



Assessing India's Moves to Improve Economic Ties with China

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◁Summary▷

- ◆ Since the second half of 2024, India has been moving to improve its economic relations with China. The following are the key points for understanding this development and assessing its potential impact on the Indian economy.
- ◆ **Background:** Two factors stand out as driving India's push to improve economic ties with China. First, as wariness toward the "America First" posture of the second Trump administration has deepened, India has felt a growing need to strengthen its negotiating leverage with the United States. Second, there is a growing recognition within the Indian government that its stringent trade and investment restrictions on China have, contrary to the government's original expectations, constrained the development of domestic manufacturing.
- ◆ **Impact of India's Easing of China-Related Restrictions:** Among India's measures to ease China-related restrictions, the relaxation of rules on inward foreign direct investment has attracted particularly strong attention. While wholly Chinese-owned entry into India remains subject to a range of restrictions, the recent regulatory changes have generated growing momentum for Chinese companies to enter the Indian market indirectly, through joint ventures with local firms or equity investments in global companies. Going forward, close attention should be paid to the possibility that expanded entry of price-competitive Chinese companies could intensify competition in the Indian marketplace.
- ◆ **Sustainability of the Improvement in Economic Relations:** As uncertainty over U.S.-India relations continues, India is likely to pursue closer economic ties with China in the short term. However, India-China economic relations should not be expected to expand in a straight line. Rather, they are likely to experience repeated ups and downs, shaped by factors such as (1) developments in the border disputes with China, (2) the impact of the recent easing of China-related restrictions on the Indian economy, and (3) the direction of U.S.-India relations under the next U.S. administration.

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1. India Moves to Improve Economic Relations with China

In May 2020, clashes broke out between Indian and Chinese forces on their disputed border, leading to a sharp deterioration in bilateral relations on both the political and economic fronts¹. Bilateral relations remained tense for an extended period thereafter, but have improved rapidly since Prime Minister Modi and President Xi Jinping met in October 2024 for the first time in five years (Table 1).

Table 1. Recent Developments in India-China Relations

Date	Event
Oct.2024	Prime Minister Modi and President Xi Jinping held their first formal meeting in five years at the BRICS summit in Russia, emphasizing the importance of resolving outstanding border-area issues and referring to the need to develop bilateral relations and explore cooperation from a strategic and long-term perspective.
Jul.2025	Indian External Affairs Minister Jaishankar visited China for the first time in five years and met with Foreign Minister Wang Yi, with both sides agreeing on measures, including the resumption of direct flights, to promote people-to-people exchanges.
Aug.2025	Chinese Foreign Minister Wang Yi visited India and met with External Affairs Minister Jaishankar, during which the two sides confirmed the “10-point consensus” (covering (1) the importance of stability in bilateral relations; (2) Prime Minister Modi’s attendance at the Shanghai Cooperation Organisation summit and support for China’s related activities; (3) mutual support for the success of major diplomatic events; (4) exploration of the resumption of bilateral dialogue and exchange mechanisms; (5) commemorative events in 2025 marking the 75th anniversary of India-China diplomatic relations; (6) the early resumption of direct flights and the simplification of visa issuance procedures; (7) continuation and expansion of the pilgrimage program for Indian pilgrims to the Tibet Autonomous Region; (8) concrete measures to facilitate trade and investment; (9) joint maintenance of peace in border areas; and (10) promotion of multilateralism and preservation of the WTO-centered multilateral trading system).
Late Aug.– Early Sep. 2025	Prime Minister Modi attended the SCO (Shanghai Cooperation Organisation) summit held in Tianjin, China, and met with President Xi Jinping. The two leaders confirmed that (1) India and China are development partners, not rivals; (2) differences between the two countries should not be allowed to develop into conflicts; and (3) stronger people-to-people ties are needed through measures such as the resumption of direct flights and the facilitation of visa issuance. (Modi did not attend the parade in September marking the 80th anniversary of victory in the war against Japan.)
Oct.2025	India’s Ministry of External Affairs announced that direct air services, suspended since 2020, would resume from late October (with Indian airline IndiGo announcing direct Kolkata–Guangzhou flights from late October, and Air India announcing in November that direct Delhi–Shanghai flights would resume from February 2026).
Oct.–Nov. 2025	The Indian government announced the withdrawal or postponement of mandatory BIS (Bureau of Indian Standards) certification requirements for steel, chemicals, electronics, and other products (although BIS regulations apply to all foreign companies regardless of country, Chinese firms are likely to benefit most from the rollback or easing because the regulations had in practice been enforced more strictly against them).
Dec.2025	India reportedly simplified procedures to expedite visa screening for Chinese engineers.
Jan.2026	India launched the new “e-B-4” business visa to facilitate visa issuance for Chinese engineers.
Feb.2026	India and China resumed the India-China Strategic Dialogue in New Delhi after nearly nine years (last held in Beijing in 2017), with the two sides agreeing to advance bilateral relations, support BRICS activities under India’s and China’s respective chairships in 2026 and 2027, uphold multilateralism, and strengthen solidarity with the Global South.
Mar.2026	India revised regulations on direct investment from neighboring countries with an eye to expanding inward FDI from China. (*Investment from neighboring countries remains uniformly subject to blanket prior approval, but investment screenings for sectors prioritized by India, including the electronics industry, are expected to be completed within 60 days. For investments from third countries, automatic approval is granted where neighboring-country ownership is below 10% and does not confer control, provided the investment does not conflict with other regulations.)
	Air China resumed Beijing–Delhi flights, while IndiGo launched Kolkata–Shanghai flights.

