

China-India Brief

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 CENTRE ON ASIA
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The *China-India Brief* is a monthly digest focusing on the relationship between Asia's two biggest powers. The Brief provides readers with a key summary of current news articles, reports, analyses, commentaries, and journal articles published in English on the China-India relationship. It features a Guest Column weighing in on key current issues in China-India relations.

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Guest Column

The “New Normal” of Sino-Indian Economic Relations after Galwan

By Daniel Balazs and Xue Gong

The China-India economic relationship has witnessed considerable changes over the past four years. In early 2020, New Delhi initiated policies restricting Chinese business activities in India, a measure that intensified following the deadly military confrontation in the Galwan Valley in June of that year. India's crackdown on Chinese companies continued until 2024, when several officials from the Indian government began advocating for the easing of restrictions against Chinese investments.

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By August 2024, reports emerged claiming that India had approved multiple Chinese investment proposals, followed by further media claims that India was planning to officially ease these restrictions. As the “**epic bust-up between China and India**” appears to be toning down, the two giants have to come to terms with the new normal in their bilateral economic relationship: reduced Chinese economic activity in India, influenced by targeted restrictions on Chinese businesses and a more guarded stance from Beijing.

Although the Sino-Indian **border patrol agreement** reached on October 21, 2024, is a positive turn, it is very likely that the strategic mistrust will continue to constrain the economic engagements between the two countries.

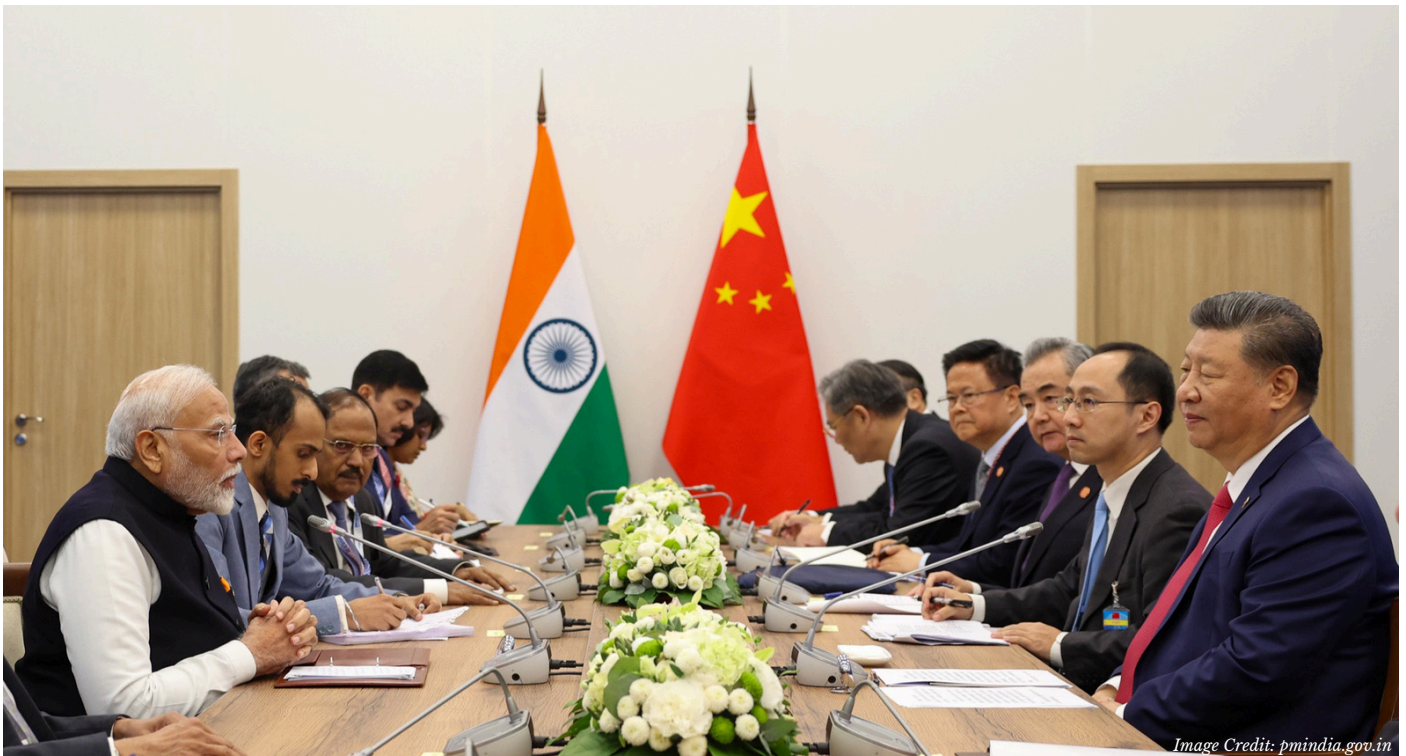
The Border Dispute and the Post-Galwan Ripple Effect

