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India-China Economic Ties: Determinants and Possibilities

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Summary

This paper examines the evolution of India-China economic ties from 2005 to 2025. It explores the impact of global events, bilateral political ties, and domestic policies on distinct spheres of the economic relationship. The analysis is structured around four individual components: trade; investments, both foreign direct investments (FDI) and foreign portfolio investments (FPI); public procurement, including engineering, procurement, and construction (EPC) projects and goods; and the digital economy, covering venture capital investments and internet applications. Given the paradoxical nature of India-China ties, this paper analyzes the effectiveness of retaliatory measures taken by India in response to Chinese incursions in the Galwan Valley during May 2020. Lastly, it suggests potential opportunities to develop a more calibrated range of policy options to de-risk and rebalance India's economic relationship with China.

Laying the Foundation

The foundation for actively managing India-China economic ties was laid by the Political Parameters Agreement in 2005 during Premier Wen Jiabao's visit to Delhi. Both countries agreed that "differences on the boundary question should not be allowed to affect the overall development of bilateral relations."[1] At that point, India's bilateral trade with the United States, its largest trading partner at the time, had fallen for two years in a row. China had risen from being India's ninth largest trading partner in 2000–01 to becoming its second largest trading partner in 2005–06, accounting for 9.4 percent of India's global trade (when combined with Hong Kong). Bilateral trade stood at $17 billion with a surplus of $4.1 billion in China's favor. Investment flows were negligible.[2] In the multilateral trading system, India has been a member of the General Agreement on Tariffs and Trade (GATT) since 1948 and the World Trade Organization (WTO) since 1995. China joined the WTO only in 2001. Furthering its "Look East" policy, India had already concluded bilateral trade agreements with Thailand and Singapore and was in negotiations with members of the South Asian Association for Regional Cooperation (SAARC) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) countries. It also set up study groups to boost trade with China, Japan, and South Korea.[3]

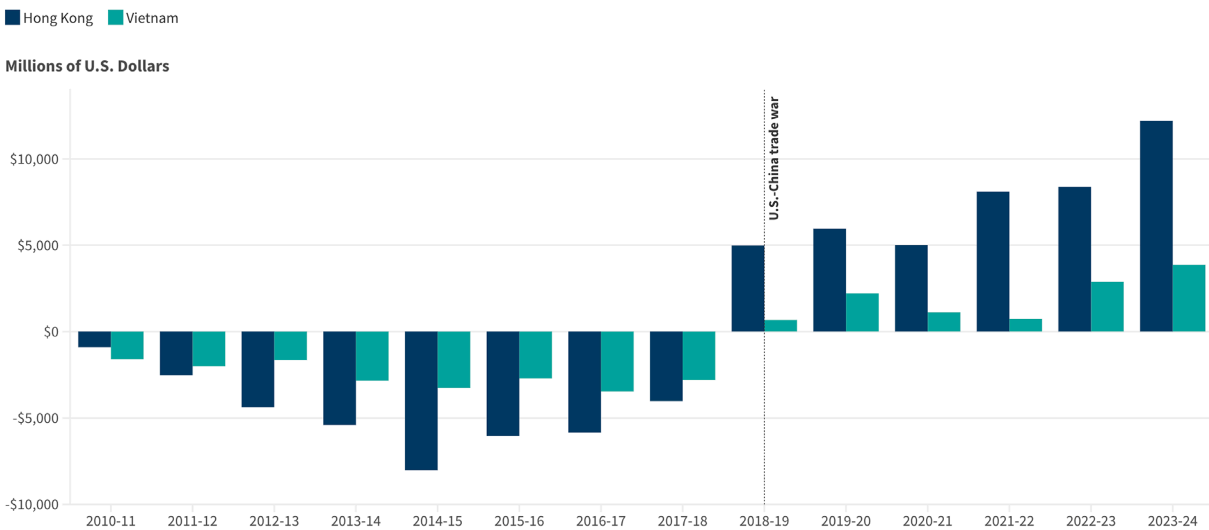
Accelerated Trade

The first signs of imbalance in trade flows were detected when India's trade deficit quadrupled within three years to $16.2 billion in 2007–08.[4] China became India's largest trading partner in 2008 when bilateral trade touched $30 billion, with the trade deficit at $23.1 billion. The great financial recession provided a brief respite when the trade deficit dipped to $19.2 billion in 2009–10. During Wen Jiabao's visit to New Delhi in 2010, with bilateral trade flows at $60 billion, both countries agreed to set a target of $100 billion.[5] A Strategic Economic Dialogue mechanism was also established to reinforce the Joint Economic Group dialogue initiated in 1988.[6] Since trade had doubled in less than two years, this target might have appeared less ambitious than each country's individual objectives. In 2010, China played a significant role in the global recovery of world trade, with its export volume increasing by a massive 28 percent and imports by more than 22 percent.[7] China clearly wanted to cement its position as the world's manufacturing powerhouse by maintaining the pace of growth in exports to India. A galloping trade deficit with a larger neighbor across a disputed border meant India wanted to pursue a balanced relationship through growth in exports to China. In hindsight, this was clearly a case of *tóng chuáng yì mèng* (same bed, different dreams). India's attempts to rein in the trade deficit by boosting exports faced insurmountable challenges in the form of non-tariff market barriers in China. Indian companies in the information technology (IT) and pharmaceutical sectors made significant efforts with little success. For instance, Indian IT companies found that compliance with social security laws inflated wage costs by about 50 percent compared to their domestic peers who managed to circumvent such laws.[8] Indian pharmaceutical companies reported that China's Food and Drug Administration (CFDA) required expensive bioequivalence studies to be conducted before generic drugs were imported, thus diminishing their ability to launch products.[9] Discriminatory criteria and bureaucratic hurdles in government procurement contracts prevented them from gaining a meaningful market share.[10]

Barring a small blip in 2013–14, the trade deficit continued to climb in successive years and touched $63 billion before the next impactful global event. When President Donald Trump kicked off the U.S.-China trade war in January 2018, he set global supply chains in motion. India's trade deficit with China dipped by a significant 17 percent to $53 billion.[11] The same year, India recorded trade deficits with Hong Kong and Vietnam for the first time (see Figure 1). It was clear that a new trend of trade diversion had taken shape to mitigate the impact of U.S. tariffs. Export items such as personal computers, lithium-ion batteries, routers, printed circuit boards, storage drives, digital cameras, LCD televisions, and solar cells from China were diverted to India through Hong Kong and Vietnam (see Table 1).

