



Geneva Institute of International Relations

THE INDIA-CHINA TRADE PARTNERSHIP: STRIKING A BALANCE BETWEEN GROWTH AND TENSION

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India and **China**, two of the world's largest economies, share a complex trade relationship characterized by significant economic interdependence, geopolitical challenges, and mutual aspirations for regional and global influence. While trade between the two nations has grown exponentially over the decades, it is also marred by structural imbalances and political tensions. This article explores the historical evolution, current dynamics, and future prospects of **India-China** trade relations.

A. Historical Evolution

The roots of **India-China** trade can be traced back to ancient times when the Silk Road¹ facilitated the exchange of goods, culture, and ideas. Modern trade relations gained momentum after **China's** economic liberalization in the late 20th century and India's reforms in the 1990s. By 2000, **China** had become a significant trading partner for **India**, with bilateral trade rising from \$2.9 billion in 2000 to \$125 billion by 2023².

B. Current Trade Landscape

- i. **Bilateral Trade Volume:** Even though in the financial year of 2023-24, **India-China** trade reached \$125 billion, making **China India's** largest trading partner. However, the trade relationship is heavily skewed, with **India** running a trade deficit of approximately \$85 billion³.
- ii. **Key Imports:** **India** imports electronic components, active pharmaceutical ingredients (**APIs**), industrial machinery, and solar equipment from **China**. Over 70% of **APIs** and 80% of solar panels in **India** are sourced from **China**⁴.
- iii. **Key Exports:** **India's** exports to **China** include iron ore, cotton, and certain agricultural products. These are primarily raw materials, highlighting India's reliance on low-value exports compared to **China's** high-value manufactured goods.

¹ Britannica, T. Editors of Encyclopaedia. "Silk Road." Encyclopedia Britannica, November 27, 2024. <https://www.britannica.com/topic/Silk-Road-trade-route>.

² Yuan, J., "Sino-Indian Economic Ties since 1988: Progress, Problems and Prospects for Future Development". Journal of Current Chinese Affairs, December 1, 2016, <https://doi.org/10.1177/186810261604500302>

³ Department of Commerce, Ministry of Commerce and Industry, India; "Trade and Economic Relations"; July, 2024,

https://www.eoibeijing.gov.in/eoibeijing_pages/Mjg#:~:text=The%20trade%20deficit%20in%202023%20came%20at,0n%20year%20to%20reach%20USD%2016.23%20billion.

⁴ Ed Crooks and Chris Seiple; Wood Maclenzie: "China to hold over 80% of global solar manufacturing capacity from 2023-26"; November 7, 2023; <https://www.woodmac.com/press-releases/china-dominance-on-global-solar-supply-chain/>

C. Geopolitical Challenges

Despite robust trade, the relationship is fraught with geopolitical tensions. The 2020 **Galwan Valley** clash⁵, resulting in the first fatalities along the border in decades, marked a significant escalation in hostilities. Ongoing disputes along the Line of Actual Control (LAC), including recent standoffs in the **Depsang Plains** and **Demchok**, have further strained ties. While recent agreements have sought to restore mutual patrolling rights, broader territorial issues remain unresolved. These tensions have prompted **India** to adopt protectionist measures, such as banning over 300 Chinese apps, imposing restrictions on Chinese investments in critical sectors like telecommunications and technology, and increasing scrutiny of Chinese-origin imports. Additionally, **China's** aggressive infrastructure development along the LAC, including dual-use villages and strategic transport networks, has heightened **India's** security concerns. Concurrently, **India's** bolstering of border infrastructure underscores its focus on maintaining readiness and sovereignty. These geopolitical challenges highlight the fragile and contentious nature of the bilateral relationship despite strong economic interdependence.

D. Economic Imbalances

i. Trade Deficit

India's trade deficit with **China** has been a significant issue for many years, primarily due to an imbalance in trade flows between the two nations. A trade deficit occurs when a country's imports exceed its exports. In **India's** case, the deficit with **China** has been a longstanding concern, often leading to economic and strategic discussions.⁶

ii. Key Factors Contributing to the Trade Deficit:

Imbalanced Trade: **India** exports relatively few goods to **China**, with the primary exports being raw materials such as ores, cotton, and chemicals. On the other hand, **India** imports a wide range of goods from **China**, including machinery, electronics, chemicals, pharmaceuticals, and consumer goods. This creates a lopsided trade relationship, where India's imports far exceed its exports

- **Limited Access to Chinese Markets:** Indian products face significant barriers in accessing Chinese markets, such as stringent regulations, tariffs, and other

⁵Sameer P. Lalwani, Ph.D, Daniel Markey, Ph.D and Vikram J. Singh; United States Institute of Peace: Another Clash on the India-China Border Underscores Risks of Militarization; December, 20, 2022; <https://www.usip.org/publications/2022/12/another-clash-india-china-border-underscores-risks-militarization>

⁶Pravakar Sahoo and Ashwani Bishno; Economics and Political Weekly: Rising India-China Trade Defecit; September, 9, 2023; <https://www.epw.in/journal/2023/36/discussion/rising-india%E2%80%93china-trade-deficit.html>

non-tariff barriers, market competition from other countries, currency exchange, and payment barriers. These barriers make it difficult for Indian companies to increase their exports to **China**, despite the country's large population and growing consumer base.