The China-India relationship holds tremendous economic potential, given that these two Asian giants are home to the world’s largest populations. However, there have been numerous challenges in realising this potential. In the past, protectionist policies from both sides had resulted in discriminative measures against each other. Moreover, recurring border clashes and growing mistrust have driven the securitisation of investments, particularly from India, based on national security and strategic concerns.

The mutual distrust between China and India stems from their longstanding border dispute, which reached a peak in the 1960s and led to a deadly border war in 1962 with a decisive Chinese victory. For decades, stability was maintained through confidence-building measures despite occasional low-intensity confrontations. However, this stability was disrupted in 2020 when China **deployed** 5,000 soldiers to disputed areas along the border, leading to a bloody clash in the Galwan Valley on June 15, 2020.

India responded to the clash with a multi-faceted approach that included a revised security posture that entailed greater engagement with the US and its allies, as well as new economic policies designed to curb China’s clout in the country.

The economic response had several components, including investment screening measures, product bans, and tax investigations. India tightened existing restrictions imposed on Chinese capital flows into the country, building on a regulation **introduced** in April 2020, after China’s central bank increased its stake to over 1 percent in HDFC, India’s biggest private bank. The acquisition was seen in India as a predatory purchase that took advantage of the bank’s low valuation amid the pandemic, and could pave the way for future “opportunistic takeovers” of Indian companies by China. To prevent this, the Indian government **mandated** that all inbound investments from India’s land-based neighbours required government approval.



Such government approvals became increasingly rare in the wake of the Galwan clash. The Indian government **rejected** ten Chinese FDI applications in the 2021 financial year, thirty-three in 2022, and fifteen in 2023, while fourteen FDI proposals were put on hold. Major Chinese firms were hit hard by the new measure. Great Wall Motors, a major Chinese car manufacturer, **abandoned** its plan of investing USD 1 billion in India after waiting almost a year for a government approval that never came. Similarly, the Indian government **blocked** BYD's plan to establish a USD 1 billion factory in partnership with Hyderabad-based Megha Engineering and Infrastructure Ltd.

Investment restrictions were merely the tip of the iceberg. Between 2020 and 2023, India banned at least 250 Chinese **mobile apps**, including social networking, messaging, video, and gaming apps like WeChat, **PUBG**, and **TikTok**, citing national security concerns and impacting major tech

firms such as Tencent and Baidu. Some estimates and put this **figure** even **higher**. Investigations were also launched against Chinese telecommunications companies like ZTE, **Huawei**, **OPPO**, **Vivo** and Xiaomi over allegations of tax evasion and money laundering. Finally, Chinese firms were **excluded** from India's 5G trials and **government tenders**, including **highway** projects.

