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ECONOMIC INTERDEPENDENCE VS. STRATEGIC COMPETITION: RETHINKING INDIA–CHINA ENGAGEMENT IN 2025

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Abstract
This research paper examines the complex and paradoxical relationship between India and China in 2025, characterized by deepening economic interdependence alongside intensifying strategic competition. Drawing upon bilateral trade data, academic scholarship, and policy analyses, this study explores how the world's two most populous nations navigate the tension between pragmatic economic cooperation and geopolitical rivalry. The paper analyzes multiple dimensions of engagement including border management, trade relations, technology competition, regional influence, and multilateral cooperation. The findings reveal that despite a record trade deficit of USD 99.2 billion and persistent border tensions, both nations have pursued cautious diplomatic normalization in 2024-2025, driven by external pressures including U.S. tariff policies and shifting global economic dynamics. This research contributes to understanding how major powers manage asymmetric interdependence while competing for regional primacy, and offers insights into the future trajectory of Asia's most consequential bilateral relationship.
Keywords: India-China relations, economic interdependence, strategic competition, trade deficit, border disputes, Indo-Pacific, Belt and Road Initiative

1. INTRODUCTION

The relationship between India and China in 2025 represents one of the most significant yet paradoxical bilateral dynamics in contemporary international relations. These two Asian giants, home to over 2.8 billion people and representing emerging economic powerhouses, find themselves locked in what scholars describe as a "mixed motive game" characterized by simultaneous cooperation and competition (Bajpai, Ho and Miller 2022). The year 2025 marks a critical juncture in this relationship, as both nations attempt diplomatic normalization following the devastating 2020 Galwan Valley clash, even as structural sources of competition from territorial disputes to technology rivalry continue to intensify.
This paper argues that India-China engagement in 2025 epitomizes the tension between economic necessity and strategic autonomy, where deepening trade interdependence coexists uneasily with geopolitical contestation across multiple domains. Understanding this relationship requires moving beyond simplistic narratives of either inevitable conflict or natural partnership, to appreciate the nuanced interplay of cooperation and competition that defines contemporary Sino-Indian relations. The research draws upon bilateral trade statistics, academic literature, policy documents, and recent diplomatic developments to provide a comprehensive analysis of this complex relationship.

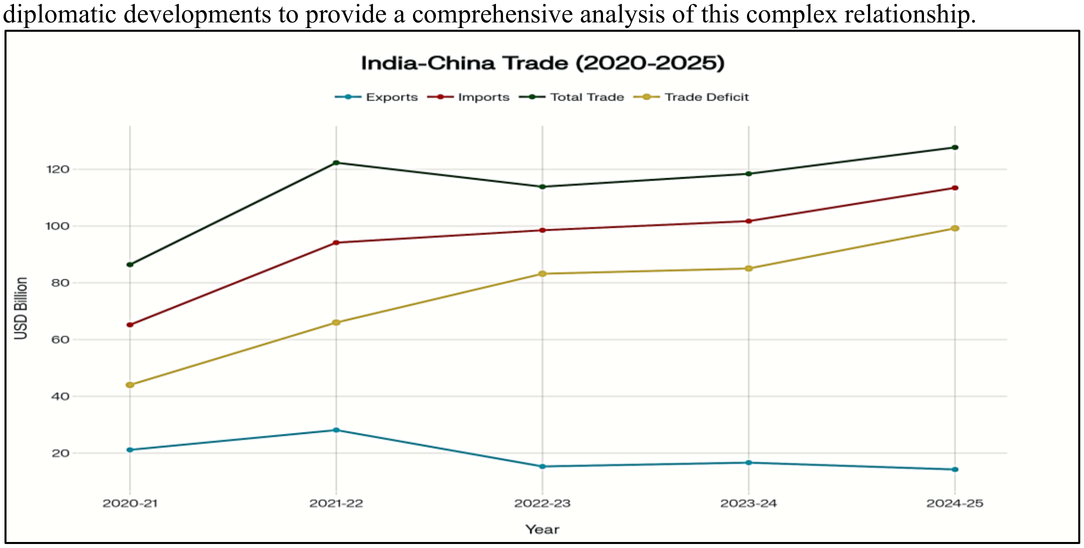

Figure 1: India-China bilateral trade shows increasing imports and widening trade deficit from 2020-21 to 2024-25, with India's exports declining while imports surge, resulting in a record deficit of USD 99.2 billion.

2. Historical Context and Evolution of India-China Relations

2.1 From Hindi-Chini Bhai-Bhai to Strategic Rivalry

The India-China relationship has traversed a complex trajectory from post-colonial solidarity to contemporary strategic competition. The early years following independence were marked by the idealistic vision of Sino-Indian cooperation, epitomized by the 1954 Panchsheel Agreement and the slogan "Hindi-Chini Bhai-Bhai" (Indians and Chinese are brothers) (Madan 2024). This cooperative phase was premised on shared experiences of colonial subjugation and aspirations for a post-Western Asian order (Madan 2024). However, this optimism proved short-lived, as fundamental disagreements over territorial boundaries, Tibet's status, and regional influence emerged as defining features of the bilateral relationship.

The 1962 Sino-Indian border war marked a watershed moment, fundamentally altering mutual perceptions and establishing a pattern of mistrust that persists into 2025 (Singh 2025). As Bajpai (2024) argues in his comprehensive analysis, the relationship has been shaped by "four Ps" perception, perimeter, partnership, and power which continue to undergird contemporary antagonism (Bajpai 2024). The perimeter aspect, relating to unresolved border disputes along the 3,488-kilometer Line of Actual Control (LAC), remains a flashpoint for periodic military confrontations (Vision IAS 2024).

2.2 The 2020 Galwan Crisis as an Inflection Point

The Galwan Valley clash of June 15-16, 2020, represented more than a tactical border skirmish; it fundamentally transformed the strategic calculus governing India-China relations. The incident, which resulted in the deaths of 20 Indian soldiers and at least four Chinese soldiers, shattered the fragile peace that had been maintained along the LAC since the mid-1970s (BBC 2020). According to U.S. intelligence assessments, the confrontation was sanctioned by China's Western Theater Command chief General Zhao Zongqi, suggesting premeditated strategic intent rather than mere tactical miscalculation (Wikipedia 2020).

The Galwan crisis triggered a cascade of consequences across multiple dimensions of the bilateral relationship. India implemented immediate economic countermeasures, including banning over 200 Chinese mobile applications for national security reasons and instituting Press Note 3 in April 2020, which mandated prior government approval for all foreign direct investment from countries sharing land borders with India a measure explicitly targeting Chinese investment (PIB 2020). The Indian government's rationale was to prevent "opportunistic takeovers" of Indian companies during the COVID-19 pandemic, when valuations had declined precipitously (Times of India 2025).

2.3 Strategic Implications of the Border Crisis

The strategic implications extended beyond bilateral ties to reshape regional alignments. As Madan (2024) observes, the crisis shifted Indian perceptions of China from viewing economic ties as an opportunity to regarding them as a vulnerability, accelerating policies aimed at indigenization and diversification away from Chinese supply chains (Madan 2024). This represented a fundamental shift in India's approach, from Modi's initial emphasis on strong Sino-Indian economic relations when he took office in 2014, to a more defensive posture focused on reducing strategic dependencies (Carnegie Endowment 2021).

The crisis also catalyzed India's deeper engagement with the Quadrilateral Security Dialogue (Quad) and accelerated military modernization efforts along the northern borders. Both nations have permanently deployed additional troops to border areas and substantially upgraded military infrastructure, suggesting a long-term posture of heightened readiness (USIP 2023). This militarization of the border region represents what scholars describe as a shift from strategic stability to strategic escalation, with implications for regional security dynamics (USIP 2023).

