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India's Economic Decoupling from China: A Critical Analysis

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EXECUTIVE SUMMARY

This article argues that, for India, economic decoupling from China in the aftermath of the 2020 Galwan Valley clash that led to casualties on both sides is difficult in the short to medium term and is detrimental to the Indian economy.

MAIN ARGUMENT

India's recent attempts at economic decoupling—attempts to reduce its economic dependence on China—have so far failed as evidenced by an increase in bilateral trade in 2021 relative to 2019 and 2020. Economic decoupling from China is infeasible in the near to medium term because the Chinese economy is deeply intertwined with the Indian economy. It will be expensive, and in some cases impossible, to replace China as a supplier in economic value chains. Moreover, reducing imports from China or restricting Chinese investment does not greatly hurt or punish China because its exports to and investments in India are a very small proportion of its global exports and investments. On the contrary, restricting investments from China into India will damage India much more than it will China. Chinese investments in India can play an important role in enhancing economic growth in the post-pandemic period by creating employment, strengthening the manufacturing sector, improving infrastructure, and increasing exports under Indian government's Atmanirbhar Bharat Abhiyan ("self-reliant India campaign").

POLICY IMPLICATIONS

- Economic decoupling will not restore the *status quo ante* on the disputed border.
- India should focus on enhancing exports and improving market access in China to reduce its trade deficit.
- Since Chinese enterprises intend to stay in India and there will always be security concerns regarding Chinese investments in the country, it is imperative for India to develop transparent and rational protocols to increase Chinese investments in a sensible and secure manner.
- The Indian government should realize that protectionism is not a solution for the country's economic and political problems and instead undertake further economic reforms to boost national economic growth.

China's attempts to unilaterally change the status quo along its disputed border with India in eastern Ladakh in May 2020, and the subsequent death of twenty Indian soldiers in the clash at Galwan Valley in June 2020, led to outrage and increased anti-China sentiment in India. Angry citizens and trade associations called for decoupling from China and boycotting Chinese goods to impose an economic cost on Beijing for its military belligerence across the undemarcated and undelineated Line of Actual Control (LAC). Media, Bollywood stars, sports icons, and other famous personalities also advocated eschewing Chinese imports.

The government of Narendra Modi has employed a multipronged strategy—political, diplomatic, economic, military, and strategic—to try to persuade China to restore the *status quo ante* along the LAC.[1] The government has gradually moved away from its policy of nonalignment and strategically aligned itself closer to the United States and U.S. allies. New Delhi has also been instrumental in reactivating the Quad, which Beijing perceives as an "arc of democracies" intended to contain China. The Modi government has amassed troops in Ladakh to mirror China's troop deployment, and has made it clear to China both that tensions in the border dispute will affect the overall bilateral relationship and that the onus is on China to take the first moves to restore the status quo ante (the April 2020 positions along the LAC) and improve bilateral ties.[2]

The Indian government has also employed economic decoupling to express its anger at China's military belligerence and exert pressure on China to withdraw its troops from the LAC. Economic decoupling has been defined and interpreted in various ways. According to one definition, it is discouraging imports to repatriate or safeguard domestic jobs and to ensure the safety and security of military and civilian infrastructure. Such is the case with the United States' intent to economically decouple from China. For China, economic decoupling is synonymous with a strategic shift in which Beijing changes its focus from economic growth to economic control, as exemplified by its dual circulation strategy. Some analysts have labeled China's dual circulation strategy as the country's "own version of hedged integration," with China retreating from globalization and showing its economic resilience in a time

1 The Modi government refused an offer by then U.S. president Donald Trump to mediate in the border dispute. Both India and China have refused third-party intervention and have stated that they have mechanisms to resolve the dispute on a bilateral basis.

2 Raj Verma and Mihaela Papa, "BRICS amidst India-China Rivalry," *Global Policy* 12, no. 4 (2021): 509–13.

of global economic uncertainty.[3] It may also be perceived as a plan for China to decouple from the developed economies on its own terms and to develop homegrown, state-driven innovation.[4] In this article, economic decoupling refers to disentangling a country's economy or reducing its dependence on another country for raw materials, intermediate goods, and final consumer and producer goods by reducing imports, increasing tariffs and import duties, limiting or restricting investment from that country in the key sectors of the economy, and imposing additional scrutiny on data and technology-related engagement with the other country.

Some have argued that India is currently decoupling from China. Others argue that this economic decoupling was already in progress after New Delhi decided to exit the Regional Comprehensive Economic Partnership (RCEP) in November 2019, citing India's increasing trade deficit with China.[5] Decoupling was further advanced when India increased tariffs and import duties in the 2020–21 budget to reduce imports from China. But whether it began before or after, the Galwan Valley clash accelerated the process of economic decoupling from China.[6]

Some analysts and scholars have also asserted that decoupling from China is beneficial for India. Some have emphasized the primacy of geopolitics over geoeconomics by arguing that that the optimal way to reduce China's comprehensive national power is to reduce India's economic dependence on China. With India's fellow Quad members (the United States, Australia, and Japan) and other countries also trying to decouple or reduce economic interdependence on China in varying degrees, they argue that while India and the other Quad countries will suffer in the short to medium term,

3 Jude Blanchette and Andrew Polk, "Dual Circulation and China's New Hedged Integration Strategy," Center for Strategic and International Studies, August 24, 2020 ~ https://www.csis.org/analysis/dual-circulation-and-chinas-new-hedged-integration-strategy.

4 Gisela Grieger, "China's Economic Recovery and Dual Circulation Model," European Parliament Research Service, Briefing, December 11, 2020 ~ https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2020)659407.

5 For an analysis of why India exited the RCEP, see Raj Verma, "The Regional Comprehensive Economic Partnership and India: A Test Case of Narendra Modi's Statesmanship," *Australian Journal of International Affairs* 74, no. 5 (2020): 479–85.

6 Madhu Bhalla, "The China Factor in India's Economic Diplomacy," Observer Research Foundation, April 26, 2021 ~ https://www.orfonline.org/expert-speak/china-factor-india-economic-diplomacy; and Gopal Krishna Agarwal, "India Will Resist China's Economic Imperialism," *Hindustan Times*, July 27, 2020 ~ https://www.hindustantimes.com/analysis/india-will-resist-china-s-economic-imperialism/story-FILTh6ha7R7EyGu12QYuQI.html.

