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Economic Interdependence and Strategic Rivalry in Indo-China Relations: A Multidisciplinary and Interdisciplinary Perspective

Diksha Bairwa[1*] & Dr. Pritam Raj[2]

[1]Research Scholar, Department of Political Science, University of Rajasthan, Jaipur, Rajasthan, India.
[2]Associate Professor, Department of Political Science, Government College Kotkhawada, Jaipur, Rajasthan, India.

[*]Corresponding Author: diksha.bairwa.db@gmail.com

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ABSTRACT

The growing complexity of global political and economic relations has emphasized the need for multidisciplinary and interdisciplinary approaches to studying contemporary international affairs. Indo-China relations are a unique example of the interaction of economic interdependence and strategic rivalry. The rise of economic partnership and investment opportunities has increased economic ties between two nations, and at the same time, territorial disputes, security issues, and geopolitical confrontations have led to strategic mistrust between them. This paper attempts to apply the theoretical framework of International Political Economy (IPE) to study how economic interests affect foreign policy strategies and how strategic considerations impact economic interdependence in the context of Indo-China relations. The study of economic interaction between two countries with a focus on IPE combines such disciplines as economics, political science, international relations, strategic studies, and regional studies. The paper uses a multidisciplinary qualitative methodology and analyzes scholarly sources, reports, and publications. Thus, according to the research, both economic and strategic factors need to be taken into account when analyzing Indo-China relations. The paper concludes that using the IPE framework for analyzing the bilateral relations of India and China is appropriate. It allows a better understanding of how economic and strategic factors shape and affect the international political economy.

Keywords: *Indo-China Relations, Economic Interdependence, IPE, Strategic Factors, Interdisciplinary Approach, Geopolitical Issues.*

Introduction

The current international system sees the relative reemergence of Asia as the epicenter of economic production, industrial manufacturing, and military capabilities. At the heart of this geopolitical transition are India and China – two civilizational states with contiguous borders, growing nuclear arsenals, and a combined demographic footprint of over 2.8 billion people.

Historically, liberal economics (Angell, 1910) and neo-liberal institutionalism (Keohane & Nye, 1977) have argued that dense cross-border trade will raise the opportunity cost of war. The structural realist school (Mearsheimer, 2001; Waltz, 1979), however, argues that security dilemmas and relative gains calculus outweigh absolute economic benefits, pushing neighboring major powers to pursue zero-sum security competition.

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The Sino-Indian relationship presents a dual-track reality that fits neither model. Bilateral merchandise trade reached $151.10 billion, with China maintaining its position as one of India's primary trading partners. Concurrently, India's merchandise trade deficit with China expanded to $112.16 billion, with growing reliance on Chinese intermediate inputs. Both countries compete over the 3,488 km Line of Actual Control (LAC) and the maritime domains of the Indian Ocean Region (IOR). This paper attempts to answer the question: How do economic interdependence and rival regional security competition co-exist in Indo-China?

Multidisciplinary Methodology Background, Literature Review

A dual-track analysis of Indo-China relations necessitates a multidisciplinary approach. To understand how economic vulnerabilities are transformed into security risks, or how historical memory influences border negotiations, we need to combine different approaches.

- **International Relations Theory: Neo-Realism vs Neo-Liberal Institutionalism**

Neorealism postulates that states exist in an anarchic international system and pursue relative power gains (Waltz, 1979). China's economic rise translates to military modernization, prompting India to pursue internal balancing (defense modernization) and external balancing (strategic arrangements with Quad partners) (Panda, 2020).

Neo-liberal institutionalism focuses on how countries operate within shared multilateral frameworks e.g. BRICS, Shanghai Cooperation Organisation (SCO), and Asian Infrastructure Investment Bank (AIIB) to manage disputes (Keohane & Nye, 1977). Both nations work to secure absolute gains in reforming global economic governance and advocating Global South interests.

- **International Political Economy (IPE) – Weaponized Interdependence**

Applying Farrell and Newman's theory (2019), it is apparent that global trade networks are rarely symmetrical. Asymmetric interdependence is exacerbated when there are 'central elements' in the network. For Indo-China trade, China acts as a central hub for intermediate inputs, active pharmaceutical ingredients, and starting materials. This allows Beijing to wield panoptic visibility and hub-and-spoke leverage over India's domestic production capabilities.

- **Security Studies, Strategic Analysis**

Security studies examine military posture and gray-zone operational tactics (Pant, 2021). The Sino-Indian security dynamic involves asymmetric dual-nuclear deterrence and un-demarkated land border, with tactical gray-zone operations below the threshold of open conflict.

