Delhi Policy Group

Advancing India's Rise as a Leading Power

POLICY BRIEF

Prospects and Terms of an India-China Economic Reset

Author

V.S. Seshadri

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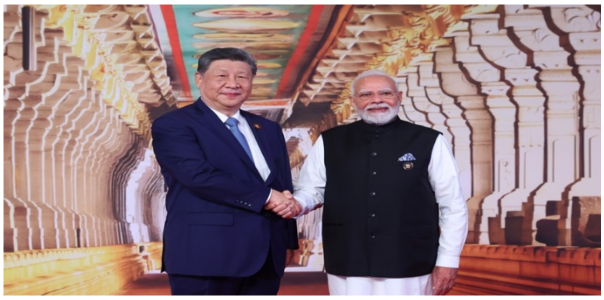

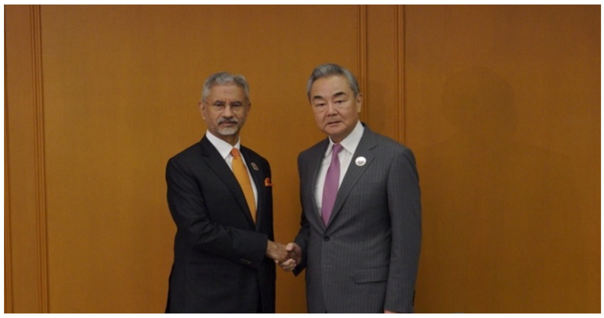

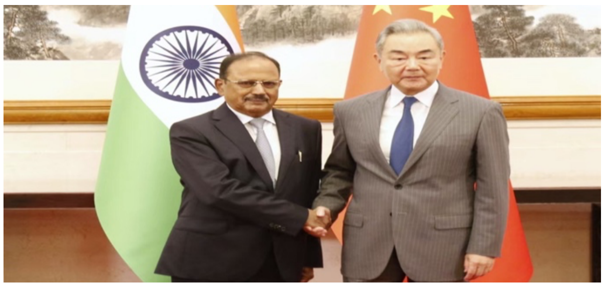

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Cover Images:

1. *Prime Minister Narendra Modi and Chinese President Xi Jinping held a bilateral meeting on September 12, 2026, on the sidelines of the 18th BRICS Summit in New Delhi. Source: PMO Gallery*
2. *External Affairs Minister Dr. S. Jaishankar meets his Chinese counterpart, Wang Yi, during the East Asia Summit and ASEAN Regional Forum meetings in Manila, Philippines on July 22, 2026. Source: X/@DrSJaishankar*
3. *NSA Shri Ajit Doval co-chaired the 25th Meeting of SRs on India-China Boundary Question with Wang Yi, Member of the Politburo of the Central Committee of the CPC and China's Foreign Minister, on August 25, 2026, in Beijing. Source: X/EOIBeijing*

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Prospects and Terms of an India-China Economic Reset

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Introduction

With uncertainties rising on the US approach to trade, tariffs and economic collaboration, presently under President Donald Trump and perhaps in the future as well, some analysts are suggesting a reset on India's economic ties with China. Even on its own merits, there is a view that this would be important for boosting India's trade and manufacturing profile that is still very modest for a country of our size.

This may seem to also fall in line with the somewhat improved atmosphere of bilateral relations after the three bilateral meetings held between PM Modi and President Xi since 2024, as well as after the three rounds of talks between Special Representatives of the two countries on the boundary question since this mechanism that was revived. In particular, there are suggestions that it may be time for the two sides to revive the bilateral Strategic Economic Dialogue (SED) mechanism that was last convened in 2019, and which has remained stalled since the Galwan clashes in 2020.

The proposal is that SED could help promote Chinese investments in India, particularly in non-sensitive sectors, and bolster India's manufacturing Industry. China may be willing to go along, considering the wide criticism it is attracting in terms of excess capacities and running ever-increasing trade surpluses with the vast majority of countries. Potentially shifting some of those capacities to India could be a win-win for Chinese companies by helping to delink the origin of the resulting goods from China, an issue that is attracting adverse attention. For India, it could contribute towards enhanced manufacturing capacity and employment generation. If China could do this with countries like Vietnam and other ASEAN nations, the same play book could also work with India.

The questions here are whether, in the present global circumstances, this is still feasible; whether China will be inclined to play along and under what conditions; and whether it can work in the Indian context and align with our interests.