The trade deficit declined further in 2019–20 and 2020–21 as the impact of trade diversions was augmented by the COVID-19 pandemic, another global event. The post-pandemic bump propelled India's trade deficit to $85 billion in 2023–24. The volatility in bilateral political ties between 2005 and 2024, including the border incidents in Depsang (2013), Doklam (2017), and Galwan Valley (2020), has not had any impact on India's trade deficit with China. Further, it is evident that only significant global events such as the Great Financial Recession in 2008, the U.S.-China trade war in 2018, and the COVID-19 pandemic in 2020 had material impact (defined as a double-digit percentage dip) in India's trade deficit with China (see Figure 2). India's current trade deficit (2024–25) with China is at an all-time high of $99.2 billion.[12]

Figure 1. India's Trade Surplus with Hong Kong and Vietnam Turned into a Deficit in 2018 due to Transshipment



Source: Author's calculations based on data from the Ministry of Commerce and Industry, Government of India, "Trade Statistics," accessed July 18, 2025, https://www.commerce.gov.in/trade-statistics/.

Table 1. Examples of Transshipment through Hong Kong and Vietnam

Annual value of imports from Hong Kong (millions of U.S. dollars)

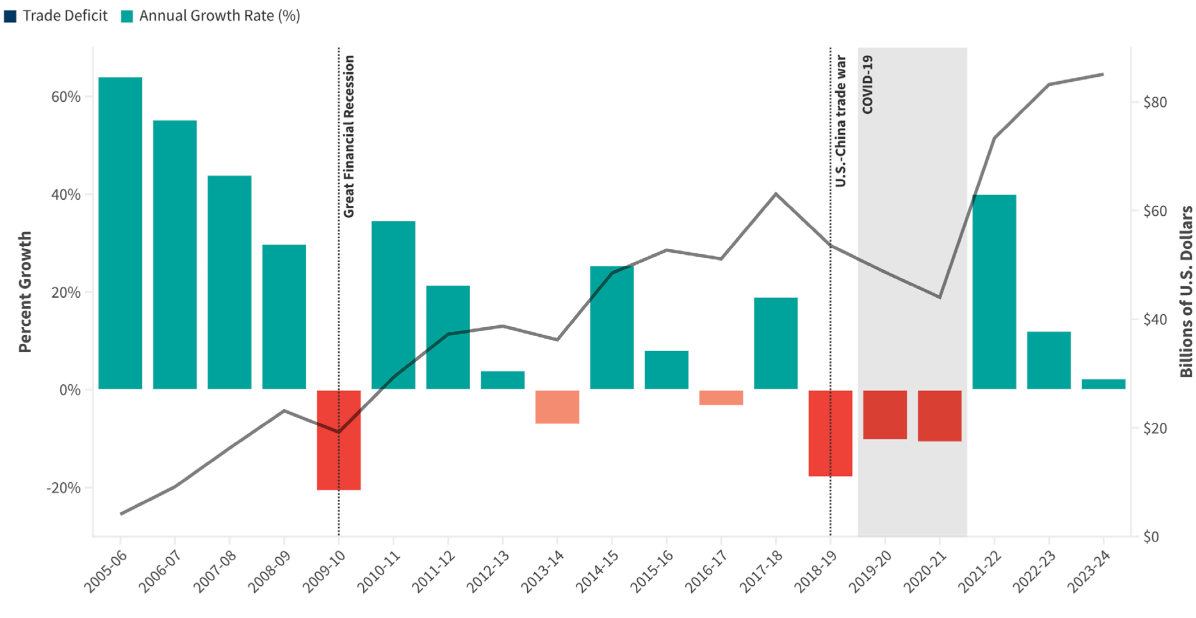
HS Code	Description	2017–18	2018–19	Percent growth
84713010	Personal computers	5.82	368.9	6,240.04
85076000	Lithium-ion batteries	7.71	267.44	3,370.24
85176930	Routers	17.03	164.67	867.09
85423100	Integrated circuits	23.52	1,972.53	8,286.16
85423200	Memories	16.51	1,160.98	6,931.65

Annual value of imports from Vietnam (millions of U.S. dollars)

HS Code	Description	2017–18	2018–19	Percent growth
85076000	Lithium-ion batteries	10.71	114.04	964.74
85258020	Digital cameras	0.36	211.27	57,987.82
85287219	LCD TV sets	7.97	293.49	3,581.46
85414011	Solar cells, not assembled	13.47	91.97	582.69

Source: Author's calculations based on data from the Ministry of Commerce and Industry, Government of India, "Trade Statistics," accessed July 18, 2025, https://www.commerce.gov.in/trade-statistics/.

Figure 2. Impact of Global Events on India's Trade Deficit with China, 2005–2024



Source: Author's calculations based on data from the Ministry of Commerce and Industry, Government of India, "Trade Statistics," accessed July 18, 2025, https://www.commerce.gov.in/trade-statistics/.

