



Border Dispute between India and China: A Case Study of Reciprocal Trade and Regional Geopolitics

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DOI : <https://doi.org/10.5281/zenodo.18267898>

ARTICLE DETAILS

Research Paper

Accepted: 31-12-2025

Published: 10-01-2026

Keywords:

China, India, Border conflict, Economy, Bilateral trade, Regional Geopolitics.

ABSTRACT

The worst border clash between China and India, the two largest economies in the world, occurred in the Ladakh region of the Line of Actual Control (LAC) in April 2020 that marked just the start of the Covid-19 epidemic. This paper will assist in the examination of the negative effect of conflict on bilateral trade and commerce of the two regions in terms of regional geopolitics. The Secondary information used in the present study has included primarily journal publications, newspaper articles, web resources, and comments of some of the renowned economists, and approximations made on the basis of the historical bilateral trade data. According to the author, the geopolitical demand, and the bilateralism of the trade situation will not be significantly affected in the long run even though the border dispute between the two powerful countries is so delicate. Moreover, it has been envisaged that the possible trade conflict between the two economically viable countries will be like fire igniting. Finally, this work is also expected to be helpful to future research that will focus on the geopolitical economy of bilateral trade.



Introduction

Recent economic data show that China has the second-largest economy in the world, and India is placed in the fifth position in the list of countries in the nominal GDP (Business Insider 2020). In 2019, India overtook the United Kingdom and France depending on the size of the GDP, but China had been in the second position. Global Fire Power (2020) reports that China is the third military power globally with India coming fourth after the United States and Russia in terms of military potential and annual military expenditure. The greatest point is that China and India constitute nearly a third of the world population (Worldometers, 2020). In the same respect, China is the largest country with a population of 1,439,323,776 or 18.2 percent of the world population, and India comes next with 1,380,004,385 or 17.5 percent of the world population (Worldometers, 2020). Also, the two countries possess nuclear weapons.

The border shared by China and India is nearly 4000 km (Karackattu, 2020). However, despite their extreme differences, the two countries are more dependent on each other to conduct mutual trade including the provision of cheap agricultural goods and raw commodities. As a matter of fact, they possess the largest consumer and industrial buying markets of each other and are the largest trading allies. This is probably the reason behind the constant diplomatic relations between the two countries until 2017. However, in 2017 a short-term conflict between the two powers was observed in the Doklam region near a tri-junction border point known in Chinese as Donglang pasture or grazing field, also known as Donglang Caochang. In June 16, 2017, the Chinese military started to move a pre-existing road southward in Doklam, a territory that was claimed by both China and Bhutan, the closest Indian ally, equipped with road-building machinery and trucks. On June 18, 2017, Indian forces equipped with guns and two bulldozers start to cross the Sikkim border and enter Doklam to stop the Chinese troops to construct the road. China and India were announced on August 28 to withdraw all their troops in the Doklam standoff location. The Los Angeles Times published on July 25, 2017. Nevertheless, a pre-existing border conflict between China and India in the Himalayas erupted into a bloodshed in April 2020 and resulted in the death of at least 23 Indian military members and injuries to several other people due to a long-running border dispute between the two nations amid the COVID-19 pandemic. As the Chinese side has not been reported on the damage yet, it can be assumed that there were almost equal numbers of people killed or wounded. Though the top officials assure that the incident would be addressed in the most peaceful and harmonious way, this very deadly dispute was transformed into a complete media and blame-war between the two countries. Meanwhile, the political blocs and Indian nationals insisted that the Chinese companies and their products should be boycotted. These outcries and protests, however, are rather nationalistic than economic or mutual interests. This essay has tried to



identify the possible impact of the border conflict between the two nations to their future bilateral trade scenario. These two countries undoubtedly are the largest buyers and sellers of the world. Moreover, it has been found out that the two countries possess highly favorable trade options. As an example, the advantage of proximity leads to a slight cost of transit. The governments of these countries would therefore secure their own economic interests as opposed to the expensive yet disastrous trade war, that has been waged between the US and China since 2020. Moreover, forecasts suggest that boycotting Chinese business and goods in India will not last long as it will also provoke a similar request by the Chinese government and the people.

Call for Boycott, Geopolitical Interests and National Egoism

There are basically two causes of political conflict as most political experts would agree (Tesfamichael, 2011; Cohen, 2009). The former is attributed to political, religious, or ideological differences; the latter, which is more narrow, is the ambition to possess geopolitical power through trying to seize natural resource bases and disputed territory (Tesfamichael, 2011; Cohen, 2009). The second reason has been highlighted in this research as the reason behind the border dispute between China and India that has led to a call to boycott Chinese products in India. The main focus of the political perspective in the understanding of the political conflicts is the issue of border conflict between two nations. Cohen (2009), Flint (2006), Gavrilis (2008) and other eminent political scholars have perfectly explained the causes of the territorial conflicts. Prescott (1987) and Flint (2006) concurred that borderland, commonly known as no man land is a borderland on one side of the frontier and the boundary and borderland is that which borders on the frontier. Both terms are used in the media as generalized term (Prescott, 1987). The frontier according to authors such as Anderson (1996) is the synonym of borders and it is both the institutional and a process that represents the limits of the autonomy of a nation (Tesfamichael, 2011). Simultaneously, it is an instrument of its policy, as well as a sign of identity (Donnan and Wilson, 2001). Consequently, there is a lack of understanding of the existing literature. Barwick et al. (2018) state that such geopolitical conflicts usually stimulate national egoism and result in the spread of aggression towards other nations and the demand to boycott goods and/or services manufactured in other nations. Such request could be made by the people, opposition parties, social and public organizations, and even the dominant political parties. Even though the aim of such boycotts is to shun goods or services of the warring country, the callers are convincing the masses to consume the local products instead of foreign products.