Earlier this year, the Indian government has already allowed[1] limited liberalisation of investments from all land-bordering countries, including China. Minority, non-controlling capital in Indian manufacturing, technology, and listed equity is now welcome, provided it is cumulatively less than 10%. Moreover, a committed 60-day

[1] https://www.dpiit.gov.in/static/uploads/2026/03/b9da5830b052c2f2d788593e97d07c63.pdf has to be read along with the Union Cabinet decision of March 2026 available at https://www.pib.gov.in/PressReleasePage.aspx?PRID=2237806&reg=3&lang=2

approval timeline has been prescribed for government approvals for investments in priority manufacturing sectors, presently identified as capital goods, electronic capital goods, electronic components, polysilicon and ingot-wafers. In such cases, the majority shareholding and control of the investee entity will need to be with resident Indian citizens and/or resident Indian entities owned and controlled by resident Indian citizens, at all times. The government could additionally impose conditions (e.g. substantial local value addition, technology transfer commitments, Indian workforce requirements etc.) while giving its approval.

Since the aforesaid notifications of the revised FDI Framework, a total of 29 FDI investments have reportedly been approved or entered the country[2] under this route up to 20 August 2026, involving a proposed FDI of ₹4,895.65 crore (approx. USD 500 m). These investments have also been reported as spanning IT, AI, information & communication, manufacturing, pharma, data centres and transport services. The publicly available information does not, however, disclose the ultimate beneficial ownership of these investments.

The driving elements behind the government's cautious liberalisation move could perhaps be understood as the following:

- Derive benefit from Chinese capital as long as it does not reach a controlling stake for which more trust building is required;
- Rather than importing several capital goods, industrial and other products from China and running a huge trade deficit, it may be preferable to get their companies to invest in India, bring in their technology and produce them in the country;
- Sectors such as electronics, solar cells and capital equipment are priorities in this regard, considering the scale of imports in these areas;
- Calibrated policy is, however, needed to ensure that wherever there are joint ventures, the majority control remains with the Indian partner; and
- Commitments by the investors towards local employment, growing indigenisation and exports also an important element.

It may be too early to assess the outcomes from this limited liberalisation. Meanwhile, there are already pressures about what should constitute subsequent phases, including suggestions that the 10% limit should be enhanced to 24% and the priority areas identified should be expanded to include pharmaceuticals, electric vehicles, batteries and so on.

[2] https://www.pib.gov.in/PressReleasePage.aspx?PRID=2301992&reg=48&lang=2

While considering these and other possible moves towards further liberalization, it would be important to keep in view the larger evolving geopolitical and geoeconomic environment in which China's continued rise in trade and manufacturing dominance is receiving increased scrutiny and contestation. China's responses to these moves, its own preferred approaches and ambitions, and how it uses economic coercion for non-commercial ends as well as for further building economic dominance, are another consideration. Meanwhile, the steady rise in ASEAN - China trade, investment, infrastructure and connectivity ties assisted, also by the China+1 investment and export model, offer a case study on how certain windows of opportunity of working with China may still be available. Finally, how all of these factors may impinge on our own interests and objectives requires careful assessment and calibrated policy framing.

China's manufacturing and trade dominance

China's share of global value added in manufacturing was known[3] to be 29% in 2023, and its share of gross production was assessed even higher at 35%. Now in 2026, these percentages are probably even higher. China is the world's leading producer of several industrial and consumer goods. It accounts for 53% of world's crude steel production, 60% of primary aluminium and has exceptionally high shares in several strategic industrial supply chains, including around 70% of global electric-vehicle production, more than 80% of battery-cell production, and around 85% of solar and 80% of lithium-ion battery supply-chain production capacity. It also dominates several segments of the chemicals, electronics, textiles and machinery sectors.

As for global trade, China was by far the world's largest merchandise exporter at $3.77 trillion in 2025. On an extra-EU basis, its exports were substantially higher than those of the EU (USD 2.98 trn in 2025) as a bloc and the US (USD 2.19 trn). It is also running significant trade surpluses with a very large number of trading partners. The EU has in fact been complaining that its trade deficit with China exceeds Euro 1 bn a day. David Lubin of Chatham House notes[4] that Chinese exports at the global level are growing more quickly than the world's imports and this has been without interruption since early 2023. China's global merchandise market share is, therefore, also exceptionally large and remains on an upward trajectory.

There is also no indication that China's manufacturing and trade dominance has peaked. As per a Rhodium Group report on China's next-generation industrial policy published earlier this year,[5] rather than retreating in the face of mounting domestic and international pressures, China is doubling down. Its industrial strategy is

[3] https://cepr.org/voxeu/columns/china-worlds-sole-manufacturing-superpower-line-sketch-rise
[4] https://www.chathamhouse.org/2026/07/structural-divergence-chinas-economy-exposes-growing-problem
[5] https://rhg.com/research/chinas-next-generation-industrial-policy/

becoming more systemic and pervasive, extending across all layers of production, from upstream inputs and industrial equipment to downstream applications, services, and frontier technologies. The report further observed that Beijing is also increasingly deploying policy tools to entrench its dominant position in global value chains and deter foreign diversification strategies. A UNIDO report[6] too made a forecast in 2024 that China's share in global industrial production may rise[7] to 45% by 2030.