China will suffer more in the long term due to economic marginalization.[7] Others have argued that India's decoupling from China will benefit the Indian economy. These scholars advocate that New Delhi should espouse protectionism by restricting imports and supporting Indian enterprises in producing products to replace Chinese goods. In so doing, the government would provide incentives for start-ups, leading to innovation and reducing India's dependence on foreign technology; strengthen the manufacturing sector; create jobs; boost tax revenues; increase demand; and grow the GDP. Along this line of thinking, if India can achieve higher economic growth rates and a stronger economy, political support for decoupling from China will be reinforced.[8]

This article argues that economic decoupling from China is infeasible in the short to medium term because the Indian economy is too deeply intertwined with China's. Decoupling will be too expensive, and, in some cases, it will be impossible to replace China as a supplier in economic value chains. The article also highlights that, to date, India's attempts to reduce economic dependence on China have failed to a great extent. This is evidenced by an increase in bilateral trade in 2021 relative to 2019 and 2020. Moreover, reducing imports from China or restricting Chinese investment will not significantly hurt China because its exports and investments in India are a very small proportion of its global exports and investments. Instead, restricting Chinese investment is detrimental to the Indian economy and will hurt India more than it will China. Chinese investment can play an important role in enhancing economic growth in the post-pandemic period by creating employment, strengthening India's manufacturing sector, and increasing exports under the government's Atmanirbhar Bharat Abhiyan, or "self-reliant India campaign." Investment from China, especially in the infrastructure sector, would stimulate the Indian economy.

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7 See, for example, Harsh V. Pant and Yogesh Joshi, "Did India Just Win at the Line of Actual Control?" *Foreign Policy*, February 24, 2021 ~ https://foreignpolicy.com/2021/02/24/india-china-line-of-actual-control-disengagement. Such analysis, however, neglects the difficulties that the United States and other countries face in decoupling from China. For example, U.S.-China trade increased to $755.6 billion in 2021 despite the Trump and Biden administrations' tariffs, leading to a widening of the U.S. trade deficit with China. Moreover, these analyses gloss over the fact that China's economy has been consistently slowing since 2013 and is forecast to further slow, likely curtailing to some degree China's comprehensive national power and accompanying foreign policy goals and ambitions. For a detailed discussion, see Thomas Fingar and Jean C. Oi, eds., *Fateful Decisions: Choices That Will Shape China's Future* (Stanford: Stanford University Press, 2020).

8 See, for example, M.M. Sury, "How Economic Distancing from China Has Benefited India," Times Now, March 26, 2021 ~ https://www.timesnownews.com/business-economy/economy/article/how-economic-distancing-from-china-has-benefited-india/737389; and Atul Singh, Manu Sharma, and Vikram Sood, "Why Are the Indian and Chinese Economies Decoupling?" Fair Observer, September 3, 2020 ~ https://www.fairobserver.com/region/central_south_asia/atul-singh-vikram-sood-manu-sharma-india-china-decoupling-economy-border-dispute-latest-world-news-78914.

The remainder of this article is organized as follows:

- pp. 148–50 briefly discuss the India-China rivalry and bilateral relations until the Galwan Valley clash in June 2020.
- pp. 150–54 examine various measures introduced by the Modi government to substitute Chinese goods with Indian manufactured products and restrict investment from Chinese enterprises, including the cancellation of contracts by the central government and state governments and the banning of Chinese mobile apps.
- pp. 154–58 highlight the failure to date of India to economically decouple from China, despite government measures to reduce trade and commerce, and the inability of economic decoupling to achieve strategic objectives such as forcing China to restore the status quo ante along the LAC.
- pp. 158–64 discuss the infeasibility and demerits of economic decoupling from China.
- pp. 164–66 summarize the article and provide some policy prescriptions.

INDIA-CHINA BILATERAL RELATIONS AND PROTRACTED POSITIONAL RIVALRY

Bilateral tensions predate India's and China's modern nationhood; colonial India and the Republic of China (ROC), which formed on the mainland in 1912 under Chiang Kai-shek, were rivals even before India became independent or China's Communist revolution.[9] Although the issues of Tibet and border demarcation acted as a trigger for differences between India, both as a dominion (formed on August 15, 1947) and as a republic (formed on January 26, 1950), and the ROC, later the People's Republic of China (PRC, formed October 1, 1949), the rationale for competition has always been the quest for great-power status in the Asia-Pacific and beyond. Evident at the Asian Regional Conference held in New Delhi in March–April 1947, the rivalry has manifested itself over the quest for strategic space in the Asia-Pacific, especially the Indian Ocean, South Asia, and East Asia; over Tibet and the role of the Dalai Lama; along the disputed border; and for influence in the developing world. In 1962, India and China fought a war on their border in which India was defeated. This sowed seeds for antagonistic

[9] B.R. Deepak, *India and China: Beyond the Binary of Friendship and Enmity* (Singapore: Springer, 2020).

relations between the two countries. There were later altercations along the border in 1967, 1975, and 1987.[10]

Since the start of the 21st century, India and China have clashed several times along the undelineated and undemarcated LAC. The Depsang crisis in April 2013, a month before Premier Li Keqiang's visit in May of that year, lasted twenty days, and the Chumar standoff in 2014, on the eve of President Xi Jinping's visit to India, lasted sixteen. Following the latter event, Prime Minister Modi made a concerted attempt to improve bilateral relations and resolve the border issue. In 2015, he visited China and held meetings with Xi and other senior officials, and Xi and Modi also met at the G-20 and other summits, increasing confidence and improving bilateral relations. However, the border issue remained unresolved.[11]

Sino-Indian bilateral ties suffered a huge setback in 2017 during a 73-day standoff in June–August between troops from the two countries in Doklam at the China-Bhutan-India junction. The dispute began between Bhutan and China over the building of a road in Doklam, and India intervened on behalf of Bhutan to stop the construction. The standoff led to increased tensions, mistrust, and even predictions of escalation to a nuclear war between the two Asian giants.[12]

To improve and strengthen bilateral ties after the Doklam standoff, Modi and Xi met informally in Wuhan, China, in April 2018. In the ten-hour meeting known as the Wuhan Summit, both countries agreed to improve communication and strengthen existing confidence-building measures. Trade and commerce increased by approximately 14% in the 2018 financial year to \$95.7 billion, relative to \$84.4 billion in the 2017 financial year.[13] In August 2019, the bilateral relationship received a jolt when the Modi administration amended Article 370 of the Indian constitution and divided the state of Jammu and Kashmir into two union territories—Ladakh and Jammu and Kashmir—to be administered directly by the central government in New Delhi. However, "Chennai connect," an informal meeting between

10 For more details regarding border clashes and altercations, see John W. Garver, *Protracted Contest: Sino-Indian Rivalry in the Twentieth Century* (Seattle: University of Washington Press, 2001); and Bertil Lintner, *China's India War: Collision Course on the Roof of the World* (New Delhi: Oxford University Press, 2018).

