of China Relations, available at: http://en.wikipedia.org/wiki/Burma_%E2%80%93_People's_Republic_of_China_relations, accessed on March 10, 2010.

multi-directional access to both Pacific and Indian Oceans³⁰. Thus China's strategic gains in cultivating relations with Myanmar have long-term security implications.

Sino – Nepal Relations

Nepal established diplomatic relations with the China and formally recognized Tibet as a part of China in 1956³¹. Geographical location and current political changes make Nepal very important for China. But due to the excessive influence of India, the presence of China in Nepali politics remained dimmer.

Sino-Bhutan Relations

Bhutan and PRC do not maintain official diplomatic relations. China shares a contiguous border of 470 km with Bhutan. In 1988, China and Bhutan signed a bilateral agreement for maintaining peace on the border and peaceful coexistence.

Sino-Maldives Relations

In 1972, China and Maldives established their diplomatic relations³². In the year 2005, when Britain was desperate for her presence in the Indian Ocean region and wanted UK-sponsored, opposition-backed coup in Maldives, China clinched a deal and established a naval base in Marao Islands of Maldives in the Indian Ocean and deployed her nuclear-powered submarine as part of her encirclement of India and neutralized its offensive power projection in the Indian Ocean.

FALLOUT OF CHINESE ECONOMIC GROWTH ON SOUTH ASIAN COUNTRIES

Sino-India Trade and Investment Relations

China as India's second largest trading partner, imports raw materials from India and exports machinery and electrical equipments to India³³. In 2009, trade volume between China and India was US\$ 36.6 billion and would cross the

30. Geng, Lixin, Sino-Myanmar Relations: Analysis and Prospect, available at: <http://www.international-relations.com/CM7-2WB/Sino-Myanmar.htm>, accessed on July 20, 2010.

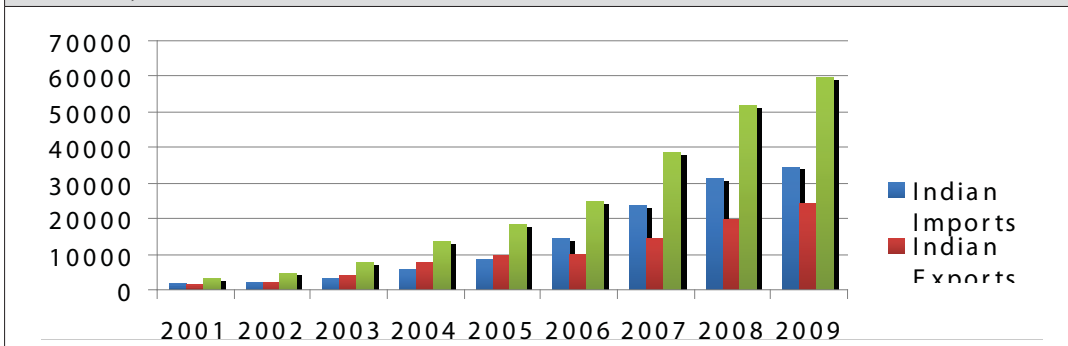
31. People's Republic of China-Nepal Relations, available at: http://en.wikipedia.org/wiki/People's_Republic_of_China_%E2%80%93_Nepal_relations, accessed on April 05, 2010.

32. Foreign Relations of Maldives, available at: http://en.wikipedia.org/wiki/Foreign_relations_of_the_Maldives, accessed on May 15, 2010.

33. Trade Relations between India-China, available at: http://blog.made-from-india.com/Trade_relations_between_India_and_China-22.html, accessed on May 30, 2010.

target of US\$ 60 billion by 2010 and China will overtake the United States to become India's largest trading partner. During Chinese Premier's recent visit to India, they signed about 50 business deals worth US\$ 16 billion and both set a new bilateral trade target of US\$ 150 billion by 2015 to expand cooperation in investment, high technology and energy³⁴. Trade volume of China and India is shown at Chart 10.

Chart 10: Pattern of China-India Trade Volume 2001-2008 (value in US\$ Millions)



Source: The 'Dragon' and the 'Elephant' and Global Imbalances³⁵.

