

THE EFFECT OF BORDER TENSION ON TRADE RELATIONS BETWEEN INDIA AND CHINA

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Abstract

India and China, two of the world's largest economies and trading partners, have shared a complex relationship marked by both economic interdependence and geopolitical rivalry. Border tensions, particularly along the Line of Actual Control (LAC), have periodically strained diplomatic relations and influenced trade dynamics. This paper explores the impact of border tensions on trade between India and China, analysing trade volumes, policy responses, and long-term economic consequences. By examining historical conflicts, trade restrictions, and shifts in supply chains, this study provides insights into how geopolitical tensions shape bilateral trade. After the Chinese invasion of Tibet in 1959, bitterness developed between the two, which reached its peak after the Chinese invasion of India in 1962. Not only this, China adopted the policy of encircling India by building special relations with countries like Pakistan, Sri Lanka, Bangladesh, Nepal etc. All the disputes actually started on the issue of border between the two countries and today there are disputes between the two on many international issues as well. China's expansionist policy is a major reason for the bitterness between the two. India's growing economic and physical power is daunting in China's eyes.

Keywords: India-China relations, border tensions, trade policy, economic impact, geopolitical conflicts, supply chains.

1. Introduction

India and China are among the largest trading nations in the world, with bilateral trade exceeding \$100 billion in recent years. Despite economic interdependence, border disputes, particularly in regions like Ladakh, Arunachal Pradesh, and Sikkim, have led to periods of heightened tension. The impact of these tensions on trade relations is significant, as diplomatic hostilities often translate into economic policies such as tariffs, import restrictions, and investment barriers. This paper examines how border tensions influence trade and whether economic interdependence can act as a stabilizing force or become a casualty of geopolitical disputes. India is the largest democratic country in the world, and also the country with utmost population whereas China is second in this list. India-China relations have been seen since ancient times. Dr. Shivali Agrawal and Poonam Rani point out that, "The relationship between India and China is unique in the world, because both these countries have been continuously connected with ancient traditions and civilizations" [1]. A long chain of cultural, spiritual and economic relations can be seen between these two countries. Both these countries started a new phase of their political history at the same time. Today both these countries have become the countries with big economies in the world. Due to which, a complementary relationship has been formed between these two countries and on a very large scale, they are engaged in the process of socio-economic transformation of their people at an unprecedented pace. Along with this, having a huge geographical area, the relations between the two keep on witnessing ups and downs. In recent times, bilateral relations have been undergoing a process of development and diversity. This relationship has been seen to be focused on increasing cooperation in mutual social aspects as well as resolving differences. On the other hand, being neighbouring countries, many points of dispute are also seen between the two. What I mean to say is that there is a strange tension and cooperation between India and China.

2. **Historical Context of India-China Border Tensions**

2.1 **1962 Sino-Indian War:** A major conflict leading to a long-term breakdown in diplomatic and trade relations. China's invasion of Tibet in 1959 and India's asylum to the Dalai Lama have not only been a cause of bitterness between the two historically, but are also a major cause of tension in the present times. It is also said that one of the main reasons for China's invasion of India in 1962 was India's asylum to the Dalai Lama. The 1962 China invasion created an atmosphere of suspicion and mistrust in India-China relations. Apart from historical mistrust, many current issues have also increased the mistrust between the two. Vijay Shankar Choudhary concludes that, "With the visit of Rajiv Gandhi in 1988, a change in Indian attitude was visible in the context of border dispute. Thus, whoever became the Prime Minister of India, all made every effort to maintain peace on the border" [2]. China started giving separate visas to the natives of Kashmir and the citizens of Arunachal Pradesh, and at the same time, from time to time, it refuses to give Chinese visa to Indian officials (who are working in Arunachal Pradesh). It says that Arunachal Pradesh is a part of China, then why visa? China has also promised Pakistan to invest in hydropower projects in Pakistan-occupied Kashmir and modernization of Karakoram Highway.

2.2 **Doklam Standoff (2017):** The Doklam standoff of 2017 was a significant military confrontation between India and China in the Doklam region, a disputed territory near the India-China-Bhutan tri-junction. The standoff lasted for 73 days, from mid-June to August 28, and brought the two Asian giants to the brink of conflict. The crisis began when China attempted to extend a road into Doklam, an area claimed by both China and Bhutan. India, in support of Bhutan, intervened to stop the construction, leading to a tense military standoff. The incident highlighted the strategic significance of the region, the complex nature of India-China relations, and the broader implications for regional security.

