



**Analyzing the Influence of Economic Measures on India-China Bilateral
Relations (2004–2022)**

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Abstract

This paper explores the role of economic measures, specifically sanctions and trade restrictions, in shaping India-China bilateral relations between 2004 and 2022. The comparative analysis spans two political regimes in India—the United Progressive Alliance (UPA) and the National Democratic Alliance (NDA)—highlighting the strategic use of economic tools in response to China's geopolitical maneuvers. Through a qualitative examination of trade policies, diplomatic engagements, border tensions, and multilateral alignments, the paper identifies the evolving nature of India's economic posture towards China and assesses the broader implications of sanctions as a foreign policy instrument.

Keywords:- Economic Sanctions, India-China Relations, Trade Policy, Geopolitical Strategy, Foreign Policy Instruments

Introduction

India and China, as two of the most populous nations and emerging global powers, share a bilateral relationship marked by cooperation and conflict. While economic interdependence between the two countries deepened significantly in the 21st century, geopolitical frictions, including territorial disputes and regional rivalries, have persistently strained diplomatic ties. In this context, economic measures, such as trade restrictions and sanctions, have emerged as key instruments in India's foreign policy toolkit.

The period between 2004 and 2022 witnessed two contrasting political regimes in India—the UPA government (2004–2014), characterized by economic liberalization and diplomatic engagement, and the NDA government (2014–2022), noted for its assertive nationalism and



strategic deterrence. This study aims to investigate how economic sanctions and trade policies were utilized by India in response to China's assertiveness and how these measures influenced bilateral relations.

This study delves into the manner in which economic measures have increasingly been employed not just for economic purposes, but as strategic tools aimed at influencing diplomatic behavior and asserting national sovereignty. From 2004 to 2014, during the UPA (United Progressive Alliance) government's tenure under Prime Minister Manmohan Singh, India adopted a policy of economic engagement and diplomatic dialogue with China. This period was marked by the expansion of bilateral trade, greater participation in multilateral forums, and the absence of punitive economic actions despite ongoing border disputes and strategic competition. The UPA government favored economic liberalism and multilateralism, focusing on economic growth through trade even as China began to deepen its influence across South Asia via infrastructure investments, military cooperation with Pakistan, and the early phases of its ambitious Belt and Road Initiative. India's exports to China during this period primarily included raw materials such as iron ore and cotton, while imports from China were dominated by high-value electronics, telecom equipment, and machinery, resulting in a growing trade deficit. The absence of sanctions or economic pressure during border incidents, such as the 2013 Depsang Valley incursion, reflected a policy of restraint driven by economic pragmatism. However, critics argue that this approach allowed China to gain greater leverage in the economic and strategic arenas without addressing India's long-term security concerns or trade imbalances. The policy landscape witnessed a notable transformation with the formation of the NDA (National Democratic Alliance) government in 2014 under Prime Minister Narendra Modi. The new leadership emphasized national security, strategic autonomy, and a robust foreign policy framework that included the use of economic measures as strategic instruments. The shift became particularly pronounced following the Doklam standoff in 2017 and the Galwan Valley clash in 2020, both of which brought India-China border disputes into global focus. In response to the Galwan conflict, where soldiers on both sides suffered casualties for the first time in decades, India implemented a series of targeted economic sanctions against Chinese entities. These measures were not mere expressions of political discontent but calculated efforts to reduce economic dependence, assert sovereignty, and signal strategic intent. Among the most notable actions was the banning of 59 Chinese mobile applications, including popular platforms such as TikTok, WeChat, and UC Browser, on grounds of national