Former USTR Michael Froman in a recent article[8] further observes that China has now become a country that competes simultaneously with the US when it comes to AI, electric vehicles and electronics, and with the poorest nations of Africa in textiles and apparel and household baubles. In contrast, economies that earlier pursued mercantilist development strategies, such as South Korea and Taiwan, relinquished low-value-added manufacturing as domestic wages rose. While he expects China's trade surplus to expand further as a share of global GDP, well beyond the roughly two percent it already represents in manufactured goods, he also cautions that the world is unlikely to tolerate such a situation for long.

China's trade and investment practices are receiving close scrutiny

It is not surprising, therefore, that China's trade and industrial policies are being closely scrutinized. The OECD estimates that around 60% of the market-share gains made by expanding Chinese firms over the past two decades can be linked to subsidies[9]. China's programmes and practices are often opaque which make it difficult to provide a precise estimate. In the Trade Policy Review report on China by the WTO Secretariat[10], it was noted that while the notifications submitted by China to the WTO on its subsidy programmes did not enable it to have a clear picture about China's support programmes, information from commercial databases indicates large amounts of public support for companies in key economic sectors. An International Monetary Fund working paper[11] estimates that the effective fiscal cost of China's industrial policy-encompassing subsidies, tax incentives, concessional credit, and subsidised land-amounts to roughly 4 per cent of GDP annually.

The combination of large-scale industrial support, the role of state-owned enterprises, and strategic sector prioritisation have all contributed to significant capacity

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[6] See the chart in page 17 of the report https://www.unido.org/sites/default/files/unido-publications/2024-11/The Future of Industrialization - Building Future-ready Industries to Turn Challenges into Sustainable Solutions.pdf?utm_source=chatgpt.com
[7] https://www.globaltimes.cn/page/202503/1330990.shtml
[8] https://www.foreignaffairs.com/china/next-global-economic-crisis-made-china-michael-froman
[9] https://www.oecd.org/content/dam/oecd/en/publications/reports/2026/05/oecd-magic-database-of-industrial-subsidies_3d51d749/ce94f33b-en.pdf
[10] See page 69 of https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/TPR/S458R1.pdf&Open=True
[11] https://www.imf.org/-/media/files/publications/wp/2025/english/wpiea2025155-source-pdf.pdf

expansion. The resulting export orientation-often at highly competitive prices-has placed pressure on manufacturing sectors and employment in many other economies. Ruchir Sharma[12] has observed that rising Chinese exports have contributed to industrial displacement in several emerging economies, with adverse implications for job creation.

Former Australian Prime Minister Scott Morrison[13] has written about how China worked to acquire dominance in critical minerals. China's advantage was not geology or technology, but it routinely kept other suppliers out of the market by increasing the supply, depressing the price, tanking the market and absorbing the loss, making any new venture uneconomical. President Xi Jingping himself was also reported to have said[14] in an internal meeting in April 2020 that "We must tighten international production chain's dependence on China, forming powerful counter measures and deterrent capabilities based on artificially cutting off supply to foreigners". This has been interpreted as a deliberate leverage building exercise for contingent deployment for geopolitical or other objectives.

China's efforts to use third countries to push its exports, allegedly with minimal value addition in an intermediate country, are also now receiving close attention. The US Office of Trade and Manufacturing Policy has published a report[15] titled 'The great transshipment scam', which has referred to how Chinese exporters, particularly after the 301 impositions of higher tariffs on several Chinese products by the US starting from 2018, have been shipping their the goods to the US through intermediate jurisdictions where limited assembly, finishing, repackaging, relabelling, or documentation could create the appearance of a different national origin. Over time, the report goes on, these practices contributed to the development of a global network of production hubs, logistics platforms, free-trade zones, bonded warehouses, processing corridors, and re-export centres. Santosh Pai has also brought out[16], in the Indian context, how exports from Chinese sources have used intermediate South East Asian countries (with which India has FTAs) for circumvention through transshipment means. Use of fraudulent trade practices such as misclassification and false declarations have also been referred to.