3. Economic Interdependence: The Trade Paradox

3.1 Bilateral Trade Dynamics and the Widening Deficit

3.1.1 Trade Growth Amid Geopolitical Tensions

Despite geopolitical tensions, economic engagement between India and China has intensified rather than diminished, creating what scholars term a "paradox of interdependence" (International Affairs Australia 2025). Bilateral trade reached USD 127.71 billion in fiscal year 2024-25, marking a substantial increase from USD 86.40 billion in 2020-21 (IBEF 2023). However, this growth has been heavily asymmetric, with India's trade deficit ballooning to a record USD 99.2 billion in 2024-25, compared to USD 44.03 billion in 2020-21 (Hindustan Times 2025). This represents an alarming 125% increase in the deficit over just four years, reflecting deepening structural imbalances in the trading relationship.

China overtook the United States to become India's largest trading partner in fiscal year 2023-24, a position it has maintained through 2024-25 (InDBiz 2024). In 2024-25, India imported Chinese merchandise worth USD 113.45 billion, representing an 11.5% increase from the previous year, while exports to China contracted by 14.4% to USD 14.25 billion (Hindustan Times 2025). Particularly concerning for Indian policymakers is the fact that Indian exports to China in 2024-25 were lower than in 2014, despite the rupee's depreciation, signaling a competitiveness crisis rather than merely a trade imbalance (Hindustan Times 2025).

3.1.2 Structural Characteristics of the Trade Imbalance

China's dominance across India's import basket has become pervasive and systemic. As the Global Trade Research Initiative (GTRI) analysis reveals, China now serves as India's top supplier across all eight major industrial product categories (Hindustan Times 2025). Major import categories include electronic components and equipment (USD 18.5 billion), machinery and mechanical appliances (USD 15.2 billion), organic chemicals (USD 8.7 billion), and plastics (USD 7.3 billion) (Times of India 2025). These imports are not luxury consumer goods but rather critical inputs for India's domestic manufacturing and export sectors, including components for the Production-Linked Incentive (PLI) schemes designed to boost indigenous manufacturing (Hindustan Times 2025).

The composition of trade reveals India's strategic vulnerabilities. While India exports primarily raw materials, agricultural products, and lower value-added goods to China, it imports high-value manufactured products, machinery, and technology-intensive goods (IBEF 2023). This asymmetric trade structure reflects fundamental differences in industrial capabilities and technological sophistication between the two economies (ORCASIA 2022).

3.2 Strategic Dependencies and Supply Chain Vulnerabilities

3.2.1 Critical Sector Dependencies

India's dependence on Chinese imports extends far beyond aggregate trade statistics, penetrating deep into strategically critical sectors. In solar panels and photovoltaic cells, India imports 85% of its requirements from China, severely constraining its ambitious renewable energy targets of 500 GW by 2030 (Drishti IAS 2025). The semiconductor sector reveals even more acute dependencies, with 79% of India's chip imports sourced from China (Techovedas 2025). Telecommunications equipment shows 77.7% Chinese dependency, raising national security concerns particularly as India rolls out 5G networks (China Briefing 2024).

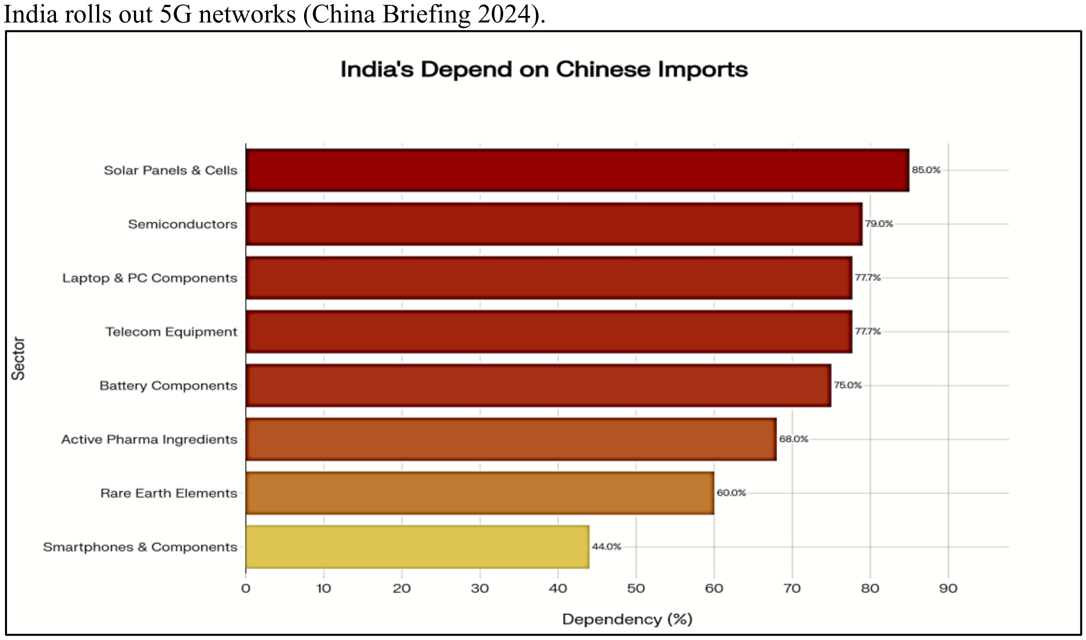

Figure 2: India exhibits high strategic dependence on China across critical sectors, with solar panels (85%), semiconductors (79%), and telecom equipment (77.7%) showing the highest dependency levels, posing significant supply chain vulnerabilities.

The pharmaceutical sector presents a particularly troubling vulnerability. India imports 68% of its Active Pharmaceutical Ingredients (APIs) from China, meaning that the "pharmacy of the world" depends heavily on Chinese chemical precursors for drug manufacturing (Drishti IAS 2025). This dependency was starkly exposed during the COVID-19 pandemic when supply chain disruptions threatened India's ability to produce essential medicines. Similarly, rare earth elements critical for electric vehicles, defense systems, and high-tech manufacturing see India relying on China for 60% of supplies, with China controlling 87% of global rare earth processing capacity (Economic Times 2025).

3.2.2 Geopolitical Implications of Economic Dependencies

As Srivastava of GTRI warns, this overwhelming dependence gives Beijing potential leverage over India, making supply chains a possible tool of pressure during political tensions (Times of India 2025). The concern is compounded by China's demonstrated willingness to weaponize trade relationships, as evidenced by its 2025 restrictions on rare earth magnet exports, which created immediate supply concerns for India's growing electric vehicle sector (India Mongabay 2025). The geopolitical nature of these dependencies means that what appears as routine commercial trade actually represents strategic chokepoints that could be activated during bilateral crises.

The battery components sector exemplifies this vulnerability, with India depending on China for 75% of lithium-ion battery supplies critical for its electric vehicle ambitions (Drishti IAS 2025). Computer hardware and parts show 77% Chinese dependency, directly affecting India's information technology sector and digital infrastructure development (China Briefing 2024). These dependencies create what scholars term "strategic vulnerability" situations where economic interdependence can be exploited for political purposes by the more powerful party (International Affairs Australia 2025).

3.3 Economic Cooperation Amid Competition

3.3.1 Complementarities and Mutual Benefits

Paradoxically, the very economic interdependence that creates vulnerabilities also generates powerful incentives for cooperation. China remains India's largest trading partner as of 2024-25, and the Chinese market provides critical opportunities for specific Indian export sectors including pharmaceuticals, IT services, and agricultural products (China Briefing 2025). The complementarity between China's advanced manufacturing capabilities in batteries, solar panels, and engineering plastics, and India's strengths in pharmaceuticals, information technology, and agriculture, creates mutual benefits that neither side can easily replicate (China Briefing 2025).