11 Verma and Papa, "BRICS amidst India-China Rivalry."

12 Vinay Kaura, "India's Relations with China from the Doklam Crisis to the Galwan Tragedy," *India Quarterly* 76, no. 4 (2021): 501–18; and Stephen P. Westcott, "Seizing a Window of Opportunity? The Causes and Consequences of the 2020 Sino-Indian Border Stand-Off," *Journal of Asian Security and International Affairs* 8, no. 1 (2021): 7–32.

13 "Trade and Economic Relations," Embassy of India, Beijing, China ~ https://www.eoibeijing.gov.in/eoibejing_pages/MjQ.

Modi and Xi in October 2019, restored and enhanced bilateral relations. For New Delhi, the principal aims of the meeting were to increase Chinese investments in India and boost Indian exports and market access in China to mitigate the trade deficit—a major Indian concern. There was a belief that increasing economic and cultural ties would strengthen bilateral ties and keep the differences between the two countries from turning more contentious.[14] Xi invited Modi for a third summit in China in 2020, which Modi accepted.[15]

In the beginning of May 2020, Chinese troops intruded across the LAC and sparked a series of standoffs, fist fights, and brawls between Indian and Chinese troops at different points along the LAC in what the Indian Ministry of External Affairs called attempts to "unilaterally change the status quo."[16] During June 15–16, 2020, Indian and Chinese soldiers clashed in the Galwan Valley, leading to the death of twenty Indian soldiers and an unconfirmed number of Chinese soldiers. Both sides blamed each other for the violence.[17]

India's Economic Decoupling from China

After the Galwan Valley clash, the Indian government has strengthened measures aimed at reducing the country's economic dependence on China. Although the government has not directly advocated the boycott of Chinese imports, measures are being undertaken to substitute Chinese products

14 These other prominent issues of divergence include China's reluctance to endorse India for a permanent seat on the UN Security Council and membership in the Nuclear Suppliers Group, China's close relationship with Pakistan and propping it up as a proxy to contain India in South Asia, India's refrainment from joining Xi's Belt and Road Initiative, and India's burgeoning political, economic, defense, and strategic ties with the United States and U.S. allies. For a detailed discussion of divergence in India-China relations, see T.V. Paul, ed., *The China-India Rivalry in the Globalization Era* (Washington, D.C.: Georgetown University Press, 2018); and Raj Verma, "China's New Security Concept: India, Terrorism, China's Geostrategic Interests and Domestic Stability in Pakistan," *Pacific Review* 33, no. 6 (2020): 991–1021.

15 Verma and Papa, "BRICS amidst India-China Rivalry."

16 "Official Spokesperson's Response to Media Queries on the Situation in the Western Sector of the India-China Border," Ministry of External Affairs (India), Media Centre, June 16, 2020 ~ https://mea.gov.in/response-to-queries.htm?dtl/32761/official+spokespersons+response+to+media+queries+on+the+situation+in+the+western+sector+of+the+indiachina+border.

17 Verma and Papa, "BRICS amidst India-China Rivalry."

with Indian goods under the Atmanirbhar Bharat campaign launched in May 2020 by the Modi government.[18]

With the aim of creating a "self-reliant India," New Delhi has directed sellers on the Government e-Marketplace—an Indian government e-commerce platform—to specify the country of origin and the percentage of local content in their products. The Ministry of Commerce and Industry (MoCI) has warned sellers that their products will be removed from the platform if they do not follow the government directive. It has also directed all government agencies and departments to purchase goods and services for common use from the platform in line with the government's "Make in India" initiative that aims to turn India into a manufacturing powerhouse.[19] In sum, the government directive aims to significantly reduce the purchase of Chinese products by Indian sellers and procurement from China by different government departments.

The Modi government has also asked private online retailers, including Amazon India, Walmart's Flipkart, and Meta-backed Jio Platforms (the e-commerce, telecommunications, and technology subsidiary of Reliance Industries), to specify the country of origin and add "made in China" labels for products to ensure that Indian consumers are aware when they are purchasing Chinese goods. The Confederation of All India Traders has urged the MoCI to make it compulsory for all e-commerce platforms to require country of origin labels, and the Modi government is considering making this classification mandatory for all e-commerce platforms and retailers.[20] This will further curtail the buying and selling of Chinese products by Indian sellers and consumers.

The federal government and some state governments have canceled contracts awarded to Chinese enterprises that, according to one estimate, have resulted in a 510 billion rupee loss for these companies. For instance,

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18 The primary objective of the campaign is to encourage "domestic production and consumption with global supply chains.…It is about being self-sustaining and self-generating." Ananya Das, "Atma Nirbhar Bharat Is Being Self-Sustaining and Self-Generating: EAM S Jaishankar," Zee News, July 9, 2020 ⁓ https://zeenews.india.com/india/atma-nirbhar-bharat-is-being-self-sustaining-and-self-generating-eam-s-jaishankar-2294621.html. The five pillars of the campaign are the economy, a vibrant demography, system, infrastructure, and demand. However, analysts and scholars have criticized the campaign as a tool to reduce Chinese influence in the Indian market and increase protectionism in India. For analysis on increasing protectionism in India under the Modi government, see Verma, "The Regional Comprehensive Economic Partnership"; Ian Hall, *Modi and the Reinvention of India's Foreign Policy* (Bristol: Bristol University Press, 2019); and Surupa Gupta, "India's Trade Engagement: The More Things Change, the More They Remain the Same," in "Indian Foreign Policy Under Modi: A New Brand or Just Repackaging?" ed. Surupa Gupta and Rani Mullen, *International Studies Perspectives* 20, no. 1 (2019): 14–19.

19 Archana Chaudhary, "Govt Takes Another Step to Block China Products with New Rules," Mint, June 23, 2020 ⁓ https://www.livemint.com/news/india/govt-takes-another-step-to-block-china-products-with-new-rules-11592909458560.html.