2.2.1 **Background of the Dispute**

Doklam is a plateau located near the tri-junction of India, China, and Bhutan. While China claims Doklam as its territory, Bhutan asserts that it is part of its sovereign land. India does not claim Doklam but supports Bhutan's stance based on historical agreements and its close ties with the Himalayan kingdom.

According to Joe Thomas Karackattu, "The conflict arose because China attempted to extend an existing road southward towards the Jampheri Ridge, which India perceived as a direct threat to its security" [3]. The ridge is strategically significant as it overlooks the Siliguri Corridor, also known as the "Chicken's Neck," a narrow stretch of land connecting India's North-Eastern states to the rest of the country.

2.2.2 **The Standoff:**

The immediate trigger of the standoff was China's road construction activity in June 2017. Bhutan protested against this move, and Indian troops crossed into Doklam to prevent further Chinese advancement. This led to a face-off between the Indian Army and the People's Liberation Army (PLA). Both sides deployed troops in the area, and tensions escalated with aggressive rhetoric from Chinese state media and official statements from both governments. However, despite the heightened tensions, no shots were fired, and both armies exercised restraint.

2.2.3 Diplomatic efforts were made to resolve the crisis. The situation was closely monitored by international observers, as a military conflict between India and China could have had serious regional and global consequences. Finally, on August 28, 2017, both countries agreed to a mutual disengagement, and India withdrew its troops in exchange for China halting road construction in the area.

2.2.4 **Strategic and Geopolitical Implications:**

The Doklam standoff had significant strategic and geopolitical ramifications:

- (1) **India-China Relations:** The incident further strained relations between the two countries, already affected by historical border disputes. It exposed the deep-rooted tensions and lack of trust between New Delhi and Beijing.

- (2) **India-Bhutan Ties:** The standoff reinforced India's role as Bhutan's security guarantor and demonstrated India's commitment to protecting Bhutanese sovereignty against Chinese aggression.
- (3) **Regional Security:** The crisis highlighted the fragility of peace along the India-China border, particularly in disputed areas. It also led to increased Indian military preparedness in the region.
- (4) **China's Expansionist Policy:** The incident showcased China's aggressive tactics in border disputes, which are also evident in the South China Sea and other contested regions.
- (5) **Global Attention:** The standoff drew international attention to the India-China rivalry, with countries like the U.S. and Japan supporting a peaceful resolution while keeping a close watch on China's regional ambitions.

The Doklam standoff of 2017 was a crucial moment in India-China relations, demonstrating the complex dynamics of territorial disputes and regional security concerns. While both countries managed to avoid a direct military conflict, the incident underscored the need for diplomatic engagement, confidence-building measures, and a long-term resolution to border disputes. The standoff also reinforced the importance of Bhutan in South Asian geopolitics and India's commitment to regional stability. Although tensions eased after disengagement, the underlying issues remain unresolved, and Doklam continues to be a sensitive flashpoint in India-China relations.

2.3 Galwan Valley Clash (2020): One of the deadliest clashes in decades, leading to trade restrictions and anti-China sentiment in India. The Galwan Valley clash occurred on June 15, 2020, between Indian and Chinese troops in the eastern Ladakh region along the Line of Actual Control (LAC). It was the most serious military confrontation between the two nations in decades and resulted in casualties on both sides.

2.3.1 Background: The clash was part of the larger 2020–2021 China–India border standoff that began in early May 2020, when Chinese troops moved into disputed areas along the LAC. Galwan Valley, strategically important for both countries, is near the Aksai Chin region, which China controls but India claims. On the night of June 15, 2020, Indian and Chinese soldiers engaged in a brutal hand-to-hand combat. No firearms were used due to an agreement between the two nations, but nails-studded clubs, stones, and iron rods were used. India confirmed that 20 Indian soldiers, including Colonel Santosh Babu, were killed. China acknowledged casualties but did not officially disclose numbers; however, reports suggest at least 4–40 Chinese soldiers may have died.