Sino-Pakistan Trade and Investment Relations

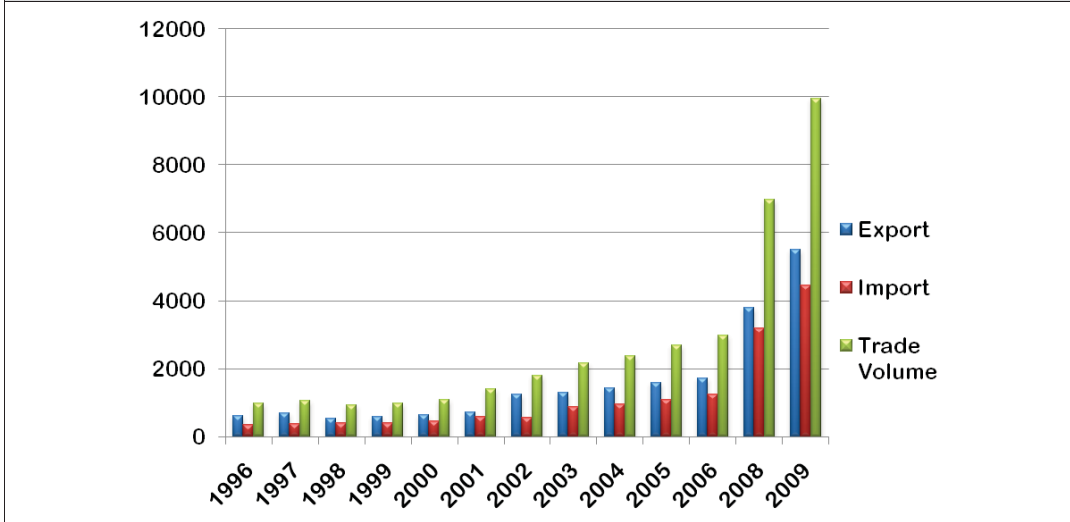
Security and strategic interests will always dominate Sino-Pakistan trade and investment relations. China is now Pakistan's largest trading partner in Asia³⁶. Trade volume between China and Pakistan rose to US\$ 6.98 billion in 2008 which was only US\$ 964 million in 1996 and reached approximately US\$ 9.95 billion in 2009. China-Pakistan trade volume is shown at Chart 11.

34. Enhancing Political Trust, Cooperation with India, Available at: <http://english.peopledaily.com.cn/90001/90776/90883/7236054.html>, accessed on December 27, 2010.

35. Available at: http://www.ibei.org/admin/uploads/publicacions/42/ang/WP_IBEI_29.pdf, accessed on July 20, 2010.

36. China-Pakistan Relations, available at: http://www.chinadaily.com.cn/china/2006-11/14/content_732562.htm, accessed on March 13, 2010.

Chart 11: Pattern of China-Pakistan Trade Volume 1996-2009 (Value in US\$ Millions)



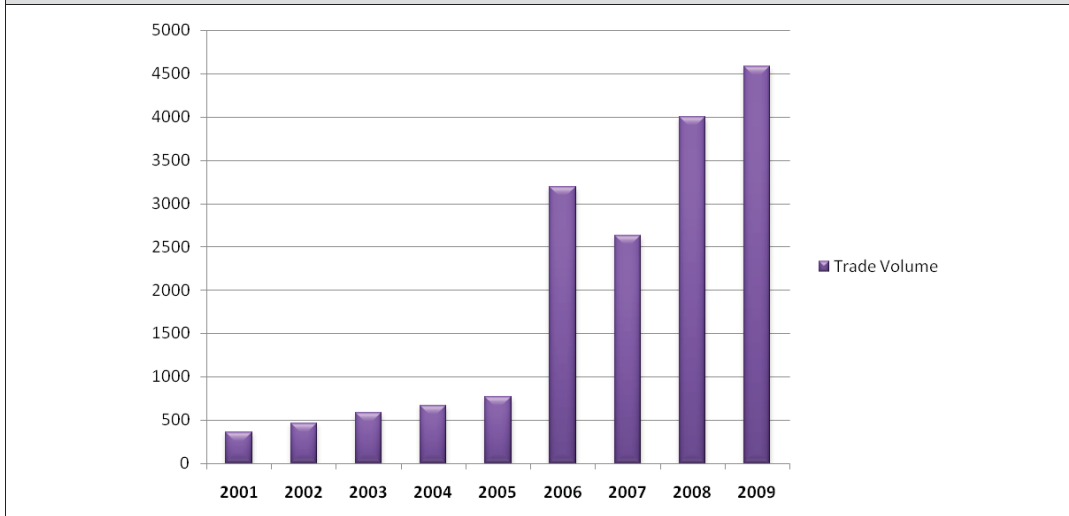
Source: China-Pakistan Trade Relations³⁷.