Major Indian conglomerates including Adani, Reliance, and JSW are pursuing joint ventures and licensing deals with Chinese battery giants like CATL and BYD, recognizing the technological advantages and scale efficiencies Chinese firms offer (China Briefing 2025). In the renewable energy sector, India's ambitious solar deployment targets depend heavily on affordable Chinese panels, which cost 30-40% less than alternatives from other countries (International Affairs Australia 2025). This creates compelling economic logic for continued engagement despite geopolitical tensions.

3.3.2 Recent Diplomatic Efforts to Address Trade Imbalances

Recent diplomatic engagement in 2025 has focused explicitly on addressing trade imbalances. During Prime Minister Modi's visit to China for the Shanghai Cooperation Organisation (SCO) Summit in August 2025, trade and investment featured centrally in discussions, with Modi highlighting India's trade deficit concerns and Xi emphasizing the need to prioritize development as the foundation of the relationship (China Briefing 2025). Beijing has signaled willingness to address Indian concerns through higher imports of Indian goods by removing tariff and non-tariff barriers, though concrete implementation remains to be seen (Hindustan Times 2025).

The warming of relations in 2025 has been partly driven by external pressures, particularly U.S. President Donald Trump's imposition of 50% tariffs on Indian exports in August 2025 (CFR 2025). This created economic urgency for India to diversify partnerships and reduce overdependence on the U.S. market, making China a more attractive economic partner despite persistent security concerns (China Briefing 2025). For China, facing intensifying Western scrutiny and trade restrictions, stabilizing relations with India reduces regional vulnerabilities and unlocks opportunities in sectors ranging from infrastructure to clean energy (China Briefing 2025).

4. Strategic Competition: Multiple Domains of Rivalry

4.1 Border Disputes and Military Tensions

4.1.1 The Line of Actual Control and Territorial Contestation

The territorial dispute along the India-China border remains the most visible and volatile dimension of strategic competition. The Line of Actual Control, stretching approximately 3,488 kilometers across three sectors (Western, Middle, and Eastern), lacks clear demarcation in many areas, with both sides holding different perceptions of where the line runs (Vision IAS 2024). This ambiguity creates space for periodic confrontations, as demonstrated by major incidents in 2013, 2014, 2017 (Doklam), 2020 (Galwan), and 2023 (Tawang) (Raja Mohan 2025).

The nature of border confrontation has evolved significantly. While the 1993 and 1996 agreements between India and China had maintained relative peace along the LAC, with both sides agreeing not to use firearms in border areas, the Galwan clash in 2020 represented a dramatic departure from this understanding (USIP 2023). For the first time in 45 years, soldiers were killed in border confrontations, marking what scholars describe as a shift from strategic stability to strategic escalation (USIP 2023).

4.1.2 Military Buildup and Infrastructure Development

Even after tactical de-escalation efforts, both nations have permanently deployed additional troops to border areas and substantially upgraded military infrastructure, suggesting a long-term posture of heightened readiness (USIP 2023). The October 2024 disengagement agreement on Depsang Plains and Demchok marked a significant diplomatic breakthrough after four years of tense military standoff (Vision IAS 2024). The agreement restored mutual patrolling rights in disputed areas and established protocols for preventing future clashes similar to Galwan (Vision IAS 2024).

However, experts caution that this represents only the first step in a three-step process of disengagement, de-escalation, and de-induction of troops, with the broader boundary question remaining unresolved (Vajira Mandravi 2024). As one strategic analysis notes, the nebulous nature of the LAC makes it vulnerable to face-offs and escalation at any point, meaning that while major conflict may be unlikely, periodic confrontations remain probable (ORCA Asia 2024).

4.1.3 Strategic Motivations Behind Border Assertiveness

China's motivations for asserting control along the LAC are multifaceted. Some assessments suggest that the People's Liberation Army (PLA) carried out operations in Eastern Ladakh in 2020 because it felt it had developed the capability to move up to China's 1959 claim line, representing a unilateral attempt to alter the territorial status quo (ORCA Asia 2024). Strategically, maintaining pressure along India's northern borders serves to keep India preoccupied with territorial defense, limiting its ability to project power into the broader Indo-Pacific region (ORCA Asia 2024).

This creates what Indian strategists term a "two-front challenge," given China's deepening military partnership with Pakistan, which could potentially activate coordinated pressure on India's western and northern borders simultaneously (CFR 2025). The China-Pakistan axis, strengthened through the China-Pakistan Economic Corridor (CPEC) and defense cooperation, represents a persistent strategic concern for Indian planners (Drishti IAS 2022).

4.2 Regional Influence and the South Asian Battleground

4.2.1 China's Belt and Road Initiative in South Asia

South Asia has emerged as a critical arena for India-China strategic competition, with China leveraging economic power to challenge India's traditional regional primacy. Through the Belt and Road Initiative (BRI), particularly the China-Pakistan Economic Corridor (CPEC), China has established significant economic and strategic footholds across India's immediate neighborhood (Defence Australia 2023). India's concerns about CPEC are multifaceted: it passes through Pakistan-occupied Kashmir, which India claims as its sovereign territory; it provides China with strategic access to the Arabian Sea through Gwadar Port; and it deepens the China-Pakistan partnership in ways that directly challenge Indian security interests (Drishti IAS 2022).

China's economic engagement extends across South Asian nations including Nepal, Bangladesh, Sri Lanka, and Maldives, often filling infrastructure financing gaps that India cannot match given resource constraints (Times of India 2025). In Bangladesh, China pledged USD 24 billion in BRI agreements during President Xi's 2016 visit, dwarfing India's USD 2 billion assistance package (Times of India 2025). Nepal broke tradition in 2024 when Prime Minister KP Sharma Oli visited Beijing before New Delhi a symbolic shift highlighting China's growing gravitational pull in the region (Eurasian Times 2024).

4.2.2 India's Countermeasures and Regional Advantages

However, India retains significant advantages in regional competition. Geographic proximity, cultural and linguistic ties, democratic governance systems, and historical relationships provide India with "home field advantage" in South Asia (Times of India 2025). Recent Indian diplomacy has successfully shored up relations with key neighbors. In Bangladesh, despite the 2024 political transition following Sheikh Hasina's ousting, India remains the most important strategic partner, with deep cooperation on security, connectivity, and water resource management (Times of India 2025).

In the Maldives and Sri Lanka, India has matched or exceeded Chinese engagement through targeted infrastructure projects, defense cooperation, and financial assistance (Times of India 2025). Sri Lanka's experience with Chinese-financed projects at Hambantota Port, which China took over on a 99-year lease due to debt repayment difficulties, exemplifies both the allure and risks of Chinese infrastructure financing a cautionary tale that India leverages in regional diplomacy (Times of India 2025).

4.2.3 Competing Models of Regional Statecraft

The strategic competition in South Asia reflects broader patterns of what Gong (2025) terms "regional statecraft" the active endeavor by major powers to influence the contours of regional integration to further their strategic interests (Gong 2025). China's approach is proactive and aimed at securing primacy through massive investments, institution-building that challenges Association of Southeast Asian Nations (ASEAN) centrality, and the creation of economic dependencies (Gong 2025). India's approach is reactive and defensive, shaped by persistent concerns about Chinese encirclement, leading to measures that seek to counterbalance rather than assert independent dominance (Gong 2025).

4.3 Technology Competition and the Race for Critical Capabilities

4.3.1 Semiconductor and Electronics Manufacturing

The technological domain has emerged as a crucial battleground in India-China strategic competition, with profound implications for economic competitiveness, national security, and future power projection. China's "blitzkrieg strategy" for emerging technologies, as outlined in its 2021 Five-Year Plan, prioritizes six cutting-edge areas: quantum computing, next-generation artificial intelligence, integrated chips, brain science, genetics, and biotechnology (Brookings 2023). The scale of Chinese investment and state coordination in these sectors creates both opportunities and threats for India, which lacks comparable resources but is seeking to carve out competitive niches.