2.3.2 Aftermath & Impact: Tensions escalated, leading to a military buildup on both sides. India banned over 200 Chinese apps, including TikTok, citing security concerns. Both countries engaged in multiple rounds of diplomatic and military talks to de-escalate tensions. Eventually, disengagement agreements led to a partial withdrawal of troops from some friction points.

Despite talks, tensions remain high, with both sides increasing border infrastructure and military preparedness. The Galwan Valley clash significantly altered India-China relations, making them more strained than before. These incidents have periodically disrupted trade policies, affecting business confidence and supply chains.

3. Trade Relations Between India and China:

China has also promised Pakistan investment in hydropower projects in Pakistan occupied Kashmir and modernization of Karakoram highway. China also tried to negotiate the \$2.9 billion Asian Development Bank loan for India Vikas Yojana as it also had \$60 trillion for watershed development project in Arunachal Pradesh. Similarly, China has started construction work in Nepal, which is hampering India's road construction work in its border areas. It has built physically important roads and airports like Karakoram-Tipulekh. China has

worked to develop its tourist access roads, railways, airports and access to international borders in all the areas including Arunachal Pradesh, Himachal Pradesh, Uttarakhand, Sikkim, Ladakh etc.

3.1. Trade Volume and Composition:

India and China, two of the world's largest economies, share a significant trade relationship despite political and strategic tensions. China is India's largest trading partner, and bilateral trade has grown steadily over the past two decades. However, India's large trade deficit with China has been a concern. This research paper explores the trade volume between India and China and analyses the composition of imports and exports.

3.2 Trade Volume:

The trade volume between India and China has expanded substantially over the years. Some Key Trade Figures are as follows:

In 2022, India-China trade reached a record \$135.98 billion. India's imports from China stood at \$118.5 billion, while exports were \$17.48 billion. This resulted in a trade deficit of over \$100 billion, highlighting India's heavy reliance on Chinese imports. Despite political tensions, China remains a crucial trading partner for India, with trade continuing to grow in 2023 and beyond.

3.3 Composition of India-China Trade:

Lakhan Singh Kushre opines that "India's trade with China is characterized by high-value imports from China and low-value exports to China, leading to an imbalance" [4]. India primarily imports manufactured and high-tech goods from China, including:

- 3.3.1. Electronics & Telecommunications Equipment – Smartphones, laptops, telecom network gear, and semiconductors.
 - 3.3.2. Machinery & Industrial Equipment – Electrical machinery, mechanical tools, and heavy industrial components.
 - 3.3.3. Pharmaceutical Ingredients (APIs) – China is a major supplier of Active Pharmaceutical Ingredients (APIs), essential for India's drug industry.
 - 3.3.4. Organic Chemicals & Fertilizers – Used in manufacturing and agriculture.
 - 3.3.5. Automobile Components – China provides key auto parts for India's growing automobile sector.
 - 3.3.6. Solar Panels & Batteries – A major source of renewable energy products.
- 3.4 India's exports to China mainly consist of raw materials and low-value goods, including:
- 3.4.1. Iron Ore & Minerals – China imports significant amounts of iron ore for its steel industry.
 - 3.4.2. Cotton & Textiles – India exports raw cotton and textile fibers.
 - 3.4.3. Organic Chemicals – Some chemicals are exported back to China, though imports outweigh exports.
 - 3.4.4. Agricultural Products – Including seafood, spices, and oilseeds.
 - 3.4.5. Petroleum Products – Refined petroleum and crude oil derivatives.
- 3.5 Challenges in Trade Composition

3.5.1. Trade Deficit

The trade imbalance is a major concern for India, with imports far exceeding exports. India's reliance on Chinese goods, especially in critical sectors like electronics and pharmaceuticals, creates economic vulnerabilities.

3.5.2. Limited Market Access for Indian Goods:

China imposes regulatory barriers on Indian exports, making it difficult for industries like IT, pharmaceuticals, and dairy to access the Chinese market. Indian pharmaceutical companies struggle to gain approval for exporting generic medicines to China.

3.5.3 Dependence on Chinese Manufacturing:

Indian industries, including telecom, automobiles, and pharmaceuticals, depend heavily on Chinese raw materials and components. This over-reliance became evident during the COVID-19 pandemic, when supply chain disruptions affected Indian industries.

3.6 Efforts to Address Trade Imbalance

Over all these years, following efforts have been made to address and rectify the issues related to trade imbalance between these two economic trade giants.