Source : Prepared by the Japan Research Institute based on various media reports

¹ For India-China economic relations, see Kumagai [2020a], [2020b], and [2024].

Recent developments have been driven forward at India's initiative. With a view to expanding economic relations with China, the Indian government has taken a range of measures, including easing restrictions on foreign direct investment from neighboring countries, relaxing the certification regime administered by the Bureau of Indian Standards (BIS)² and introducing a new visa framework.

The following sections examine the factors behind India's efforts to improve economic relations with China and the implications for the Indian economy.

2. Background to India's Reassessment of Its Stance Toward China

Two key factors explain why the Indian government is now reassessing its stance toward China. The first is the shift in U.S.-India relations. India and the United States moved rapidly closer toward the end of the Biden administration, but the picture changed dramatically after the second Trump administration took office. A series of developments heightened tensions between the two countries: (1) the Trump administration's introduction of reciprocal tariffs and additional tariffs tied to India's imports of Russian crude oil; (2) A sharp increase in application fees for the H-1B visa, a program for highly skilled foreign workers in the United States used predominantly by Indian nationals; and (3) U.S. involvement in the Kashmir issue, where India has long opposed third-country intervention ([Table 2 on the next page](#)). Even after India and the United States agreed in February 2026 on an interim framework for a bilateral trade agreement, the Indian government has remained wary of U.S. policy changes amid Washington's increasingly strong commitment to an "America First" approach. India's growing need to strengthen its negotiating leverage with the United States is seen as one factor prompting it to reassess its relationship with China.

The second is the adverse impact that excessive China-related restrictions have had on the Indian economy. Initially, the Indian government anticipated that the benefits of tightening various China-related restrictions would outweigh the negative effects.

The reasons for this include the fact that Chinese direct investment in India had been minimal even before bilateral relations deteriorated ([Figure 1 on the page 6](#)) and the expectation that restricting the entry of price-competitive Chinese firms into India would support the growth of domestic manufacturing and encourage the expansion of trade and investment with countries and regions other than China.

In practice, however, several measures introduced with China in mind also made it more difficult to expand trade and investment with countries and regions other than China ([Figure 2 on the page 6](#)), and contrary to the government's expectations, the negative effects have continued to outweigh the benefits.

In the area of direct investment, any investment involving Chinese capital became subject to a blanket prior-approval requirement, even when the investment originated from a country or region other than China. Consequently, investment into India from third-country funds and companies with Chinese capital participation came under downward pressure.

The tightening of the BIS certification regime, aimed at curbing imports from China, also constrained the development of India's manufacturing sector through material and component shortages caused by delays in regulatory compliance and higher supply prices reflecting the cost of meeting the new requirements.

² For an overview of BIS regulations, see Kumagai [2025].