The semiconductor sector exemplifies the technological power asymmetry. Despite India launching the Semicon India Programme in 2021 with a pledge of approximately USD 10 billion to attract chip fabs and boost design-led innovation, the country faces a decade-long gap compared to China's established manufacturing muscle and robust supply chain (Techovedas 2025). India imported about USD 5.38 billion worth of semiconductors in 2021, with USD 4.25 billion sourced from China alone a 160% increase over the previous year (Brookings 2023).

4.3.2 Telecommunications Infrastructure and 5G Competition

In telecommunications infrastructure, particularly 5G deployment, India has taken a more defensive posture. While Huawei and ZTE were not formally banned, they were excluded from India's 5G trials after the 2020 border tensions, with Indian telecom operators instead partnering with European and domestic suppliers (Brookings 2023). India has also backed alternative technology standards including the RISC-V Foundation as an alternative to ARM instruction set architecture, and Open RAN for telecom infrastructure, both aimed at unbundling dominant players and reducing single-source dependencies (Brookings 2023).

This dependency is particularly problematic given semiconductors' critical role in everything from consumer electronics to defense systems. The telecommunications sector's 77.7% dependency on Chinese equipment raises acute national security concerns, especially regarding potential surveillance capabilities and network vulnerabilities in an era of cyber warfare (China Briefing 2024).

4.3.3 Critical Minerals and Supply Chain Competition

The competition extends to critical minerals essential for next-generation technologies. China's dominance in rare earth processing (87% globally) and lithium refining (58%) gives it commanding leverage over supply chains critical to electric vehicles, renewable energy, and electronics manufacturing (Drishti IAS 2025). India's IREL facility, with a capacity of 600,000 tons per year, struggles to meet growing demand for battery-grade minerals, forcing continued import dependence despite possessing the world's fifth-largest rare earth reserves (India Mongabay 2025).

China's April 2025 export restrictions on certain rare earth elements created immediate supply disruptions and highlighted the fragility of this dependency (Economic Times 2025). India's response has focused on building domestic capabilities while diversifying supply sources through international partnerships. The U.S.-India Initiative on Critical and Emerging Technology (iCET), semiconductor partnerships with the United States, Japan, and Taiwan, and bilateral cooperation on quantum computing and artificial intelligence represent efforts to access alternative technology ecosystems (Brookings 2023).

4.4 The Indo-Pacific and Multilateral Contestation

4.4.1 The Quad and Indo-Pacific Security Architecture

The broader Indo-Pacific region has become a primary theater for India-China strategic competition, with both nations advancing competing visions of regional order. India's participation in the Quadrilateral Security Dialogue (Quad) with the United States, Japan, and Australia represents its most significant effort at external balancing against Chinese influence (E-IR 2024). The Quad has evolved from a diplomatic forum into a platform for concrete initiatives addressing regional challenges including maritime security, critical technologies, climate change, and pandemic response (E-IR 2024).

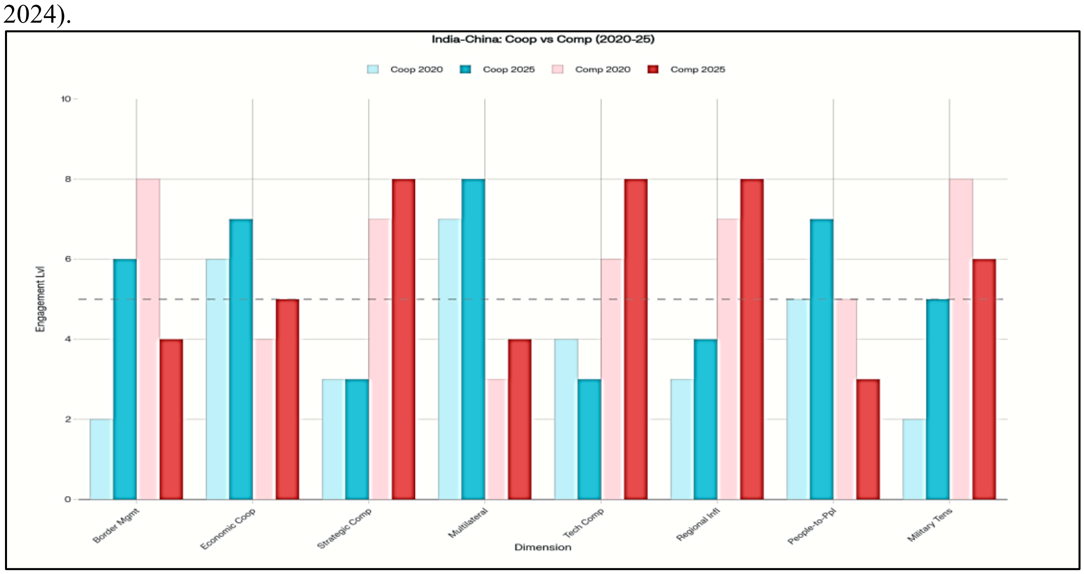

Figure 3: The evolution of India-China engagement from 2020 to 2025 shows improved cooperation in border management, multilateral forums, and people-to-people ties, while competition has intensified in technology, regional influence, and strategic domains.

The 2024 Quad Summit launched initiatives specifically designed to counter Chinese influence, including the "Ports of the Future" program aimed at providing alternatives to Belt and Road infrastructure projects, with India hosting the inaugural regional conference in Mumbai (CESCUBE 2025). Through the Malabar naval exercises, the Quad has increased interoperability among member navies, enhancing collective capabilities for maritime domain awareness and security cooperation (CESCUBE 2025).

4.4.2 India's Strategic Autonomy within the Quad Framework

However, India's position in the Quad differs fundamentally from other members. As the only Quad country sharing a direct land border with China, and given its policy of strategic autonomy, India seeks to balance security cooperation with maintaining independent channels of engagement with Beijing (Asan Forum 2021). Indian strategists view the Quad as a means of enhancing comprehensive national power while maintaining flexibility, rather than as an anti-China military alliance (Asan Forum 2021). This approach reflects India's desire to preserve a multipolar regional order rather than replace Chinese dominance with alignment under U.S. hegemony.

India's contribution includes its Indo-Pacific Oceans Initiative (IPOI) framework and SAGAR (Security and Growth for All in the Region) policy, which emphasize cooperative security and rule-based norms rather than overt containment

(CESCUBE 2025). This nuanced approach allows India to participate in security cooperation while avoiding the constraints of formal alliance commitments that would limit diplomatic flexibility.

4.4.3 BRICS, SCO, and Non-Western Multilateral Frameworks

The Shanghai Cooperation Organisation (SCO) and BRICS represent another arena of India-China engagement and competition. Both nations are founding members of these institutions, which were originally conceived as platforms for non-Western voices in global governance (Vision IAS 2025). However, tensions have emerged over the direction of these groupings. India perceives China as attempting to transform BRICS from a non-Western to an explicitly anti-Western bloc, which conflicts with India's strategic autonomy doctrine and relationships with Western democracies (Madan 2024).

The August 2025 SCO Summit in Tianjin provided the venue for the first Modi-Xi meeting in seven years, demonstrating how these multilateral platforms serve dual purposes facilitating bilateral dialogue while providing forums for competing influence (China Briefing 2025). These institutions allow both nations to cooperate on issues like development financing, climate change, and reforming global governance structures, even as they compete for leadership and influence within these frameworks.

4.4.4 RCEP and Regional Economic Architecture

India's decision not to join the Regional Comprehensive Economic Partnership (RCEP) in 2019, despite being part of the original 16-country negotiation, reflects concerns about Chinese economic dominance within regional trade frameworks. Commerce Minister Piyush Goyal's characterization of RCEP as "merely a free trade agreement with China" that threatened Indian farmers and small enterprises captures the underlying strategic calculus (CNBC 2024).