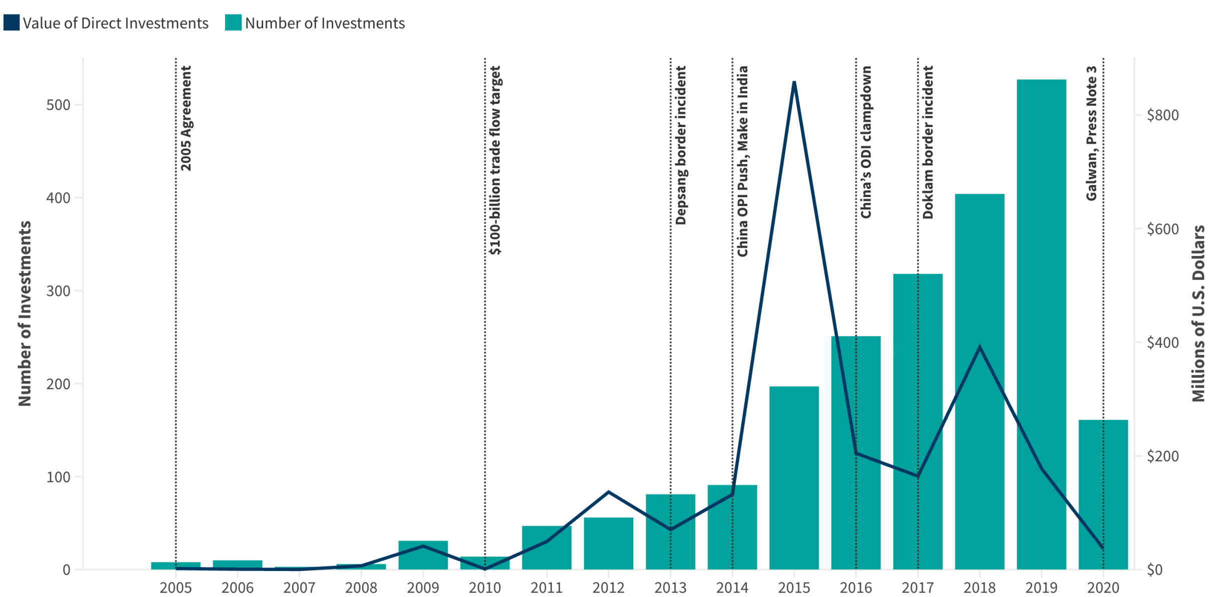
Investments and Bonhomie Amid Irritants

Investments form the second pillar of the India-China economic relationship. Economic theory suggests that, *ceteris paribus*, FDI from exporting countries follows trade patterns to flow into host countries where there is growing demand for exported goods. The other determinants include bilateral political ties and the regulatory environment. In sharp contrast with its impact on trade, the 2005 Agreement did not boost FDI flows. Investments from China into India grew at a gradual pace from a small base but were not significant. The first serious political setback after the 2005 Agreement took the form of Chinese troops camping on a dry riverbed in Ladakh during April 2013. The Depsang standoff lasted for twenty days but was resolved through negotiations before it could impact economic ties. Surprisingly, despite the border incident, direct investment flows recorded a year-on-year increase of 88 percent from 2013 to 2014 (see Figure 3). The agreed principle of not allowing boundary differences to impact the bilateral relationship was working.

Prime Minister Narendra Modi assumed office in May 2014 and lost no time in announcing his signature "Make in India" program to revitalize India's manufacturing sector. The program was launched close on the heels of a landmark visit by Chinese President Xi Jinping, during which numerous agreements were concluded. Notable among them in the economic domain was an investment commitment of $20 billion in the infrastructure sector.[13] Others included co-operation in the railways sector, an industrial park for automobile manufacturing, and market access.[14] These initiatives were powered by a decision, announced a few weeks before Modi's election, of China's National Development and Reform Commission (NDRC) to liberalize outbound direct investment (ODI) regulations. Outbound investments up to $1 billion no longer required prior central government approval in non-sensitive sectors.[15] Animal spirits were unleashed in a country where capital controls had reigned supreme. China emerged as a net exporter of capital when ODI flows overtook FDI for the first time in 2015.[16] Chinese direct investments in India followed suit and peaked against the backdrop of the much-discussed bonhomie between Modi and Xi. Modi's reciprocal visit to China was peppered with further agreements to boost co-operation in railways, mining, and tourism, followed by a flurry of para-diplomatic visits by the chief ministers of different states.[17]

The largest ever acquisition of an Indian company by a Chinese firm was announced in July 2016, when Fosun Group acquired a majority stake in India's Gland Pharma, a listed company in the pharmaceutical sector.[18] The industry had grown a dependency on intermediates, or active pharmaceutical ingredients (APIs), produced in China, in its quest to become the "pharmacy of the world." By the end of 2016, when more than a trillion dollars of foreign exchange reserves flowed out as overseas investments in less than two years, China was forced to clamp down.[19] Six months later, there was a tense seventy-three-day standoff between Indian and Chinese troops in the Doklam tri-junction area.

