

Policy Brief No. 212 – October 2025

The Dragon and the Elephant: A Geoeconomic Ballet of Risk, Leverage and Opportunity

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Key Points

- Strategic, sector-specific economic engagement with China can serve dual objectives: advancing India's export potential and weakening the structural underpinnings of the China-Pakistan nexus.
- India should leverage economic diplomacy in multilateral fora such as BRICS+, the New Development Bank (NDB) and the Group of Twenty (G20) to condition economic frameworks on merit-based cooperation and responsible development finance.
- Institutional support must be extended to Indian enterprises to improve commercial readiness in the Chinese market.
- India must simultaneously deepen hedging partnerships with trusted regional actors, as well as the Association of Southeast Asian Nations (ASEAN), Australia, Japan and the European Union, to reinforce trade resilience and strategic autonomy.

The Persistent Two-Front Problem

India's national security architecture continues to be shaped by the enduring threat of a two-front conflict along its northern border with China and western frontier with Pakistan. While this dual challenge has long informed India's defence posture, recent developments underscore its growing complexity and persistence.

The strategic convergence between China and Pakistan has evolved beyond tactical cooperation into a structured axis of military and economic alignment. The China-Pakistan Economic Corridor (CPEC) not only enhances Pakistan's infrastructure but also deepens China's strategic presence in South Asia and the Arabian Sea (Bhattacharya 2024). This is compounded by sustained military coordination, joint training exercises, advanced weapons transfers and mutual diplomatic support in multilateral fora.

Despite continued investments in force modernization, forward deployment and deterrence mechanisms, these hard security strategies have yielded limited returns in altering the structural

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realities of this alignment. Border tensions with China remain unresolved, while Pakistan continues to benefit from China's strategic shielding.

Given these constraints, India should explore complementary instruments of national power. Strategic economic diplomacy deployed with precision and foresight offers a pathway to reshaping regional interdependencies, reducing China's incentive to overcommit to Pakistan, and enhancing India's strategic leverage across bilateral and multilateral arenas. Reframing economic engagement as a tool of influence rather than a vulnerability is essential to recalibrating India's regional security equation.

China's Economic Shift: From Export Powerhouse to Consumer Giant

China stands at a pivotal juncture in its economic development trajectory. Having achieved rapid growth through decades of export-led industrialization and infrastructure investment, the country is now undergoing a structural transformation toward a more balanced, consumption-driven economic model (Yong Rhee, Berger and Chen 2022). This shift is not cosmetic; it reflects deep internal pressures and strategic recalibration at the highest levels of Chinese policy making.

Three key factors underpin this transition. First, China's working-age population is declining (Interesse 2024), eroding the demographic dividend that once powered its labour-intensive manufacturing sectors. Coupled with rising wages and diminishing productivity gains from capital accumulation, this demographic shift has rendered the traditional growth model increasingly unsustainable (Ani 2025). Second, environmental constraints and energy security challenges are forcing a reorientation toward greener, more efficient modes of growth. These dynamics have catalyzed the adoption of the Dual Circulation Strategy, which emphasizes strengthening domestic consumption and technological self-reliance while maintaining selective external engagement (Tang 2020).

Third, the international environment, characterized by geopolitical fragmentation, a trade war with the United States and supply chain realignments, has further accelerated Beijing's internal pivot. For India, this evolution carries both opportunity and urgency. As China's internal consumption expands, so too should its demand for high-quality imports (GT staff reporters 2025) across sectors such as agri-products, pharmaceuticals, high-end or advanced technologies and energy products. At the same time, China's need for politically stable, diversified trade relationships creates a strategic opening for India to position itself not merely as a geopolitical rival, but as a credible economic partner in selected non-sensitive domains. Understanding and engaging with this shift on India's terms will be central to advancing both economic and security objectives in an increasingly contested regional order.

Strategic Convergence: India's Role in China's Next-Phase Economy

As China reorients its economy toward domestic consumption and high-value imports, India occupies a uniquely strategic position. With a large and increasingly urbanized population, globally competitive pharmaceutical and information technology sectors and a robust agricultural base, India's economic profile complements China's emerging demand matrix. This convergence presents an opening for India to recalibrate the regional balance through economic statecraft rather than exclusively through hard power deterrence.