3.6.1. Reducing Dependence on Chinese Imports:

The Indian government is promoting “Make in India” to boost domestic manufacturing in electronics, pharmaceuticals, and machinery. Import substitution policies are being implemented to encourage local industries.

3.6.2. Export Diversification

India is seeking to expand exports of IT services, pharmaceuticals, and finished goods to China. Strengthening trade ties with alternative markets (such as the US, EU, and ASEAN) is also a key strategy.

3.6.3 Bilateral Trade Negotiations:

India and China continue to engage in trade dialogues to address market access issues and improve trade balance. India is pushing for fairer trade terms and reducing non-tariff barriers imposed by China.

The India-China trade relationship is characterized by strong trade volume but an unfavorable composition for India. While India depends on China for manufactured goods, China relies on India for raw materials. Addressing the trade deficit, increasing exports of high-value products, and promoting domestic manufacturing are key to improving India's position in this trade partnership. Despite challenges, trade between the two nations continues to be a crucial part of their economic ties. [6]

4. Impact of Border Tensions on Trade Relations:

In the 21st century, India-China relations have witnessed a lot of dynamism. In 2003, Indian Prime Minister Atal Bihari Vajpayee visited China. The heads of state of both countries held talks on various issues. Both signed the Declaration on The Principles and Comprehensive Cooperation in China-India Relations. In the next step, the relations between the two countries seemed to have become stronger. The year 2011 was declared as the ‘China-India Year of Exchange’ and the year 2012 as the year of China-India Friendship and Cooperation. In 2015, the Indian Prime Minister visited China. After this, China decided to open Nathula Pass for Indian official pilgrims. India celebrated India Tourism Year in China. A new initiative to create a new identity in India-China relations was followed by the 'India-China Informal Summit' between the President of China and the Indian Prime Minister in Wuhan in the year 2018. They had deep exchange of views, wide-ranging discussions on global and bilateral strategic issues as well as on domestic and foreign policies. In the year 2019, the second informal summit was held between the Indian Prime Minister and the President of China in Chennai. In this meeting, an attempt was made to further strengthen the understanding formed in the first informal conference. Thus, the year 2020 is the 70th anniversary of the establishment of diplomatic relations between India and China and is also being celebrated as the year of India-China cultural and people-to-people contact. Through the pool-to-pool connect, both the countries have made a lot of progress on exchange and cooperation in the fields of art, publications, media, technology and television, museums, sports, youth, tourism, localism, traditional art, yoga education and think tanks.

Disputes are also common in the 21st century relations between India and China, such as the border disputes on Pangong Tso, Triori Lake, etc. Despite the cordial relations between India and China in the post-colonial world, some scientists believe that China is always a major threat to India, from which India needs to be cautious. This belief seems to be true in the context of border disputes, as the 4,057 km long border line between India and China has still not been demarcated. But as a result of the infiltration tactics of Chinese soldiers, an atmosphere of unrest has been created on the borders of both the countries. India has suffered a trade loss of 35 billion dollars in bilateral trade between India and China. [7] To overcome this, there is a demand to increase Chinese investment in India and there is a demand for