GTRI analysis suggests that even if India joined RCEP, benefits would be minimal given opaque Chinese trade practices and the risk of Chinese goods entering India through other RCEP countries with minimal processing (Business Standard 2024). This decision, while economically costly in terms of reduced market access, represents prioritization of strategic autonomy over economic integration in frameworks dominated by China. The RCEP, which entered force in 2022, creates the world's largest trade bloc spanning 30% of global GDP with China as the dominant economy (Wikipedia 2022).

5. Diplomatic Normalization and the 2024-2025 Thaw

5.1 The Border Disengagement Agreement

5.1.1 The October 2024 Breakthrough

October 2024 marked a significant turning point with the announcement of a disengagement agreement addressing the two remaining friction points in eastern Ladakh: Depsang Plains and Demchok (Vision IAS 2024). After 17 rounds of military commander-level talks and intense diplomatic negotiations, India and China agreed on specific patrolling arrangements that would allow both sides to resume activities at levels predating the May 2020 incursions (Vajira Mandravi 2024). Indian troops regained patrolling access to Patrolling Points 10 through 13 in Depsang Plains and the Charding Nullah junction in Demchok strategically important areas located near the Daulat Beg Oldie post and offering flat terrain suitable for potential military operations (Vision IAS 2024).

The significance of this agreement extends beyond tactical military arrangements. It represented the culmination of a deliberate diplomatic process to stabilize the most volatile aspect of the bilateral relationship. External Affairs Minister S. Jaishankar had emphasized in May 2024 that the key issues in contention related to "patrolling rights" and "patrolling abilities," framing the negotiations in terms of operational protocols rather than territorial concessions (Vajira Mandravi 2024).

5.1.2 Limitations and Outstanding Issues

This framing allowed both sides to claim success China could assert it had prevented Indian intrusions into areas it considered its territory, while India could argue it had restored access to traditional patrolling areas that had been blocked since 2020. However, experts caution against over-optimism. The agreement addresses symptoms rather than root causes of border tensions. The fundamental boundary question remains unresolved, with no mutually agreed Line of Actual Control along large stretches of the border (Vision IAS 2024).

As one analysis notes, "the nebulous nature of the LAC makes it vulnerable to face-offs and escalation at any point in time," meaning periodic confrontations remain likely even as major conflict is avoided (ORCA Asia 2024). The next steps de-escalation involving troop pullbacks and de-induction of additional forces deployed since 2020 represent much more difficult negotiations touching on force postures and strategic depth (Vajira Mandravi 2024).

5.2 The SCO Summit and Modi-Xi Engagement

5.2.1 High-Level Diplomatic Re-engagement

The August 31, 2025 meeting between Prime Minister Narendra Modi and President Xi Jinping on the sidelines of the SCO Summit in Tianjin represented the most significant diplomatic engagement in seven years (China Briefing 2025). Modi's participation in the summit his first visit to China since 2018 was itself a powerful symbolic gesture, demonstrating India's willingness to engage despite unresolved tensions (CPPR 2025). The meeting built on momentum from their October 2024 encounter at the BRICS Summit in Kazan, Russia, suggesting a calibrated process of graduated re-engagement rather than a sudden breakthrough.

The substantive outcomes of the SCO Summit engagement included agreements to resume direct passenger flights between India and China (suspended since COVID-19), reopen border trade through traditional crossing points at Lipulekh, Shipki La, and Nathu La, and expand the Kailash Mansarovar Yatra for Indian pilgrims (Vision IAS 2025). These confidence-building measures, while seemingly technical, carry significant symbolic weight in demonstrating normalization of ties.

5.2.2 Rhetorical Framing and Future Commitments

Rhetorically, both leaders emphasized partnership over rivalry, with Modi stating that "India and China should act as partners rather than rivals" and Xi echoing that it is "the right choice for China and India to be good and neighbourly friends" (CPPR 2025). Xi's invocation of the Panchsheel principles mutual respect for territorial integrity and sovereignty, mutual non-aggression, mutual non-interference, equality and mutual benefit, and peaceful coexistence drew on the foundational 1954 agreement to frame contemporary engagement in terms of historical cooperation rather than recent tensions (Vision IAS 2025).

President Xi made four specific suggestions for upgrading bilateral relations: strengthening high-level strategic communication, enhancing practical cooperation in areas of mutual interest, properly handling differences and sensitive issues, and expanding people-to-people and cultural exchanges (Vision IAS 2025). Modi's response included an invitation for Xi to attend the 2026 BRICS Summit in India, with Xi offering full support for India's BRICS Presidency demonstrating mutual respect and collaborative spirit in multilateral frameworks (Vision IAS 2025).

5.2.3 Confidence-Building Measures

The resumption of tourist e-visas for Chinese nationals after a five-year hiatus, announced in July 2025, signaled diplomatic shift aimed at strengthening cultural and economic ties (Vision IAS 2025). The reopening of border trade points, which had been closed since 2020, provides economic opportunities for border communities and reduces the economic costs of the prolonged standoff (Vision IAS 2025). These gestures indicate both sides recognize the importance of managing their relationship constructively within broader regional and global contexts.

5.3 External Pressures and Strategic Recalibration

5.3.1 U.S. Tariff Policies and Economic Pressures on India

The timing of India-China rapprochement in 2024-2025 cannot be divorced from external pressures, particularly emanating from the United States. President Trump's imposition of 50% tariffs on Indian exports in August 2025 created immediate economic pain and strategic uncertainty for New Delhi (CFR 2025). The tariff shock prompted serious reconsideration of India's overwhelming orientation toward the United States as an economic partner and raised questions about the reliability of American commitments under "America First" trade policies (Financial Express 2025). For a country seeking to become the world's third-largest economy, such sudden disruptions to market access represented unacceptable vulnerability. This context explains Indian openness to easing FDI restrictions on Chinese investment through potential modifications to Press Note 3. NITI Aayog recommended in August 2025 removing mandatory prior approval requirements for Chinese FDI up to 24%, arguing that existing security clearance procedures unnecessarily delayed strategic economic opportunities (Business Standard 2025).

5.3.2 India's Reconsideration of Chinese Investment Restrictions

Commerce Minister Piyush Goyal acknowledged that the restrictions reflected "the strategic context at that time" but hinted at flexibility, noting "when times change, situations change, decisions can be made to suit the times" (Times of India 2025). The Economic Survey 2024 also advocated measured relaxation of Chinese FDI restrictions, suggesting it could enhance India's integration into global supply chains and support higher export growth (Times of India 2025). This policy reconsideration reflects pragmatic recognition that complete economic decoupling from China imposes costs on India's development ambitions.

5.3.3 China's Strategic Calculations

For China, stabilizing relations with India serves multiple strategic purposes. Facing continued Western economic pressure, technology restrictions, and diplomatic isolation over human rights concerns, Beijing benefits from reducing confrontation on its southwestern periphery (China Briefing 2025). India represents a massive consumer market of 1.4 billion people, critical for Chinese manufacturers facing sluggish domestic demand and restricted access to Western markets (IMPRI 2025).

Additionally, demonstrating ability to manage relationships with neighboring powers strengthens China's narrative as a responsible regional leader capable of peaceful coexistence, countering U.S. characterizations of Chinese aggression. The geopolitical context of declining U.S. commitment to Asia, particularly concerns about a potential grand bargain between Washington and Beijing that could marginalize Indian interests, has increased incentives for India to maintain independent channels of engagement with China (Foreign Policy 2025).

5.3.4 Strategic Hedging Against Uncertain Global Order

As Raja Mohan observes, "India is also hedging against a potential U.S. withdrawal from Asia or grand bargain with China," leading to renewed emphasis on "peaceful coexistence with China, if that balance is possible" (Foreign Policy 2025). This hedging strategy reflects India's broader pursuit of strategic autonomy maintaining flexibility to cooperate with various powers rather than becoming overly dependent on any single partner. The 2024-2025 normalization thus represents not abandonment of concerns about China, but sophisticated management of multiple simultaneous relationships in an uncertain geopolitical environment.