20 Rajeev Jayaswal, "Made-in-China Labels Soon on Products Sold by E-Tailers?" *Hindustan Times*, June 25, 2020 ⁓ https://www.hindustantimes.com/india-news/naming-country-of-origin-for-retail-products-being-considered-by-govt/story-U3MNLt3vDejYcUvblVRQHN.html.

a 4.7 billion rupee contract awarded in 2016 to Beijing National Railway Research and Design Institute of Signal and Communication for a project on the Eastern Dedicated Freight Corridor was terminated by Indian Railways, which stated it was willing to fund the project itself.[21] The state government of Haryana has terminated two tenders worth 11.3 billion rupees for the installation of a flue gas de-sulphurization system and has announced it will cancel more contracts with Chinese companies.[22] The government of Maharashtra has put on hold three projects worth 50 billion rupees with three Chinese companies. Bharat Sanchar Nigam Limited, an Indian state-owned enterprise, has decided not to use products from Chinese firms for upgrading its 4G network.[23]

The central government has also decided to ban Chinese companies in their individual capacities and in joint ventures, preventing Indian (state, private sector, and public-private partnerships) and foreign enterprises from bidding on projects in India. With China in mind, on July 23, 2020, the Modi government, citing national security, made an amendment to the General Financial Rules 2017 to restrict the purchase of large-scale public projects including public-private partnerships from all countries that share land borders with India.[24]

These decisions aim to deter Indian private enterprises, public-sector banks, and financial institutions from transacting with Chinese firms and undertaking funding projects involving them. This will prevent China's participation in strategic sectors such as telecommunications, power, coal, and petroleum. India has imposed anti-dumping duties on imports from not only China but also other countries such as Cambodia and Singapore to ensure that Chinese goods do not enter India through a third country. India has additionally banned or restricted essential and nonessential imports from China. For instance, approximately 63% of India's pharmaceutical imports are active pharmaceutical ingredients and intermediaries, and of these 70% are from China. The government is now taking steps to source these imports from other countries, such as the United States, Italy, and

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21 Ashish Pandey, "How India's Economic Offensive Cost China Over Rs 51,000 Crore So Far," Business Today, July 3, 2020 ⁓ https://www.businesstoday.in/latest/economy-politics/story/how-indias-economic-offensive-cost-china-over-rs-51000-crore-so-far-262982-2020-07-03.

22 Ibid.

23 Ibid.

24 Rajeev Jayaswal, "India Builds a Huge Wall to Stop Chinese Firms from Getting Govt Contracts," *Hindustan Times*, July 24, 2020 ⁓ https://www.hindustantimes.com/india-news/eye-on-china-india-makes-it-tough-for-foreign-firms-to-bid-for-govt-projects/story-DJ2gFGcWLwwZL1eFhXreVO.html.

Singapore, and to build its own drug manufacturing parks to develop a domestic base. In light manufacturing, India initially banned the import of television sets and later air conditioners with refrigerants to boost domestic production in the $5–6 billion air conditioner industry under the aegis of Atmanirbhar Bharat Abhiyan.[25]

The Indian government has banned Chinese mobile apps, including TikTok, WeChat, and the popular video game PUBG, among others, because it considers them as "prejudicial to sovereignty of India, defense of India, security of state and public order."[26] The government dubbed the app bans as "digital strikes" on China, banning 59, 47, 118, 43, and 54 Chinese apps in five so-called digital strikes.[27] According to reports, ByteDance, the parent company of TikTok and the Helo apps, which had plans to invest approximately $1 billion in India, will lose at least $6 billion from the Indian market due to the ban. This is more than the combined potential losses of all the other apps that have been banned in India.[28] Chinese companies will also lose approximately $3.7 billion in the absence of digital advertising revenues from India.[29]

In June 2020, New Delhi instructed two state-owned telecommunications companies, Mahanagar Telephone Nigam Limited (MTNL) and Bharat Sanchar Nigam Limited, not to use products from Chinese companies Huawei and ZTE to upgrade their 4G infrastructure. In May 2021, ZTE and Huawei were left out of 5G trials on grounds of national security. This exclusion from the Indian market will lead to tens of millions of dollars in loss for ZTE and Huawei.[30] Though the government did not outrightly ban these Chinese companies, it introduced a new policy with security standards to which all vendors need to comply. This policy advantages Indian companies such as

25 Asit Ranjan Mishra and Suneera Tandon, "India's Blanket Ban on Import of ACs to Hit China, Thailand," Mint, October 16, 2020 ⁓ https://www.livemint.com/news/india/india-ban-on-import-of-air-conditioners-to-hit-china-thailand-11602823076203.html.

26 Jagmeet Singh, "Government Bans 47 More Chinese Apps in India after TikTok, 58 Others Banned in June: Report," Gadgets 360, July 28, 2020 ⁓ https://gadgets360.com/apps/news/chinese-47-apps-ban-india-government-2269400.

27 Pranob Mehrotra, "Here's a List of All the Chinese Apps Banned in India," XDA, February 11, 2022 ⁓ https://www.xda-developers.com/all-chinese-apps-banned-india.

28 "ByteDance Loss May Hit $6b after India Bans Chinese Apps," *Global Times*, July 1, 2020 ⁓ https://www.globaltimes.cn/content/1193243.shtml.

29 Isaac Yee, Michelle Toh and Hanna Ziady, "Beijing Says It's 'Strongly Concerned' by India's Decision to Ban Chinese Apps," CNN, July 6, 2020 ⁓ https://edition.cnn.com/2020/06/30/tech/india-china-app-ban-intl-hnk/index.html.

30 Gautam Chickermane, "Excluding Huawei from India's 5G Trials Is Part of No China Policy. And It Doesn't End Here," News 18, May 10, 2021 ⁓ https://www.news18.com/news/opinion/excluding-huawei-from-indias-5g-trials-is-part-of-no-china-policy-and-it-doesnt-end-here-3721829.html; and "ByteDance Loss May Hit $6b after India Bans Chinese Apps."

Vodafone Idea, Bharti Airtel, and Reliance Industries' Jio Infocomm to conduct trials with state-owned MTNL under Atmanirbhar Bharat Abhiyan. But it should also be seen as a part of a "no China" policy due to the Galwan Valley clash and the subsequent deterioration in bilateral relations.

