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Analyzing the Dynamics of India-China Trade Imbalance: A Structural and Policy-Oriented Study

Research Article

Analyzing the Dynamics of India-China Trade Imbalance: A Structural and Policy-Oriented Study

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Abstract

This study examines the imbalance in bilateral trade between India and China, which has been marked by a trade deficit on India's side since the early 2000s. Using a descriptive qualitative approach and secondary data sources from academic journals, policy reports, and international institution publications, this study analyzes the structural factors and domestic policies that influence trade relations between the two countries. The literature review draws on trade imbalance theory and the concept of global value chains, with particular attention to China's strengths in high-value-added manufacturing sectors and India's limitations in developing exports of complex products. The study's findings indicate that policies such as Make in India and the Production Linked Incentive (PLI) have provided sectoral boosts but have not yet addressed the underlying structural challenges. The main obstacles identified include suboptimal logistics infrastructure, low investment in research and development, and skill gaps in the workforce. The study concludes that efforts to reduce the trade deficit require a more integrated approach between industrial, trade, and economic diplomacy policies. Long-term strategies based on innovation, improved production efficiency, and expanded access to global markets are crucial for strengthening India's economic competitiveness in the future.

Keywords: Trade Imbalance; Make in India; Global Value Chains; India's Industrial Policy

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Introduction

The international trade relationship between India and China is one of the most interesting phenomena in global economic dynamics. The world's two most populous countries have tremendous economic potential, yet their economic interactions are characterized by deep imbalances. Since the early 2000s, India has been running a significant trade deficit against China, and the situation has worsened in the last decade (Macrotrends, n.d.). A trade deficit occurs when the value of a country's imports exceeds the value of its exports, meaning the country imports more goods and services than it exports. Although India has tried to increase its industrial capacity and improve trade relations with other countries, its dependence on imports from China, especially in the electronics sector and industrial raw materials, remains high. On the other hand, China continues to expand its market dominance through expansionary policies and technological innovations that enable it to dominate the global manufacturing sector (Rhodium Group, n.d.). India's inability to tackle infrastructure and bureaucracy is also an obstacle in accelerating its industrialization process and improving its competitiveness in the international market. This inability raises concerns not only from an economic perspective, but also from a political and national strategy perspective.

Free trade, which is supposed to be mutually beneficial, shows that India is structurally dependent on Chinese products. On the other hand, China has successfully utilized the needs of the Indian market to strengthen its dominance (Rhodium Group, n.d.). This raises a big question: why does India, with its large economic capacity and vast resource potential, experience a persistent trade deficit with China? What are the underlying factors that cause this deficit to persist, and what are the implications for the future of relations between the two countries?

In this article, authors will examine the main causes of India's trade deficit against China. Using Trade Imbalance Theory, authors will analyze how bilateral trade structure, comparative advantage, and trade policy dynamics have exacerbated this imbalance. Trade Imbalance Theory refers to the condition when the value of a country's exports and imports are unbalanced (Saylor Academy, n.d.). In this context, the most commonly discussed is the trade deficit, which is when the value of a country's imports is greater than its exports. This imbalance can reflect structural weaknesses in the economy, such as dependence on high value imported goods, low competitiveness of domestic industries, or barriers to exports.

Trade Imbalance is not just a number in the trade balance, it shows the economic relationship between two countries. For example, India's trade deficit against China illustrates that India has not been able to keep up with China's manufacturing dominance and is still dependent on importing high-tech products from the country. While India exports low value-added raw goods, China exports high-value products such as machinery and electronics. This imbalance can weaken domestic industrial growth, increase economic dependence, and even impact national strategies (NEXT IAS, 2025). Therefore, understanding trade imbalance is important for formulating industrial and trade policies that can strengthen a country's position in an increasingly competitive global trading system.

Empirical research shows that India imports 3 to 4 times more from China than it exports to the country (Paswan, 2021). The main commodities that India exports to China, such as ores, cotton, and other raw materials, tend to have low value-added. In contrast, China exports high value-added manufactured products such as electrical machinery, nuclear reactors, organic chemicals, and electronic devices. This imbalance indicates a significant difference in economic structure between the two countries.

The electronics sector is a clear example where India's dependence on imports from China is high. These products are not only important for India's manufacturing industry, but also for the emerging technology and

infrastructure sectors. The imbalances in these sectors suggest that without increased domestic production capacity and policies that support import substitution, the trade deficit will be difficult to overcome (Jash, 2020).