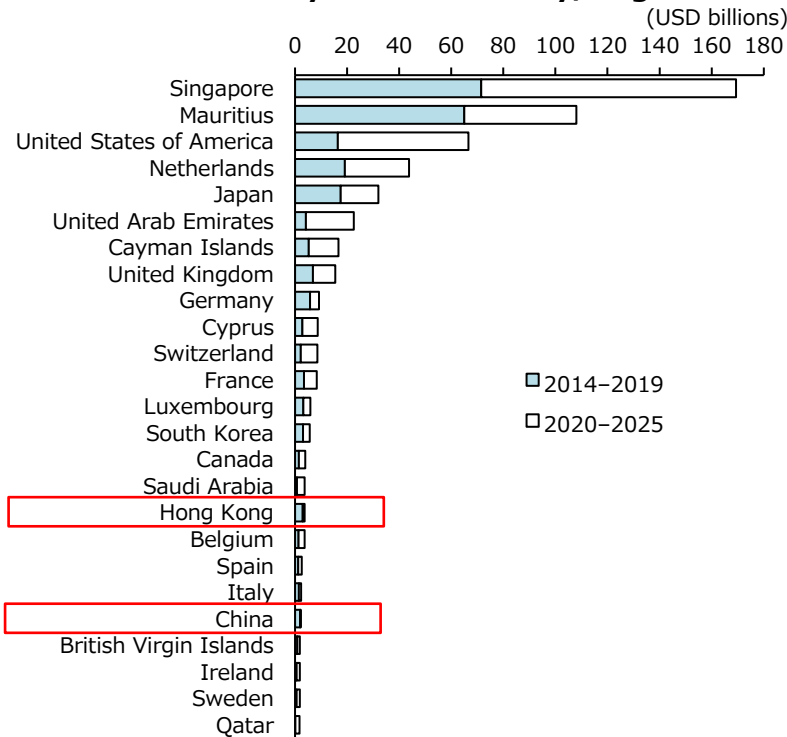


Table 2. U.S. Policy Moves and Their Impact on India Under the Second Trump Administration

Date	U.S. Policy Moves	Impact on India
Jan.2025	President Trump declared a national emergency on his first day in office to address illegal immigration and directed a review of visa issuance processes and other measures.	Share prices of major Indian IT companies fell, due in part to uncertainty over the outlook for H-1B visas for highly skilled workers, a category predominantly used by Indian IT engineers.
Jan.2025 onward	The Trump administration actively engaged in peace mediation efforts around the world to bolster U.S. influence and shape its legacy.	President Trump claimed that the United States had mediated peace between India and Pakistan during their April–May 2025 confrontation, but India rejected the U.S. claim — a disagreement that contributed to a deterioration in trust between the two countries.
Apr.2025 onward	President Trump announced the introduction of reciprocal tariffs on countries around the world, citing the need to eliminate “unfair trade.” (The tariffs were temporarily suspended after turmoil spread across global financial markets, and new tariff rates were introduced following trade negotiations with individual countries and regions. After a federal court ruled in February 2026 that the tariffs imposed under the International Emergency Economic Powers Act were unconstitutional, the administration switched to alternative tariffs and is considering a transition to tariffs based on other laws.)	Tariffs on India: 15%–50% April 2025: 26% August 2025: 50% (25% reciprocal tariff + 25% additional tariff over Russian crude oil imports) February 2026: 18% (reciprocal tariff reduced to 18% and additional tariff eliminated following the US-India trade agreement), subsequently lowered to 15% after a court ruling declaring the reciprocal tariffs unconstitutional.
May 2025 onward	New visa interview bookings for international students applying for F-1, M-1, and J-1 visas were suspended, followed by a tightening of screening procedures.	Indian students who had been considering studying in the United States from the fall 2025 semester faced enrollment deferrals or cancellations, while staying in the United States after graduation became more difficult.
Aug.2025	Additional tariffs were imposed on countries importing Russian crude oil.	Two developments contributed to an erosion of bilateral trust: the imposition of additional tariffs on India but not on China, and President Trump's claims in October 2025 and February 2026 that India had agreed to halt imports of Russian crude oil, despite India having issued no official statement to that effect.
Sep.2025	The application fee for H-1B visas for highly skilled foreign workers was raised sharply to \$100,000. *Previous application fees varied depending on employer size and other requirements, generally ranging from around \$2,000 to \$5,000. *From 2026, the system is set to shift to one in which applications are prioritized according to wage levels, with higher-wage positions given priority.	Major IT companies that dispatch Indian engineers experienced a deterioration in profitability, while the shift to offshore operations caused temporary disruptions.
Jan.2026	President Trump announced U.S. withdrawal from 66 international organizations, including 31 UN-related agencies and 35 non-UN bodies, citing conflicts with U.S. national interests.	International organization projects related to India's economic and social development stalled due to funding shortages and the absence of U.S. cooperation.
Late Feb. 2026 onward	The United States conducted a large-scale military operation against Venezuela. The United States and Israel carried out joint attacks against Iran.	Higher energy prices exerted downward pressure on the Indian economy through various channels.