Sino–Bangladesh Trade and Investment Relations

China and Bangladesh both have made a great progress in trade and investment relations and China is now one of the largest trading partners of Bangladesh. From January to October 2009, the total volume of bilateral trade reached US\$ 5.4 billion and is expected to exceed US\$ 6 billion in 2010³⁸. However, there exists a trade imbalance, for which China has announced a major aid of US\$ 700 million to encourage investment. Bilateral trade volume between China and Bangladesh is at Chart 12.

37. Available at: <http://www.pitad.gov.pk>, accessed on August 02, 2010.

38. China-Bangladesh Relationship, available at: http://newstoday.com.bd/index.php?option=details&news_id=15764&date=2010-12-26, accessed on December 27, 2010.

Chart 12: Pattern of China-Bangladesh Trade Volume 2001-2009 (US\$ Millions)

Source: Dhaka, Beijing to Establish Closer Comprehensive Partnership³⁹.

FDI proposal, endorsement of Kunming-Chittagong road linking project, investment to construct Chittagong Deep Sea Port for her supplies to reach western land locked states and oil and gas exploration both on and off shore are the Chinese efforts to take Sino-Bangladesh economic relations to a greater height⁴⁰. Bangladesh and Myanmar also signed a deal in July 2007 to link up with China in a tri-nation network⁴¹. Such link would open up immense opportunities to expand Sino-Bangladesh and Myanmar-Bangladesh trade volume to a large proportion⁴². Bangladesh agreed to allow India to use Chittagong Port and Ashugonj River Port for reaching her commodities to northeastern provinces. If all these agreements are implemented, Bangladesh would become a business hub for all the Asian countries in this sub-continent.

Sino – Sri Lanka Trade and Investment Relations

The economy of Sri Lanka is growing at a faster rate after the end of internal conflict. Trade between China and Sri Lanka has doubled over the last 5 years from US\$ 660 million to US\$ 1.13 billion. Trade volume between China and

39. Available at: <http://www.defence.pk/forums/bangladesh-defence/51201-bangladesh-china-summit-cooperation-significance.html>, accessed on July 17, 2010.

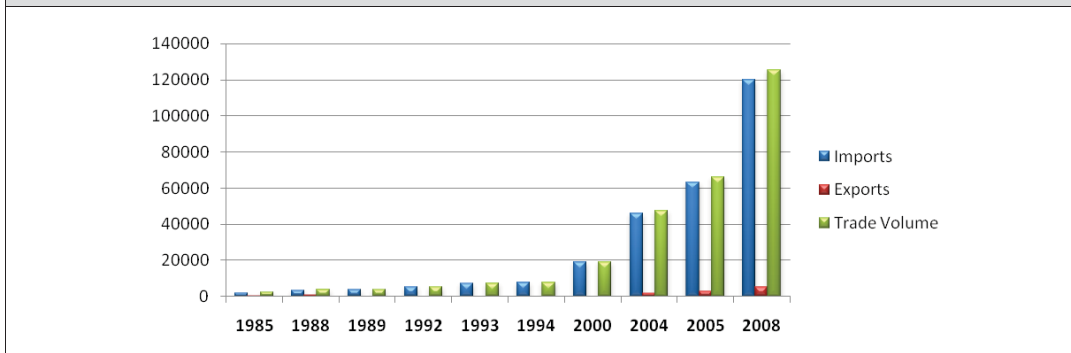
40. Kunming Statement, available at: <http://www.bipss.org.bd/index.php/page/bipss-ydrc-jointly-affirm-the-kunming-statement-1>, accessed on August 25, 2010.

41. Myanmar Proposes Road Network with China, Bangladesh, available at: <http://in.reuters.com/article/idINIndia-39680820090517>, accessed on September 12, 2010.