India's inability to expand its export portfolio to high-value sectors as well as infrastructure bottlenecks, regulatory inflexibility, and limited industrial innovation exacerbated the deficit. Meanwhile, China leveraged the strength of its manufacturing industry backed by expansionary policies after joining the WTO in 2001 to deepen its influence in global trade. Analysis of indices such as the Trade Intensity Index (TII) and Trade Reciprocity Index (TRI) show that trade relations between India and China are increasingly one-sided, with India's dependence on Chinese imports increasing without comparable export growth. Recent data from India's Ministry of Commerce shows that in fiscal year 2024/25, India's exports to China totaled $14.3 billion, while imports from China totaled $113.5 billion, resulting in a trade deficit of $99.2 billion (Business Today, 2025). This imbalance reflects not only differences in production capabilities, but also structural barriers in market access and adaptability to global demand. This further strengthens the argument that India's trade imbalance is not temporary, but structural.

Going deeper, there are several structural factors that exacerbate the trade imbalance between India and China. One major factor is the lack of diversification in India's export products (NEXT IAS, 2025). Most of India's exports to China are still dominated by raw commodities and low value-added products. This shows that India has not been able to develop more complex and high-value export sectors, such as technology products, electronics, or advanced manufactured goods that have great competitive potential in the global market (The Economic Times, 2025). In addition, India also faces difficulties in accessing some market sectors in China that actually have great potential, such as the information technology and services (IT/ITeS) sector, and agricultural products. These barriers could be due to strict Chinese regulations, non-tariff barriers, or lack of market penetration by Indian businesses.

Fundamental differences in the economic structure of the two countries are also a major contributor to this imbalance. China's economy relies heavily on a strong, efficient manufacturing sector that is integrated with global supply chains. In contrast, India's economy is more reliant on the services sector, which, although growing rapidly, has limitations in creating large quantities of physical export products. This difference in economic orientation makes it difficult for India to compete directly with China in goods trade, widening the existing trade deficit gap (Akhtar & Shukla, 2023).

Therefore, through analyzing the historical development of trade, the types of commodities traded, as well as the economic policies of both countries, this article aims to explain why India's trade deficit with China persists. The author also aims to identify the loopholes that lead to such dependence and offer strategic measures that India can take to reduce dependence and strengthen its position in international

Literature Review

This section will discuss various thoughts and previous research related to the issue of trade deficits, especially in the context of inter-country relations and their influence on the world economy. Understanding the concept of trade imbalance is important to analyze the deficit between India and China.

One important study that helps us understand more about the dynamics of global trade imbalance is the article "Trade in intangibles and the global trade imbalance" written by Xiaolan Fu and Pervez Ghauri in 2020. In this paper, Fu and Ghauri discuss how the emergence of intangibles, such as patents, know-how, trademarks, copyrights and trade secrets, has changed the way we understand the economy and international

trade. They argue that as trade today increasingly involves knowledge and services in global value chains (GVCs), the way we measure and analyze trade imbalances has become more complicated.

In discussing trade deficits, Fu and Ghauri (2020) emphasize that trade imbalances are not only caused by the buying and selling of physical goods. They point out that while countries are busy trading goods, the flow of value from intangibles-which are often poorly captured in standard trade data-can greatly affect the trade balance. This is relevant to the case of India's deficit against China, where although India imports a lot of manufactured goods from China, we also need to see if there is an influence of intangibles that affect their trade balance, or how China's advantage in technological innovation (intangibles) strengthens its manufacturing sector and widens the bilateral trade deficit. Fu and Ghauri (2020) indirectly suggest that to understand trade imbalance more thoroughly, we need to consider modern factors such as intangibles and how GVCs work. Therefore, this study provides a strong rationale to analyze the India-China trade deficit from a more contemporary perspective, looking not only at the amount of goods traded, but also the potential influence of intangibles that shape the trade patterns of the two countries.

Furthermore, Fu and Ghauri's approach on the globalization of intangible value also shows that countries with advantages in research and development, as well as intellectual property ownership, tend to gain a larger share of value-added in global trade. This is particularly relevant to China, which in the past decade has occupied a leading position in international patents and high technology. In contrast, India, which excels in services, has struggled to keep pace with China's manufacturing expansion based on its mastery of technology and product design, creating a structural imbalance in bilateral trade.

Having understood the theoretical framework of trade imbalances, it is important to review more specifically the dynamics of trade relations between India and China. Research by Dar and Mehta (2020), “in "A study of India China trade relations"” shows that bilateral trade between India and China has grown rapidly in the last two decades. They noted how in 2001, China was still behind several other countries in terms of India's share of total trade. However, after China joined the WTO, its trade increased dramatically, until it emerged as India's largest trading partner after 2008-2009. This change in the trade situation, where the value of bilateral imports from India increased sharply, signaled a significant shift that formed the basis for the persistent trade deficit.