THE FAILURE OF ECONOMIC DECOUPLING FROM CHINA

While all these actions show India's interest in economic decoupling from China, the Modi government's decoupling policy, to date, has failed significantly. Sino-Indian trade has increased substantially despite the calls for boycotts by trade associations, the general public, and eminent personalities and the numerous measures undertaken by the Modi administration. If the objective was to force China to restore the status quo ante, decoupling has failed to achieve this end. If it was to punish China economically, the policy has failed because Chinese exports and investment to India constitute a very small proportion of China's total trade and investments.

A scholarly consensus exists that employing economic tools to achieve political or foreign policy objectives is often useless or counterproductive.[31] This is more so the case with territorial disputes, where countries are willing to accept economic and financial pain rather than compromise on territorial integrity and sovereignty. Numerous examples exist. For instance, in March 2012, China banned banana imports from the Philippines after a flare-up around Scarborough Shoal in the South China Sea to pressure the Philippines to give up its claim. However, the economic sanction failed to deliver the desired result as Manila did not give up its claim over the contested waters.[32]

In 2014, the United States and its allies put a large tranche of sanctions on Russia, including individual sanctions on President Vladimir Putin and his associates, after Moscow annexed Crimea. The sanctions aimed at forcing Russia to return Crimea to Ukraine and at creating domestic constituencies in Russia against the Putin administration. The sanctions severely affected the Russian economy, but Russia did not return Crimea to Ukraine. Similarly, in 2017 the United States imposed further sanctions on Russia, including the Countering America's Adversaries through Sanctions Act, among others, to punish the Kremlin for interfering in the U.S. presidential elections. The Kremlin, however, believes that the sanctions are not an attempt to punish

31 David A. Baldwin, *Economic Statecraft* (Princeton: Princeton University Press, 1985, 2020 repr.).

32 William J. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control* (Ithaca: Cornell University Press, 2016).

Russia for interfering in U.S. domestic affairs but rather an attempt by the United States to contain Russia.[33] This further vitiated bilateral relations, which have reached their lowest point since the collapse of the Soviet Union.[34] However, Russia did not return Crimea, stop carrying out cyberattacks, or abstain from a full-scale invasion of Ukraine.

The Modi government needs to understand that trade and investment should not be linked to the border dispute; territorial, sovereignty, and strategic issues should be tackled separately. The following section examines how India's economic decoupling policies have failed in their efforts to coerce China to revert to the status quo ante in the border dispute.

Burgeoning Sino-Indian Trade despite the Boycotting of Chinese Goods

If India-China economic decoupling was intended to assuage public anger or respond to calls from angry citizens by punishing China economically, then this policy has failed. China overtook the United States to become India's largest trade partner in 2020–21 despite the anti-China sentiment in India over the border standoff and despite the Indian government's measures to reduce import dependence and trade with China. According to **Table 1**, in 2021–22, bilateral trade reached approximately $125.62 billion—an increase of approximately 43% over 2020–21. Chinese exports to India accounted for around $97.59 billion and were 46% higher than the approximately

TABLE 1

India-China Bilateral Trade, 2020–22

Year	China's exports to India ($b)	India's exports to China ($b)	Trade deficit ($b)	Trade volume ($b)	Percent change in total trade (%)
2020–21	66.78	20.87	45.91	87.65	–
2021–22	97.59	28.03	69.56	125.62	43.32
2022 (January–August)	78.58	12.62	65.96	91.20	16.00

Source: "Trade and Economic Relations."

33 Jeremy Kuzmarov, "'A New Battlefield for the United States': Russia Sanctions and the New Cold War," *Socialism and Democracy* 33, no. 3 (2019): 34–36.

34 Angela Stent, "Trump's Russia Legacy and Biden's Response," *Survival* 63, no. 4 (2020): 55–80.

$66.78 billion in 2020. Indian exports to China also increased by about 34% to approximately $28.03 billion.[35] According to the MoCI, India imported 8,455 types of items in myriad sectors, including textiles, electronics, auto components, and chemicals. It also imported a range of intermediate industrial products that are produced in insufficient quantities in India and cannot be easily procured from other countries.[36]

India's imports from China also increased in the first eight months of 2022 to $787.58 billion, an increase of 33.9%, and are likely to exceed the 2021 level of $97.59 billion. Exports from India to China declined to $12.62 billion in the first eight months of 2022, a drop of 36.7% year on year. Bilateral trade increased by 16% from January to August 2022 due to the increase in Chinese exports to India.[37] These figures illustrate India's dependence on Chinese imports and that, despite Indian citizens' and the Indian government's anger and bluster, decoupling initiatives have so far been defeated by market forces.

Since China is deeply integrated into the Indian economy and difficult to replace as a provider of intermediate goods in the manufacturing sector (discussed in greater detail later in the article), it will be challenging to reduce imports from China in the near to medium term without inflicting significant pain on the Indian economy. Total imports from China are thus not likely to soon decline significantly (despite the myriad measures taken by the Modi government), and the trade balance will continue to grow in China's favor unless Indian exports also greatly increase during the same period.

With respect to trade and investment, India has asymmetric exposure to China. Bilateral trade between the two countries has significantly increased since 2011–12.[38] Boycotting imports from China, however, will not have a significant impact on the Chinese economy; China's exports to India account for only 3% of China's global exports. Similarly, restricting Chinese investment in different sectors of the Indian economy will not significantly affect China. Between 2005 and 2019, China invested in excess of $2 trillion globally. However, India only accounted for 1.87% of its foreign investments, approximately $37.4 billion.[39] On the other hand, retaliatory measures from China would have a significant impact on the Indian economy because Indian

35 "Trade and Economic Relations."

36 Ananth Krishnan, "India's Reliance on Chinese Goods Surged in 2021," *Hindu*, January 22, 2022 ~ https://www.thehindu.com/business/Economy/indias-reliance-on-chinese-goods-surged-in-2021/article38310436.ece.

37 "Trade and Economic Relations."

38 For a detailed discussion on India-China trade ties, see Raj Verma, *India and China in Africa: A Comparative Perspective of the Oil Industry* (London: Routledge, 2017).

39 "Trade and Economic Relations."

exports to China account for 9% of India's global exports and merchandise exports amount to 18%.[40]

The Failure of Decoupling to Restore the Status Quo Ante

The Modi government's efforts at economic statecraft have also failed to coerce China to restore the status quo ante at the LAC. Despite multiple rounds of talks at the corps commander level and through the Working Mechanism for Consultation and Coordination on India-China Border Affairs, China is still denying access to Indian troops beyond the Charding Nullah Junction in the Demchok sector and the Y-junction or bottleneck in Depsang Plains in India's Daulat Beg Oldie military sector. According to Lieutenant General (ret.) Y.K. Joshi, India's then Northern Army commander, China agreed to disengage at the LAC at Pangong Tso Lake because of India's preemptive military action on August 29–30, 2020,[41] not because of the targeting of Chinese trade and investment and banning of mobile apps.