China's external economic strategy also reflects a broader ambition to shape a more China-centric economic order. Initiatives such as the Belt and Road Initiative aim to

[12]https://timesofindia.indiatimes.com/toi-plus/business-economy/worlds-newest-beijing-problem/articleshow/129402999.cms
[13] https://www.wsj.com/opinion/china-overplayed-its-hand-on-critical-minerals-fbab6de8
[14] This is in speech delivered by President Xi Jing Ping on April 10, 2020 during the Seventh meeting of the Central Financial and Economic Affairs Commission. Also referred to in csis reports including https://www.csis.org/analysis/chinas-new-strategy-waging-microchip-tech-war
[15] https://www.whitehouse.gov/wp-content/uploads/2026/08/The-Great-Transshipment-Scam.pdf
[16] See the publication https://www.thehindu.com/news/national/india-in-a-fragmenting-world-trade-technology-and-economic-security/article71358961.ece

deepen economic linkages and expand its influence across regions. Froman notes that China's export led model is both an economic grand strategy and a political project. David Lubin concludes, after closely analysing Chinese economic policies and strategy, that Beijing is for the present choosing geopolitical heft over household welfare and domestic consumption.

China is also pushing back at Western attempts to rebalance economic relationships

For more than a decade now, Western countries have been pushing China to enhance imports from them and reduce the widening deficits. Calls have also been made for appreciation of the Chinese currency renminbi. Chinese overcapacities in a whole range of industrial sectors is another issue. The supply chain crisis during the COVID-19 pandemic made the Western countries, and indeed the rest of the world, realise that excessive dependence on any single country should be avoided - giving rise to calls for derisking and diversification, particularly vis-a-vis China, considering the country's preponderant presence in many of the industrial supply chains.

The increased tariffs that successive US administrations have imposed on imports from China, on different legal grounds, have somewhat reduced the bilateral trade deficit. But the deficit for the EU has grown and it has been keenly exploring various possible measures in this regard, including a more pro-active use of trade defense measures, tariffs, public procurement restrictions, local-content requirements and anti-coercion instruments to protect its industries, with certain of them already introduced. It will be interesting to see how China will react to the latest EU move[17] asking China to voluntarily limit export of hybrid cars to about 15% of the market after they quickly captured a third of the market in this product category.

However, in most cases China is retaliating and pushing back. Wherever countries have imposed additional tariffs on imports from China, it has imposed retaliatory measures. More recently, when German Chancellor Merz argued in a speech at Cologne that the Chinese yuan has been undervalued by 25% to 30% for years, this drew a prompt rebuttal[18].

China has also not spared India in this regard, initiating two dispute cases against India at the WTO concerning measures taken by India in strategic sectors. The first concerns[19] alleged incentives and local content requirements under India's PLI schemes relating to advanced-chemistry-cell batteries, automobiles and electric

[17] https://www.ft.com/content/0b45cb01-7f62-41c5-8c48-10c47f2e1ae6?syn-25a6b1a6=1
[18] https://www.globaltimes.cn/page/202607/1365891.shtml
[19] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds642_e.htm

vehicles; the second concerns[20] measures affecting solar cells, solar modules and certain information-technology goods. This is notwithstanding how China itself is widely assessed as a large subsidiser in promoting its industries.

China also refused to join the consensus in the adoption of the final outcome after the G-20 Finance Ministers and Central Bank Governors meeting held in Ashville in the US on September 1-2. China objected to references in the statement on the issue of global imbalances, which called on countries to take steps to eliminate 'non-market policies and practices'. One of the four sections opposed by Beijing[21] in the final statement, that eventually had to be issued as the Chair's statement, also stated that "countries with excessive and persistent external surpluses should remove distortions that constrain domestic consumption and that result in an over-reliance on exports for growth". This was taken as a reference to China, although it did not mention the country by name.

China's rare earth minerals dominance has become another major tool for its pushback. It initiated this against Japan in 2010 as a means of applying political coercion. This approach has gained wider usage since July 2023, when China issued restrictions on exports of gallium and germanium in response to moves led by Western countries to de-risk from dependence on Chinese industrial chains. When President Trump announced reciprocal tariffs in April 2, 2025, China responded not only with retaliatory tariffs but introduced[22] strict licensing controls on export of seven categories of medium and heavy rare earth elements essential for producing permanent magnets used in defense industries, electrical vehicles, clean energy technologies etc.

Again in October, 2025, China announced new export controls[23] that required foreign companies located anywhere to obtain a license from China to export 'Parts, components and assemblies' containing rare-earth materials sourced from China or produced using Chinese rare earth technologies. These were to be applicable from December 1, 2025 even for internationally made products which contained more than 0.1% of Chinese sourced materials by value. While China has paused its October 2025 export control measures for one year after the summit meeting between President Xi and President Trump in November last year (these have been further paused for two more months till January 10, 2027 after the recent Trump-Xi summit meeting in Washington DC from September 23-25), and all these measures demonstrate an

[20] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds644_e.htm
[21] https://www.ft.com/content/dcefdf76-9bac-4b34-80c2-eab80b559f53?syn-25a6b1a6=1
[22] https://www.reuters.com/world/china-hits-back-us-tariffs-with-rare-earth-export-controls-2025-04-04/
[23] See China's MOFCOM notice of October 9, 2025 titled Ministry of Commerce Notice 2025 No. 61: Announcement of theDecision to Implement Controls on Exports of Rare Earth-Related Items to Foreign Countries

evolving trade policy arsenal that China is ready to aggressively counter any move seen as detrimental to its interests.