The development of economic relations between the two countries was also highlighted by Chauhan and Kumar (2024) in "Trade Beyond Borders: Decoding India-China Economic Relations". Which identify India and China as major players in Asia's rapid economic growth, despite both countries having a long history of border disputes that often spark tensions.These tensions often generate strong sentiments among Indians, leading to boycotts of Chinese goods as a form of protest and economic retaliation. This article critically analyzes India-China trade relations, particularly in the context of trade restrictions on products from China and how it fits within the framework of their membership in the World Trade Organization (WTO). It reinforces the understanding that deficits are not only influenced by purely economic factors, but also by geopolitical dynamics and domestic sentiments that can affect trade flows.

Interestingly, Chauhan and Kumar also point out that most of the products India imports from China are in the category of capital goods and strategic raw materials, such as pharmaceuticals, industrial machinery and electronics. This dependency is structural and not easily replaced, so despite political pressure to reduce the dependency, in practice India is still very much in need of Chinese supplies in maintaining the viability of various domestic industrial sectors.

Furthermore, an in-depth analysis of India's economic structure and policies is also crucial to understanding the roots of this trade deficit. Dikshit (2020), highlights how India's trade deficit with China is partly influenced by China's strength in the global manufacturing sector. She explains that China has become the world's manufacturing hub, producing goods in a cost-competitive and efficient manner, making India heavily dependent on imports from China, especially for electronics, machinery, and industrial raw materials.

On the other hand, Dikshit (2020) also identified structural weaknesses in India's manufacturing sector as a major contributor to the deficit. While India has great potential in certain sectors such as information technology and services (IT/ITeS) and agricultural products, its manufacturing sector still faces various challenges, including infrastructure issues, stringent regulations, and lack of effective investment and market penetration. This hampers India's ability to produce high-quality goods efficiently and on a large scale for export to China. Thus, the fundamental difference in economic orientation-China focusing on manufacturing and India on services-further widens the trade deficit gap, as India finds it difficult to compete directly in the export of physical goods.

Besides structural and geopolitical factors, various policy challenges have also shaped the dynamics of the India-China trade deficit. According to the report "Impact of COVID-19 on India-China Trade" published by the Center for Public Policy Research (CPPR) in 2020, while the main focus is on the impact of the pandemic, the report also highlights the condition of India-China bilateral trade which already had a large deficit even before COVID-19. CPPR (2020) notes that this deficit is due to several underlying factors, including the limited diversification of India's export products to China which are dominated by raw materials, as well as the existence of various non-tariff barriers that make it difficult for Indian products to access the Chinese market.

The report also asserts that although India has tried to reduce its import dependence from China, India's need for Chinese products in vital sectors such as electronics and industrial raw materials remains high. This puts India at a disadvantage. CPPR (2020) implicitly underlines that to overcome this deficit, India needs a long-term strategy that not only focuses on increasing exports, but also on strengthening domestic production capacity and reducing barriers faced by Indian exporters. Thus, this study provides an overview of the complexity of India's efforts in balancing its trade balance, which is affected by economic structure, policies, and even external shocks such as the pandemic.

The literature reviewed above has provided a comprehensive understanding of the dynamics of the trade deficit between India and China. From the analysis of trade imbalance theory enriched with the concept of intangibles, to an overview of the development of bilateral relations, structural factors of the Indian economy, and policy challenges faced, it can be concluded that the deficit is a complex issue influenced by many aspects. However, previous studies have tended to address the issue from a general macroeconomic or geopolitical perspective.

However, there is still a gap in the literature that has not specifically analyzed how India's most recent economic policies, particularly Make in India and the Production Linked Incentive (PLI) program, directly affect efforts to reduce structural dependence on imports from China. The majority of previous studies tend to focus on bilateral trade dynamics in general or analyze the deficit through a macroeconomic approach without looking at more recent and sectoral policy interventions. In fact, since its launch in 2014, Make in India is the most ambitious industrialization policy India has had in the last two decades, and has been the foundation for various manufacturing incentive programs.

In addition, not many studies have looked in-depth at specific sectors that consistently account for the largest deficits, such as electronics, chemicals, capital goods, and pharmaceuticals, from the perspective of India's domestic capacity. There is limited analysis on whether these sectors have experienced improved export performance or strengthened import substitution as a result of the industrial policy. In fact, an evaluation of the effectiveness of these sectors is crucial to assess the extent to which the Make in India policy is working as intended in the context of trade imbalances.