Strategic economic engagement with China can, if narrowly tailored and bounded by clear red lines, yield substantive geopolitical dividends. First, increased trade in sectors such as pharmaceuticals and agricultural commodities (US Department of Agriculture 2020) can function as a substitution mechanism, reducing China's marginal benefit from continued economic deepening with Pakistan. As China's demand for reliable, diversified import channels grows, India can present itself as a politically stable and economically viable alternative, thereby incentivizing a strategic shift in Chinese regional calculus.

Second, India can leverage this economic interdependence to expand its influence within institutions where China holds outsized sway. In fora such as the Asian Infrastructure Investment Bank, the Shanghai Cooperation Organization, the International Monetary Fund (IMF) and the World Bank. India can assert greater agency by positioning itself not as a reactive participant but as a co-architect of trade, development and innovation frameworks. A deeper bilateral economic relationship provides New Delhi with both material leverage and diplomatic capital to shape these platforms in ways that constrain adversarial alignments and elevate India's normative voice.

Third, targeted economic interdependence can function as a stabilizing force, helping compartmentalize geopolitical tensions. While strategic competition along the Line of Actual Control (LAC) will persist, managed engagement in select economic domains may reduce incentives for escalation and preserve space for diplomatic dialogue. In this regard, economic engagement is not a concession; it is a tool to advance national security interests through calibrated, reciprocal influence.

This approach demands strategic discipline. India must pursue economic convergence not as an end in itself, but as a lever to shape China's incentives, reconfigure the regional equation and fortify India's sovereign space within a shifting global order.

Policy Pathways for India: Strategic Realignment Through Economic Statecraft

Strategic Economic Engagement Framework

To convert China's economic transformation into a strategic advantage, India must adopt a proactive engagement model rooted in economic complementarity and geopolitical calculation. This strategy entails identifying sectoral entry points that align with China's domestic consumption priorities and structuring a support ecosystem

that empowers Indian businesses to penetrate these opportunities at scale and with resilience.

Identify Sectoral Entry Points in the Chinese Market

As China pivots toward a more consumption-led economy, two priority sectors emerge where India holds a comparative advantage and China exhibits growing demand:

- **High-value agriculture:** China's expanding middle class is reshaping dietary preferences, creating demand for imported processed foods, dairy products, organic grains and wellness-oriented consumables. India's underutilized agri-export potential, if aligned with Chinese standards, can meet this demand.
- **Pharmaceuticals and generics:** Post-pandemic recalibrations and an aging demographic profile have intensified China's focus on health-care affordability and accessibility. Indian pharma companies, already global suppliers of high-quality, cost-effective generics, can fill critical supply gaps in China's domestic health system.

Policy Instruments to Operationalize Engagement:

To translate these opportunities into tangible economic outcomes, the Indian government must construct a dedicated institutional infrastructure:

- **Strategic export access plan for China:** The Ministry of Commerce and Industry (MoCI) and the Department for Promotion of Industry and Internal Trade in India should be tasked with designing a targeted export access strategy. This plan should identify high-opportunity sub-sectors, streamline certification pathways and integrate trade intelligence functions.
- **Export support cells in China:** Sector-specific export facilitation cells should be established in Shanghai and Shenzhen — India's two most commercially relevant outposts in China. Staffed with experts in regulatory compliance, intellectual property and market dynamics, these centres would provide on-ground operational support to Indian exporters navigating China's complex administrative environment.

- **Financial enablement tools:** Exim Bank credit lines, interest subvention schemes and credit risk guarantees tailored for Indian firms entering the Chinese market should be expanded. Risk-mitigation mechanisms will be essential to incentivize first-movers and small and medium-sized enterprises, and to ensure that trade is insulated from geopolitical volatility.

Institutional and Business Support for Indian Enterprises

To capitalize on China's shifting economic structure, India must not only identify sectoral opportunities but also build the institutional scaffolding necessary for Indian enterprises to operate effectively and securely within China's complex regulatory and commercial landscape. A robust ecosystem of export facilitation, standards harmonization and real-time trade intelligence is essential to convert strategic intent into sustained market presence.

Enable Indian Firms to Navigate China's Regulatory Ecosystem

Regulatory opacity and evolving compliance requirements remain among the most significant barriers to Indian businesses attempting to access the Chinese market. These frictions can be mitigated through the creation of targeted support mechanisms:

- **China market access facilitation desk:** A dedicated desk under Invest India should be launched to support Indian exporters in navigating China's regulatory terrain. This desk would provide advisory services on consumer safety norms, product certification procedures, labelling standards and customs documentation. In close coordination with India's embassy in Beijing and trade offices in Guangzhou, Shanghai and Shenzhen, the desk should function as a centralized knowledge and grievance redressal hub.
- **Bilateral standards recognition:** India should initiate a structured dialogue between the Bureau of Indian Standards and the Standardization Administration of China to reduce non-tariff barriers. Sector-specific mutual recognition agreements, particularly in agro-processed goods and

pharmaceuticals, will be critical to lowering entry barriers and accelerating approvals.