- **Geopolitics, Cartography**

Political geography evaluates how physical topography (such as the high-altitude Tibetan Plateau) impacts military operations (Miller, 2021). Similarly, the importance of the Sea Lanes of Communication (SLOCs) and choke points (Malacca, Sunda, and Lombok Straits) is evaluated through a geographical lens (Brewster, 2018).

International Political Economy of Indo-China Relations

The economic relationship between India and China is characterized by a growing structural trade imbalance. Rather than building mutual dependencies that restrain conflict, bilateral trade patterns create strategic vulnerabilities for New Delhi while providing commercial advantages for Beijing (Swamy, 2023).

Metric	FY 2023–24	FY 2024–25	FY 2025–26
Total Bilateral Trade	~$118.00 Billion	~$127.00 Billion	$151.10 Billion
Indian Exports to China	~$14.25 Billion	~$14.25 Billion	$19.47 Billion
Indian Imports from China	~$103.83 Billion	~$113.46 Billion	$131.63 Billion
India's Trade Deficit	$85.08 Billion	$99.21 Billion	$112.16 Billion

- **Qualitative Composition of Bilateral Trade**

The structural risk within the trade relationship lies in the qualitative composition of goods exchanged (Sowmya, 2025). Indian exports to China consist predominantly of primary commodities and low-complexity products, such as iron ore, refined petroleum, marine products, and raw copper. These items carry low processing leverage and are easily substitutable by Beijing in global commodity markets.

In contrast, approximately 98.5% of Indian imports from China consist of critical industrial inputs, capital goods, and manufacturing components. China accounts for nearly 43% of India's electronic component imports, 40% of its machinery and computers, and 44% of its organic chemicals. This high concentration in high-tech components creates a significant technical dependency for Indian manufacturing.

- **Granular Sectoral Analysis of Indian Industrial Dependency**
  - **Active Pharmaceutical Ingredients (APIs) and Healthcare**

India is a leading exporter of finished generic pharmaceuticals. However, over 68% to 70% of India's required Active Pharmaceutical Ingredients (APIs) and Key Starting Materials (KSMs) – such as penicillin, amoxicillin, and paracetamol – are sourced directly from Chinese suppliers. An interruption in these supply chains could disrupt domestic production and global pharmaceutical availability.

  - **Electronics, Telecommunications, and the Digital Economy**

Despite local assembly initiatives (Make in India), domestic manufacturing relies heavily on Chinese intermediate inputs. Assembly lines for mobile phones, consumer electronics, and telecommunications infrastructure depend on Chinese printed circuit board assemblies (PCBAs), display modules, and integrated circuits.

  - **Renewable Energy and the Green Transition**

India's renewable energy goals rely on imports of green technology inputs. Over 70% of imported solar photovoltaic (PV) cells and modules, along with essential components for lithium-ion battery manufacturing, originate from Chinese suppliers. This creates a policy trade-off between decarbonization targets and industrial reliance on a strategic rival.

  - **Specialized Capital Machinery and Precision Manufacturing**

Indian industrial manufacturing relies heavily on Chinese heavy industrial equipment, high-precision tools, injection molding machinery, and textile equipment. Rapid industrial growth depends on cost-competitive procurement of Chinese capital equipment, so complete trade restrictions would increase capital expenditures for Indian industrial developers.

Strategic, Security and Territorial Relations

While commercial exchanges occur through maritime ports, the land border and naval domains form the frontlines for military preparation, strategic containment, and projection.

- **Cartographic Disputes and Legal Frameworks in the Himalayan Frontier**

The territorial dispute arises from contradictory interpretations of colonial-era boundary demarcations and cartographic claims (Garver, 2001):

  - **The Western Sector (Aksai Chin):** This comprises approximately 38,000 square kilometers of high-altitude terrain. Aksai Chin serves as a connective corridor between Xinjiang and Tibet via Chinese National Highway 219 (G219). India considers this territory part of the Union Territory of Ladakh based on the 1865 Johnson Line proposal. China's claim is based on the 1899 MacCartney-MacDonald Line, which places Aksai Chin under Chinese sovereignty.
  - **The Middle Sector:** Spanning Uttarakhand and Himachal Pradesh, this is the least disputed sector, though there are localized differences over certain high-altitude passes.
  - **The Eastern Sector (Arunachal Pradesh):** Encompassing roughly 90,000 square kilometers, China claims this area as "South Tibet", disputing the validity of the 1914 McMahon Line agreed between British officials and the Tibetan government. The region holds strategic importance due to historical monasteries and high-altitude mountain corridors leading into the Northeast Indian plains.