China Plays the Long Game

Various analyses have highlighted Beijing's use of economic coercion when territorial disputes with other countries arise. However, China's reaction to the Galwan clash and India's subsequent economic retaliation, has been uncharacteristically restrained. While China's Foreign Ministry **blamed** India for the violence, the clash was scarcely covered in state media, and Beijing only confirmed the death of four Chinese soldiers eight months after the confrontation occurred.

Economically, China refrained from any overt retaliation against India and chose to respond in words instead. Beijing argued that the border dispute should be **treated** separately from the broader bilateral relationship, and it called India's mobile app bans and the FDI restrictions as **discriminatory trade measures**. Chinese state media also chimed in, criticising New Delhi's post-Galwan economic policies for transforming India into a "**graveyard for foreign companies**" characterised "by opaque market regulations and capricious law enforcement targeting foreign, especially Chinese, businesses."

China's restrained response is unsurprising for two reasons. First, the Sino-Indian economic relationship gives China a significant advantage, as it has remained one of India's largest trading partners with a substantial trade surplus and often alternates with the US for the top spot. In the 2024 fiscal year, despite India's stringent post-Galwan measures, Chinese exports to India **exceeded** USD 100 billion, once again making China **India's top trading partner**. This recurring trade dominance gave China the confidence to wait out the situation until India adopted a more flexible economic stance.

Second, China aims to deter Indian adventurism on the border without pushing New Delhi closer to Washington. Even in critical areas like pharmaceuticals, where India heavily relies on Chinese Active Pharmaceutical Ingredients (API), China has not imposed restrictions.

This reflects Beijing's broader strategy of refraining from leveraging its economic influence against India in order to avoid further escalation.

India's Policy Adjustments

China's no-retaliation policy appears to be paying off. In 2024, India showed signs that it was willing to relax its aggressive economic measures. At the Davos World Economic Forum in January 2024, Rajesh Kumar Singh, Secretary at the Department for Promotion of Industry and Internal Trade, **suggested** that the Indian government might ease restrictions on Chinese investments if the border remained peaceful. In July 2024, India's Chief Economic Adviser V. Anantha Nageswaran **argued** that New Delhi needed more Chinese investments to strengthen its global trade position. In August 2024, media reports **emerged** claiming that India had approved Chinese investment proposals from electronics players Luxshare and Huaqin Technology.

India's policy shift is driven by at least three key factors. First, **stability** along the disputed border has improved significantly since the start of 2024, which is demonstrated by the recent Sino-Indian **agreement** reached on October 21 this year that allows the two sides to continue patrolling the border as they did before May 2020. Second, reports **suggest** that New Delhi has been facing significant **pressure** from its own domestic automotive and electronics industry to ease restrictions on Chinese investments.

Finally, the Indian government has established a framework that allows it to selectively **target** Chinese companies and **limit** their involvement in joint ventures.

While the situation appears to be shifting in China's favour, scepticism remains. Chinese state media reports following the approved investments **highlighted** that Chinese companies would likely remain **reluctant** to do business in India due to the discriminatory and unpredictable business environment. Indeed, this scepticism seems warranted as measures such as the possible "**CCTV crackdown**"—the Indian government's effort to acquire surveillance cameras from only "trusted locations," thereby limiting acquisition of such equipment from Chinese suppliers—and potential company **deregistrations** by India's Ministry of Corporate Affairs, could significantly impact Chinese businesses operating in India. Nevertheless, India's current approach seems to be more targeted and selective than during the 2020-2023 period.

The Dawn of a New Era?

The Galwan clash marked a turning point in Sino-Indian relations, significantly impacting their economic ties. In the wake of their bloodiest confrontation in decades, India implemented sweeping measures to curtail Chinese economic activity and influence in the country. Meanwhile, Beijing opted for "strategic patience" to

avoid further escalating tensions, a step that seems to be paying off as India gradually renews its economic outreach to China. Nonetheless, the two countries are unlikely to see a quick return to their pre-2020 economic relationship, despite a recent breakthrough made on the border issue. The new normal of Sino-Indian economic ties is likely to feature continued, targeted countermeasures from India and a more cautious economic engagement from China.