A trade war and economic sanctions are not going to resolve the border dispute. India should tackle trade with trade. In 2021, China framed the border dispute with India as a sovereignty issue. This was a shift—previously, China's stated policy was that the border dispute was a historical issue and a remnant of the imperial and colonial pasts of the two countries. Framing the border dispute as a sovereignty issue has made it extremely difficult to resolve the ongoing crisis in Ladakh and the larger border dispute. In 2013, Xi made it clear that he associated sovereignty with achieving the "China dream" and proclaimed that "'no foreign country should expect us to trade away our core interest' or expect China 'to swallow the bitter fruit' of encroachments upon its 'sovereignty.'"[42] In 2018, Xi told then U.S. defense secretary James Mattis that China "cannot lose even one inch of the territory left behind by our ancestors."[43]

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40 Nikhil Inamdar, "Can India Afford to Boycott Chinese Products?" BBC, June 25, 2020 ⁓ https://www.bbc.com/news/world-asia-india-53150898; and "How Dependent Is India on China? Here Is What Trade Data Reveals," Money Control, June 2, 2020 ⁓ https://www.moneycontrol.com/news/business/moneycontrol-research/how-dependent-is-india-on-china-here-is-what-trade-data-reveals-5346201.html.

41 Snehesh Alex Philip, "Northern Army Commander Reveals How China Was Forced to Negotiate Ladakh Disengagement," *Print* (India), February 18, 2021 ⁓ https://theprint.in/defence/northern-army-commander-reveals-how-china-was-forced-to-negotiate-ladakh-disengagement/606959.

42 M. Taylor Fravel, "China's Sovereignty Obsession," *Foreign Affairs*, June 26, 2020 ⁓ https://www.foreignaffairs.com/articles/china/2020-06-26/chinas-sovereignty-obsession.

43 Phil Stewart and Ben Blanchard, "Xi Tells Mattis China Won't Give Up 'Even One Inch' of Territory," Reuters, June 26, 2018 ⁓ https://www.reuters.com/article/us-china-usa-defence/xi-tells-mattis-china-wont-give-up-even-one-inch-of-territory-idUSKBN1JN03T.

India should continue to engage bilaterally with China and seek to resolve the border standoff peacefully. New Delhi should continue to station troops in the disputed areas to prevent further incursions and to put pressure on Beijing. However, both sides should be careful to ensure there is no violent conflict because it would exacerbate their antagonistic relations and stymie the global-power ambitions of both countries; moreover, it would not augur well for peace, stability, and security in the Indo-Pacific and beyond. Both sides need to build trust and prevent further clashes along the disputed border. Communication will help, and both countries should frame and implement new confidence-building measures.

THE DEMERITS AND INFEASIBILITY OF ECONOMIC DECOUPLING FROM CHINA

Restricting imports from China and prohibiting Chinese investments in myriad sectors of the Indian economy will be harmful for India. In 2019–20, the Indian economy expanded at the slowest rate in more than a decade at 4.2%. Lack of investment—both public and private—was largely responsible for the slowdown in the economy.[44] Due to Covid-19, the Indian economy contracted by 7.3% in 2020–21, the worst downturn since the 1970s. Although it has recovered from the pandemic and reached a growth rate of 8.7% in 2021–22, the UN Conference on Trade and Development estimates that the Indian economy will grow at 5.7% in 2022–23 and 4.7% in 2023–24.[45] Beyond 2023–24, the trajectory of growth is uncertain (especially without economic reforms). To meet India's aspirations to become a $5 trillion economy by 2029–30, the economy needs to grow at approximately 9% for the next five years.[46] If India aspires to become a world power and reduce the gap in material capabilities with respect to China, it needs growth rates of at least 8% for at least a decade.

44 Verma, "The Regional Comprehensive Economic Partnership."

45 Kritika Suneja, "India's Economy to Grow 5.7% in 2022, 4.7% in 2023: UNCTAD," *Economic Times*, October 3, 2022 ~ https://economictimes.indiatimes.com/news/economy/indicators/indias-economy-to-grow-5-7-in-2022-4-7-in-2023-unctad/articleshow/94626049.cms?from=mdr.

46 "India $5 Trillion Economy by FY29 Only If It Grows at 9% for Five Years, Says Former RBI Guv Subbarao," *Economic Times*, August 15, 2022 ~ https://economictimes.indiatimes.com/news/economy/policy/india-5-trillion-economy-by-fy29-only-if-it-grows-at-9-for-five-years-says-former-rbi-guv-subbarao/articleshow/93576521.cms?from=mdr.

Chinese Investment in Certain Sectors Can Benefit the Indian Economy

India needs an increase in trade and investment to stimulate economic growth and should welcome rather than restrict investments from China. For instance, Xiaomi, a Chinese tech giant wants to establish new factories in India not only to manufacture 99% of the smartphones and all the television sets it sells in India but also to make India into a manufacturing hub for global exports. Xiaomi also wants to utilize the Indian government's production-linked incentive scheme and source 75% of the devices from local Indian manufactures, thus creating jobs and contributing to the government's Atmanirbhar Bharat Abhiyan.[47]

Additionally, India desperately requires investment in its aging and ailing infrastructure. Power shortages increase the costs of production and decrease economic competitiveness. Similarly, inadequate transport infrastructure increases both the time and cost of transporting raw materials and finished products. According to one economic survey, to achieve a $10 trillion economy by 2032, India needs to spend $200 billion annually to create resilient and robust infrastructure.[48]

New Delhi is aware that China has the assets to help improve India's infrastructure, which would support economic growth and development. Improved infrastructure would reduce the costs of production, improve the domestic economy, and increase exports. It would also aid India in meeting its target of $1 trillion in exports by 2025. If Chinese companies are excluded from investing in Indian infrastructure projects, the price of the projects may be raised to the determinant of the Indian economy. Hence, economic decoupling from China will be self-defeating for India.