Therefore, this study aims to fill the gap by analyzing the impact of the implementation of Make in India policy and Production Linked Incentive program on the dynamics of India-China trade deficit, particularly in the last decade. The study will utilize more up-to-date secondary data and conduct a review of the major deficit-contributing sectors, to assess whether there has been a structural shift in the bilateral trade pattern due to

these policies. The analysis also includes an evaluation of policy implementation constraints, such as logistics, infrastructure, and local industry unpreparedness.

Thus, this study is expected to make a new contribution to the understanding of the India-China trade deficit, by highlighting the policy and industry implementation aspects in a more focused manner. In addition, the results of this study are expected to offer more targeted, realistic, and evidence-based policy recommendations, which not only highlight the challenges, but also open up room for strategies to improve trade and strengthen the competitiveness of India's domestic industry in the long run

Methods

This study employs a descriptive qualitative approach aimed at thoroughly analyzing the bilateral trade imbalance between India and China from the perspectives of economic structure, industrial policy, and geopolitical dynamics. The data utilized in this research consists of secondary sources obtained through a literature review of relevant academic materials, including scholarly journals, policy reports, and publications from credible research institutions. The data used in this study comprises secondary sources gathered through a comprehensive review of academic literature, policy reports, and credible research publications. The study examines trade data and economic policies spanning from the year 2000 to 2025, with a particular focus on the post-2014 period following the launch of the Make in India initiative, which serves as a critical point of analysis.

Primary sources of data include academic articles from international journals such as The World Economy, Scholars Journal of Economics, Business and Management (SJEBM), and the International Journal of Political Science and Governance. Additionally, policy reports from institutions such as the Rajiv Gandhi Institute for Contemporary Studies (RGICS), the Centre for Public Policy Research (CPPR), as well as multilateral organizations like the World Bank, UNESCO Institute for Statistics, and the International Labour Organization (ILO), are used as empirical references to strengthen data validity.

The analysis in this study is conducted by reviewing and categorizing information from various documents into specific themes related to the India–China trade issue. Each source is examined thoroughly to identify essential data and insights, such as trade trends between the two countries, export and import values, the magnitude of the trade deficit, and the factors influencing the imbalance. These factors include investment levels, labor conditions, research and development (R&D) capacity, as well as policy and infrastructure barriers. To ensure the accuracy and reliability of the data, this research exclusively utilizes open-access sources originating from credible institutions, such as peer-reviewed academic journals and reports published by international organizations. Information from various sources is cross-checked and validated to ensure consistency and authenticity. This methodological approach is expected to produce a comprehensive and in-depth analysis of the root causes of India’s trade deficit with China and assess the extent to which the Make in India initiative can serve as a strategic solution to this issue.

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Result and Analysis

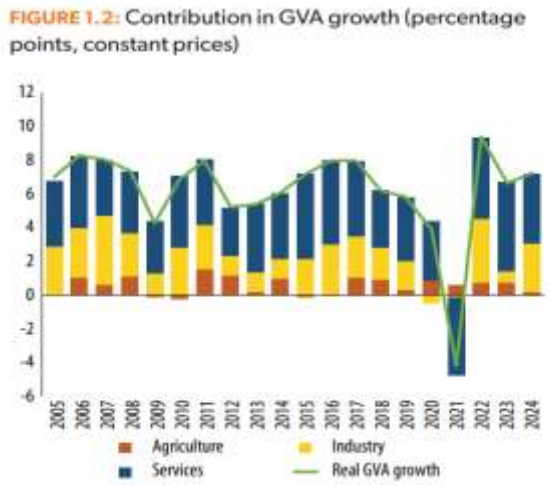

Figure 1. India's Trade Balance (2000-2023)
Source: World Bank (2024)

As an initial overview of India's trade imbalance, Figure 1 shows India's trade balance from 2000 to 2023. It can be seen that India has consistently experienced a trade deficit throughout this period, with the value of imports significantly exceeding the value of exports. This deficit trend indicates a structural imbalance in India's international trade relations.

An analysis of India-China bilateral trade data over the past two decades shows a consistent and significantly increasing deficit trend on India's side. According to data from India's Ministry of Commerce, in the fiscal year 2024/25, India's total exports to China reached only USD 14.3 billion, while imports from China surged to USD 113.5 billion. This difference created a trade deficit of USD 99.2 billion, making it one of the largest bilateral deficits in the history of India's foreign trade. This gap reflects not only differences in trade volume, but also the quality and added value of the goods traded. (World Bank, 2024).