In June this year, China went a step further with a new set of regulations[24] on the implementation of the country's Mineral Resources Law. These give the State Council of China explicit legal mechanisms to restrict or prohibit exports, technology transfers, or international trading services when Chinese businesses encounter trade or investment barriers overseas or access to external supply chains. Yet another step was taken recently[25] with China tightening exit-entry rules restrictions on Chinese professionals in sectors subject to export controls and whose conduct may endanger national industrial or technological security. It is, however, not clear if all these measures in practice will be limited in scope or are signs of an emerging Fortress China, rendering doing business with the country far more difficult. In any case, they will make Chinese businesses look to their government for guidance even more before entering into new ventures.

China's approach with ASEAN has been different

Against this overall backdrop, China's approach towards trade and economic ties with its neighbouring countries in South East Asia has been different. China is ASEAN's largest trading partner and ASEAN too is, for a few years now, the largest trading partner of China with bilateral goods trade totalling USD 1.05 trillion in 2025. Economic integration between them is steadily rising. The China-ASEAN FTA (CAFTA) that came into force in 2010 has already seen two upgrades, one in 2015 and the second CAFTA 3.0 which was signed in October 2025. The ratification of the protocols comprising the latter is currently in progress. Once done, tariff eliminations by either side to the other will exceed 94% of products traded, somewhat higher than even RCEP.

Sub-regional cooperation mechanisms covering the Greater Mekong Subregion and Lancang-Mekong cooperation lend further strength[26]. China is also a strategic development partner of Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area. The infrastructure and connectivity projects under the BRI have also significantly enhanced their economic engagement, even as concerns regarding financial dependency and the need for balancing increased connectivity with sovereignty have remained[27]. Most recently, China has also opened[28] its first river-to-sea 134 km Pinglu canal for navigation stretching between southern China and

[24] https://rareearthexchanges.com/news/beijing-tightens-its-grip-on-strategic-minerals-with-sweeping-new-mining-rules/
[25] https://www.globaltimes.cn/page/202609/1370595.shtml
[26] https://s3-csis-web.s3.ap-southeast-1.amazonaws.com/doc/China-ASEAN-.pdf?download=1
[27] https://link.springer.com/article/10.1007/s44282-025-00240-2?fromPaywallRec=false
[28] https://www.aljazeera.com/news/2026/9/16/whats-the-pinglu-canal-chinas-new-gateway-to-southeast-asia

northern Vietnam. This will link areas in western and southwestern China with South East Asian markets.

However, trade between ASEAN and China[29] is growing somewhat asymmetrically. While China's trade surplus with ASEAN was only USD 50.6 bn in 2018, it has grown to USD 275.8 bn in 2025 with imports from China rising particularly sharply in respect of five countries - Cambodia, Indonesia, Malaysia, Thailand and Vietnam. ASEAN is not complaining too much - even as there have been protests in Indonesia about rising cheap imports affecting local businesses - because several of the generally export oriented ASEAN economies have been able to use investments and inputs from China during this period, including through the so called China+ 1 ventures, to increase their exports to the US that began imposing certain 301 and other duties on products directly imported from China from 2018 onwards. Indeed, ASEAN exports[30] to the US, which amounted to USD 190 bn in 2018, witnessed a compounded annual increase of 13.22% during the next seven years reaching USD 452.8 bn in 2025. Such export growth has been particularly significant in respect of the same five ASEAN economies earlier mentioned.

A Rhodium Group report notes[31] that manufacturing FDI from China into ASEAN almost doubled in 2018 compared to the levels during 2014-17, very likely as a response to the first wave of US tariffs. From 2018 to 2021, levels remained elevated, at around USD 2 to 3 bn a year, significantly above the 2014-2017 average. They then rose further starting in 2022, reaching $10 billion on average over 2022-24.

It is, however, not clear to what extent these China +1 investment initiatives (not only by China but also other investing countries, including Western) in the ASEAN countries may be involving substantial local transformation of the inputs which can then result in a change of origin, and to what extent they could be merely cosmetic that cannot withstand rigorous origin scrutiny.