Decoupling Is Easier Said Than Done

Economic decoupling from China is easier said than done because of existing Indian regulatory mechanisms. For instance, despite the restrictions on Chinese companies investing in India introduced in 2020, they are still able to access and invest in infrastructure projects in India via exemptions given to multilateral lending institutions such as the World Bank, the Asian

47 Aakriti Sharma, "Chinese Tech Giant Xiaomi Wants to Turn India into Global Manufacturing & Export Hub," EurAsian Times, March 1, 2021 ∼ https://eurasiantimes.com/chinese-tech-giant-xiaomi-wants-to-turn-india-into-global-manufacturing-export-hub.

48 "India Must Double Infra Spending, Harness Private Investment: Eco Survey," *Business Standard*, July 4, 2019, available at: https://www.business-standard.com/article/pti-stories/india-must-spend-usd-200-bn-on-infra-annually-harnessing-pvt-investment-a-challenge-eco-survey-119070400730_1.html.

Infrastructure Investment Bank, and the Asian Development Bank.[49] To prevent Chinese companies from investing in India via these mechanisms, New Delhi would have to infringe on the rules of these institutions.

China is also already highly integrated into the Indian economy at several levels. In the last ten years, Chinese firms have become important players in major sectors of the Indian economy, such as social media, pharmaceuticals, telecommunications and mobile phones, and start-up businesses, among others. Chinese firms account for 75% of the mobile handset market, nearly 33% of the telecommunications sector, and over 75% of the equipment in the power sector in India.[50]

China is also deeply entrenched in the supply chains of key raw materials and components required in different sectors of the Indian economy. India, for instance, is one of the global leaders in the pharmaceutical industry. The country produces 20% of the world's generic drugs and 60% of the vaccines, and it is dependent on China for 68% of raw material imports needed for this production. A disruption of these imports from China would have a disastrous impact on this $39 billion industry and negatively affect India's place in this global supply chain. Even with reforms and government support (should they continue), it will still take around eight years for India to be able to diversify imports and increase its self-reliance.[51] Likewise, in the power sector, China has supplied 78% of the equipment for solar projects in India. Indian manufactures have a cost disadvantage of 20%–25% with respect to China and also suffer from dated capacities.[52] **Table 2** highlights the reliance of several industries in India on Chinese raw materials.

Emotions over the border dispute and the Galwan Valley clash in June 2020 appear to be blinding policymaking in India. It will be extremely difficult (if not impossible) to significantly reduce economic dependence on China in the short to medium term because establishing local supply chains is a slow process beset with its own complications, and alternative international suppliers can be difficult to find in some cases. According to industry experts, it is not easy to quickly replace Chinese products. Rajeev Karwal, founder

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49 Bhalla, "The China Factor in India's Economic Diplomacy."

50 Malini Goyal, "The Death of Indian Soldiers in Skirmish with China Raises Questions on Trade, Geopolitics and Security," *Economic Times*, June 21, 2020 ~ https://economictimes.indiatimes.com/news/economy/foreign-trade/the-death-of-indian-soldiers-in-skirmish-with-china-raises-questions-on-trade-geopolitics-security/articleshow/76486116.cms.

51 Rajeev Jayaswal, "India to Reduce Over-Dependence on Chinese Pharmaceutical Raw Materials," *Hindustan Times*, July 13, 2020 ~ https://www.hindustantimes.com/business-news/india-to-reduce-over-dependence-on-chinese-pharmaceutical-raw-materials/story-vYIIOkrEMaTcUDmTWeBCgO.html.

52 Inamdar, "Can India Afford to Boycott Chinese Products?"

TABLE 2

Indian Industries' Dependence on China for Raw Material

Industry	Share of raw material supplied by China
Pharmaceuticals	68%
Auto parts	27%
Garment	27%
Electronics	43%
Telecoms for Indian enterprises	40%
Solar energy	78%

Source: Goyal, "The Death of Indian Soldiers."

of robotics start-up Milagrow, has stated that "there is no quick replacement of Chinese products possible."[53] Kunal Kundu, an Indian economist at the multinational bank Société Générale, has observed that "reducing dependency on Chinese imports is easier said than done. It has to be medium- to long-term policy with attendant policy moves."[54]

Importantly, for goods manufactured in India, including under the Make in India campaign, at least 50% of the material (intermediate or raw) currently comes from China. Replacing China as a supplier with countries from Southeast Asia is challenging because these countries also source supplies from China. For instance, Maruti, a major Indian car manufacturer, has been working actively to source materials in India, but many of its tier-two and tier-three suppliers still source their materials from China.[55] Hence, India's attempts to replace supplies could negatively affect manufacturing in India and will have a concomitant negative impact on Modi's Make in India campaign.

China has also made substantial investments in the Indian economy. **Tables 3** and **4** depict the amount of Chinese overall investment from 2000 to 2021 in India and the share of Chinese investment in Indian industry, respectively. According to Invest India, the Indian government's investment promotion and facilitation agency, approximately eight hundred

53 Goyal, "The Death of Indian Soldiers."

54 Saheli Roy Choudhry, "Three Reasons India Can't Quickly Distance Itself from China despite the Border Clash," CNBC, July 6, 2020 ~ https://www.cnbc.com/2020/07/07/why-india-cannot-disengage-from-china-despite-geopolitical-tensions.html.

55 Goyal, "The Death of Indian Soldiers."

Chinese companies are operating in India, and Chinese enterprises have shown no intention of relocating their manufacturing units or businesses despite the ongoing Sino-Indian tensions. In the last three to four years, China has invested $4 billion in Indian start-ups, and 18 out of the 30 Indian "unicorns" have received funding from China.[56] **Table 5** highlights Chinese investments in Indian unicorns. Restrictions on Chinese investments will adversely affect Indian start-ups and stifle domestic innovation. Thus, India should not blindly ban Chinese investment in Indian businesses;

TABLE 3

Chinese Investments in India, January 2000–September 2021

Year	Amount in Indian rupees (crores)
Total from 2000 to 2016	99,339.68
2017	10,693.23
2018	26,243.78
2019	12,184.34
2020	718.13
2021 (January–September)	60.37
Cumulative total (January 2000–September 2021)	*149,239.53 ($2.446 billion)*

Source: "FDI Statistics," MCoI (India), https://dpiit.gov.in/publications/fdi-statistics.

TABLE 4

Share of Chinese Investment in Indian Industry

Sector	Share of investment
Automobile	40%
Metallurgical	17%
Power	7%
Construction	5%
Services	4%

Source: Bhalla, "The China Factor in India's Economic Diplomacy."