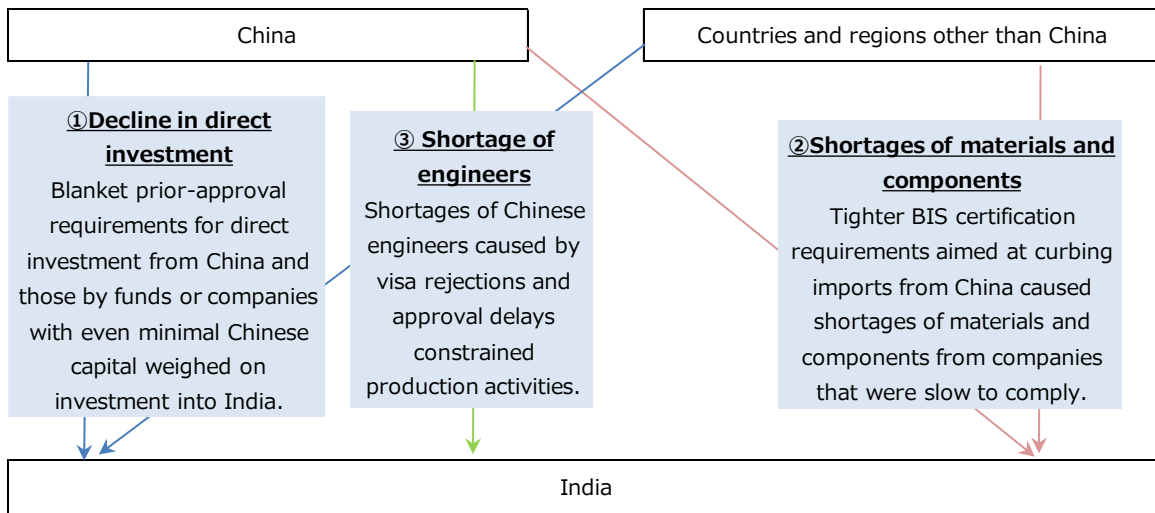
Source: Prepared by the Japan Research Institute based on various media reports

Figure 1. Foreign Direct Investment into India by Source Country/Region



Source: Prepared by the Japan Research Institute based on Reserve Bank of India data

Figure 2. Adverse Impact of India's China-focused Regulatory Tightening on the Indian Economy

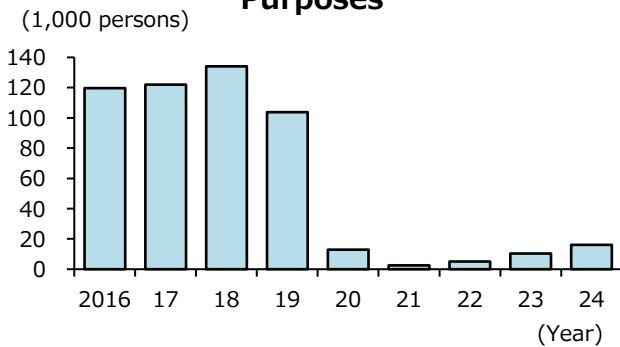


Source: Prepared by the Japan Research Institute

In addition, stricter controls on the entry of Chinese nationals created a shortage of engineers, making it more difficult to install manufacturing equipment imported from China at factories and to fine-tune, service, and maintain it in line with conditions at individual production sites. In the 2010s, the number of Chinese nationals visiting India annually for business purposes exceeded 100,000 (Figure 3 on the next page), but it has since declined to around 10,000 following the outbreak of the COVID pandemic and the tightening of restrictions on Chinese nationals.

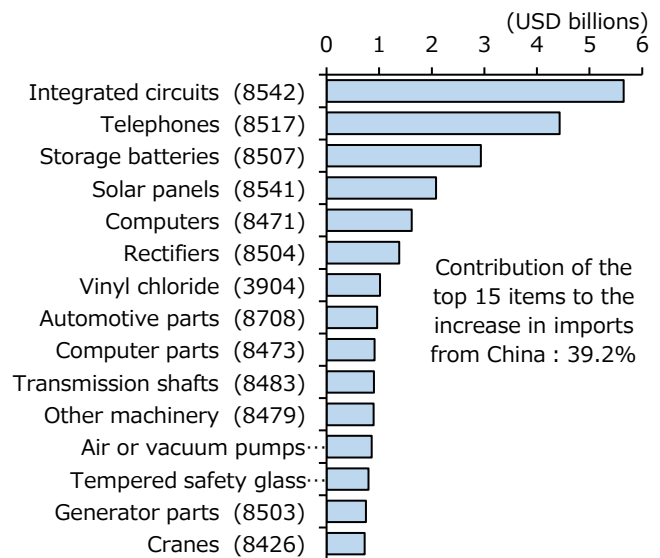
While these factors combined constrained the development of India’s manufacturing sector, Indian demand for electronic products continued to rise against the backdrop of the digitalization of the economy and society, as well as strong economic growth (Figure 4). As a result, even after China-related restrictions were tightened in 2020, India’s trade deficit with China has continued to widen, and China’s share of India’s goods imports has remained elevated (Figures 5 and 6). According to the India Cellular and Electronics Association (ICEA), opportunity losses in the electronics sector caused by China-related restrictions since 2020 have amounted to USD 15 billion in production value, USD 2 billion in value added, and 100,000 in employment opportunities³. As calls from industry groups for a review of China-related restrictions intensified, the Economic Survey released by the Ministry of Finance in July 2024 also recommended a policy review (Ministry of Finance [2024]), which contributed to the government’s decision to begin easing China-related restrictions from the second half of that year onward.