- **Border Management Evolution**

Border management was historically governed by a series of bilateral agreements to maintain stability along the frontier.

Year	Bilateral Agreement / Milestone	Core Strategic Impact
1993	Maintenance of Peace & Tranquility Agreement	Established the Line of Actual Control (LAC) as a working concept; committed to reduced force.
1996	Military CBM Agreement in Border Areas	Restricted heavy weaponry, firearms, and military air intrusions along the immediate border zone.
2005	Political Parameters & Guiding Principles	Defined guidelines for border settlement; stipulated that settled populations should not be disturbed.
2020	Galwan Valley Standoff & Force Accumulation	Fatal confrontation; invalidation of historic CBMs; deployment of 50,000+ forward-deployed troops per side.
2024	Depsang-Demchok Patrol Disengagement Framework	Agreement on patrol rights & disengagement in key Eastern Ladakh friction points; path to CBM reset.

Following the 2020 standoff, both sides launched major infrastructure programs along the frontier (Archana & Kumar, 2026; Joshi, 2026). China upgraded airbases, paved access roads, built military encampments, and developed dual-use border villages (Xiaokang). In response, India accelerated infrastructure development through the Border Roads Organisation (BRO), completing projects such as the Darbuk-Shyok-Daulat Beg Oldi (DSDBO) road, the Sela Tunnel in Arunachal Pradesh, and high-altitude airfields to maintain military parity. Disengagement frameworks reached in late 2024 established patrolling arrangements at friction points like Depsang and Demchok, but forward military deployments and permanent infrastructure continue to define the border posture (Archana & Kumar, 2026).

- **Maritime Dynamics: "String of Pearls" vs. "Necklace of Diamonds"**

The Indo-Pacific region serves as a second arena of strategic competition (Mohan, 2012). To secure its energy routes through the Malacca Strait – a challenge often referred to as the "Malacca Dilemma" – Beijing has funded or secured commercial port facilities with potential dual-use naval applications at Gwadar (Pakistan), Hambantota (Sri Lanka), Kyaukpyu (Myanmar), and Djibouti under the Belt and Road Initiative (BRI).

Viewing these developments as potential operational encirclement, New Delhi has expanded its naval footprint in the Indian Ocean Region (Brewster, 2018). Under its "Necklace of Diamonds" posture, India has secured logistics access and tracking partnerships at Sabang (Indonesia), Duqm (Oman), Changi (Singapore), and Agalega (Mauritius), while strengthening maritime cooperation with Quad partners.

Sociological, Historical and Institutional Dimensions

- **Historical Memory**

Historical interactions between India and China are characterized by contrasting structural narratives (Garver, 2001). In India, the memory of the 1962 border war informs strategic caution towards Chinese territorial commitments. Meanwhile, Chinese foreign policy prioritizes global power competition with the United States. New Delhi's participation in the Quad is viewed by Beijing as part of the US containment strategy rather than an independent response to regional border dynamics. Furthermore, while both states advocate for a multipolar world order, New Delhi emphasizes a multipolar Asia while Beijing envisions a bipolar global dynamic and regional leadership in East and South Asia.

- **Diplomatic Coordination in Multilateral Governance**

Despite territorial tensions, India and China maintain structural cooperation within international institutions. Through platforms like BRICS and the SCO, both states advocate for reforms in international financial institutions, expand local-currency trade settlement options, and counter unilateral economic sanctions. Similarly, within the UNFCCC and the WTO, both nations often coordinate to defend developing-nation exemptions, resist Western carbon tariff mechanisms, and demand technology transfers from developed economies.

Regulatory Frameworks, Policy Instruments and Strategic Dilemmas

Managing high economic dependence alongside persistent border tensions requires sophisticated regulatory mechanisms and foreign policy management (Mishra & Rishi, 2026).