A recent White House report[32] 'Great Transhipment Scam' alleges that products that previously moved directly from China to the United States were now being shipped through jurisdictions where limited assembly, finishing, repackaging, relabelling, or documentation changes could create the appearance of a different national origin. While it admits some of the shift could reflect legitimate changes in production, investment and sourcing but the timing, magnitude, and direction of the two trends support further investigation of the extent to which tariffed goods were rerouted through third countries. It has recommended an AI-enabled 'Detective Border' that

[29] These figures are derived from China Customs trade statistics
[30] Figures derived from US Government trade statistics
[31] https://rhg.com/research/chinas-manufacturing-fdi-in-asean-grew-rapidly-but-faces-tariff-headwinds/
[32] https://www.whitehouse.gov/wp-content/uploads/2026/08/The-Great-Transshipment-Scam.pdf

could help the US customs to distinguish legitimate near shoring and foreign investment from illegal pass-through trade.

In the current charged geoeconomic environment, such arrangements are likely to face increasing scrutiny and possibly some actions. This could perhaps present opportunities for India, which has the industrial maturity and locally available talent skills for Chinese or other global companies wishing to diversify and also engage in substantial domestic processing, even if certain essential inputs may need importing.

Even as China-ASEAN trade is growing asymmetrically, it needs to be recognised that ASEAN countries have also been able to penetrate the otherwise difficult Chinese market to a significant degree. Imports from ASEAN into China totalled USD 389 bn in 2025, and these included not just primary products like agricultural items, palm oil, ores, fuel and energy, rubber, pulp and metals like steel, copper and nickel, but also processed industrial products. Electrical and electronic machinery including semiconductor chips, telecom products and components and machinery items including computers and instruments and medical equipment contributed in a very significant way. Indeed, these machinery and other industrial items accounted for over a third of ASEAN exports. Indian exporters wishing to enter the Chinese market may need to examine them closely as also a host of chemical products to see if they could cater such products to the Chinese market competitively, either on their own or with possible collaboration with Chinese companies by setting up joint ventures in India.

Before we go on to further examine how India can create and use a window of opportunity vis-a-vis China in the present difficult geopolitical environment and ongoing geoeconomic contestation, it is important to briefly outline India's own constraints, policy preferences and economic priorities.

India's approach

India is also facing the issue of large bilateral trade imbalances with China, with trade figures that are more skewed than is the case with several other countries. Imports from China at USD 131.6 bn are over six times India's exports of USD 19.47 bn in 2025-26, and our bilateral trade deficit with China has also crossed USD 100 bn for the first time. Despite China's claims, its markets are far from open for finished Indian goods including our pharma exports (pharma exports, for example, an area in which India has demonstrated strength including in several Western markets; totalled only USD 80 mn for such a large market as China) , as opposed to raw materials or intermediates.

China's cumulative FDI equity flow into India, as per DPIIT figures upto June 2026, also add up to only USD 2.51 bn and rank 23rd among foreign investing nations in

India. It is, however, possible that certain investments may also have been routed through other investment hubs like Singapore or Hong Kong.

There were also concerns in India that arose after 2018 about possible transhipment of Chinese goods through countries with which India had entered into FTAs, particularly ASEAN countries. This prompted Indian customs to introduce a CAROTAR regulation[33] (Customs Administration of Rules of Origin under Trade Agreements) in September 2020, which shifted the burden of proof of origin to Indian importers that goods imported under FTAs fulfilled the specified rules of origin.

India's economic relations with China cannot also be divorced from developments on the political and strategic fronts. The month of April 2020 was a grim moment in this context. India was faced on the one hand with the COVID-19 pandemic related import vulnerabilities, and on the other with the PLA troop build up across our northern borders. Opportunistic takeover of Indian companies that were seeing low valuations at that time was a real concern, resulting in the issue of Press Note 3 which also mandated prior government approval for FDI from countries sharing a land border with India. Following the Galwan clash in June that year, a whole range of widely used Chinese apps including TikTok and WeChat were banned.

India also realised that over-dependence and concentration, particularly in some products of strategic importance, needed derisking. What has evolved since then is a multi-pronged trade and industrial policy framework including the following elements:

- Keeping out risk ridden investments, technologies and apps - while Press Note 3 of 2020 imposed the investment restrictions, the Press Note 2 earlier this year[34] has relaxed some of them, as already mentioned in the introductory chapter of this paper;
- Strengthening domestic manufacturing with a view to rapidly increasing its share of GDP that will also increase employment opportunities. Indigenous capacity and competitiveness to be built, particularly in areas of high import dependence. This is being done through industrial policy initiatives in fourteen select sectors[35] under the Production Linked Incentive schemes (PLI), with some areas like cellular phone production are doing well and the government looking at backward integration. The launch of national missions on critical

[33] https://taxinformation.cbic.gov.in/content/html/tax_repository/customs/rules/customs_administration_of_rules_of_origin_under_trade_agreements_rules_2020/documents/customs_administration_of_rules_of_origin_under_trade_agreements_rules_2020_21_september_2020.html

[34] https://www.dpiit.gov.in/static/uploads/2026/03/b9da5830b052c2f2d788593e97d07c63.pdf

[35] https://www.pib.gov.in/PressReleasePage.aspx?PRID=1945155&reg=48&lang=2

minerals and semiconductors manufacturing and design etc., are other key initiatives.

