

India-China Ties: Managing the New Normal

By Dinakar Peri

The period between Xi Jinping's two visits to India, 2019 and 2026, captures an eroding global order, changing power dynamics that, for India, present new realities in managing its China relationship.

On September 12, Indian Prime Minister Narendra Modi and Chinese President Xi Jinping held a bilateral meeting in New Delhi that capped a series of engagements and steps in the ongoing rapprochement and normalisation of the bilateral relationship since the 2020 border standoff in the Himalayas. Far away on the Eastern front in the state of Arunachal Pradesh, Indian and Chinese troops were involved in face-offs in several locations, still continuing, as **confirmed** recently by a senior Indian official.

The last time Xi was on Indian soil dated back to October 2019. The India-China relationship has fundamentally changed since then, so has the world. The COVID pandemic, the **2020 standoff** that is still underway, and the global conflicts that followed were all shocks to the global architecture. The world's two most populous nations fared relatively better, though each faces challenges of different nature. And that has compelled both countries to take steps towards normalising



the ties that came close to the brink. But one outcome stands out clear and definitive: China's technological ascension as the US becomes isolationist, fracturing the post-Cold War international order.

Technology has emerged as the new currency in great power politics. For India, that sharpens an already difficult balancing act: managing a disputed border, and the larger imperatives to sustain growth and protect interests in a volatile world. The contrast between how the two countries manage the border and the wider relationship captures that tricky tango.

As India and China announced steps towards **normalisation**, and as India's ties with the US frayed over tariffs and immigration, one question kept recurring: does this mark a major realignment of New Delhi's strategic outlook and rethinking of its US relationship?

The answer is no. This is accommodation, not realignment. Two nuclear-armed

neighbours have to live with each other. And as both sides' appetites for growth and expansion sharpen, contestation for resources, space and influence becomes inevitable.

The altered reality

India has consistently held that maintaining peace and tranquillity in the border areas is of the "utmost importance." In contrast, the Chinese stance has been to dissociate the standoff from the larger relationship, an unacceptable proposition for New Delhi.

To appreciate this divergence, it is essential to understand the ground realities along the Line of Actual Control (LAC). The 2020 standoff was precipitated by the People's Liberation Army's (PLA) ingress into Indian-held locations in eastern Ladakh along the LAC in April and May 2020. The standoff spanned seven locations in eastern Ladakh. India too mobilised troops and equipment to match the PLA deployment.

One such close encounter turned into a violent clash in June 2020, resulting in **deaths** on both sides. These were the first casualties along the LAC in over four decades. Both sides have since held a series of diplomatic, political and senior military talks, which resulted in disengagement from all the locations, the final two in October 2024. To avoid further escalation at those last two locations, Depsang and Demchok, the two countries agreed to **undertake** coordinated patrolling.

The standoff, however, is not yet over. The freeze on patrolling in the earlier areas of

disengagement, agreed as an interim measure, has yet to be lifted. After that comes the process of de-escalation: de-inducting the troops and equipment still deployed along the LAC.

Given the extent of permanent infrastructure and supporting elements built up by both sides, the ground reality has altered. The earlier call for a "return to status quo ante" has now all but disappeared. Even if it were achieved, that status would itself be an altered reality.

The alignment of the LAC is disputed in several locations, which leads to face-offs as patrols from each side go up to their respective claim lines. On many occasions, these face-offs have turned into prolonged standoffs, sometimes violent. The face-offs in Arunachal show that despite the normalising relationship, probing and testing by the PLA to make incremental territorial gains would undoubtedly continue, and India remains wary of it.

Even as bilateral normalisation progressed, China continued to **rename** geographical features in Arunachal Pradesh, which it claims as Zangnan (South Tibet). In the past few months, India in turn standardised several points in **Arunachal and Ladakh** under its control on its official maps.

India's technological disadvantage, growing economic dependence and widening trade deficit have narrowed New Delhi's room for manoeuvre. Separating the border dispute from the broader relationship could further erode India's already limited leverage.

Managing dependencies

At a macro level, India's greater concern is the widening trade deficit and growing dependence on Chinese inputs that sustain its economic growth. Despite the bilateral standoff, **trade between the two countries** continued to grow. Bilateral trade stood at \$86.4 billion in 2020-21, with India running a deficit of \$44 billion. Five years later, trade had risen to \$151.1 billion. In 2025-26, India imported \$131.63 billion worth of goods from China while exporting only \$19.47 billion, leading to a deficit of \$112.16 billion. Trade figures so far this year suggest that the trend is continuing.

Despite the trade deficit itself, policymakers in New Delhi are increasingly concerned about the **composition of imports**. India exports relatively low-value goods to China, while importing critical inputs that **underpin** its manufacturing base and broader economy, including pharmaceutical ingredients, electronics components, solar modules and critical minerals.

Since April 2020, India has introduced a **series of measures** to strengthen economic resilience and limit Chinese companies' access to key sectors. These include banning more than 300 Chinese applications, including TikTok, WeChat and PUBG; suspending direct flights between the two countries; and restricting Chinese state-linked telecom companies' participation in India's 5G network rollout. India also issued Press **Note 3**, which requires prior government approval for foreign direct investment from countries sharing a land border with India. Although the measure

applies more broadly, it has particularly constrained Chinese investment in India's technology sector. In parallel, India introduced several Production Linked Incentive (PLI) schemes after the COVID pandemic to strengthen domestic production and reduce dependence on critical imports in sectors like pharmaceuticals, electronics and solar manufacturing.

However, the continued growth of imports and their composition reveal the limits of India's effort to reduce its economic dependence on China. In recent years, New Delhi has gradually eased restrictions on trade and business, reflecting a growing recognition of the cost of limiting economic engagement. As bilateral relations thawed, India modestly **amended** Press Note 3 in March 2026. It subsequently **allowed** four Chinese-linked power equipment companies to bid for government projects.

At the same time, India continues to pursue supply diversification. It is set to announce a **new policy** to stockpile critical minerals, in addition to efforts to expand domestic refining capacity. These initiatives come as India pursues an ambitious renewable energy target: **500 gigawatts** (GW) of non-fossil fuel electricity capacity by 2030.

The geopolitical flux

At the broader geopolitical level, growing technological asymmetries and dependencies are adding to India's challenges, particularly as the US and China advance in chips, AI and critical minerals. A US preoccupied with Iran may have less

Dinakar Peri is a Fellow with the Security Studies program at Carnegie India.

capacity to focus elsewhere, giving Beijing greater room to manoeuvre. China has already used it: its reported assistance to Pakistan during **Operation Sindoor** in May 2025 presents new challenges for India. Emboldened further by its technological ascendancy, Beijing may expand grey-zone tactics along the LAC.

For China, facing an economic slowdown, an ageing population and mounting resistance to its firms in sensitive sectors worldwide, India remains a largely accessible market, despite some restrictions, with a younger population. That attraction may help explain Beijing's interest in stabilising bilateral relations. For New Delhi, the recent thaw presents an opportunity to press for a resolution to the border standoff, now in its seventh year. The question is whether India has conceded too much through normalisation without securing one? Only time will tell.

India's traditional balancing approach and commitment to strategic autonomy will face repeated tests. New Delhi must preserve peace along the LAC, normalise bilateral relations with China and reduce its economic dependence on Beijing, all while navigating a shifting geopolitical landscape.