security and data privacy. This digital strike was a significant departure from traditional trade sanctions and marked India's entry into the realm of digital sovereignty. It was followed by the exclusion of Chinese tech giants like Huawei and ZTE from participating in India's 5G trials, reflecting broader concerns about espionage and cyber vulnerability. Simultaneously, India revised its Foreign Direct Investment (FDI) policy to prevent opportunistic takeovers of Indian firms by entities from neighboring countries, effectively curbing Chinese investment flows. This policy shift was justified in the context of protecting Indian strategic industries during a period of economic vulnerability caused by the COVID-19 pandemic. Infrastructure-related sanctions were also imposed, with Chinese firms being disqualified from bidding for major highway and railway projects, thereby signaling a clear intention to decouple from Chinese capital and technology in critical sectors. These measures formed part of a broader doctrine of economic self-reliance, encapsulated in the government's "Atmanirbhar Bharat" (Self-Reliant India) initiative, which aimed to strengthen domestic manufacturing and reduce external dependencies. India also sought to strengthen its strategic alliances with like-minded democracies such as the United States, Japan, and Australia through platforms like the Quad, thereby embedding economic sanctions within a larger framework of strategic alignment. This period demonstrated that sanctions were not standalone tools but components of a multi-layered foreign policy strategy. While the effectiveness of these sanctions in altering China's military posture remains debatable, their symbolic and political impact has been significant. They served as both external signals and internal reassurances, reinforcing the government's commitment to national security while addressing rising public concerns over Chinese economic penetration. Economically, the measures disrupted several sectors, especially electronics and pharmaceuticals, where Indian industries remained heavily reliant on Chinese imports. The sudden policy shifts posed challenges in sourcing alternatives and maintaining supply chain continuity, underlining the limitations of using sanctions in a globally integrated economy. Nevertheless, these disruptions were framed as necessary short-term costs for achieving long-term strategic autonomy. When comparing the two eras, a distinct contrast emerges in the approach to China. The UPA era was defined by economic engagement, restraint in the face of provocation, and a belief in the stabilizing power of trade interdependence. In contrast, the NDA era reflects a more realist orientation, wherein economic engagement is conditional on strategic behavior, and economic tools are mobilized in response to security threats. This shift illustrates how changes in political leadership and ideological



orientation influence the application of economic statecraft. The study thus highlights the growing importance of geoeconomics in India's foreign policy, where economic instruments are deployed not just for growth, but for achieving strategic objectives. While the effectiveness of economic sanctions in compelling behavioral change in authoritarian regimes like China remains contested, their value as signaling mechanisms and tools of strategic posturing is undeniable. In conclusion, India's evolving use of economic sanctions against China between 2004 and 2022 reflects a broader transformation in its foreign policy from economic liberalism to strategic assertiveness. The shift underscores the increasing relevance of economic tools in diplomacy and national security, particularly in an era where military options are constrained by the risks of escalation. As India continues to navigate its complex relationship with China, the challenge lies in balancing economic pragmatism with strategic imperatives, ensuring that sanctions are part of a cohesive long-term policy aimed at safeguarding sovereignty, promoting self-reliance, and strengthening India's position in the global order. The future of India-China relations will depend not only on diplomatic dialogues and military deterrence but also on the strategic use of economic instruments that align with national interests and global realities.

Historical Context of Economic Engagement – Elaborated Version

The trajectory of India-China economic relations from 2004 to 2022 reflects not just trade statistics, but a broader narrative of evolving strategic priorities and ideological shifts in India's foreign policy. During the UPA era (2004–2014), under the leadership of Prime Minister Dr. Manmohan Singh, the emphasis was placed on deepening economic ties as a means to stabilize broader diplomatic relations. The belief that economic interdependence fosters peace and reduces the likelihood of conflict was central to the UPA's external strategy, particularly in relation to China. As a result, bilateral trade witnessed an unprecedented surge. From approximately \$18 billion in 2005, the trade volume between the two nations grew to over \$65 billion by 2013 (Ministry of Commerce, 2014). China emerged as India's largest trading partner, and the government viewed this economic engagement as a buffer against strategic tensions, especially those stemming from the unresolved border disputes. During this time, India also increased its participation in multilateral forums such as BRICS, the Shanghai Cooperation Organization (SCO), and various regional dialogues, using them as platforms to promote dialogue and cooperation with China. These engagements underscored India's commitment to multilateral diplomacy and peaceful coexistence, avoiding any form of



economic retaliation despite repeated instances of border incursions and strategic encirclement by China.

The UPA's approach to border tensions, such as the Depsang Valley incident in 2013, was rooted in diplomacy, dialogue, and the belief in economic diplomacy as a deterrent to conflict. Economic sanctions or retaliatory trade policies were consciously avoided, as the government prioritized regional stability and economic liberalization. However, this strategy was not without its criticisms. Many strategic thinkers and defense analysts argued that the UPA's policy lacked firmness and failed to address China's growing assertiveness, including its infrastructure expansion near the Line of Actual Control (LAC), its increasing military support to Pakistan, and its influence in neighboring South Asian nations through the Belt and Road Initiative (BRI). Nevertheless, the UPA government remained consistent in its belief that long-term engagement and economic collaboration would yield strategic dividends and reduce confrontation.