6. THEORETICAL PERSPECTIVES: ANALYZING THE RELATIONSHIP

6.1 Realist Frameworks and Power Asymmetry

6.1.1 Security Dilemma and Asymmetric Rivalry

Realist international relations theory provides essential insights into the structural drivers of India-China competition. The relationship exhibits classic characteristics of a security dilemma between asymmetric powers, where actions taken by one side to enhance security are perceived as threatening by the other, creating spirals of tension (ORCASIA 2022). From India's perspective, China's military modernization, border infrastructure development, and economic encirclement through the Belt and Road Initiative represent attempts to establish regional hegemony at India's expense (ORCASIA 2022).

From China's perspective, India's strengthening ties with the United States, participation in the Quad, and naval expansion in the Indian Ocean constitute efforts at containment designed to constrain China's legitimate rise. The power asymmetry between the two nations fundamentally shapes their strategic calculus. Bajpai's comprehensive assessment concludes that China is "an adversary seven times as powerful as India" when measuring economic, military, and soft power capabilities (Book Review 2025).

6.1.2 Material Power Imbalances

China's GDP is approximately four times larger than India's, defense spending roughly three times higher, and technological capabilities significantly more advanced across most domains (ORCASIA 2022). This imbalance creates what international relations scholars term an "asymmetric rivalry," where the weaker power (India) cannot hope to balance the stronger power (China) through internal capabilities alone, necessitating external balancing through partnerships with other major powers.

6.1.3 Limitations of Pure Realist Explanations

However, pure realist frameworks struggle to explain the persistence and depth of economic interdependence despite strategic competition. If security concerns were paramount, rational state behavior would suggest India should minimize economic ties with its primary security threat. The fact that trade has actually increased during periods of heightened military tension points to the limitations of security-centric realist explanations. As one analysis of economic rivalry notes, "economic interdependence between India and China enable many of the smaller states to avoid committing to an alliance with either side," suggesting that economic ties constrain rather than enable aggressive behavior (PSSR 2024).

6.2 Neoliberal Institutionalism and Interdependence Theory

6.2.1 Complex Interdependence Characteristics

Neoliberal institutionalist perspectives emphasize how economic interdependence and institutional frameworks can moderate competition even between strategic rivals. The "complex interdependence" characterizing India-China relations involving multiple channels of contact, absence of hierarchy among issues, and reduced utility of military force creates powerful incentives for cooperation (ORCASIA 2022). Bilateral trade of USD 127.7 billion, with deep integration in supply chains spanning electronics, pharmaceuticals, renewable energy, and manufacturing, generates constituencies in both countries with vested interests in stable relations (International Affairs Australia 2025).

6.2.2 Role of Institutions in Managing Tensions

Institutional frameworks play crucial roles in managing tensions. The 1993 and 1996 agreements on border management, the Special Representatives mechanism for boundary negotiations, and numerous working groups on economic cooperation provide structured channels for addressing disputes before they escalate (ORCASIA 2022). Multilateral institutions including BRICS, SCO, and the Asian Infrastructure Investment Bank (AIIB) create regular engagement opportunities and shared interests that crosscut bilateral tensions (Madan 2024). The very existence of these institutional mechanisms provides face-saving venues for dialogue during crises, as demonstrated by the SCO Summit serving as the platform for Modi-Xi engagement in 2025.

6.2.3 Sector-Specific Cooperation Despite Strategic Mistrust

The renewable energy sector exemplifies how interdependence can drive cooperation despite strategic mistrust. India's ambitious targets for solar energy deployment (500 GW by 2030) depend heavily on Chinese solar panels, which offer unmatched cost-efficiency due to China's economies of scale (International Affairs Australia 2025). Major Indian conglomerates including Adani, Reliance, and JSW are pursuing joint ventures and licensing deals with Chinese battery giants like CATL and BYD (China Briefing 2025). This cooperation occurs not despite geopolitical tensions but because of compelling economic logic Chinese technology and scale advantages complement India's growing energy demands and manufacturing aspirations.

6.2.4 Constraints on Institutional Effectiveness

However, neoliberal institutionalism also confronts limitations in the India-China context. Economic interdependence has not prevented military clashes or prevented the weaponization of trade relationships, as evidenced by China's rare earth export restrictions and India's FDI controls (Drishti IAS 2025). The absence of a comprehensive bilateral free trade agreement, India's rejection of RCEP, and continued high tariff and non-tariff barriers demonstrate limits to how far economic integration can proceed when strategic concerns dominate (Business Standard 2024). As GTRI analysis concludes regarding RCEP: "any benefits would likely be minimal and incremental, especially considering China's opaque trade practices" (Business Standard 2024).

6.3 Constructivist Insights on Perception and Identity

6.3.1 Asymmetric Perceptions and Mutual Images

Constructivist approaches highlight how mutual perceptions and identity narratives shape India-China relations in ways that material power distributions alone cannot explain. Bajpai identifies perception as one of the "four Ps" fundamentally undergirding contemporary antagonism, noting that mutual admiration and trust are largely absent among both policy elites and general populations (Book Review 2025). Indians have developed what Bajpai terms "fearful admiration" for China's rise respect for Chinese achievements combined with anxiety about implications for Indian security and status (Book Review 2025).

Chinese perception of India, conversely, is characterized by nonchalance toward what is viewed as a lesser power "encumbered by chaos and poverty," creating asymmetric attention dynamics where India obsesses over China while China largely ignores India (Book Review 2025). These perceptions are reinforced by media-promoted nationalism and what Bajpai describes as "plebeian racism" on both sides (Book Review 2025). Chinese social media discourse frequently depicts India through stereotypes of poverty, backwardness, and dysfunction, while Indian media emphasizes Chinese authoritarianism, territorial aggression, and untrustworthiness.

6.3.2 Historical Memory and Strategic Culture

Strategic culture and historical memory also shape contemporary interactions. India's traumatic defeat in the 1962 war remains a defining element of national strategic consciousness, creating deep-seated mistrust of Chinese intentions and sensitivity to perceived Chinese provocations (Gong 2025). The unresolved status of Tibet and Chinese control over Aksai Chin territory India claims as part of Jammu and Kashmir keep historical grievances alive in current policy debates (Vision IAS 2024).

China's worldview, informed by what scholars term the "century of humiliation" narrative and the concept of Tianxia (all-under-heaven) emphasizing Chinese centrality in Asian order, creates expectations of deference from neighboring powers that clash with India's self-conception as an independent civilizational power (Book Review 2025). Such narratives create domestic political constraints on leaders' ability to make compromises, as any concessions to the rival can be framed as weakness or betrayal of national dignity.

6.3.3 Competing Narratives of Leadership and Development Models

Constructivist analysis also illuminates how the relationship is contested discursively. Both nations claim leadership of the "Global South" and position themselves as models for developing countries, creating identity competition beyond material interests (CFR 2025). India emphasizes its democratic governance, rule of law, and transparent development partnerships as alternatives to Chinese "debt-trap diplomacy," while China highlights its infrastructure delivery, economic efficiency, and non-interference in domestic affairs (Vision IAS 2024).

These competing narratives matter because they shape regional states' choices about alignment and partnership, making the India-China competition partly a battle over ideational influence rather than merely material power. The contest over which development model democratic India or authoritarian China proves more successful in delivering prosperity and stability has implications far beyond the bilateral relationship, influencing the future trajectory of development discourse globally.