→ **India-China strategic business task force:**

Establish a joint task force involving the Federation of Indian Chambers of Commerce and Industry, the Confederation of Indian Industry and Chinese business councils, which would be mandated to assess commercial risks, identify potential joint ventures and provide periodic policy feedback. The task force should serve as a private sector intelligence node feeding into the Ministry of External Affairs of India (MEA) and MoCI policy deliberations, while also supporting track 1.5 dialogue on economic engagement.

Invest in Strategic Trade Intelligence

Real-time intelligence on China's internal economic shifts will be critical for Indian firms to stay ahead of demand patterns and policy changes:

→ **Indo-Pacific trade competitiveness**

observatory: A dedicated observatory housed within the MEA's Economic Diplomacy Division or in partnership with a think tank should be established to track China's evolving consumption trends, regulatory adjustments and sectoral vulnerabilities. This observatory should integrate data from commercial attachés, industry networks, trade databases and open-source platforms.

→ **Operational briefings and sectoral alerts:**

The observatory should regularly brief Indian embassies, export promotion councils (such as the Agricultural and Processed Food Products Export Development Authority and Pharmexcil) and relevant ministries on emerging trade windows and changing market conditions. These briefings should include sector-specific alerts on demand surges, regulatory reforms and logistical bottlenecks to inform agile commercial responses.

Diplomatic Leverage in Multilateral Fora

To complement targeted economic engagement with China, India must simultaneously activate its diplomatic architecture across key multilateral platforms. By embedding its economic priorities

into the agendas of fora such as BRICS+,¹ the NDB and the G20, India can expand its normative influence while constraining adversarial alignments, particularly those driven by the China-Pakistan nexus. A calibrated approach that ties economic engagement to institutional leverage will allow India to shape global and regional outcomes without compromising strategic autonomy.

BRICS+ and the NDB

India's engagement within BRICS+ must evolve from passive participation to principled conditionality. India should explicitly condition its support for expanded economic frameworks within BRICS+ on merit-based cooperation rather than alignment-driven groupings. This approach will dilute bloc behaviour orchestrated by Pakistan and reinforce India's positioning as a constructive, results-focused stakeholder;

→ India should propose the establishment of a BRICS+ Joint Consumption and Innovation Initiative, co-led by India and China. The initiative would focus on fostering cooperation in emerging sectors such as digital public goods, processed agricultural products and pharmaceuticals — sectors aligned with China's internal rebalancing and India's export capacity.

In parallel, India should work to reshape the strategic orientation of the NDB to support transparency, financial viability and strategic neutrality in infrastructure financing:

→ India must advocate for the adoption of an NDB Investment Standards Compact, requiring rigorous due diligence, debt sustainability benchmarks and recipient-country consultation. This would challenge opaque lending models such as those employed under CPEC and limit the scope for Pakistan to use the NDB as a financial lifeline under BRICS+ cover, a strategy it has often utilized to perfection with Western-dominated institutions such as the World Bank and the IMF.

→ India can use its board position to prioritize lending toward projects aligned with regional digital infrastructure, climate-resilient

¹ BRICS+ is an intergovernmental organization comprising 10 countries — Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Indonesia, Iran and the United Arab Emirates.

logistics and sustainable urbanization, sectors that simultaneously serve India's economic interest and mitigate China's outsized influence in project selection.

G20

At the G20, India must advance a proactive trade and investment diplomacy agenda that aligns both with its domestic industrial ambitions and broader Indo-Pacific strategy:

- Propose an India-China Sustainable Trade Dialogue under the G20 working groups on green growth and trade resiliency. This platform would explore co-investment in renewable technologies, Himalayan hydrological management systems, active pharmaceutical ingredients and circular economy infrastructure, while embedding conditional safeguards to manage systemic risk.
- Champion an Inclusive Trade Facilitation Charter, endorsed by G20 economies, that explicitly supports market access for middle-income economies to China's expanding consumer base. The charter should emphasize fair standards, non-discrimination and transparency, ensuring that India, and similarly placed economies, are not structurally disadvantaged in navigating China's regulatory system.