- Internationally, we are forging supply chain collaborations and cooperation in critical and emerging technologies and critical minerals with friendly partners; and
- Expanding India's FTA portfolio by entering into new FTAs with select partners whose economies are more complementary in character. India has in recent years concluded or signed agreements with partners including Australia, the UAE, EFTA, the United Kingdom, Oman and New Zealand, while legal scrubbing and other ratification formalities are pending in the case of the deal with the EU. The review of India-ASEAN FTA is also underway. FTAs with few more countries like Canada and some Latin American countries are under negotiation.

As of now, however, it is unclear how and when the ongoing trade negotiations with the US on a bilateral trade agreement will conclude. The US being India's largest export partner lends added importance to this.

While all this is work in progress, the question is how do we try and seek a reset of economic ties with China. On the one hand, China itself is building a fortress wall of regulatory and other constraints as earlier described. Will it show interest ? On the other, there is our own evolving regulatory framework and emphasis on moving towards greater self-reliance, increasing diversification and reducing over dependence. While the three summit meetings since October 2024 between PM Modi and President Xi, and the meetings between designated Special Representatives on the boundary issue have begun to unfreeze the political atmosphere, there are no clear indications as yet when the moment may be regarded as ripe for more structured economic dialogues to be revived. Even as that is awaited, what can be assessed and summarised for now, based on what has been mentioned in previous sections, are possible windows of opportunity that need working upon if such a reset has to be sustained and mutually beneficial.

Assessment: the prospect and terms of a 'Reset'

- There are clear signs that China's mode of securing economic primacy through its trade, investment and other economic policies and practices is increasingly impacting other countries negatively, and discomfort is widening. Not just the US and the EU, but all the other 19 members of the G-20 seemed willing to go along with the Chairman's statement at the recent G-20 Finance Ministers meeting that contained critical references to issues such as external imbalances and non-market practices. While China was not specifically named, the references were widely understood as directed at China.

- Will China apply some correctives? This remains far from clear. For the present, the indications are that it is doubling down on its existing industrial and trade policies, while also steadily adding to its economic and trade policy arsenal.

- US tariff actions against China have resulted in trade diversion of Chinese products to other countries, creating additional pressures on the latter. The EU too is gradually raising tariff and other barriers, citing trade diversion risks among other considerations. This is likely to increase the pressure on countries such as India to guard against further diversion, particularly given the already large bilateral trade deficit with China.

- The use of third countries, particularly ASEAN countries, by Chinese businesses for China+1 type initiatives is also receiving greater scrutiny in the West from an origin-compliance perspective. The same could apply to third-country foreign-invested enterprises operating in China or ASEAN countries which may be using such arrangements to route exports to the US, EU and other markets. There could, therefore, be possible actions against arrangements that amount more to transhipment than to substantial transformation.

- It is in this context that India will need to examine any possible reset. If such a reset is to be meaningful, there would first need to be a significantly greater market opening for Indian products in China. Trade imbalances of the current magnitude are difficult to sustain over a longer term and cannot be explained only by structural differences between the two economies. Regulatory barriers affecting pharmaceuticals and other Indian products and services would need to be eased and market access made more predictable. Indian exporters, for their part, also have much to do in identifying and pursuing opportunities in the Chinese market. The experience of ASEAN countries in penetrating selected segments of that market could provide useful pointers.

- At the same time, India will need to ensure that CAROTAR and other rules of origin provisions are strictly enforced so that a greater economic engagement with China does not result in increased transhipment or diversion through third countries.

- More than simply increasing trade, greater investment by Chinese companies in India could provide a more useful avenue for expanding economic engagement. The investment liberalisation introduced through Press Note 2, even though limited at present, has already created some openings. The roughly USD 500 million of reported investments, which include approved proposals and those already brought into the country under the new framework in the last few months (even as the precise level of investments from China overall under the framework is not clear), indicate that there is potential, although it is still too early to assess the longer-term outcome.

- At a time when China is facing mounting pressures relating to overcapacity and trade imbalances, there could also be value for China in diversifying some of its manufacturing investments. India's large domestic market, availability of skills and workforce and comparatively lower wages could make it a workable option. India's expanding FTA network could also provide an additional attraction for export-oriented investments, provided there is substantial local transformation consistent with rules of origin as prescribed in the FTAs. At the Indian end, further improvements on ease of doing business would serve as added attraction to such investments.