42. Discussion with Ashfaqur Rahman, Former Ambassador, Chairman, Centre for Foreign Affairs Studies, at Gulshan, Dhaka, July 20, 2010.

Sri Lanka increased significantly in the recent years. Both China and India are increasingly competing for lucrative and strategic investments in Sri Lanka after she has defeated LTTE, ending of internal conflict in 2009. China-Sri Lanka trade volume is shown at Chart 13.

Chart 13: Pattern of China-Sri Lanka Trade Volume 1985-2008 (Rs. in Millions)

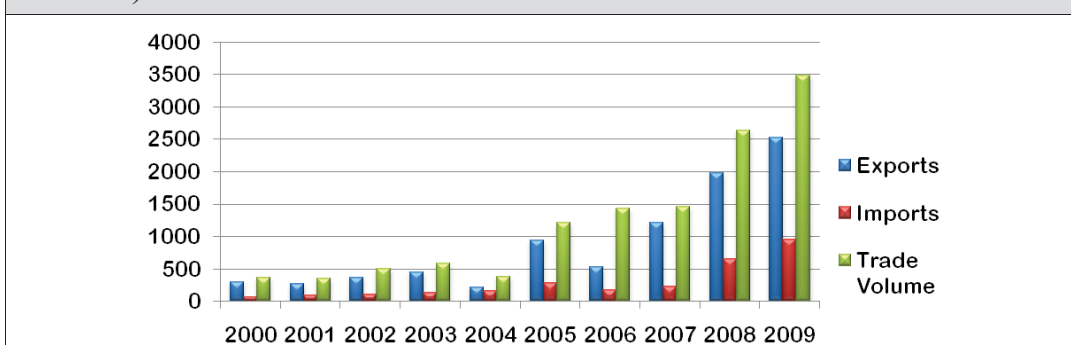


Source: China and Sri Lanka Bilateral Relations⁴³.

Sino – Myanmar Trade and Investment Relations

Since 1988, economic relations between China and Myanmar has accelerated and increased eight fold by 2009/2010. Trade volume between China and Myanmar is shown at Chart 14.

Chart 14: Pattern of China-Myanmar Trade Volume 2000-2009 (Value in US\$ Millions)



Source: Yhome, K, India-Myanmar Relations (1998-2009)⁴⁴.

43. China-Sri Lanka Relations, available at: <http://chinaconsulate.khb.ru/eng/wjb/zzjg/yzs/gjlb/2782/>, accessed on May 05, 2010.

44. Available at: http://www.observerindia.com/cms/export/orfonline/modules/occasionalpaper/attachments/ind-myn-OP_1236338801296.pdf, accessed on July 20, 2010.

China at the moment is the largest foreign investor in Myanmar with loans, labour contracts, and emergency aid. China's Petroleum and Chemical Corporation signed a good number of deals with Myanmar Oil and Gas Companies for the exploration of gas and oil from inland and offshore fields of Myanmar including oil pipeline from the western coast of Myanmar to Kunming. India also made great efforts to secure Myanmar's gas and reached an agreement with Myanmar to purchase the gas with more favourable conditions based on 'take or pay'. India further signed an agreement with Myanmar to develop Sittwe Port and connect it to the Indian state of Mizoram⁴⁵. Both China and India are in competition for the acquisition of energy resources from Myanmar.

Sino – Nepal Trade and Investment Relations

Trade relation between Nepal and China though enhanced but for its major economic activities, Nepal would remain dependent on Indian market. With the changed political scenario in Nepal both India and China are in competition to invest and exert their influence. China was the third largest investment generation for Nepal during the year 2008/2009⁴⁶ and recent India's investment topped the list among the foreign investments in Nepal.

Sino-Bhutan Trade and Investment Relations

Border trade volume between China and Bhutan is insignificant⁴⁷. Importance of Bhutan is negligible to China because of its very landlocked geographical location.

Sino-Maldives Trade and Investment Relations

China and Maldives started direct economic and technological cooperation since 1981⁴⁸. Since 2002, China is one of the most favoured trading partners for businessmen in the Maldives. Chinese signing of a 25-year lease agreement with Maldives for use of Marao Islands created jobs for the locals who are dependent on tourism and fishery.