7. Policy Implications and Future Trajectories

7.1 Managing the Paradox: Compartmentalization Strategies

7.1.1 Sophisticated Compartmentalization in Practice

The current phase of India-China relations in 2025 demonstrates sophisticated compartmentalization the ability to cooperate in some domains while competing in others. Both nations have demonstrated pragmatic capacity to separate border management from economic engagement, allowing normalized trade even as military tensions persisted (Vision IAS 2025). This compartmentalization reflects maturity in managing one of the world's most important bilateral relationships, where leaders recognize that totalistic approaches either pure confrontation or unrealistic partnership fail to serve national interests.

The challenge lies in maintaining these compartments during crises. The 2020 Galwan clash demonstrated how border incidents can rapidly contaminate other aspects of the relationship, triggering economic restrictions, technological decoupling, and comprehensive deterioration in ties (Carnegie Endowment 2021). The question facing policymakers is whether institutional mechanisms and mutual interests are robust enough to contain future shocks, or whether another major incident could trigger uncontrollable escalation.

7.1.2 Crisis Management Mechanisms

Early warning systems, crisis communication hotlines, and clearly defined protocols for military de-escalation represent technical measures to reduce escalation risks (Vision IAS 2024). India's strategy appears focused on what Madan (2024) terms "zone balancing" seeking to prevent Chinese dominance in its immediate neighborhood and maritime periphery while not necessarily preventing Chinese influence in more distant regions (Madan 2024). This allows India to prioritize its core security interests (South Asia, Indian Ocean) while avoiding quixotic efforts to match Chinese power projection globally.

7.1.3 China's Approach to Relationship Management

China's approach reflects what analysts describe as seeking "positive momentum" in relations while maintaining military preparedness (China Briefing 2025). Beijing appears willing to address some Indian economic concerns including potentially reducing tariff barriers and increasing imports of Indian goods to stabilize the relationship and reduce Indian incentives for closer U.S. alignment (Hindustan Times 2025). However, China has shown no willingness to compromise on territorial claims, modify its partnership with Pakistan, or fundamentally alter its approach to regional influence in South Asia (IMPRI 2025). This suggests Chinese strategy aims to manage rather than resolve fundamental contradictions in the relationship.

7.2 The China+1 Strategy and Economic Diversification

7.2.1 Production-Linked Incentives and Manufacturing Attraction

India's pursuit of the "China Plus One" strategy represents a long-term structural response to economic vulnerabilities created by overdependence on Chinese imports. This approach, which gained momentum after 2020, involves attracting global manufacturing investment seeking to diversify beyond China-centric supply chains (Vajira Mandravi 2025). Production-Linked Incentive (PLI) schemes across 14 sectors including electronics, pharmaceuticals, auto components, and semiconductors provide financial incentives for companies to establish manufacturing capacity in India (Vajira Mandravi 2025).

Early results show promise but also reveal significant challenges. Manufacturing FDI into India grew 18% in FY 2024-25, reaching USD 19.04 billion, with companies including Apple, Samsung, and Foxconn expanding Indian production significantly (Vajira Mandravi 2025). India has become a major alternative destination for electronics manufacturing, with mobile phone production exceeding USD 40 billion annually and substantial expansion in laptop, tablet, and component manufacturing (China Briefing 2024).

7.2.2 Pharmaceutical Sector Self-Reliance Initiatives

The pharmaceutical sector, where India supplies 65-70% of WHO vaccine needs, has seen renewed emphasis on developing domestic capabilities for Active Pharmaceutical Ingredients to reduce Chinese dependence (Vajira Mandravi 2025). Government schemes including the Production Linked Incentive for Bulk Drugs aim to incentivize domestic API manufacturing, though results remain mixed given the significant cost advantages Chinese producers maintain through scale and established supply chains.

7.2.3 Limitations and Challenges of Decoupling

However, critics note that China+1 strategies face inherent limitations. Many PLI-driven manufacturing operations remain heavily dependent on Chinese intermediate inputs, machinery, and components meaning expanded Indian production actually increases imports from China in the short to medium term (Hindustan Times 2025). The challenge is not merely attracting final assembly operations but developing complete value chains including upstream components and materials. Building this deep industrial capability requires sustained investment in technical education, research and development, infrastructure, and business environment improvements that will take at least a decade to bear fruit (Book Review 2025).

Additionally, complete decoupling is neither feasible nor necessarily desirable. Chinese manufacturing capabilities in sectors like solar panels, batteries, and semiconductors reflect decades of investment, economies of scale, and specialized expertise that cannot be easily replicated (International Affairs Australia 2025). For India to achieve its renewable energy targets and manufacturing ambitions within necessary timeframes, continued engagement with Chinese suppliers remains essential even as diversification proceeds (China Briefing 2025). The realistic goal is reducing excessive dependency and developing alternative options, rather than eliminating Chinese economic ties entirely.

7.3 Multilateral Frameworks and Regional Architecture

7.3.1 Indo-Pacific Construct and Network Diplomacy

The future of India-China relations will be substantially shaped by the evolution of regional and multilateral frameworks. The Indo-Pacific construct, which has gained prominence in Indian strategic thinking, reflects efforts to create an inclusive regional architecture not dominated by any single power (E-IR 2024). Through mechanisms like the Quad, ASEAN-led forums, and bilateral partnerships with Japan, Australia, France, and others, India seeks to build a network of relationships that collectively balance Chinese influence while providing alternatives for smaller states (Foreign Policy 2025).

However, the viability of these frameworks depends on sustained commitment from major powers, particularly the United States. Trump administration policies including tariffs on Indian goods, demands for market access concessions, and transactional approaches to security partnerships have created uncertainty about American reliability as a strategic partner (CFR 2025). If U.S. engagement in Asia proves inconsistent or conditional, India's external balancing strategy becomes significantly more difficult, potentially forcing greater accommodation with China despite preferences for strategic autonomy (Raja Mohan 2025).

7.3.2 China's Institution-Building Strategy
China's approach to regional architecture focuses on institution-building that marginalizes U.S. influence while establishing Chinese centrality. The Regional Comprehensive Economic Partnership (RCEP), which entered force in 2022 without Indian participation, creates the world's largest trade bloc spanning 30% of global GDP with China as the dominant economy (Wikipedia 2022). The Asian Infrastructure Investment Bank (AIIB), Shanghai Cooperation Organisation expansion, and BRI-linked institutions all advance Chinese visions of regional order centered on economic interdependence and developmental cooperation, explicitly offering alternatives to U.S.-dominated frameworks (Gong 2025).

7.3.3 Prospects for Multi-Alignment vs. Binary Choices
The key question is whether regional states will ultimately be forced to choose between Chinese and U.S.-led orders, or whether hybrid arrangements allowing multi-alignment will persist. India's interests align with preventing such binary choices, maintaining what Foreign Minister Jaishankar terms "strategic autonomy" allowing engagement with all major powers based on issue-specific interests rather than fixed alignment (Vision IAS 2025). The SCO provides an interesting test case India and China cooperate within this framework while competing intensely in other domains, demonstrating that institutional coexistence is possible even between strategic rivals (China Briefing 2025).

7.4 Long-term Scenarios: Conflict, Coexistence, or Cooperation?

7.4.1 Scenario One: Escalating Confrontation
Looking toward the next decade, three broad scenarios capture the range of possible India-China futures. The first, pessimistic scenario involves escalating confrontation potentially leading to military conflict. Triggers could include another border clash with casualties, a crisis in Pakistan drawing in Chinese support against India, confrontation over resource competition, or broader Sino-American conflict in which India becomes involved through Quad commitments. Given both nations possess nuclear weapons, even limited military conflict carries catastrophic risks. This scenario becomes more likely if domestic nationalism constrains leaders' diplomatic flexibility, if institutional mechanisms for crisis management fail, or if external shocks (such as Taiwan crisis) spillover into the bilateral relationship.