Figure 3. Number of Chinese Nationals Entering India for Business Purposes



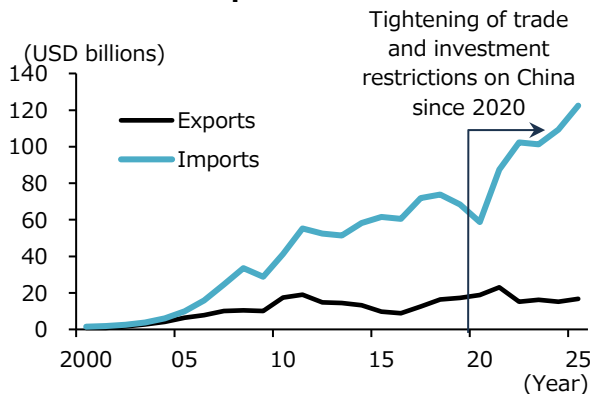
Source: Prepared by the Japan Research Institute based on Ministry of Tourism data
Note: Calculated as the number of Chinese arrivals in tourism statistics multiplied by the share of “Business and professional” in purpose of visit.

Figure 4. Increase in India’s Imports from China by Product Category



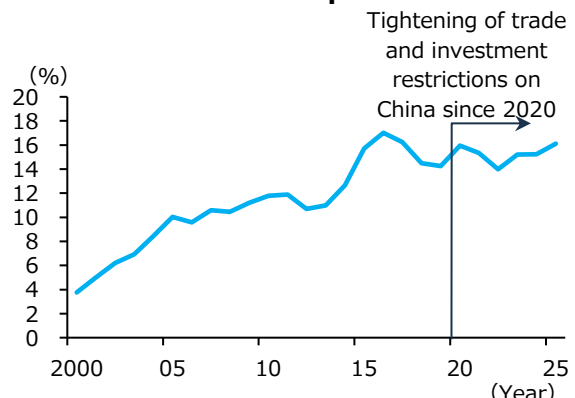
Source: Prepared by the Japan Research Institute based on Ministry of Commerce and Industry data
Note: Figures in parentheses on the vertical axis are HS four-digit classification codes.

Figure 5. India’s Goods Exports to and Imports from China



Source: Prepared by the Japan Research Institute based on IMF Direction of Trade data

Figure 6. China’s Share of India’s Goods Imports



Source: Prepared by the Japan Research Institute based on IMF Direction of Trade data

³ Hindustan Times, June 15, 2024, “India’s Electronics Sector Loses ₹1.25 Lakh Crore Due to India-China Tensions.”

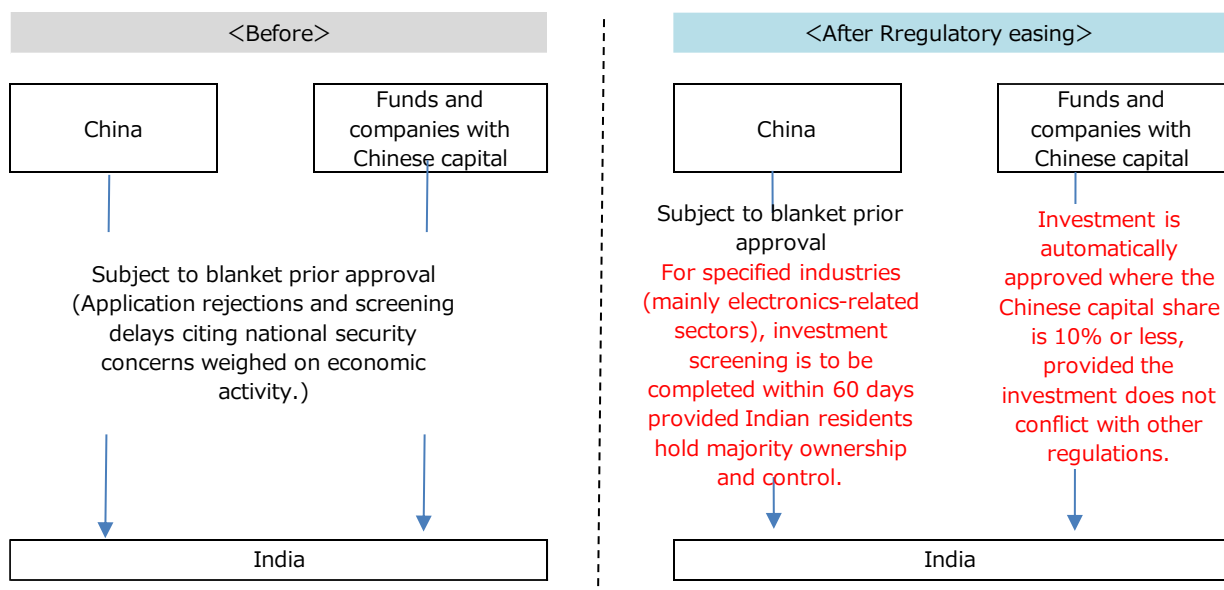
3. Impact of India's Easing of China-Related Restrictions

The following examines the potential impact of the easing of inward foreign direct investment restrictions, the aspect of India's recent policy measures that has attracted the broadest attention.