India's main exports to China are still dominated by raw commodities such as iron ore, cotton, and organic chemicals (Times of India, 2024). These commodities have low added value, so they do not contribute significantly to India's economic growth directly. In contrast, China exports high-tech manufactured goods such as industrial machinery, nuclear reactors, electronic devices, and strategic raw materials for the technology and pharmaceutical sectors. This added value imbalance reinforces India's position as an exporter of raw materials and an importer of finished goods.

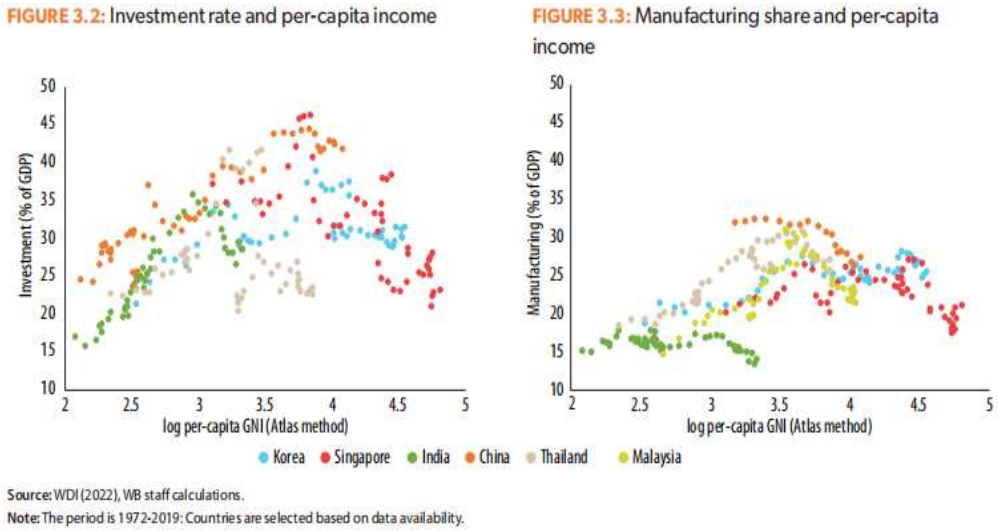

Figure 2. Level of Investment and Per Capita Income & Contribution of the Manufacturing Sector to GDP and Per Capita Income (1972–2019)
Source: World Bank (2024)

Figure 2 shows data from the World Bank (2024) indicating that India's manufacturing sector contribution to national GDP has stagnated at around 15–17% over the past two decades. Meanwhile, China's manufacturing contribution to GDP has consistently remained above 25% during the same period. China's investment rate is also much higher, at over 40% of GDP, compared to India, which reached 34% in 2008 but fell below 30% after the global crisis and has not recovered to date.

Another factor exacerbating the deficit is India's limited participation in global value chains (GVCs). Countries that dominate high-value stages in GVCs (such as research and product design) absorb more value than those that merely produce raw materials (Fu and Ghauri, 2020). In this context, China has successfully moved up the ladder by producing and exporting products based on domestic innovation and ownership of intellectual property, such as patents and technological designs. In contrast, India remains stuck in low-value supply chain positions.

India's manufacturing sector faces various challenges, including infrastructure constraints, policy uncertainty, low logistics efficiency, and minimal collaboration between the public and private sectors in industrial research (Dikshit, 2020). These weaknesses limit India's capacity to produce competitive products in the export market, let alone compete directly with China, which has integrated its industrial policies with export targets and the strengthening of GVCs.

India's exports to China are not only low in value but also highly concentrated in five main categories that have not seen significant diversification over the past five years (Centre of Public Policy Research, 2020). On the other hand, China exports more than 30 different product categories to India, indicating a much broader market coverage. Non-tariff barriers imposed by China on Indian goods, such as market access restrictions for agricultural and pharmaceutical products, also narrow India's export opportunities.

India's service sector productivity is relatively high, but its contribution to goods exports remains low. Even in 2024, more than 65% of India's workforce is still absorbed in the informal and agricultural sectors, with low productivity levels (World Bank, 2024). Meanwhile, China has successfully shifted most of its workforce to the industrial and productive service sectors in less than two decades.

This disparity did not occur by chance, but rather reflects fundamental differences in development strategies. Since the early 2000s, China has invested in manufacturing, technological research, and industrial reform (Asian Development Bank, 2022). Meanwhile, India, which liberalized its economy more slowly, shifted too quickly to the service sector before it had time to build a strong industrial foundation. In response to this gap, in 2014 the Indian government launched Make in India, a policy designed as a strategy to revive the national manufacturing sector, attract foreign direct investment (FDI), create jobs, and reduce dependence on imports, particularly from China. This policy targets strategic sectors such as electronics, automotive, renewable energy, defense, and pharmaceuticals. However, major obstacles such as weak infrastructure governance, complex bureaucracy, and lack of integration with global value chains still cast a shadow over its effectiveness.