56 A unicorn is a private start-up company with a value of over $1 billion. Goyal, "The Death of Indian Soldiers"; and Choudhry, "Three Reasons India Can't Quickly Distance Itself."

TABLE 5

Chinese Investments in Indian Unicorns

Brand	Chinese investors	Investment (in $ millions)
BigBasket	Alibaba Group, TR Capital	250
Byju's	Tencent Holdings	50
Delhivery	Fosun	25
Dream11	Steadview Capital, Tencent Holdings	150
Flipkart	Steadview Capital, Tencent Holdings	300
Hike	Tencent Holdings, Foxconn	150
MakeMyTrip	CTrip	NA
Ola	Tencent Holdings, Steadview Capital, Sailing Capital and China, Eternal Yield International Ltd., China–Eurasia Economic Cooperation Fund	500
OYO	Di Chuxing, China Lodging Group	100
Paytm	Alibaba Group (Alipay Singapore Holding, Ltd.), SAIF Partners	400
Paytm Mall	Alibaba Group	150
PolicyBazaar	Steadview Capital	NA
Quickr	Steadview Capital	NA
Rivigo	Saif Partners	25
Snapdeal	Alibaba Group, FIH Mobile, Ltd. (subsidiary of Foxconn Technology Group), Meituan Dianping	700
Swiggy	Meituan Dianping, Hillhouse Capital, Tencent Holdings, SAIF Partners	500
Udaan	Tencent Holdings	100
Zomato	Alibaba Group (Alipay and Ant Financial Services Group), Shunwei Capital	200

Source: Amit Bhandari, Blaise Fernandes, and Aashna Agarwal, *Chinese Investments in India*, Gateway House Report, no. 3 (Mumbai: Indian Council on Foreign Relations, 2020) ~ https://www.gatewayhouse.in/wp-content/uploads/2020/03/Chinese-Investments-in-India-Report_2020_Final.pdf.

on the contrary, it should welcome Chinese investment while taking adequate measures to protect its national security. Concomitantly, greater investment from China might lead to India having more leverage over the Middle Kingdom.

CONCLUSION

China's military belligerence and attempts to unilaterally change the status quo along the LAC—culminating in the 2020 Galwan Valley clash and the first fatalities along the disputed border since 1975—have vitiated India-China relations. The event led to a public outcry in India and widespread anti-China sentiment, with the general public and eminent personalities venting their anger on social media and calling for economic decoupling from China. To alleviate public rage and achieve strategic goals, the Modi government has begun a policy of economic decoupling from China. It has undertaken various measures to reduce and substitute imports of Chinese goods and to restrict investments by Chinese enterprises, as well as banning more than 250 Chinese mobile apps. However, increases in India-China bilateral trade and the inability for India to meet strategic objectives in the near to medium term without Chinese goods and investment show how deeply China is interlinked through supply chains and trade with the Indian economy and the detrimental effects for India of decoupling. Atmanirbhar Bharat Abhiyan, the new avatar of the Make in India campaign, might be able to provide the necessary regulatory and financial support that is required to grow some strategic sectors in the Indian economy, but it will be insufficient to enable complete economic decoupling from China.

Calls to decouple from China accelerated after the Galwan Valley clash, but a primary underlying reason for decoupling is India's concerns regarding its huge trade deficit with China. Using trade as a political weapon against China is largely ineffective in terms of hurting or coercing China economically, while it is much more damaging to India. Although restricting imports from China would no doubt reduce the trade deficit, India's focus would be better served by increasing exports and improving market access in China. According to the MoCI, India could capture a bigger share of the commodity market in China because of the U.S.-China trade war and China's levy of high duties on U.S. imports. The MoCI has highlighted one hundred products, including wheat, cotton, and almonds, among others, where India has a comparative advantage.[57] Additionally, India also has a comparative advantage in the services sector, and it should lobby and bargain for increasing its market share and market access in the commodity and services sectors in China in line with the World Trade Organization's rules and regulations.

On the domestic front, since many Chinese enterprises intend to stay in India despite the chasm in India-China relations, it is imperative for the current and future Indian governments to develop transparent and rational protocols with security insights that conform to the best global practices, since there will always be concerns in India regarding links between the Chinese enterprises and the People's Liberation Army. In light of this, India should consider following the European Union's gold standard on reciprocity and transparency to increase Chinese investments in India. India can also more clearly divide the economy into sensitive and nonsensitive sectors so that Chinese investments do not threaten national security but boost the economy.

The Modi government has become both increasingly protectionist and nationalist, especially in its second term since 2019, as evidenced by the Make in India and Atmanirbhar Bharat campaigns. Yet Indian governments must learn from history; protectionism is not the solution to the country's economic and political problems. Before liberalization and economic reforms in 1991, protectionism led to the infamous and burdensome "License Raj" and encouraged corruption and stagnation. India's growth rate prior to 1991 of 3%–4% was consistently sluggish. If India wants to increase its comprehensive national strength to become a global power, reduce the gap in material capabilities or hard power with China, and reduce poverty and improve the well-being and quality of life of its citizens, it should move away from the general trend toward protectionism and self-reliance.

Additionally, it is imperative for India to reform the economy and remove structural bottlenecks. Economic reforms will increase domestic competitiveness and exports and thereby will also enable India to become better integrated into regional and global supply chains and enhance economic growth. No major economy can sustain 7%–8% growth without increasing exports and investment. But this increase will require investment in infrastructure—roads, railways, ports, and digital and telecommunications—and measures should be undertaken to encourage foreign direct investment (including from China) in these sectors. India should prioritize sectors and industries in which it wants to be a leader and

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57 Kirtika Suneja, "India Can Replace U.S. Exports to China amid Trade War, Finds Study," *Economic Times*, August 28, 2018 ∾ https://economictimes.indiatimes.com/news/economy/foreign-trade/india-can-replace-us-exports-to-china-amid-trade-war-finds-study/articleshow/65568130.cms.

provide the necessary support for these firms to become not only domestic leaders but global champions.

Last, decoupling, economic sanctions, or a trade war will not resolve the standoff in Ladakh or persuade Beijing to withdraw from the territory and restore the status quo ante that New Delhi seeks. The best recourse is for the two sides to continue to engage with each other and build trust through new confidence-building measures, which may induce Beijing to restore the status quo ante. Both sides should undertake measures to prevent further skirmishes along the disputed border as well as escalation to an armed conflict or war that would jeopardize the great-power aspiration of both countries. ◈