To summarize the key features of the regulatory changes, investment from China will continue to be subject to a blanket prior-approval requirement regardless of the size of the equity stake, even after the easing of restrictions (Figure 7). However, screenings will be expedited for investment in sectors prioritized by the Indian government, particularly the electronics industry⁴. For investment projects in which Indian parties hold majority ownership and control, the government has indicated that it aims to complete its investment screening within 60 days. In addition, investment by funds or companies located in countries or regions other than China but involving Chinese capital will be exempt from the prior-approval requirement if the Chinese capital share is 10% or less and the investment does not conflict with other foreign investment regulations⁵.

In response to the recent regulatory changes, Chinese companies whose plans to enter India on a wholly owned basis have been rejected are likely to reconsider market-entry options that reduce their Chinese footprint, such as joint ventures with local Indian companies or equity investments in global companies already operating in India⁶.

Figure 7. Changes to India's Inward Foreign Direct Investment Regulations



Source: Prepared by the Japan Research Institute

⁴ The Indian government defines the eligible sectors as “Manufacturing of capital goods, electronic capital goods, electronic components, polysilicon and ingot-wafers.” However, the definition of “capital goods” remains unclear and is likely to be revised in due course.

⁵ In some sectors, foreign investment exceeding certain thresholds requires government approval, regardless of the country or region from which the investment originates.

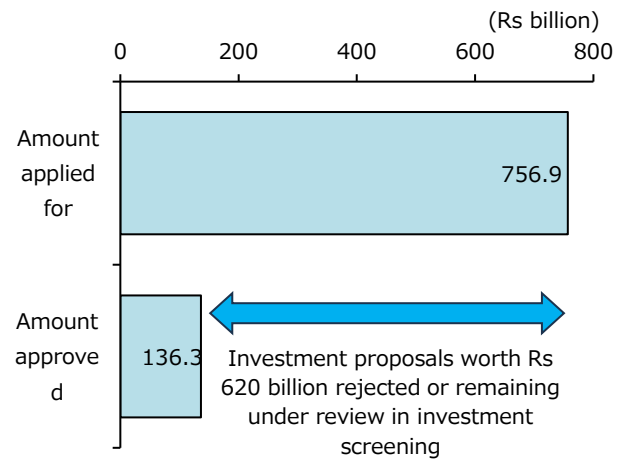
⁶ Moves to partner with local firms are also expected to gain momentum, with companies initially supplying technology and components while keeping future expansion into India in view.

Since China-related restrictions were tightened in 2020, investment proposals totaling roughly INR 620 billion (about JPY 1 trillion at current exchange rates) have either been rejected or remained under review for prolonged periods (Figure 8). This suggests that investment could increase substantially as a result of the recent easing of restrictions.

Among these possible responses by Chinese companies, the implications for the automotive industry, which accounts for a little over 30% of Japan's direct investment stock in India, deserve particular attention from the perspective of Japanese companies' business in India (Figure 9).

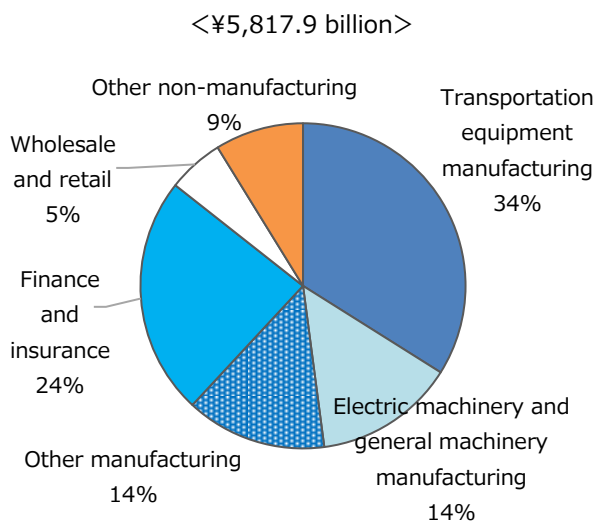
At present, India's automobile (four-wheeled vehicle) market is dominated by gasoline-powered vehicles, while electric vehicles (EVs) account for only about 3% of total vehicle sales. Over the past five years, however, the EV market has continued to expand at a pace far faster than the market for gasoline-powered vehicles (Figure 10). Looking ahead, EVs are likely to gain a stronger presence over the medium to long term, supported by factors such as higher resource prices driven by instability in the Middle East, the development of charging infrastructure, and tighter environmental regulations on gasoline-powered vehicles. Against this backdrop, a growing number of Chinese companies are considering entering India's EV market through joint ventures with local companies, as illustrated by MG Motor (Table 3 on the next page). Going forward, close attention should