India's labor structure exacerbates these challenges. World Bank data shows that over 65% of India's workforce still works in the informal and agricultural sectors with low productivity, severely limiting the country's capacity to produce high-value-added export goods (World Bank, 2024). This not only reduces production efficiency but also weakens the national manufacturing foundation needed to improve the trade balance. This is where Make in India is crucial, as the policy is designed to strengthen the export production base and support sustainable industrialization.

Although the Make in India policy was designed as a long-term strategy to improve trade structures and strengthen the national base, a number of major challenges still hinder its effectiveness in addressing the trade deficit with China. One of the key components of this policy is the Production Linked Incentive (PLI) program, which targets strategic sectors such as electronics, pharmaceuticals, automotive, and renewable energy. The government has allocated over USD 23 billion for this scheme, with the aim of boosting local production and reducing reliance on imports, particularly from China. However, according to a Reuters report (2025), as of 2024, its implementation remains below 10% of the total budget due to bureaucratic hurdles, weak inter-agency coordination, and limitations in local production infrastructure. In the electronics and pharmaceutical sectors, there has been progress, with smartphone exports growing by 63% and pharmaceutical exports reaching USD 27.8 billion. However, most of this growth still depends on imported components from China (Reuters, 2025). This reflects the findings of Fu and Ghauri (2020), that countries that only act as assembly points in the global supply chain will not gain significant value in international trade. Instead, the highest value is absorbed by countries that control high-value stages such as design, research and development, and core component production, positions that have long been dominated by China.

In addition, despite improvements in infrastructure and digitalization processes, domestic logistics costs in India remain high, ranging from 7.8 to 8.9% of Gross Domestic Product (GDP). This figure remains higher than that of major manufacturing countries such as China, making Indian products less competitive in the international market. This low logistics efficiency makes Indian products expensive and unattractive to global buyers. At the same time, the gap in vocational and technical training widens the divide between modern industrial needs and workforce skills, a problem that is more profound than China's workforce transformation over the past two decades. The majority of India's workforce still lacks formal technical training, even though the manufacturing sector requires skilled labor on a large scale (ILO, 2024).

Another structural factor weakening the impact of Make in India on the trade balance is the low competitiveness of logistics and high domestic production costs. Many investors believe that India has not yet provided a sufficiently efficient manufacturing ecosystem, especially when compared to China or even Vietnam. India's domestic logistics costs, which amount to nearly 9% of GDP, directly impact the prices of Indian exports, making them less competitive than Chinese products (Nandi S, Business Standard, 2023). This disparity makes Indian products less competitive both in the domestic and international markets, resulting in suboptimal import substitution efforts and the continued trade deficit.

In terms of labor, India does have a significant demographic dividend, but vocational training and technical education programs have not been able to keep pace with the needs of the modern industrial sector. The majority of India's workforce still works in the unproductive informal sector. This exacerbates the gap between industrial demand for skilled labor and actual supply in the field (World Bank, 2024; ILO, 2024).

Meanwhile, China has already aligned its technical education system with industrial needs through incentives and reforms in the labor sector (Ministry of Education of the People's Republic of China, 2022). Without aligned reform efforts, policies like Make in India will face challenges in driving the industrial transformation needed to significantly reduce the trade deficit and achieve export-driven and inclusive economic growth.

Nevertheless, there are some examples that reflect the potential of Make in India if implemented in an integrated manner. States like Tamil Nadu and Gujarat have successfully attracted a significant amount of manufacturing investment through local incentive policies, strengthened logistics infrastructure, and simplified licensing regulations (The New Indian Express, 2023). This demonstrates that the success of such policies heavily depends on the ability of central and local governments to actively collaborate, ensuring that regulations and infrastructure are available simultaneously. However, the biggest challenge remains how to replicate this regional success at the national level and how industrial policies can be implemented consistently in the long term without being hindered by political cycles and bureaucracy.

Make in India is a highly relevant and strategic policy in addressing the India–China trade imbalance. However, its success remains structurally limited (Global Times, 2025). The implementation of the policy, the effectiveness of the PLI program, the readiness of infrastructure and logistics, and the quality of the workforce are the key factors for long-term success. Without strengthening these aspects, India's trade deficit with China will remain a chronic problem that is difficult to resolve. This policy not only requires a long-term vision but also effective and responsive cross-sectoral implementation that adapts to global market dynamics.