45. Kaladan.com, Kaladan Project, available at: <http://kaladan.com/kaladan-project/>, accessed on May 31, 2010.

46. Ibid.

47. Bhutan-China Relations, available at: <http://countrystudies.us/bhutan/51.htm>, accessed on March 06, 2010.

48. Hilath, China-Maldives Relation, available at: <http://www.hilath.com/?p=1740>, accessed on April 02, 2010.

RECOMMENDATIONS FOR SOUTH ASIAN COUNTRIES AND OPTIONS FOR BANGLADESH

Recommendations for South Asian Countries

China's economic, diplomatic and security relations with South Asian countries must remain robust and stable if India views those ties as non-threatening⁴⁹. In such a situation, South Asian countries must derive benefit from Chinese economic fallout.

Instead of seeing China's influence over the Indian Ocean as containment to India and to obviate clash of interest, both China and India should ensure complementary policy rather than conflicting one's and derive mutual benefits through opening and building interstate railway and road network and allow South Asian countries to reap benefit from their economic growth.

The present growing friendly relations between China and India and with other South Asian countries must hold good for ensuring regional peace and economic prosperity taking US onboard so that both the partners are assured of the energy supplies through Indian Ocean.

Maintaining an all-weather friendship with China, Pakistan should not be concerned if both China and India are normalizing their ties. Rather, taking China into confidence, both these countries must solve their long standing Kashmir issue for the peace and stability of South Asia.

Sri Lanka should consolidate her traditional friendship with both India and China, strengthen mutually beneficial economic cooperation and promote all round cooperative partnership.

As Nepal has immense importance for China and India, Nepal should formulate appropriate foreign policy and maintain mutual trust and co-existence with both characterized by courage and devoid of any appeasement. Similar kind of policy should be adopted by Bhutan and Maldives with China and India.

Investment of both India and China in Nepal for power generation and effort of transferring gas or oil through pipeline from Myanmar should also benefit other South Asian neighbours. SAARC forum may be best utilized to venture such trade, political and military cooperation among most of the South Asian countries. If necessary, China may be included in the SAARC as 9th member state instead of having only observer status.

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Viable Options for Bangladesh

Sino-Bangladesh relation should not be seen as a zero sum game with respect to India. Effort should be made to bring two way investment and mutual cooperation for better economic progress of Bangladesh.

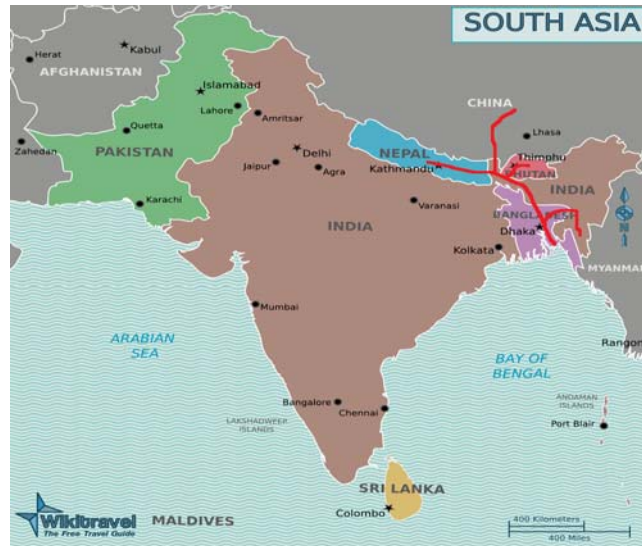
The trade deficit between Bangladesh and China may be minimized by Chinese investment. For this, it is imperative that the road connectivity to China through Myanmar or India must be done as a priority.

Geographically, Bangladesh can be a business hub in the relation of South Asia and South East Asia. Chinese proposal of constructing Deep Sea Port in the Bay of Bengal and interstate connectivity on tri-nation network by linking Chittagong Port to Yangon, Kunming and Indian northeastern land locked provinces must be considered without wasting time⁵⁰.

Bangladesh must take benefit of the recent treaty signed by India with Myanmar for connectivity from Sittwe Sea Port to Mizoram state of India having a link from Chittagong so that the trade and transit benefits from India to South East Asia and between India and China should not only go to Myanmar.