Figure 8. Amounts Applied for and Approved for Chinese Direct Investment in India (Cumulative Total since the Tightening of China-Related Restrictions in 2020)



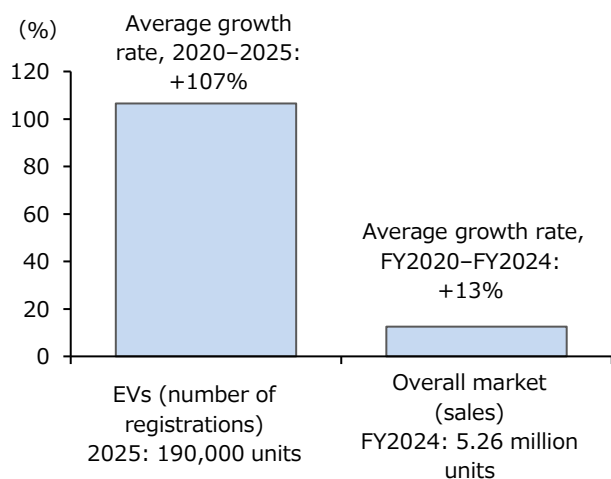
Source: Prepared by the Japan Research Institute based on The Economic Times, March 23, 2026, "China to recoup 2% share in Indian FDI after Press Note 3 changes: Crisil"

Figure 9. Industry Shares in Japan's Outward Direct Investment Position in India (End of 2024)



Source: Prepared by the Japan Research Institute based on Bank of Japan, "Direct Investment by Region and Industry and by Type of Investment"

Figure 10. Expansion of India's Automobile Market by Segment



Source: Prepared by the Japan Research Institute based on Ministry of Road Transport and Highways and Society of Indian Automobile Manufacturers data

be paid to the possibility that this could intensify competition in the Indian marketplace.

**Table 3: Recent Business Developments
by Chinese EV-related Companies in India**

Chinese companies	Business developments in India
BYD (比亞迪)	Planned a \$1 billion EV and battery manufacturing plant with major infrastructure company Megha Engineering and Infrastructures, but the plan was rejected by the Indian government in 2023 on national security grounds; reportedly considering sending executives and scouting factory sites to expand operations in India amid moves to ease India's China-related restrictions.
Great Wall Motor (GWM) (長城汽車)	Planned to enter the Indian market around 2020 by acquiring the India plant of U.S. automaker General Motors (GM), but abandoned the plan in 2022 due in part to delays in government investment approval.
Chery Automobile (奇瑞汽車)	Reportedly planning to launch an independent EV brand by 2027 in partnership with JSW Group, a major Indian steelmaker.
SAIC Motor (上海汽車集團)	Established MG Motor India in 2017, but shifted to a joint venture with major Indian steelmaker JSW Group in 2023 amid difficulties in securing additional capital from China following the tightening of China-related restrictions.
Geely Automobile (吉利汽車)	Does not manufacture in India directly. Its parent company, Zhejiang Geely Holding Group, acquired Sweden's Volvo in 2010 and began local production under the Volvo brand in 2017 (with Geely Auto providing some technology and components).
Leapmotor (零跑汽車)	Chinese emerging EV maker Leapmotor reportedly plans to enter the Indian market through a joint venture with Stellantis, the automaker formed in 2021 through the merger of France's Groupe PSA and America's Fiat Chrysler Automobiles.
Gotion High-Tech (國軒高科)	Entered India by establishing Tata AutoComp Gotion Green Energy Solutions in 2020 as a joint venture with Tata AutoComp Systems, a Tata Group auto parts manufacturer, and began producing automotive batteries.

Source: Prepared by the Japan Research Institute based on various media reports

4. Sustainability of the Improvement in Economic Relations

Finally, this section examines the sustainability of the improvement in India's economic relations with China. As uncertainty over U.S -India relations is expected to remain elevated, India is likely to continue pursuing closer economic ties with China in the short term.