In addition to the challenges discussed, the effectiveness of the Make in India policy is also influenced by the changing global landscape post-COVID-19 pandemic and increasing geopolitical tensions in East Asia. Since the pandemic, many countries have begun to reassess their reliance on overly centralized global supply chains, particularly those dependent on China. This situation actually presents a significant opportunity for India to reposition itself as an alternative global manufacturing hub (Kumar, 2021). In this context, the policy is not merely a domestic initiative but also a key element in India's strategy to attract global companies seeking to diversify their supply chains.

However, this opportunity has not been optimally utilized. According to a report from The Wall Street Journal (2023), although companies such as Apple, Foxconn, and Samsung have begun to relocate a small portion of their operations to India, this relocation is still limited to the assembly stage. High-value production activities such as semiconductor fabrication, chip assembly, and technology design remain in China or other countries such as Vietnam and Taiwan. This indicates that India has not been able to attract investment for high value-added industrial activities, one of the main factors contributing to the imbalance in the trade balance.

Furthermore, in the context of bilateral trade relations, China remains far more aggressive in leveraging free trade agreements and global market access. China is an active member of the Regional Comprehensive Economic Partnership (RCEP), while India withdrew from the agreement in 2019 on the grounds of protecting its domestic industry (Eurasia Review, 2023). Although this argument is valid in the context of protecting domestic industries, this decision indirectly hinders India's access to a broader regional trade network. Thus, Make in India operates in a globally unfavorable strategic landscape.

China's expansive trade policy is also supported by integrated economic diplomacy, such as the Belt and Road Initiative (BRI), which opens new markets for its manufactured products (Associated Press, 2023). India, on the other hand, does not yet have a comparable global strategy to support the expansion of industries resulting from the Make in India policy. The lack of synergy between industrial policy, foreign policy, and export strategy has made it difficult for Indian products to compete in foreign markets, even among developing countries. In other words, this policy has not yet become part of India's broader foreign policy narrative.

India's private sector, which should be the main driver of Make in India implementation, also faces significant obstacles in the form of regulatory uncertainty, inconsistencies in state-level policies, and difficulties in obtaining land and environmental permits. While some states like Gujarat and Tamil Nadu have successfully created relatively conducive ecosystems, there is no federal policy that can guarantee national consistency in the business climate. Without legal certainty and competitive fiscal incentives, industry players are reluctant to make long-term investments in the manufacturing sector. This explains why many large industry players only use India as an assembly location, not as a full production hub. (Centre for Social and Economic Progress, 2025).

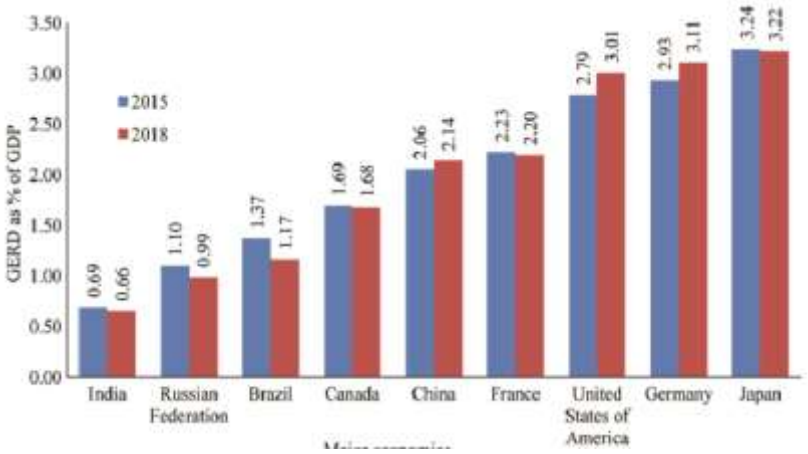

Figure 3. Gross Expenditure on Research and Development (GERD) as a Percentage of GDP in Several Major Countries (2015 and 2018).
Source: UNESCO Institute for Statistics (2020)

Another challenge comes from the weaknesses in India's research and innovation structure. According to data from the UNESCO Institute for Statistics, India's expenditure on research and development (R&D) is only around 0.7% of GDP, far below China, which has exceeded 2.4%. Low investment in R&D has made India's manufacturing industry heavily dependent on imported technology. As explained by Fu and Ghauri (2020), countries that merely use technology will always remain at the bottom of the global value chain. Without mastery of technology, India will continue to lag behind in efficiency, product quality, and price competitiveness.

Based on the findings of this study, it is evident that the implementation of the Make in India policy and the Production Linked Incentive (PLI) has indeed shown partial impact on strengthening India's manufacturing capacity, particularly in the electronics and pharmaceutical sectors. However, this impact is insufficient to bring about significant structural changes to India's bilateral trade deficit with China. One of the main

obstacles is that these policies have not been fully integrated with other structural reforms, such as national logistics reform, labor productivity improvement, and sustainable fiscal incentives for labor-intensive and high-tech manufacturing sectors (Reuters, 2025).