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News Reports

Bilateral relations

India, China complete disengagement at Depsang and Demchok in Ladakh

The Indian Express, October 30

Patrolling will commence soon and sweets will be exchanged on Thursday, according to Indian Army sources.

'Looking forward to direct flights resuming between China, India': Chinese envoy

Hindustan Times, October 30

This, ambassador Xu Feihong said, would allow him to 'fly back to Beijing directly.'

Why China and India are de-escalating tensions on their disputed border

South China Morning Post, October 26

Economic reasons could be a factor in the breakthrough and it might also help China diplomatically, observers say.

China and India in the Region

India's Indo-Pacific strategy gets EU, Asean defence boost to counter China's influence

South China Morning Post, October 30

Analysts say enhancing defence ties and goodwill naval visits are 'significant steps' in helping India boost visibility in the region.

Brazil becomes second BRICS country after India not to join China's BRI

The Hindu, October 29

Brazil decides against joining China's BRI, opting for alternative collaboration with Chinese investors, sparking global debate.

Expanded BRICS grouping is the start of 'a different kind of international order', says expert

Channel News Asia, October 25

Emerging economies are playing the field by siding with the United States and its allies one day, and Russia and China the other, says a professor of international affairs.

Indian Foreign Minister says New Delhi does not share Ishiba vision for Asian Nato

The Straits Times, October 2

India does not share the vision for an "Asian Nato" called for by Japan's new Prime Minister Shigeru Ishiba, Indian Foreign Minister Subrahmanyam Jaishankar said on Oct 1.

Trade and Economy

Economic crisis forcing China to adjust foreign policy: Ian Bremmer

India Today, October 28

China is facing its worst economic performance in decades, pushing Beijing to adopt a more cooperative stance in international relations.

BRICS' de-dollarization agenda has a long way to go

Voice of America, October 26

The BRICS plan is taken seriously in some quarters because China and India have shown it is possible to defy the economic sanctions and buy Russian oil using local currencies.

IMF sees global inflation declining, downgrades China growth to 4.8%

Nikkei Asia, October 22

The gloomy forecast comes after Beijing in late September began announcing a string of stimulus measures that induced a frenzied stock market rally.

Energy and Environment

BRICS power shift: renewables capacity set to surpass 50% as fossil fuel use shrinks

South China Morning Post, October 22

Rapid investments in grid infrastructure and energy storage is needed to fully harness the potential of renewables.

China is leading an 'age of electricity,' IEA says

Nikkei Asia, October 16

Electricity is quickly replacing fossil fuels, the Paris-based intergovernmental body said in its annual World Energy Outlook.

Indian companies move in as US cuts China out of its solar industry

Financial Times, October 6

Washington weighs more tariffs on imports after flood of Chinese panels drove global prices to record lows.

As China tightens grip, India and US sign agreement to strengthen supply chain for critical minerals

The Indian Express, October 4

This follows a series of unexpected curbs imposed by China, including restrictions on exports of gallium and germanium, which are products widely used in the semiconductor industry.

Analyses

The Winds of Pragmatic Change in Sino-Indian Relations

China US Focus, October 30

By Brian Wong, Assistant Professor in Philosophy and Fellow at Centre on Contemporary China and the World, HKU and Rhodes Scholar

Bolstering trust, facilitating communication, and identifying common ground are of paramount importance to the people living in the two countries.

Has India made friends with China after the Modi-Xi agreement?

Brookings, October 29

By Tanvi Madan, Senior Fellow at Brookings

It would be helpful if New Delhi is as transparent as possible with its partners about its discussions with China and their implications—something its partners should reciprocate regarding their own outreach to Beijing.

Strategic patience crucial to guide China-India relations

Global Times, October 29

By Swaran Singh, Professor of International Relations at Jawaharlal Nehru University, New Delhi

Their strategic patience paradigm is not only going to guide their bilateral relations but it can also be the mantra for international relations.