That said, given India's emphasis on "strategic autonomy" as a basis for pursuing a balanced foreign policy based on its national interests, its economic relations with China are unlikely to expand in a straight line. The Indian government is therefore expected to calibrate its stance toward China while assessing several factors, including (1) developments in the border disputes with China, (2) the impact of the recent easing of China-related restrictions on the Indian economy⁷, and (3) the direction of U.S -India relations under the next U.S. administration. As a result, bilateral relations are likely to experience repeated ups and downs rather than move along a straight upward path.

Among the factors that could impact bilateral relations, developments in the two countries' border disputes over the Union Territory of Ladakh and the northeastern state of Arunachal Pradesh deserve particular attention (Figure 11 on the next page).

⁷ While there is growing recognition that overly restrictive China-related policies could harm the Indian economy, experience in other countries suggests that it remains unclear whether accepting investment from China would produce the positive effects expected by the Indian government. In Thailand, for example, EV production by Chinese manufacturers with low local-content ratios has been replacing production of gasoline-powered vehicles with higher local-content ratios. As a result, the manufacturing sector has remained sluggish even as Chinese investment has increased, while the country's dependence on imports from China has also deepened. Against this backdrop, how to deal with Chinese-affiliated "zero-baht factories" that generate almost no value added has emerged as a policy challenge.

Since the October 2024 meeting between Prime Minister Modi and President Xi Jinping, efforts have been under way to reduce border tensions, including the pullback of troops from areas where the two militaries had been facing off to avoid accidental clashes and the normalization of patrol arrangements near the border. At first glance, therefore, tensions over the border issue appear to be easing.

Figure 11: Areas of Competing Indian and Chinese Border Disputes



Source: Prepared by the Japan Research Institute

However, the situation on the ground is markedly different. India and China are accelerating efforts to strengthen their effective control over areas to which they lay territorial claim, particularly in Arunachal Pradesh (Table 4 on the next page). As a result, the risk that bilateral relations could deteriorate rapidly over the border issue is, if anything, increasing.

Specific efforts to strengthen effective control that have attracted attention in local media include two competing initiatives: China's development of so-called Xiaokang Villages, dual-use civilian-military settlements designed to serve as operational bases for the People's Liberation Army in the event of conflict and as permanent outposts for monitoring and reporting on Indian activities along the border, and India's countermeasure, the Vibrant Villages Programme (VVP). India and China have also repeatedly traded accusations, with India protesting China's promotion of "standardization," under which mountains, rivers, and residential areas are given Chinese names, and both sides accusing each other over the establishment of new administrative districts and the development of transportation infrastructure.

China classifies Arunachal Pradesh as a "core interest" on a par with Taiwan, among others, while India has repeatedly asserted that Arunachal Pradesh is "an integral and inalienable part of India⁸." There are no signs of movement toward a fundamental resolution of the border disputes.

⁸ The Indian Ministry of External Affairs has repeatedly said in official statements that "Arunachal Pradesh was, is and will always be an integral and inalienable part of India."

Taken together, these factors suggest that India's efforts to improve its economic relations with China are likely to remain temporary and limited in scope.

Table 4: Recent Developments in the India-China Border Dispute

Date	Event
Mar.2024	India opened the Sela Tunnel to improve connectivity between the states of Arunachal Pradesh and Assam, prompting China to object to India's construction of the tunnel and Prime Minister Modi's attendance at the inauguration ceremony.
Aug.2024	India created five new districts to strengthen administrative control in Ladakh, prompting China to object to the move as illegal and to establish two new counties of its own in disputed territory in December 2024.
Apr.2025	India approved Phase II of the Vibrant Villages Programme (VVP) to strengthen effective control by developing villages along its northern border and stemming resident outflows (Phase I was approved in February 2023).
May.2025	China implemented its fifth round of "standardization" to assign Chinese names to 27 locations, including mountains, rivers, and residential areas, in territories disputed with India, following earlier rounds in April 2017 (6 locations), December 2021 (15), April 2023 (11), and March 2024 (30).
Nov.2025	China detained an Indian national from Arunachal Pradesh during a transit stop at a Shanghai airport after declaring the traveler's Indian passport invalid, heightening tensions between India and China.
Dec.2025	The U.S. Department of Defense noted in its annual report that China had elevated Arunachal Pradesh to the scope of its "core interests."
Feb.2026	India increased funding for the Border Roads Organisation (BRO) under the Ministry of Defence in its FY2026 budget.
Mar.2026	China released details of its 15th Five-Year Plan (2026–2030), setting out a policy to strengthen highway networks and defense capabilities in areas along the border with India.
Apr.2026	China established a new county-level division in the Xinjiang Uyghur Autonomous Region, prompting India to criticize China by saying that "false claims and baseless narratives cannot alter the reality on the ground."

Source: Prepared by the Japan Research Institute based on various media reports

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