Bilateral Dialogue Architecture

India must revive and restructure the dormant Strategic Economic Dialogue with China, transforming it into a high-level Economic Risk and Opportunity Dialogue. This forum should:

- Focus on sectoral diversification, risk-buffering mechanisms and institutional continuity in bilateral trade, prioritizing areas of high complementarity and low strategic sensitivity.
- Be anchored in a permanent secretariat and directly integrated with the National Security Council Secretariat (NSCS) and MEA's East Asia Division to ensure strategic coherence and real-time alignment with national security imperatives.

Additionally, India should formalize and expand track 1.5 dialogues, bringing together

retired diplomats, industry leaders, think tank experts and academic institutions to:

- explore the architecture of controlled interdependence;
- identify guardrails for economic escalation management; and
- offer informal feedback channels for recalibrating engagement strategies during periods of heightened tension.

Risk Mitigation and Safeguards

While targeted economic engagement with China can serve India's strategic objectives, such engagement must be bound by clear, enforceable safeguards. Given the volatility of the bilateral relationship, particularly along the LAC, India must embed risk mitigation mechanisms within its policy architecture to ensure that economic interdependence does not translate into strategic vulnerability.

Red Lines Framework

The Government of India should codify a "Red Lines Framework" through a cabinet-level directive. This framework would establish predefined thresholds such as major military incursions, coercive economic practices or cyber-aggression, beyond which all economic engagement mechanisms would be immediately suspended, recalibrated or reviewed. This directive would:

- serve as a strategic deterrent, signalling to China that economic cooperation is conditional on broader geopolitical stability;
- provide clarity to Indian firms and government agencies operating in China-linked domains, ensuring unified response protocols in times of escalation; and
- empower the MEA, the NSCS and the MoCI to act decisively and in coordination, avoiding fragmented responses to strategic provocations.

Strategic Contingency Planning Group

A dedicated Strategic Contingency Planning Group should be established within the NSCS to evaluate sector-specific dependencies on

Chinese supply chains and formulate resilient alternatives. This group should focus on:

- **Pharmaceuticals:** Identifying alternatives to Chinese active pharmaceutical ingredients and supporting backward integration in India's domestic manufacturing.
- **Electronics and semiconductors:** Partnering with like-minded economies for access to critical components and investing in domestic electronics capacity under the Production Linked Incentive scheme.
- **Rare earths and strategic minerals:** Diversifying import sources through bilateral agreements with Africa, Australia and Latin America, while accelerating domestic exploration and refining capacity.

The group should maintain a dynamic risk dashboard, provide quarterly reviews to the prime minister's office and integrate its findings into both industrial policy and diplomatic strategy.

Hedging Through Alternative Market Networks

India must concurrently deepen economic and technological cooperation with trusted partners to reduce strategic overdependence on China and to reinforce the resilience of its trade architecture. This entails:

- scaling up collaboration in clean technologies, digital infrastructure and standards harmonization through existing bilateral and trilateral frameworks with Japan and the European Union;
- operationalizing the ASEAN-India Free Trade Area and ASEAN-India Trade in Goods Agreement to expand market access and align supply chains in agro-processing, digital services and green components; and
- advancing resource security cooperation, particularly in critical minerals and education-tech partnerships, under the India-Australia Economic Cooperation and Trade Agreement (Wadhwa and Kripalani 2025).

These hedging alliances will not only provide fallback economic channels in the event of strategic rupture but also enhance India's

normative credibility in regional and global fora. By embedding risk awareness into engagement, India can navigate the strategic complexities of its relationship with China without compromising its autonomy or national interest.

India stands at a critical juncture where the convergence of economic opportunity and strategic necessity demands a recalibration of its China policy. Rather than viewing economic engagement with China as a liability, India must approach it as a controlled instrument of statecraft capable of shifting strategic incentives, undermining adversarial alignments and expanding diplomatic leverage.

China's transition to a consumption-led economy is not merely an economic phenomenon; it is a structural shift that reshapes how geopolitical influence will be exercised in the coming decade. By selectively engaging in high-value, non-sensitive trade and embedding this engagement in a framework of institutional support, multilateral leverage and strategic safeguards, India can simultaneously protect its sovereignty, pursue regional stability and position itself as a proactive shaper of the emerging Asian order.

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