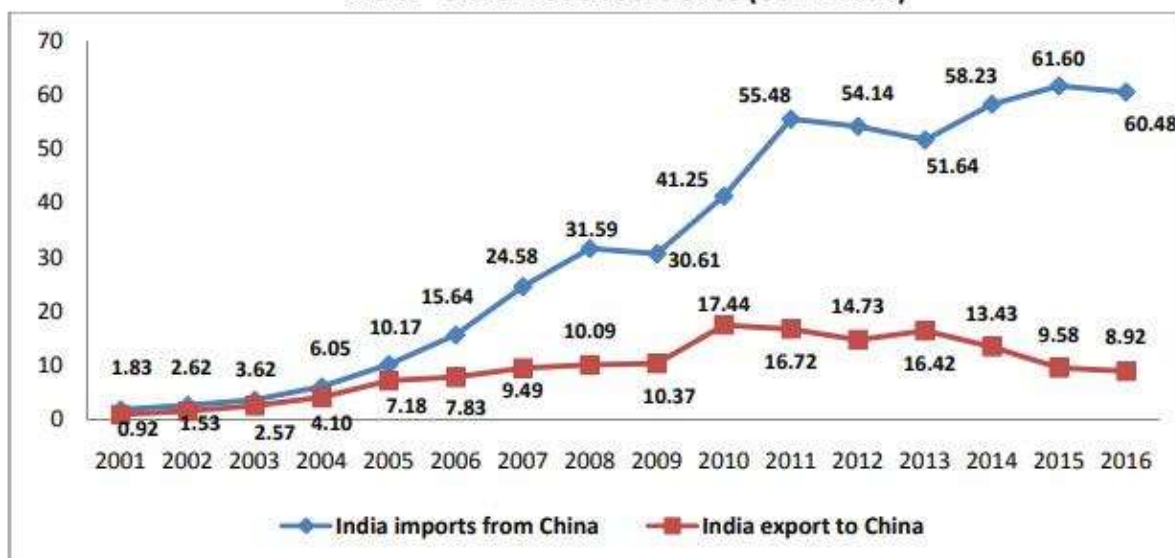
better access of Indian products to Chinese markets. Indian companies like Wipro have registered their effective presence in the Chinese market. Trade relations between India and China are increasing. But with the growth of trade relations, China's attitude on the issue of direct dispute is becoming strict and China is ready to give concessions to India in the field of trade, but it is not ready to give any kind of concession on the issue of direct dispute. Therefore, the growing trade relations between the two countries will form the basis of cooperation. There is geographical and cultural ties between India and China. Chinese travellers Hiuen Tsang and Fa-Hien had visited India to discover Indian civilisation and culture. Both the countries have their identity on the global stage as two great powers of Asia. Indian Prime Minister Nehru had strongly emphasised on friendly relations with China to strengthen Asian-African unity. India has always been trying to strengthen its relations with China. India has also been constantly trying to resolve its border dispute with China, but instead of taking positive initiatives, China has been giving more importance to its policy of surrounding India through its neighbouring countries Pakistan, Nepal, Sri Lanka. That is why every day there are reports of disputes between the Indian and Chinese armies on the border.

India-China trade has gone up to USD 67.08 billion in the first half of this year and is on track to surpass \$100 billion for the second year in a row. **The trade imbalance** is also on track for another record, with **India's exports to China down by 35%** and accounting for **only \$9.57 billion of the \$67.08 billion** two-way trade. **Two-way trade in 2021 crossed \$100 billion** for the first time, reaching **\$125.6 billion**, with **India's imports** accounting for **\$97.5 billion**.

AN OVERVIEW OF INDIA-CHINA TRADE:

- **Bilateral trade** between India and China increased from USD 38 billion in 2007-08 to USD 125 billion in 2021.
- While **Imports from China** increased by USD 50 billion, exports increased by USD 2.5 billion during the period of 2007 to 2017. This has **widened India's trade deficit**.

India – China Trade at a Glance (USD Billion)



Source: PHD Research Bureau; Compiled from Trade Map Database

4.1. Short-Term Effects

- 4.1.1 **Immediate Trade Restrictions:** Following the 2020 Galwan clash, India imposed restrictions on Chinese investments, banned over 200 Chinese apps, and delayed approvals for imports.
- 4.1.2 **Supply Chain Disruptions:** Sectors dependent on Chinese imports, such as electronics and pharmaceuticals, faced temporary shortages and increased costs.
- 4.1.3 **Consumer Sentiment:** Anti-China sentiment led to calls for boycotting Chinese goods, affecting demand for Chinese products in India.

4.2. Long-Term Effects

- 4.2.1 **Diversification of Supply Chains:** Indian companies have sought alternative suppliers in Vietnam, Taiwan, and South Korea to reduce dependence on Chinese goods.
- 4.2.2 **Policy Shifts:** India has increased scrutiny on Chinese investments, particularly in technology and infrastructure sectors.
- 4.2.3 **Trade Normalization:** Despite tensions, trade has rebounded, showing economic pragmatism in both nations.

5. Policy Responses and Economic Strategies:

The border tensions between India and China, especially after incidents like the Galwan Valley clash in June 2020, have significantly impacted their trade relationship. While economic ties between the two nations remain strong, geopolitical conflicts have led to disruptions, policy changes, and growing concerns about economic dependence.

5.1. Declining Trust and Increased Trade Restrictions:

The border conflict has weakened diplomatic trust, making trade negotiations more difficult. India has imposed stricter scrutiny on Chinese investments, delaying approvals for projects involving Chinese firms.