Figure 3. Direct FDI Investments from Mainland China, 2005–2020



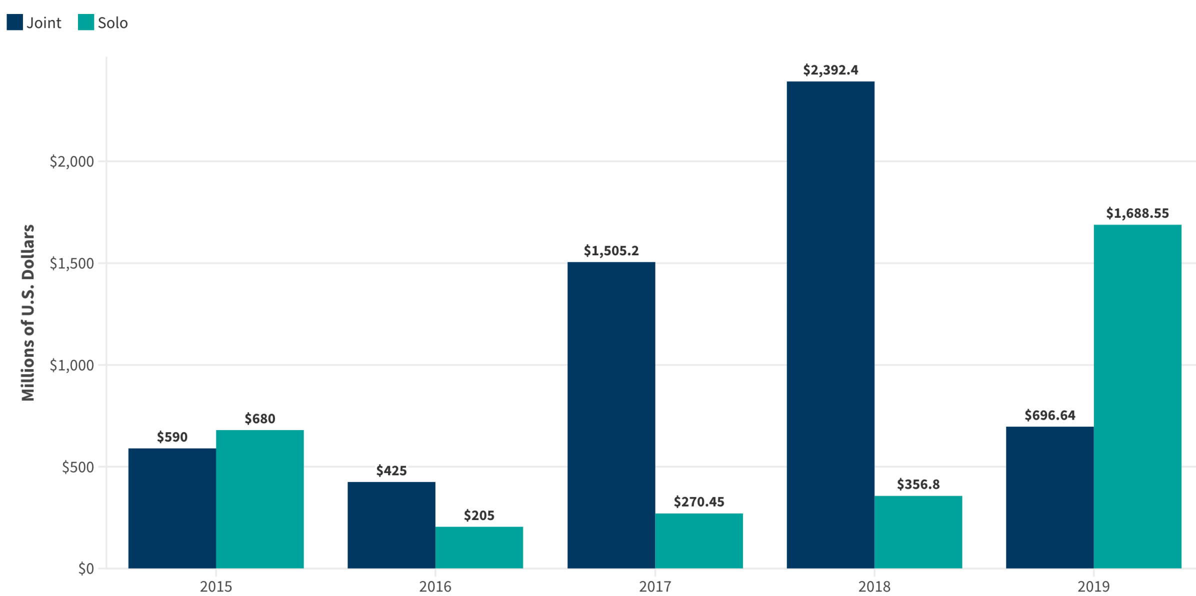
Source: Author's calculations based on data from the Ministry of Commerce and Industry, Government of India, "FDI Newsletter (erstwhile SIA Newsletter)," Department for Promotion of Industry and Internal Trade, accessed June 18, 2025, https://dpiit.gov.in/publications/si-news-letters.

Prime Minister Narendra Modi and President Xi Jinping met twice in quick succession. First, during the SCO Summit at Astana in June 2017, and then during the BRICS Summit in Xiamen in September 2017.[20] Perhaps owing to these high-level interactions, economic ties remained insulated from the border tensions. China's restructured ODI regime had two new priorities—the Belt and Road Initiative (BRI) and market-seeking investments.[21] The former even found mention in a constitutional amendment made in October 2017. Despite not being a signatory to the BRI, market-seeking investment flowed into India's manufacturing sector and continued at a sober pace, reflecting the new sentiment in Beijing until March 2020 (see Figure 3). Chinese investors in the manufacturing sector were also faced with a steep learning curve and challenges such as infrastructure bottlenecks and tax disputes. Although these challenges were not dissimilar to those faced by investors from other countries, they were exacerbated by the political dimensions of the bilateral relationship.

The Digital Dividend

As investments in the manufacturing sector stabilized, China's venture capitalists took up the baton. Rising smartphone sales of Xiaomi, Oppo, Vivo, OnePlus, and Realme gave insights into the potential of the Indian digital economy. The ODI clampdown did not impact these venture capitalists since most of their funds were raised or warehoused outside China. Between 2015 and 2019, Chinese internet companies and venture capital (VC) funds invested $3.2 billion through solo investments in Indian startups and participated in joint investment rounds worth $5.6 billion spread across fifty-seven Indian startups (see Figure 4. Source: Annex 1.)

Figure 4. Venture Capital Investments From China in Indian Startups, 2015–2019



Source: See Annex 1.

During this period, Modi and Xi turbocharged their bonhomie through two informal summits—in Wuhan in April 2018 and in Chennai in October 2019, interspersed with meetings in Qingdao, Bishkek, Osaka, and Brasilia. By 2019, eighteen out of India's thirty unicorns had received Chinese investments.

Alongside VC investments, internet companies from China were leveraging rising smartphone penetration rates in India. A slew of internet applications from China were making their debut in the Indian market soon after they tasted success at home, with minor modifications. Alibaba's UC Browser, which came pre-installed on low-priced smartphones, gained a market share of 43 percent in 2016. By 2020, India accounted for 31 percent of TikTok's 1.5 billion downloads, with over 200 million users and forty-four out of the top 100 internet applications downloaded by Indians were from China.[22]

Incursions and Retaliation During the Pandemic

Investment Screening

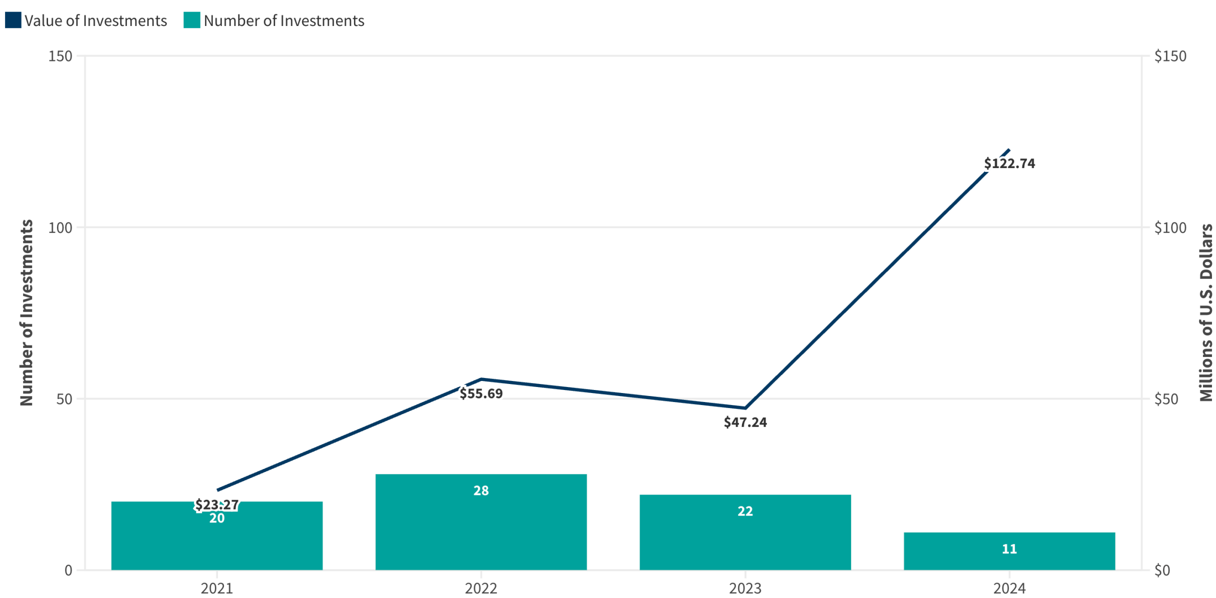
With the onset of the COVID-19 pandemic, the Indian stock market lost around 23 percent of its value in March 2020, its steepest decline since the 2008 financial recession.[23] The same quarter also recorded an all-time high in the number of direct investments from China in Indian unlisted companies—this was not publicly known until later. In April, news broke that the shareholding of the People's Bank of China had crossed the 1 percent threshold in India's largest mortgage lender.[24] A few days later, India extended its mandatory origin-based FDI screening mechanism for investments, reserved earlier for Pakistan and Bangladesh, to other countries that share land borders with India—China, Afghanistan, Nepal, Bhutan, and Myanmar. Interestingly, Press Note 3, which contained this new condition, did not apply to FPI entities such as the People's Bank of China.[25] The Press Note applied brakes to Chinese investments, both direct and indirect, irrespective of the sectors involved. The approval was linked to beneficial ownership by an entity or individual based in China, without a de minimis threshold. Among the forty or more countries with an FDI screening mechanism, this had the widest scrutiny directed at Chinese investments. The preface, "to curb opportunistic takeovers/acquisitions of Indian companies due to the COVID-19 pandemic," suggested it was a temporary measure.