In contrast, the NDA government (2014–2022), led by Prime Minister Narendra Modi, marked a paradigm shift in India's approach to China, moving from economic accommodation to strategic realism and security-driven policymaking. Initially, the NDA government continued the trajectory of economic engagement, with bilateral trade continuing to grow. However, key incidents, particularly the Doklam standoff in 2017, where Indian and Chinese troops faced off for over two months in Bhutanese territory, and the deadly Galwan Valley clash in 2020, fundamentally changed the diplomatic calculus. These events were not seen as isolated incidents, but as direct threats to India's territorial integrity and regional stature. The Galwan incident, in particular, resulted in the first combat fatalities between the two countries in over four decades, triggering a nationwide outcry and a strong political response from the Indian government.

In response to these security threats, the NDA government initiated a series of economic countermeasures, marking the first time in the post-liberalization era that India used economic sanctions and trade restrictions as tools of foreign policy against China. Over 200 Chinese mobile applications, including prominent ones like TikTok, WeChat, and UC Browser, were banned by the Ministry of Electronics and Information Technology (MeitY), citing concerns over data privacy and national security. The move was part of a larger digital strategy to reduce China's influence in India's booming tech ecosystem. In addition, the Foreign Direct Investment (FDI) policy was amended in April 2020 to require mandatory government



approval for investments from countries sharing a land border with India, effectively targeting Chinese investments. This policy had a significant impact on China's footprint in India's digital economy, especially in sectors like start-ups, e-commerce, and fintech, where Chinese capital had been highly active.

Beyond the digital and investment domains, the NDA government also sought to reduce dependence on Chinese goods and services. Procurement guidelines were revised to discourage Chinese firms from participating in public infrastructure tenders. Indian telecom companies were advised to phase out Chinese equipment suppliers such as Huawei and ZTE. Simultaneously, the government launched the Atmanirbhar Bharat (Self-Reliant India) initiative, encouraging domestic production and reducing reliance on imports, particularly from China. These moves collectively signaled a shift towards economic nationalism, linking internal development goals with external strategic interests.

Despite these assertive measures, a paradox emerged: bilateral trade continued to flourish, even reaching a record high of \$125 billion in 2021, with India's imports from China comprising critical goods such as electronics, pharmaceuticals, and industrial machinery. This revealed a deeper structural reality—while India's political narrative became more protectionist, its economic dependency on China remained significant. The contrast between intent and capability highlighted the limitations of economic sanctions as a long-term strategic tool without parallel domestic reforms to build self-sufficiency and supply chain resilience.

Thus, the historical context of India-China economic engagement from 2004 to 2022 illustrates a trajectory from deepening trade relations under UPA with a diplomatic-first strategy, to a strategic recalibration under NDA marked by economic sanctions, investment restrictions, and digital decoupling. This evolution underscores the growing importance of economic instruments in foreign policy, particularly when traditional diplomacy fails to prevent strategic encroachments. It also reflects how domestic political ideologies and leadership styles influence the choice of tools used in international relations—where the UPA favored integration and dialogue, the NDA emphasized assertion and deterrence, using the economy not just as a means of development but as a weapon of statecraft.

Impact on Bilateral Trade and Diplomacy – Elaborated Version

The impact of India's economic measures on bilateral trade and diplomacy with China reveals a layered and nuanced reality that underscores the complexities of modern international



relations. The period following the Galwan Valley clash in 2020 marked a significant turning point in India's strategic calculus. India's decision to employ economic sanctions, digital bans, and investment restrictions against China was a clear departure from its historically cautious approach, signaling a new era of assertive economic statecraft. One of the most immediate and visible effects of these policies was a decline in Chinese investments in India's digital, start-up, and infrastructure sectors. Prior to 2020, China had emerged as a major investor in Indian unicorns and tech firms, with substantial stakes in platforms like Paytm, Zomato, BigBasket, Ola, and Byju's. However, following the introduction of FDI restrictions requiring prior government clearance for Chinese investments, the inflow of Chinese capital into India's digital economy saw a sharp decline. According to data from Invest India and Gateway House, Chinese funding in Indian start-ups fell by over 70% between 2020 and 2021, indicating the chilling effect of these economic restrictions.