- Further investment liberalisation beyond Press Note 2 could potentially produce better results. Considering, however, that several countries are tightening investment screening policies because of concerns about Chinese business practices and the possible use of Chinese entities to advance state-driven objectives, it would be prudent for India to proceed cautiously. Any further opening should, therefore, remain calibrated and linked to clearly identified economic benefits such as local value addition, employment, technology transfer, exports and reduction of import dependence.

- It would also be erroneous to assume that the China+1 model seen in ASEAN can simply be replicated in India. CAFTA 3.0, RCEP and the deeper financial, banking, geographical, connectivity and social links between ASEAN and China make that relationship structurally different. India-China investment cooperation will have to find its own *sui generis* model which takes account of the regulatory restraints imposed by both sides. It is also unlikely, given the scale of the bilateral trade imbalance, that India would reconsider joining RCEP.

- There is also no case at this stage for any significant across-the-board reduction in India's MFN tariffs (India is in any case substantially bringing down tariff barriers for FTA partners), which could further increase imports from China. Higher tariffs can, in fact, provide an inducement for Chinese businesses to invest in India to access the domestic market, as was an important element for foreign car manufacturers to invest under India's automobile policy in the 1990s. This does not, however, rule out calibrated tariff reductions for selected essential components and other inputs where these are necessary to make investments viable. But here again, such reduction concessions may need to be time bound since developing a domestic ecosystem for components has to be an important goal as well. (A recent study[36] of India's imports across 71 electronics product lines from China, and the increasing dependence being observed, has called for greater localisation of upstream components and higher domestic value addition, rather than focusing only on the assembly of finished electronic products).

- Foreign investment will almost invariably also generate some additional imports from the investor's home country. This makes substantial local value addition, domestic employment and the development of local supply chains important elements to be looked at while approving investments.

- Over a quarter of all Chinese exports to the world continue to be made by foreign invested enterprises in China (they contributed USD 1.022 trn as per China Customs statistics[37] in 2025, amounting to 27% of China's total exports). Several of them are known global brands and their exports from China also come to India. Indian companies (and state governments) need to explore if some of them will be willing, as a move towards diversification, to invest in India and make those products here, which can also reduce India's imports.

- There could also be merit in examining proposals to link government procurement more closely with domestic investment commitments where bidders rely substantially on Chinese imports, as suggested by Santosh Pai[38]..

- For several of these possibilities to be implemented, particularly in the light of China's tightening regulations concerning foreign collaboration and the movement of experts, some degree of political-level understanding between the two governments will be necessary. A revival of the bilateral Strategic Economic Dialogue (led on the Indian side by Vice Chairman, Niti Aayog and by Chairman, NDRC on the Chinese side) or, even better, the High-Level Economic and Trade Dialogue at ministerial level (which was a new mechanism decided upon at the Mamallapuram Modi-Xi summit in October 2019 but which could not be subsequently convened) could thus be important in providing a structured mechanism for such engagement. With regulatory space on both sides becoming more constrained, businesses also need greater

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36 https://www.business-standard.com/economy/news/india-relies-on-china-for-core-electronics-components-in-71-product-lines-126091101147_1.html
37 https://cceeccic.org/1179156221.html
38 https://carnegieendowment.org/research/2025/08/india-china-economic-ties-determinants-and-possibilities

clarity on what kinds of activities are likely to find acceptance with both governments and are less likely to encounter subsequent roadblocks.

- Will all this work? There is no certainty. President Xi Jinping is reported[39] to have told PM Modi during their recent meeting in New Delhi that China and India are partners rather than rivals and development opportunities rather than threats". The Indian readout also notes[40] that, on economic and trade relations, the two sides underlined the need to address each other's concerns, including structural trade imbalance and supply-chain issues, and to facilitate meaningful and predictable market access. If these understandings can be translated into practical measures, there should be scope for mapping mutually beneficial pathways and developing a more structured economic engagement.

- A possible reset, therefore, need not mean a return to the pre-2020 model of economic relations, nor should it imply a significant dilution of India's diversification, self-reliance or economic-security objectives. It could instead mean a more selective and calibrated engagement in which India seeks greater market access in China, encourages investments that bring local value addition and employment, uses Chinese capital and technology where these serve clearly identified national objectives, and at the same time maintain safeguards against trade diversion and excessive dependence. For China, it could mean opportunities for trade and investment diversification and avenues for participation in development activities in a large potential market next door. Such an approach would, however, also need to recognise that peace and tranquillity in the border areas remains an essential basis for the sustained development of bilateral economic relations.

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[39] https://www.fmprc.gov.cn/eng/xw/zyxw/202609/t20260913_12021206.html
[40]https://www.mea.gov.in/pressreleases?dtl/41778/Prime_Ministers_bilateral_meeting_with_Chinese_President_Xi_Jinping_September_12_2026

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