In early May 2020, there were reports of incursions by Chinese soldiers in Galwan Valley.[26] It soon became evident that India's tolerance for the 2005 Agreement and the border issue with China had both been breached. The economic relationship with China, including the Press Note, was weaponized for retaliatory measures.

The direct impact of the Press Note can be measured along two parameters. First, by comparing the flow of fresh investments from China before and after its imposition. Second, by tracking the status of companies that had received investments before the Press Note in subsequent years. Data supplied to Parliament indicates an approximate approval rate of 17–19 percent during the first two years (April 18, 2020, to March 16, 2022), though no investments were received in the first four quarters of this period.[27] The total investments received from mainland China and Hong Kong from 2021 to 2024 were less than $250 million in eighty-one transactions (see Figure 5). This represents an average dip of at least 80 percent compared with the period before the Press Note.[28]

Evidence also suggests that the operations of companies that had received investments from China before the Press Note were severely impacted. The number of "active" companies with direct investments from China declined from 914 to 440 within four years (see Figure 6).[29]

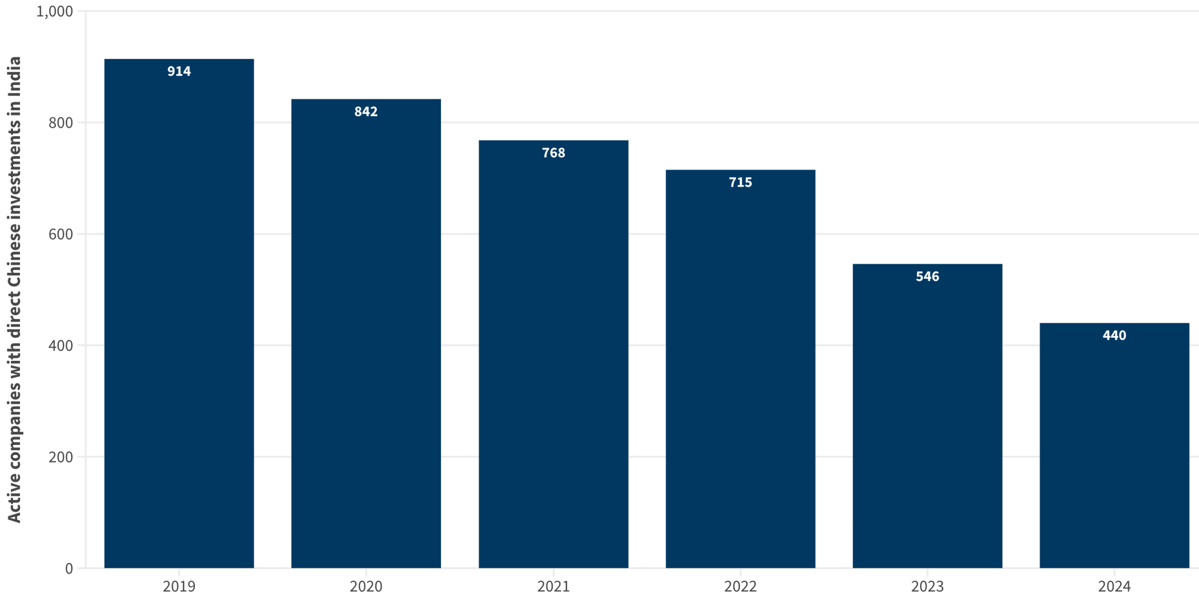
Figure 5. Direct Investments from Mainland China and Hong Kong, 2021–2024



Source: Author's calculations based on data from the Ministry of Commerce and Industry, Government of India, "FDI Newsletter (erstwhile SIA Newsletter)," Department for Promotion of Industry and Internal Trade, accessed June 18, 2025, https://dpiit.gov.in/publications/si-news-letters.

Figure 6. Impact of Press Note 3 on Existing Investments

The number of active companies with direct Chinese investments in India



Source: Author's analysis using data from FDI newsletters and filings from the Ministry of Corporate Affairs database, "FDI Newsletter (erstwhile SIA Newsletter)," Department for Promotion of Industry and Internal Trade, accessed July 17, 2025, https://dpiit.gov.in/publications/si-news-letters.