In tandem with investment curbs, the ban on over 200 Chinese mobile applications, including highly popular ones such as TikTok, WeChat, CamScanner, and PUBG, marked a strong political and economic message. These bans were enacted under Section 69A of the Information Technology Act, 2000, on the grounds of national security and data sovereignty. The digital strike targeted the soft power and consumer reach of Chinese technology firms, disrupting their dominance in the Indian app market. This not only affected business revenues but also altered the perception of India's regulatory environment, sending a clear message that security considerations could override free-market principles. As a result, many Chinese firms either withdrew from India or restructured their operations through proxy companies, joint ventures, or indirect channels.

Despite these targeted sanctions and strategic pushbacks, a paradox emerged in the broader economic relationship: bilateral trade between India and China continued to grow, reaching a record high of \$125 billion in 2021, as reported by the Ministry of Commerce (2022). India's imports from China rose significantly, particularly in sectors like electronics, active pharmaceutical ingredients (APIs), electrical machinery, industrial equipment, and automotive components. These imports were largely driven by structural dependencies—India's manufacturing sector heavily relies on Chinese components for assembly and production. For example, over 80% of APIs used in Indian pharmaceutical production are sourced from China, making immediate decoupling infeasible. This continuing trade relationship underscores the



economic interdependence between the two nations, which remains strong despite political and military tensions.

The resilience of trade relations amidst diplomatic rifts highlights an important dynamic: sanctions can selectively impact sectors and signal political intent, but they do not necessarily dismantle the foundational structures of interdependence in a globalized economy. India's dependence on Chinese imports, particularly for high-volume consumer and industrial goods, made it difficult to enforce comprehensive economic disengagement. Moreover, alternative supply chains—either domestic or from allied countries—are still underdeveloped and cost-intensive. Thus, while the government made bold moves to restrict Chinese access to strategic and sensitive sectors, the broader trade ecosystem remained active and even expanded during the same period.

On the diplomatic front, India's economic sanctions were viewed as a clear hardening of stance, moving beyond verbal condemnations to tangible economic actions. This shift had a strong signaling effect, both domestically and internationally. Domestically, it projected an image of a resolute government defending national sovereignty and data integrity, aligning with the NDA's political narrative of strength and nationalism. Internationally, it resonated with other democracies—such as the United States, Australia, and Japan—that have also taken measures to curb Chinese influence in critical sectors. It positioned India as part of a broader coalition resisting China's geopolitical assertiveness, particularly in the Indo-Pacific region.

However, the adoption of economic sanctions also complicated bilateral diplomatic channels. China strongly opposed these measures, terming them as discriminatory, politically motivated, and violations of international trade laws, particularly under the rules of the World Trade Organization (WTO). Chinese Foreign Ministry spokespersons frequently criticized India's restrictions, warning of retaliatory actions and urging India to maintain trade neutrality. Diplomatic exchanges became increasingly tense, with fewer high-level bilateral summits and growing mutual distrust. Furthermore, the banning of digital platforms and investment scrutiny contributed to a diplomatic freeze in sectors that previously witnessed growing collaboration, such as education, technology exchange, and tourism.

The long-term diplomatic consequence of these economic actions is the erosion of mutual confidence. Although backchannel dialogues and disengagement agreements at the military level (such as those in Pangong Tso and Galwan) have occurred, the broader diplomatic relationship remains fragile and burdened by strategic mistrust. India's alignment with Western

powers and participation in forums like the Quad, combined with its assertive economic posture, has prompted China to view India as part of a containment strategy. This perception limits the scope for constructive dialogue and makes diplomatic breakthroughs increasingly difficult.

Conclusion

This study concludes that India's approach toward China from 2004 to 2022 evolved significantly, reflecting shifts in political leadership, strategic priorities, and security concerns. While the UPA government emphasized economic engagement and multilateral diplomacy, the NDA government adopted a more assertive strategy, using economic sanctions and trade restrictions as tools of foreign policy. These measures, especially post-2017, signaled a strategic shift toward economic statecraft and national security-driven diplomacy. However, despite increasing tensions, economic interdependence remained strong, highlighting the complexity of decoupling from a major trade partner. Ultimately, the study reveals that economic measures have emerged as central elements in India's China policy, but their success depends on domestic economic strength, strategic coherence, and regional collaboration.

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