5.2. Restrictions on Chinese Investments in India:

The Indian government tightened foreign direct investment (FDI) rules in April 2020, requiring government approval for investments from countries sharing a land border with India. This move directly impacted Chinese investments in Indian start-ups and industries, slowing down funding for technology firms, fintech companies, and e-commerce businesses. Before tensions escalated, Chinese firms like Alibaba and Tencent were major investors in Indian start-ups (e.g., Paytm, Zomato, Byju's). After stricter FDI regulations on Chinese investments, Indian start-ups had to look for funding from other sources like the U.S., Japan, and the Middle East. There was a strong push for boycotting Chinese products in India, leading to some decline in sales of Chinese brands like Xiaomi, Oppo, and Vivo. However, these companies still dominate India's smartphone market by setting up local manufacturing units. On the other hand, Indian companies have started collaborating with countries like the U.S., Japan, and South Korea to diversify supply chains.

5.3. Ban on Chinese Apps and Digital Products:

In response to security concerns, India banned over 200 Chinese apps, including TikTok, PUBG Mobile, and WeChat.

This impacted Chinese tech firms, reducing their market share in India.

5.4. Trade Disruptions and Import Restrictions:

The Indian government introduced non-tariff barriers such as stricter quality checks on Chinese imports, causing delays at ports. In key sectors like telecom and power, India restricted the use of Chinese equipment, affecting trade volumes.

5.5. Efforts to Reduce Dependence on China:

India launched initiatives like "Atmanirbhar Bharat" (Self-Reliant India) to promote domestic manufacturing and reduce reliance on Chinese goods. Sectors such as electronics, pharmaceuticals, and auto components have seen increased local production efforts, impacting Chinese exports to India.

5.6. Decreased Business Confidence:

The uncertain geopolitical environment has discouraged Indian businesses from long-term contracts with Chinese firms. Some Indian industries have sought alternative suppliers from countries like Vietnam, Taiwan, and South Korea to reduce dependency on China.

While India-China trade remains significant, border tensions have led to increased trade restrictions, reduced Chinese investments, and a push for economic self-reliance in India. Although trade volumes are still high, the long-term impact could see India

diversifying its supply chains and reducing dependence on China, reshaping their economic relationship in the years to come. [8]

6. **Key facts:**

6.1 **India-China Trade:** In 2023, India exported \$18.1B to China. The main products that India exported to China were Iron Ore (\$3.45B), Refined Petroleum (\$1.17B), and Crustaceans (\$807M). Over the past 5 years the exports of India to China have decreased at an annualized rate of 1.89%, from \$19.9B in 2018 to \$18.1B in 2023.

6.2 **In 2023, India did not export any services to China.**

6.3 **China-India Trade:** In 2023, China exported \$125B to India. The main products that China exported to India were Integrated Circuits (\$9.66B), Telephones (\$8.98B), and Computers (\$6.47B). Over the past 5 years the exports of China to India have increased at an annualized rate of 10.8%, from \$74.8B in 2018 to \$125B in 2023.

6.4 **In 2023, China did not export any services to India.**

In 2023, India ranked 39 in the Economic Complexity Index (ECI 0.65), and 12 in total exports (\$441B). That same year, China ranked 21 in the Economic Complexity Index (ECI 1.16), and 1 in total exports (\$3.42T).

7. **Conclusion**

While border tensions have periodically disrupted trade between India and China, economic interdependence has ensured that trade continues despite political hostilities. However, India has taken steps to reduce its reliance on Chinese imports, diversify supply chains, and strengthen domestic industries. The long-term impact of border tensions on trade remains uncertain, but economic pragmatism may prevent a complete breakdown in trade relations. Looking at the ups and downs in India-China relations, it can be said that the 21st century is a period of bitterness between the two. The ambition to dominate the whole world has encouraged China to stand against India. The growing disputes between the two countries in economic and trade matters have reached a point where the hope of closeness between the two in the near future will prove to be a dream. The way China has made a strategy to surround India, it will not only give a shock to the Asian continent, but will also create a new situation on the world scene which will prove to be an obstacle for India-China relations. Therefore, the conflict in the relations between the two countries will increase further in the coming days. Ultimately this will not only be harmful for both the countries but may also prove dangerous for world peace and security.

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