The Make in India policy needs to be implemented as part of a national industrial development strategy involving inter-sectoral and inter-governmental cooperation. The central government needs to strengthen support for states with high industrial potential through performance-based incentives, increased infrastructure spending, and deregulation of investment licensing procedures. Additionally, the PLI program should be expanded not only in terms of sectoral coverage but also in the efficiency of incentive distribution and simplification of administrative requirements, to encourage the private sector to make long-term investments.

In addition to coordination in the industrial sector, India's economic diplomacy in accessing global markets and diversifying its main trading partners needs to be strengthened. India can take advantage of the opportunities arising from post-COVID-19 geopolitical changes to attract foreign investment flowing out of China by offering incentives to global companies that want to make India their regional production hub. At the same time, the vocational education system and domestic research and development need to be strengthened so that industrialization policies are not only focused on quantitative production but also on value creation and technological mastery. If these steps are implemented in an integrated and consistent manner, this policy has the potential to become the main spearhead in reducing the trade deficit in a sustainable and transformative manner in India-China economic relations (World Bank, 2024).

Furthermore, efforts to reduce the trade deficit cannot be made solely from the domestic production side (supply side). The government also needs to regulate the demand side by improving import and export policies. This means that India must reevaluate the tariff structure and non-tariff barriers that have been hindering the export of high value-added products to global markets. On the other hand, India also needs to compile a list of imported goods that must be gradually reduced, considering whether these goods can already be produced locally. To this end, data-driven trade policies are needed, including a monitoring system for imported goods that contribute most to the deficit and those that could potentially be replaced by domestic production.

Finally, programs like Make in India need to be combined with long-term investment in research and innovation. Currently, India's spending on R&D remains low, which is a major obstacle to the development of high-tech industries. Therefore, the government needs to establish fiscal incentive policies for companies investing in domestic R&D, establish university-based innovation centers, and expand collaboration between public and private research institutions. Without the ability to innovate, India's manufacturing sector will only become an assembly hub, not a key producer in the global value chain. Therefore, strengthening the R&D system must be the foundation of India's long-term export and competitiveness strategy.

India's efforts to reduce its trade deficit with China through the Make in India policy and the PLI program have laid an important foundation for industrial reform, but the results are still far from optimal. While progress has been made in some sectors, such as electronics and pharmaceuticals, the impact on the bilateral trade structure remains limited. Structural challenges, such as high logistics costs, insufficient R&D investment, weak integration with global supply chains, and low-quality skilled labor, hinder the overall effectiveness of these policies.

This study emphasizes that strengthening domestic industrial capacity must be integrated with other policy strategies, including trade reforms, infrastructure improvements, incentives for technological innovation, and active economic diplomacy. It is not sufficient to merely expand fiscal incentives; India must ensure that its

industrial ecosystem is fully prepared to absorb investment, develop export products, and compete in an increasingly competitive global market.

Thus, to answer the main question in this study, why does India continue to experience a deficit with China? The answer lies in the structural unpreparedness of India's domestic economy, which has not been fully addressed by existing industrialization policies. Make in India holds strategic potential, but its success will heavily depend on the consistency of cross-sectoral implementation, commitment to reforms, and the ability of the government and industry players to act in unison in building a strong and highly competitive manufacturing foundation.

Conclusion

India's trade deficit with China is a structural issue rooted in imbalances in economic structure, industrial capacity, and China's dominance in global supply chains. While India has launched the Make in India policy and the Production Linked Incentive (PLI) program in an effort to strengthen the domestic manufacturing sector, the results have not been able to overcome import dependency, particularly from China. Data shows that India's exports are still focused on low value-added raw commodities, while imports from China are dominated by high-tech manufactured products. Low investment in research and development, logistical inefficiencies, and weak integration with global value chains worsen India's competitive position in the international market.

On the other hand, the changing global landscape post-COVID-19 pandemic and rising geopolitical tensions in East Asia actually open up opportunities for India to reposition itself as an alternative global production base. However, India's industrial policy still faces serious obstacles, both in terms of cross-sector coordination, skilled labor readiness, and regulatory inconsistencies between regions. While China continues to expand its economic influence through trade diplomacy such as BRI and membership in RCEP, India tends to be defensive towards involvement in regional trade architecture. Thus, the success of the Make in India policy depends not only on fiscal incentives alone, but also on comprehensive structural reforms and the alignment of industrial strategy with a proactive, export-oriented foreign policy.

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