Foreign Portfolio Investments

When compared against FDI, foreign portfolio investments are extremely volatile. To compensate for this, entities that undertake FPI investments are highly regulated. They are allowed to trade in listed securities subject to strict limits and reporting requirements. Interestingly, notwithstanding the news that surfaced about the People's Bank of China's stake in a mortgage lender before issuance of the Press Note, foreign portfolio investors from China were not subjected to any restrictive regulatory actions after the Galwan Valley incursions. In August 2023, the Securities and Exchange Board of India (SEBI) mandated FPIs with more than 33 percent beneficial ownership from countries sharing land borders with India to make additional disclosures and created a separate category for registrations of such entities.[30] There are seventeen FPIs from mainland China and 151 from Hong Kong registered with SEBI that can routinely trade on Indian stock exchanges.[31] These include nine entities controlled by the China Investment Corporation (CIC) and the Sovereign Wealth Fund of China, and one controlled by the People's Bank of China. In December 2024, fresh reports emerged that the People's Bank of China held shares in thirty-five listed Indian companies, and the CIC owned Rs 800 crores (approximately $95 million) worth of shares in at least two Indian companies.[32] None of these shareholdings have breached the 1 percent limit that triggers a stock exchange filing.

Digital Blockade

The second retaliatory measure in the economic domain took the form of executive orders, also called the "app blocking orders," issued under the Information Technology Act, 2000, on grounds of activities "prejudicial to the sovereignty and integrity of India." Three such orders were issued before the end of 2020, blocking a total of 220 applications in the country.[33] These were in the categories of gaming, photo and video sharing, dating, music, shopping, and news.[34]

Taking a cue from the app-blocking orders and the Press Note, venture capitalists from China voluntarily started unwinding their investments in Indian startups either when their investee companies launched their IPOs or through secondary sales of shares. Out of the eighteen unicorns that had Chinese investments before the Press Note, two have failed, investors in ten have exited, and only six remain (see Table 2).[35]

Public Procurement Order

India's third front of economic retaliation against China emerged in the sphere of public procurement. On a conservative basis, the Indian public procurement market is estimated to be worth 20 percent of the gross domestic product (GDP).[36] Except for the defense sector, Chinese enterprises had a significant market share in most industries that involved public procurement, such as railways, power, steel, mining, and construction.

On July 23, 2020, India's Ministry of Finance imposed a registration requirement, hereinafter "the Order," for bidders from countries that share a land border with India seeking participation in public procurement tenders on grounds of national security.[37] An amendment was made to the General Financial Rules 2017 on "grounds of defence of India, or matters directly or indirectly related thereto including national security." It made eligibility of "any bidder from such countries sharing a land border with India. . . in any procurement whether of goods, services (including consultancy services and non-consultancy services) or works (including turnkey projects)" contingent on successful registration with the Department for Promotion of Industry and Internal Trade (DPIIT). Political and security clearances from the Ministries of External and Home Affairs were also made mandatory. In addition to direct procurement by central ministries, this registration requirement also applied to public sector banks and financial institutions, autonomous bodies, central public sector enterprises (CPSEs), and public-private partnership projects receiving financial support from the government or its undertakings. Further, the central government exercised its powers under Article 257 (1) of the Constitution of India to implement this requirement in procurement by state governments and state undertakings. The impact of the Order was accentuated by its immediate application to ongoing tenders that were at the first exclusionary stage or where technical bids were being evaluated. Even smaller procurement orders for common goods placed over the Government E-Marketplace (GeM) were covered. Only tenders for the procurement of medical supplies to contain the

Table 2. Exits of Chinese Investors from Indian Unicorns

Startup	Investor	Year Invested	Year Exited
Paytm.com	Alibaba	2015	2023
PolicyBazaar	Steadview Capital	2015	2021
Quikr	Steadview Capital	2015	Not exited
Rivigo	SAIF Partners	2015	2022
Snapdeal	Alibaba	2015	2021
Hike	Tencent Holdings	2016	Closed
MakeMyTrip	Ctrip	2016	Not exited
Byju's	Tencent Holdings	2017	In Crisis
Delhivery	Fosun	2017	2021
Flipkart	Tencent Holdings	2017	2023
Paytm Mall	Alibaba Group	2017	2022
BigBasket	Alibaba	2018	2021
Dream 11	Tencent Holdings	2018	Not exited
Swiggy	Hillhouse Capital	2018	2024
Zomato	Alibaba	2018	2023
Oyo	Didi Chuxing	2019	Not exited
Udaan	Tencent Holdings	2019	Not exited
Ola	Tencent Holdings	2017	Not exited