All the BRICS a Stage

The Indian Express, October 26

By Kanti Bajpai, Vice Dean (Research and Development) and Wilmar Professor of Asian Studies, Lee Kuan Yew School of Public Policy, National University of Singapore

Global summits are about performing diplomacy and politics for domestic and international audiences.

Despite Doubts, the Quad Is Here to Stay

9Dashline, October 22

By Lucas Myers, Senior Associate for Southeast Asia with the Indo-Pacific Program at the Wilson Center

For Australia, India, Japan, and the United States, the Quad is a value add for the Indo-Pacific, not a distraction.

India's national interest demands better China ties. Don't let West influence it

The Print, October 22

By Zorawar Daulet Singh, award winning author and strategic affairs expert based in New Delhi

China's dominant material position in global industry and trade make it an unavoidable factor in any rising power's economic policies.

Books and Journals

India–China rivalry, China–Pakistan quasi-alliance, terrorism, and asymmetric balancing India Review, September 2024

By Raj Verma, an Associate Professor at the School of International Relations and Public Affairs, Shanghai International Studies University

China has recurrently delayed, blocked, and/or stopped attempts by India (and other countries) to designate Pakistani citizens as terrorists under the UN Security Council 1267 Committee rules by placing “technical hold” or employing its veto. Question arises “why does China shield Pakistan on terrorism and block India’s attempts to designate Pakistani citizens as terrorists?” Employing asymmetric alliance in conjunction with quasi-alliance as the analytical framework, the article argues that China’s motives are explained by the India–China rivalry resulting in a quasi-alliance between China and Pakistan against their common enemy India. The China–Pakistan quasi-alliance is geared toward balancing and containing India. India’s rise poses a challenge to China’s ambitions of being the pre-dominant power in Asia. An important characteristic of this quasi-alliance is China’s support to Pakistan’s policy of asymmetric balancing against India by employing a plethora of terrorist organizations to target India and Indian interests abroad. Non-state actors fostered by Pakistan provide China with a low-cost option to ensure that India is wary of its western neighbor and its political, military,



and diplomatic energies are fixed on Pakistan. This prevents India from focusing its resources toward China, prevents India’s rise and its ability to challenge China in Asia and beyond.

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THE CENTRE ON ASIA AND GLOBALISATION

The Centre on Asia and Globalisation is a research centre at the Lee Kuan Yew School of Public Policy, National University of Singapore. It conducts in-depth research on developments in the Asia-Pacific and beyond, and aims to provide academics, decision-makers, and the general public with objective analysis on issues of regional and global significance. The Centre's motto "Objective Research with Impact" reflects its commitment towards ensuring that its analysis informs policy and decision makers in and about Asia.

OTHER CAG PUBLICATIONS

- *Partnership or Polarization? Southeast Asian Security between India and China* edited by Evan Laksmana and Byron Chong (Contemporary Southeast Asia, 2023)
- *Asian Conceptions of International Order: What Asia Wants* edited by Kanti Bajpai and Evan Laksmana (International Affairs, 2023)
- *How Realist Is India's National Security Policy?* edited by Kanti Bajpai (Routledge, 2023)
- *Deterring Conflict and Preserving Peace in Asia* edited by Drew Thompson and Byron Chong (Centre on Asia and Globalisation, 2022)
- *What Can the United States Learn from China about Infrastructure?* by Selina Ho in *The China Questions 2* (Harvard University Press, 2022)
- *India Versus China: Why they are Not Friends* by Kanti Bajpai (Juggernaut Books, 2021)
- *Winning the Fight Taiwan Cannot Afford to Lose* by Drew Thompson (Strategic Forum, 2021)
- *Routledge Handbook of China-India Relations* edited by Kanti Bajpai, Selina Ho and Manjari Chatterjee Miller (Routledge, 2020)



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