Bangladesh can arrange infrastructural development and service quality at Chittagong Port which can be a gateway for both east and west. Bangladesh should also initiate a positive approach to have pipelines going directly from Chittagong Port to southwest provinces of China including Nepal, Bhutan and northeast provinces of India.

50. Rahamatullah, M, 'Regional Transport Connectivity: Opportunities for Bangladesh', *biiss journal*, Dhaka, Bangladesh Institute of International Strategic Studies, January 2010.



Map showing Oil Pipelines that connects Bangladesh, Nepal, Bhutan, India and China.

In 21st Century, economic interest gets priority over ideology. If India or China can compete in investment and benefit from Myanmar, Bangladesh should also strive to strengthen her relation and economic ties with Myanmar and reap economic benefit from its closest neighbour as well as reduce military threat.

For Bangladesh's security, neither China nor India is a threat. Bangladesh should maintain a concrete defence policy with both these countries and at the same time modernize her Armed Forces as smart, professional and modern one with the assistance of China by getting military hardware, training etc.

Bangladesh has potentials and received offer from China for the exploration of oil and gas both in and off shore. Bangladesh must take immediate measures to resolve her maritime boundaries with both India and Myanmar to take advantage of such offer. China can be a key factor in solving these issues and start exploring natural resources from within Bangladesh maritime zone.

China has developed software industries jointly with India. Software development can be another important sector for Bangladesh, since intellectual capabilities of Bangladeshis' and Indians are the same as they are from the same stock.

Bangladesh's power generation is far short of its requirement. Nepal has the potentials of generating 80,000 MW of electricity where both India and China are investing. Bangladesh must endeavour for multilateral approach to have reasonable share of power being generated in Nepal for running her industrial sector smoothly.

CONCLUSION

Since the founding of PRC in 1949, during Mao period, China went under several reforms like Social Revolution, Great Leap Forward, and Cultural Revolution. None of these reforms could bring significant success in the economy of China. In 1976, after the death of Mao, Deng Xiaoping gradually moved with a pragmatic Four Modernizations programme which brought a dramatic change in the economy. Later, his Reforms and Opening Up succeeded further in doubling GDP and ensuring food and clothing for people. By 2009, China became second largest economy in the world.

Keeping her expansion of economic market, security and energy quest in mind, in the recent years, PRC is attempting to enhance her political economic and security relations with most of the South Asian countries. China's access to maritime facilities through Myanmar, Bangladesh, Sri Lanka, Pakistan and Maldives are part of its quest to establish her regional power profile; and as a means to challenge and contain India in its own South Asian backyard. Both India and China are presently in a new great game under their respective spheres of influence in the Indian Ocean region to have their complementary and competitive enhanced political and security relations.

Since Chinese economy is growing at a very fast rate, her quest to benefit from South Asian countries would compel her for massive investment in this region. India being another economically rising country together with other small states including Myanmar can maintain a very peaceful coexistence benefiting them from China's huge economic fallout. Bangladesh being one of the least developed countries should derive maximum benefit allowing both these countries to invest in developing infrastructure for interstate connectivity, ports and exploration of minerals. Bangladesh should pursue multilateral diplomatic and trade relation with both China and India and make her a business hub for both South East and South Asia.

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Brigadier General Feroz completed his mandatory courses from different training institutions of Bangladesh Army. He did Mid-Career Course in Pakistan and Artillery Command Course in China. He completed Gunnery Staff Course from School of Artillery. He is a graduate of DSCSC and NDC Bangladesh. He obtained MA (English), MSC (Technical Engineering) and MDS from National University. He did MBA from University of New Castle (USA) Dhaka Campus and a recipient of Chancellors award.

He served as Grade 2 Staff of UNPROFOR (Bosnia Herzegovina) and Contingent Member of UNAMSIL (Sierra Leon). He attended a seminar on South East Asian Security (SEAS 2008) in Hawaii, USA, China and India. Brigadier General Feroz visited many countries across the world.

He is father of two daughters, both are studying Engineering. Mrs Noor Jahan Feroz served in two different educational institutions of Bangladesh Army. His hobbies are gardening and playing golf.