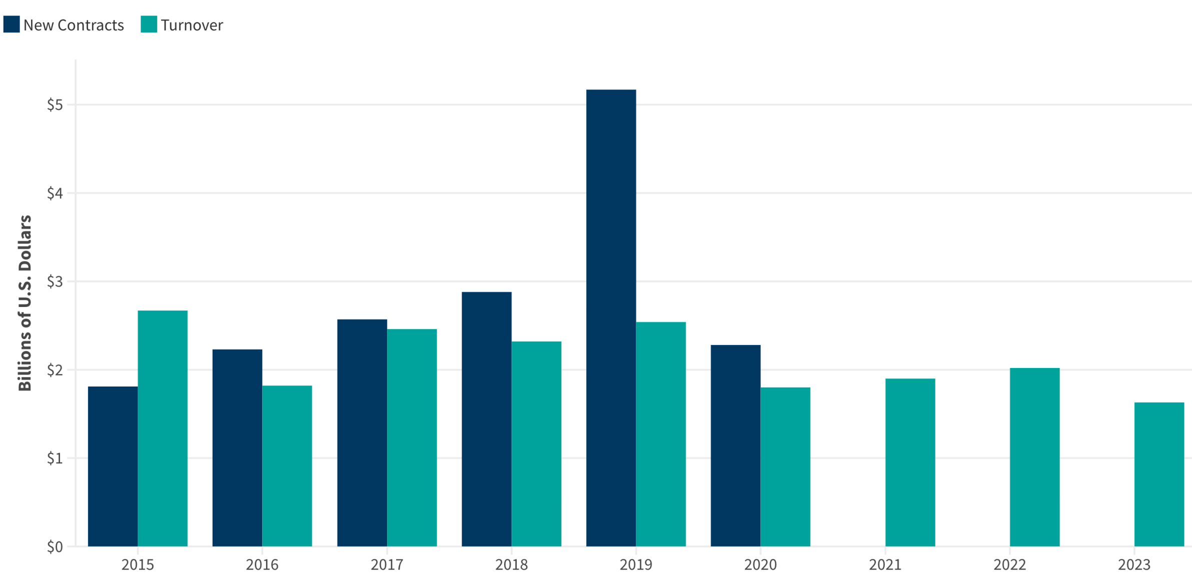
COVID-19 pandemic were spared, up until December 2020. The crippling impact of the Order is evidenced by the issuance of a "clarification" six months later which permitted bidders to procure raw material, components, sub-assemblies, and services from vendors in China insofar as these arrangements were not tantamount to a "sub-contracting" arrangement.[38] This unusual compromise discloses an extent of dependency worthy of further examination.

Benefits of India's public procurement accrue to Chinese firms in two forms. One is through participation in engineering, procurement, and construction (EPC) contracts employed in infrastructure projects. The second is through the exports of goods procured by the government.

EPC Contracts

Data on EPC contracts is available on two metrics—annual turnover of Chinese firms from EPC projects in India, and value of new contracts signed by Chinese firms in India. From 2015 to 2023, the annual turnover of Chinese firms from projects in India remained relatively stable, between $1.8 and 2.6 billion.[39] The values of new contracts signed are more volatile. From $2.88 billion in 2018, there was an upward spike of 80 percent to 5.17 billion in 2019, before falling to $2.28 billion in 2020 when the Order took effect (see Figure 7).[40] Data for new contracts after 2020 is not available, possibly because Chinese firms were no longer permitted to sign contracts with Indian government entities, although their annual turnover continues to accrue.

Figure 7. Annual Value of New Contracts and Turnover of Chinese Firms from EPC Projects in India, 2015–2023



Source: Ministry of Commerce of the People's Republic of China, 2020 Statistical Bulletin on China International Project Contracting [2020 年度中国对外承包工程统计公报] (China Commerce and Trade Press, 2021); 2023年中国对印度承包工程完成营业额、派出人数和年末在外劳务人员情况统计, (Huaon Industrial Research Institute), March 13, 2025, https://www.huaon.com/channel/distdata/1059513.html.

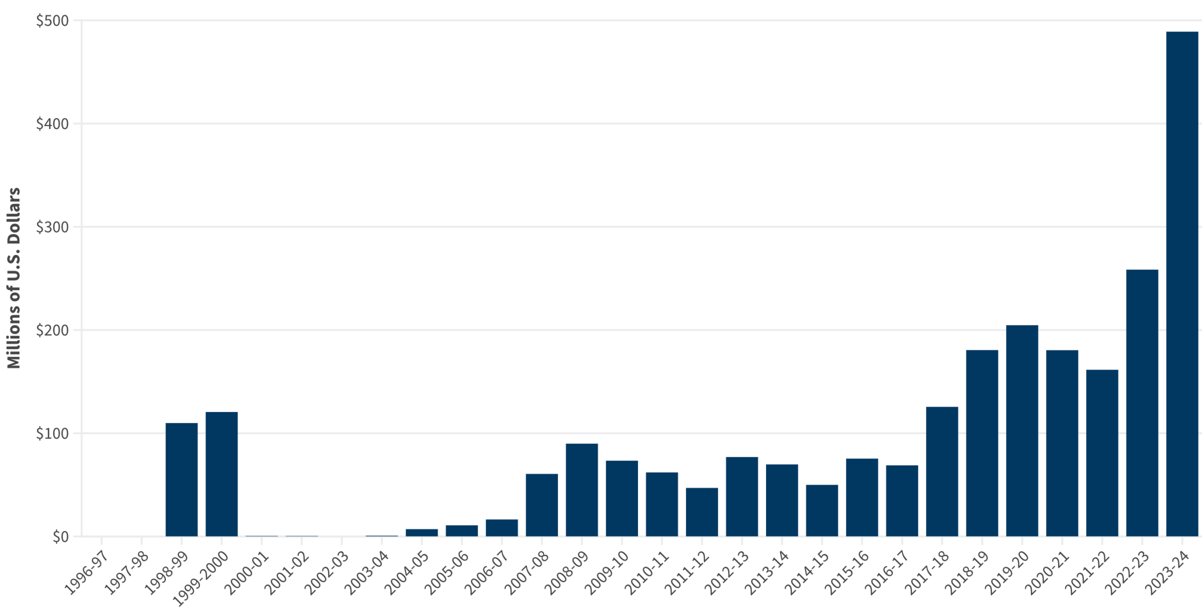
Exports of Goods

The railways sector is the purest form of state monopoly in India that relies on Chinese imports. Although railway goods make up a relatively small share of total imports, this sector shows the closest correlation between imports and public procurement, since the entire value of country-wide purchases, whether direct or indirect, is controlled by a single customer—the Indian Railways.

Data on India's imports of railway goods from China under HS code 86 illustrates that imports from China might have continued or even risen after the public procurement ban, depending on the gap between demand and domestic manufacturing capacity.[41] This is also corroborated by reports on shortages of railway wheels, where railway goods from China under HS code 86 were given a special exemption.[42]

This leads to the inevitable conclusion that even after Chinese firms were prohibited from direct participation in public procurement tenders, they supply to selected bidders due to comparative cost advantages and a lack of domestic alternatives.