7.4.2 Scenario Two: Managed Strategic Coexistence
The second, most probable scenario involves continued strategic coexistence characterized by competition and limited cooperation. In this future, border tensions persist at manageable levels through disengagement agreements and crisis prevention protocols, but fundamental territorial disputes remain unresolved. Economic ties continue expanding in some sectors (renewable energy, manufacturing inputs, pharmaceuticals) while strategic decoupling accelerates in critical technologies (semiconductors, artificial intelligence, quantum computing). Regional competition in South Asia and Indo-Pacific remains intense but avoids direct confrontation, with smaller states practicing multi-alignment between competing powers. Multilateral frameworks allow issue-specific cooperation (climate change, pandemic response, development finance) while strategic mistrust prevents deeper partnership.

7.4.3 Scenario Three: Strategic Cooperation
The third, optimistic scenario envisions genuine strategic cooperation premised on resolution of border disputes and mutual accommodation of interests. This would require breakthrough agreements on boundary delineation, potentially involving territorial exchanges or creative sovereignty arrangements. Economic integration would deepen through bilateral free trade agreements, joint ventures in strategic sectors, and coordinated approaches to global value chains. Regional competition would give way to cooperative frameworks for infrastructure development, possibly with coordination between BRI and Indian initiatives. Strategic cooperation could extend to jointly shaping regional architecture and global governance reform.

7.4.4 Assessment of Scenario Probabilities
Most analysts consider the third scenario highly unlikely given entrenched mistrust, domestic political constraints, and structural power competition (Defence Australia 2023). The first scenario remains concerning but probably avoidable if crisis management mechanisms function and leaders maintain rational restraint. The second scenario managed competition with compartmentalized cooperation appears most probable and represents the working assumption underlying current policies on both sides (CPPR 2025).

8. CONCLUSION

8.1 Summary of Key Findings
The India-China relationship in 2025 epitomizes the complex interdependence characteristic of 21st-century great power politics, where economic integration coexists with intense strategic competition. This paper has demonstrated that the relationship cannot be reduced to simple narratives of either inevitable partnership or predetermined conflict. Instead, it reveals a sophisticated game of cooperation and competition across multiple domains border management, trade relations, technology rivalry, regional influence, and multilateral engagement with divergent trends in each domain.

The empirical evidence presented shows deepening economic interdependence despite geopolitical tensions. Bilateral trade reached USD 127.71 billion in 2024-25, even as India's trade deficit ballooned to a record USD 99.2 billion. India's strategic dependencies on Chinese imports in critical sectors including semiconductors (79%), solar panels (85%), and active pharmaceutical ingredients (68%) create vulnerabilities that Beijing could potentially leverage during crises. Yet these very dependencies also generate powerful incentives for maintaining stable relations, as disruptions would harm both economies and undermine India's development objectives.

8.2 The Multidimensional Nature of Competition

The strategic competition dimension remains stark and multifaceted. The 3,488-kilometer Line of Actual Control continues generating periodic confrontations, with the 2020 Galwan clash marking an inflection point that fundamentally transformed mutual perceptions. While the October 2024 disengagement agreement at Depsang and Demchok represents significant diplomatic progress, the fundamental boundary question remains unresolved, leaving space for future confrontations. Regional competition in South Asia sees China leveraging economic power through the Belt and Road Initiative to challenge India's traditional influence, though India retains advantages through proximity, cultural ties, and targeted engagement. Technology competition has intensified as both nations race to secure capabilities in semiconductors, artificial intelligence, quantum computing, and critical minerals essential for future economic and military power.

8.3 Significance of 2024-2025 Diplomatic Normalization

The diplomatic normalization evident in 2024-2025, marked by the Modi-Xi meeting at the SCO Summit and agreements on border trade, direct flights, and visa facilitation, reflects pragmatic recognition that unmanaged confrontation serves neither side's interests. External pressures, particularly U.S. tariff policies and shifting global trade dynamics, have accelerated this recalibration by creating incentives for India and China to diversify their economic partnerships and reduce dependency on Western markets. However, this thaw should not be mistaken for fundamental strategic reconciliation. As Madan (2024) observes, even if the border crisis is resolved, "that might be the beginning of a conversation, but it would not end their broader contestation" over regional influence, global governance, and competing visions of Asian order (Madan 2024).

8.4 Theoretical Synthesis

Theoretically, the relationship defies monocausal explanations. Realist perspectives illuminate how power asymmetry and security dilemmas drive competition, but struggle to explain persistent economic cooperation. Neoliberal institutionalism highlights how interdependence and multilateral frameworks moderate tensions, yet cannot account for the weaponization of economic ties or the limits of integration when strategic concerns dominate. Constructivist insights reveal how perceptions, historical grievances, and identity narratives shape interactions in ways material factors alone cannot capture. A comprehensive understanding requires synthesizing insights across theoretical traditions, recognizing that India-China relations involve simultaneously material power competition, economic interdependence, and ideational contestation.

8.5 Policy Implications for India and China

The policy implications are significant for both bilateral management and broader regional order. For India, the challenge lies in reducing strategic vulnerabilities through economic diversification and domestic capability-building, while maintaining engagement channels that prevent confrontation from spiraling out of control. The China+1 strategy, infrastructure development, and partnerships with like-minded democracies represent long-term structural responses, but require sustained implementation over decades to fundamentally alter the bilateral power balance. For China, managing relations with India involves balancing regional primacy ambitions against the benefits of stable peripheries and the risks of driving India into closer alignment with the United States.

8.6 Broader Regional and Global Implications

For the broader international community, India-China dynamics have profound implications for regional stability, global supply chains, and the emerging architecture of international order. The relationship's evolution will substantially determine whether Asia develops multipolar regional frameworks allowing flexible alignments, or whether the region fractures into competing blocs centered on Beijing and Washington with middle powers forced into binary choices. Given that India and China together represent over 35% of global population and increasingly significant shares of economic output, innovation capacity, and military power, their ability to manage competition while cooperating on transnational challenges including climate change, pandemic response, and sustainable development will significantly impact global outcomes.

8.7 Future Outlook: Managed Competition

Looking forward, the India-China relationship is likely to remain characterized by what this paper has termed managed competition with compartmentalized cooperation. Border tensions will persist as an ever-present source of friction, requiring continuous diplomatic management through established mechanisms. Economic ties will continue deepening in some sectors while undergoing strategic decoupling in others, particularly as both nations pursue technological self-reliance. Regional competition will intensify as China's Belt and Road Initiative faces Indian and Quad alternatives, with South Asian and Southeast Asian states practicing multi-alignment between competing powers. Multilateral frameworks including BRICS, SCO, and climate negotiations will provide forums for issue-specific cooperation even as strategic rivalry continues.

8.8 Critical Questions for the Future

The fundamental question remains whether the institutional mechanisms, economic incentives, and diplomatic channels now in place are robust enough to prevent competition from escalating into conflict. The positive developments of 2024-2025 suggest both nations recognize the catastrophic risks of unmanaged confrontation and possess sufficient diplomatic sophistication to pursue compartmentalized engagement. However, the structural drivers of competition unresolved territorial disputes, power asymmetry, regional rivalry, and domestic nationalism remain powerful forces that could overwhelm cooperation if crisis management fails or external shocks disturb the delicate equilibrium.

8.9 Final Assessment

Ultimately, rethinking India-China engagement in 2025 requires moving beyond zero-sum frameworks to appreciate the paradoxical coexistence of interdependence and competition. Neither pure containment nor naive partnership serves Indian interests. Instead, India must pursue what might be termed "discriminating engagement" cooperating where interests align and mutual benefits exist, competing where vital interests conflict, and building capabilities to reduce vulnerabilities while maintaining channels for crisis management. For China, enlightened self-interest suggests that regional stability and accommodation of legitimate Indian interests serves long-term Chinese goals better than efforts at hegemonic dominance that drive neighbors into balancing coalitions. Whether both sides can sustain this delicate balancing act will substantially shape not only bilateral relations but the broader trajectory of Asian and global order in the decades ahead.

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