- **State-Controlled Economy and Protectionism:**

China's state-controlled economy can also be a challenge for Indian companies.⁷ Many sectors in **China**, especially those critical to national security (such as technology, telecommunications, and defense), are heavily regulated or restricted. Even in less sensitive sectors, the Chinese government has policies that prioritize domestic firms, making it difficult for foreign competitors, including Indian companies, to penetrate the market. Furthermore, Chinese businesses, particularly in high-tech sectors, often benefit from substantial government subsidies. In contrast, Indian firms lack access to similar support and struggle to compete on price in these sectors. There is also a strong preference for domestic brands in **China**, which can make it difficult for foreign products to gain traction in the market.

India, to reduce the Trade Deficit, has resorted to various economic policies, including Anti-Dumping Duties, to address the influx of cheap Chinese goods perceived as sold below market value (a practice known as dumping). **India** has also launched the "*Make in India*" initiative to boost domestic manufacturing by encouraging foreign and local investments in manufacturing sectors, with the intent of reducing dependency on imports, creating jobs, and promoting exports, thereby reducing the trade deficit. **India** has further been diversifying its Trade Partners in **Southeast Asia, the European Union, the United States of America**, and other emerging markets to reduce reliance on **China**. By broadening its trading base, **India** hopes to reduce its dependency on Chinese imports.

Regional Comprehensive Economic Partnership (RCEP): ⁸While **India** decided to opt out of the **RCEP**, a free trade agreement between **ASEAN** nations, **China, Japan, South Korea, Australia, and New Zealand**, it continues to explore bilateral and multilateral trade deals to better balance trade with **China**.

⁷Chow, Daniel CK. "How China promotes its state-owned enterprises at the expense of multinational companies in China and other countries."; *N CJ Int'l L*. 41 (2015): 455.; https://scholar.google.com/scholar?hl=en&as_sdt=0%2C5&q=China%27s+state-controlled+economy+can+also+be+a+challenge+for+Indian+companies&btnG=#d=gs_cit&t=1734695900993&u=%2Fscholar%3Fq%3Dinfo%3Av0kHEJiRupEJ%3Ascholar.google.com%2F%26output%3Dcite%26scirp%3D7%26hl%3Den

⁸ The ASEAN Secretariat; Brief on Regional Comprehensive Economic Partnership; December, 2024; <https://asean.org/our-communities/economic-community/integration-with-global-economy/regional-comprehensive-economic-partnership-rcep/>, <https://asean.org/our-communities/economic-community/integration-with-global-economy/regional-comprehensive-economic-partnership-rcep/>

E. Investment Disparities

While Chinese investments in Indian infrastructure and technology sectors have grown, Indian businesses face challenges in entering the Chinese market due to regulatory barriers and competition.⁹ Key hurdles include stringent licensing requirements, limited transparency in regulatory processes, and restricted access to critical sectors such as technology and pharmaceuticals. Additionally, Chinese firms benefit from extensive state support, including subsidies and preferential policies, which give them a competitive edge. These barriers are compounded by cultural differences and by Indian companies' limited understanding of the Chinese market, making market entry and expansion particularly challenging.

F. Collaborative Opportunities

i. Multilateral Platforms

India and **China** often cooperate in multilateral forums such as **BRICS** and the **World Trade Organization (WTO)**. Both nations advocate for greater representation of developing countries and oppose protectionist policies from developed nations.

ii. Regional Connectivity Projects

Initiatives like the **Bangladesh-China-India-Myanmar (BCIM)** corridor offer potential for regional economic integration. However, India's reservations about **China's Belt and Road Initiative (BRI)** underscore the underlying mistrust.¹⁰

Conclusion

India-China trade relations personify a mix of opportunities and challenges. While economic collaboration has brought significant benefits, addressing structural imbalances and geopolitical tensions is crucial for a sustainable partnership. Both nations must navigate their “double-edged sword” relationship with a focus on mutual growth and regional stability.

⁹Kothari, Tanvi, Masaaki Kotabe, and Priscilla Murphy. “Rules of the game for emerging market multinational companies from China and India”; Journal of International Management; March 2013; <https://doi.org/10.1016/j.intman.2013.03.007>

¹⁰Hoque, M.S. and Ahamed, A, “Bangladesh-China-India-Myanmar (BCIM) – Economic corridor: an opportunity for regional connectivity and development cooperation in south and Southeast Asia”, *Muallim Journal of Social Sciences and Humanities*; December 1st, 2024; [doi:10.33306/mjssh/292](https://doi.org/10.33306/mjssh/292);