Figure 8. Imports of Railway Goods from China, 2015–2024



Source: Author's calculations based on data from the Ministry of Commerce and Industry, Government of India, "Trade Statistics," accessed July 18, 2025, https://www.commerce.gov.in/trade-statistics/.

Impact Assessment

This paper analyzes the impact of global events, bilateral political ties, and domestic policies in China and India from 2005 to 2024, on four distinct components of the India-China economic relationship using data from relevant periods on trade (2005–2024), investments (2014–2024), digital economy (2015–2024), and public procurement (2015–2024). The three global events are the Great Financial Recession (2008), the launch of the U.S.-China trade war (2018), and the COVID-19 pandemic (2020). The three major border incidents are Depsang (2013), Doklam (2017), and Galwan Valley (2020). The domestic policies include China's ODI liberalization (2014) and clampdown (2016). Launch of the "Make in India" program (2014), issuance of Press Note 3, the app bans, and the Public Procurement Order (2020) in India.

Results reveal that each category of external factors has a differentiated impact on these components. Closer analysis of these events and their impact leads us to draw the following conclusions:

1. Trade flows respond best to global events. Material declines in India's trade deficit with China on a year-on-year basis have occurred only in response to global events such as the financial recession, the commencement of the U.S.-China trade war in 2018, and the COVID-19 pandemic.

2. Indian domestic policy has a strong influence on every category of investment flows from China. However, investments in the manufacturing sector are more dependent on a liberal ODI regime in China than venture capital flows. Bilateral political ties have a marginal impact on the activities of foreign portfolio investors from China in India.

3. Revenues of Chinese firms from EPC projects in India have no correlation with either bilateral political ties or Indian domestic policies, but the volume of new contracts has a strong relation to both.

4. Imports of goods from China related to public procurement contracts in India have no correlation with bilateral political ties or relevant policy changes in India.

5. The presence of internet applications operated by Chinese firms and data flows from India to China are strongly linked to policy measures in India.

Toward a Calibrated Approach

There have been multiple border incidents since the Political Parameters Agreement in 2005. Most of them were managed through negotiations and did not impact bilateral economic ties. The Galwan Valley incursions clearly breached India's tolerance limits, and the numerous retaliatory measures employed by India were effective to varying degrees. Since border incursions are likely to recur, it is important to identify a suite of policy levers with adequate depth and nuance that can serve as a deterrent and allow for a calibrated and effective response. In addition, such measures must align with India's national priorities and leverage global trends.

Some parts of the India-China relationship are less responsive to interventions by the Indian government. However, there are limited areas where such measures are effective and deserve a more nuanced approach. For instance, not all border incursions are of the same magnitude. If foreign investment policy is chosen as a tool for retaliation, an "on-and-off" approach with Press Note 3 is not sufficient. It will have to be refined to develop a detailed structure that can be calibrated depending on the magnitude of retaliation required.

In light of the recent thaw in India-China political ties and the recent U.S.-China tariff war, it is worthwhile to examine policy measures imposed by India since 2020, in order of the potential it offers for a calibrated response in future scenarios.

First, the FDI screening mechanism was effective in bringing investments to a standstill. Selective approval of investments since 2021 suggests there is scope to develop nuance on this front. Articulating a wide range of criteria for issuance of such approvals would be a logical approach since these criteria will allow for a calibrated response. Possible criteria can include sector-specific thresholds for investments ranging from highly sensitive to non-sensitive, mandatory spillover effects such as time-bound technology absorption and employment generation, incentives linked to reduction in import dependency or expansion of exports, and targeting FDI toward underdeveloped regions.

Second, the Public Procurement Order has not had any significant impact on imports of relevant goods. Considering the magnitude of India's public procurement market, it can also be argued that the Order has had a perverse impact of subsidizing the excess production capacity of Chinese manufacturers by allowing bidders to continue importing goods from China. Instead, a mandate to undertake domestic investments should accompany every award of a government tender that relies on imports. Investments can be sourced from a wide range of sources, including the Indian industry, global private equity funds, and Chinese firms that have relevant expertise.

Third, the Public Procurement Order has not impacted the revenue streams of Chinese firms in contracted projects. EPC contracts in large projects within capital-intensive sectors such as construction, steel, and mining have considerable spillover effects that can be tapped into. Strategic collaborations between Indian public sector undertakings or large Indian business groups and state-owned enterprises in China can result in more efficient capital allocation and domestic capabilities. It can also offer significant potential as a deterrent or for retaliatory measures.

Fourth, the blocking of internet applications and venture capital investments in the digital economy has de-risked the Indian internet ecosystem. However, in cases where manufacturing activities are linked to a digital footprint, contractual joint ventures that allow for Indian ownership and control, accompanied by a licensing arrangement with Chinese firms, can be considered.

There are examples of nuanced policy frameworks on both sides of the India-China corridor. In India, SEBI's calibrated response toward foreign portfolio investments from China deserves a mention. There was no immediate retaliation against FPIs from China after the Galwan Valley incursions. Instead, SEBI issued a circular in 2023 to constitute a new category for registration of FPIs with significant ownership from countries sharing a land border with India.[43] This new category has more rigorous Know-Your-Customer (KYC) norms at the time of registration and stricter reporting norms during operations. Such an approach provides more policy levers and reduces collateral damage. China's Export Catalogue of Prohibited and Restricted Technologies is another example. It includes a seven-digit classification for technologies to signify whether a particular technology requires regulatory approval for export or is prohibited for export.[44] Such a mechanism provides plenty of levers for policy responses in its trade and technology war against the United States of America.

Lastly, it is imperative that Indian policymakers distill learnings from the experiences of other countries that are coping with a large trade deficit with China and screening investment flows by striking a balance between economic and security considerations.

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To view the full annexure on venture capital investments from China in Indian startups from 2015 to 2019, visit carnegieindia.org.

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