- **India's Regulatory Strategy: Targeted De-Risking**

Following the 2020 border standoff, India introduced targeted regulatory measures to mitigate security risks while maintaining industrial input flows:

- **Investment Screening (Press Note 3):** Amended Foreign Direct Investment (FDI) regulations in April 2020 to require prior government approval for all foreign investments originating from countries sharing a land border with India, slowing Chinese capital inflows into technology and greenfield sectors.
- **Digital Security and App Bans:** Banned over 300 Chinese mobile applications under Section 69A of the Information Technology Act, citing national security, user privacy, and data sovereignty concerns.
- **Telecommunications Infrastructure Bans:** Restricted non-trusted vendors from participating in national 5G trial networks and infrastructure rollouts, effectively excluding major Chinese telecommunications firms like Huawei and ZTE.
- **Industrial Incentives (PLI Schemes):** Introduced Production Linked Incentive schemes with financial allocations across sectors such as advanced chemistry cell batteries, solar PV modules, specialized electronics, and pharmaceutical ingredients to build domestic capacity.

- **Industrial Realities and Economic Re-calibrations**

The practical realities of industrial scaling have highlighted the complexities of rapid economic decoupling (Mishra & Rishi, 2026). Indian manufacturing sectors require access to specialized Chinese machinery, equipment maintenance, and technical expertise to scale production lines effectively. Recognizing these operational requirements, government agencies introduced streamlined business visa approvals for qualified Chinese technicians and considered targeted FDI relaxations for joint ventures where domestic technical capabilities were absent. Concurrently, global corporations adopting "China Plus One" strategies often relocate assembly operations to India while continuing to source component inputs from Chinese production hubs, maintaining structural linkages.

Comparative Case Studies: Asymmetric Dependency in Strategic Sectors

To evaluate how economic vulnerabilities are converted into strategic leverage, this section examines two critical industrial domains: active pharmaceutical ingredients and green energy technology inputs.

- **Active Pharmaceutical Ingredients (APIs): Vulnerability in the Global Pharmacy**

India's status as the "Pharmacy of the Global South" relies on Chinese upstream suppliers. India exports over $25 billion in generic formulations globally, yet its domestic formulation industry remains dependent on Chinese imports for core Key Starting Materials (KSMs) and Active Pharmaceutical Ingredients (APIs). In critical life-saving antibiotics – such as Cephalosporins, Penicillin, and Macrolides – dependency ratios exceed 85%. This upstream concentration presents a strategic risk: an interruption in supply, driven by regulatory shifts, industrial disruptions, or diplomatic friction, could impact production within weeks.

While India's Production Linked Incentive (PLI) scheme aims to subsidize domestic manufacturing of 41 critical bulk drugs, high domestic energy costs, environmental compliance requirements, and lower Chinese production costs present structural challenges.

- **Renewable Energy Infrastructure: Decarbonization vs. Strategic Autonomy**

India's energy transition targets require substantial growth in installed solar capacity. However, the domestic supply chain relies heavily on Chinese technology inputs across the solar PV manufacturing chain.

- **Upstream Supply Vulnerabilities:** Over 75% of imported solar wafers, polysilicon, and PV cells originate from Chinese manufacturers. China commands over 80% of global capacity across intermediate solar manufacturing steps.

- **Policy Dilemma:** Imposing high basic customs duties on Chinese solar imports protects domestic module assemblers, but increases costs for solar developers and slows utility-scale decarbonization projects.
- **Energy Security Implications:** Unlike primary fossil fuel imports, which require continuous fuel deliveries, solar infrastructure imports represent capital equipment investments. However, reliance on a foreign market for critical green infrastructure inputs poses long-term maintenance considerations.

Strategic Outlook and Future Trajectories

The future trajectory of Indo-China relations will be determined by three main structural variables (Panda, 2020; Sowmya, 2025):

- **Border Management Stability:** The sustainability of patrols and disengagement frameworks along the LAC will determine if both militaries can prevent localized tactical incidents from escalating into economic or military confrontations (Archana & Kumar, 2026; Joshi, 2026).
- **Supply Chain Diversification Speed:** The pace at which India builds domestic capabilities in pharmaceutical inputs, electronics, and renewable energy components through PLI schemes will shape its strategic autonomy.
- **Global Geopolitical Alignments:** The evolution of US-China systemic competition, shifts in global trade, and India's continued pursuit of strategic autonomy will influence how both nations navigate their bilateral differences.

Conclusion

The relationship between India and China demonstrates that deep economic interdependence doesn't necessarily eradicate geopolitical rivalry between neighboring major powers. Instead, high commercial integration can co-exist with, and at times magnify, strategic competition.

This multidisciplinary analysis shows that the Indo-China dyad operates under a model of managed competition and structural interdependence. While economic integration creates real supply-chain dependencies, strategic imperatives drive both nations to continuously hedge, balance, and build operational military deterrence. Navigating this dynamic requires calibrating national security requirements with economic development needs in a multipolar system.

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