Is A Call for Boycott Effective? Previous Studies



Based on the reviewed literature to date, the boycott call influences the sales income in both positive and negative ways. In the case of the US demand of French wine in early 2003, Ashenfelter et al. (2007) recorded practically no impact though the effect of the boycott was detected in the short run by Bentzen and Smith (2007) and Chavis and Leslie (2009). According to Davis and Meunier (2011), no effect on the imports of Japanese goods was detected when there was tension between China and Japan in 1990 and 2006, but Heilmann (2015) experienced a steep one-year drop in the Chinese imports of Japanese automobiles after the boycott of 2012. As noted by Pandaya and Venkatesen (2016), the effect of a US boycott on the French-made retail consumer products in the 2002/2003 war in Iraq was not significant. Hong et al. (2011) also found that the market share of French automobiles in China had declined temporarily after the demand to boycott French products because of the 2008 Olympic torch relay disruption in Paris and to cope with this, French President Nicolas Sarkozy paid a visit to Dalai Lama (Barwick et al., 2018). Fouka and Voth (2013) indicate that the Greek customers reduced drastically their purchases of German-made automobiles in the 2010/14 sovereign debt crises, particularly in areas that had been devastated during World War II. The other effects related to the boycott like the stock market performance of the companies is more indirect (Heilmann 2015; Fisman et al., 2014). Nevertheless, according to a more spatially disaggregated data set on boycott activities and individual registration records of new cars in China at the time when the relationship escalation between China and Japan occurred in 2012, Barwick et al. (2018) validated that the consumer appeal to boycotts might have a significant and consistent impact. As per their experiment, the consumer boycott which surfaced in the year 2012 during the worsening of geopolitical tensions between China and Japan over the disputed islands had an enormous and long-lasting impact on consumer buying behaviour. Due to the boycott in direct proportion, the car market share of Japanese-branded cars plummeted dramatically, a situation that would continue through the next couple of years almost until the end of 2015. The adverse effect was huge in the cities where anti-Japanese protests had been held. To conclude, Japanese auto manufacturers and exporters were devastated. The number of units sold decreased by 1.1 million units between August 2012 and the end of 2013 with the price of about 200 billion Yuan (Chinese money) at that moment (Barwick et al., 2018).

Indo-China Trade Relations

India and China are certainly two of the most mighty nations in the world not just in the continent of Asia. The two countries have become emerging paradigm setters of global trade both in demand and supply due to their high population (Janardhan 2015). Due to ancient Buddhism and prehistoric silk route, the two countries have been having a good cultural and trade relationship in the past. Nevertheless,



with the passage of time the relations worsened due to the so-called McMahon Line and the Tibet issue (Bisen and Kudnar, 2019), in 1962 both countries engaged in a short-term combat. It is also worth mentioning, however, that India as the largest trading ally of China had a huge trade imbalance with China until 2019 (The Economic Times, March 2020), which was USD 41.2 billion.

Impact On Chinese Trade If India Boycotts Chinese Products

China would certainly suffer greater in case India boycotts most of the Chinese imports. As India is the biggest importer of China, it is not in doubt that the country is not able to cover the losses incurred following the boycott. No nation in the world has such a large population like India, which mostly consumes the low-cost products. Moreover, China has been involved in political and business tussles with Australia, the United States and Canada. These disputes will probably reduce the exports of Chinese products to such countries. Consequently, it can be concluded that China is not able to offset losses of the Indian boycott by focusing and developing a new consumer market. As earlier mentioned, Indian consumers would lose out in the end and therefore, a boycott of Chinese products will leave the Indian GDP and economic growth in the net negative. It is undoubted that when many Chinese manufacturing plants retire to India, the loss of jobs by many individuals will be caused. The Indian expats working in the Chinese companies across the globe will be affected along with the people in India who will lose their jobs. Moreover, it would increase the costs of most of the basic necessities in our daily lives as the Indian businesses would need to collect the full products or raw materials in other countries at more exorbitant costs besides incurring higher costs in terms of shipping them. In nationalistic perspective, it sounds fine to boycott Chinese products, yet, in reality all of the problems connected with this situation are much bigger concerning the Indian counterpart.

The Trade Tension Will Likely Last Temporarily

Even though the Indian opinion is highly against Chinese products due to the recent border dispute and the rising political and national egoism, the author believes that it is a short-lived phenomenon that will not last long. The author hopes that the policymakers in India and China will take into account a long-term mutual benefit as opposed to short-term anger and egoism. It is believed that the two countries are already in agreement about keeping peace and withdrawing their troops and military equipment's in the disputed areas of the border. But this is just prognosis and the time can tell the truth just as it will be in the future. But it is unlikely to surpass the fact that an outright trade war as the United States and China have taken part in will be counterproductive to both nations.



Research Limitations and Further Scope for Investigation

As mentioned before, it is a theoretical publication which is founded on published journal articles, online articles, newspaper articles and books. The author did not use any primary data or views of the trade related stakeholders in the two countries. The author believes that future inquiry has its opportunities through the factual information and/or perception-based surveys. The author also hopes that his work can be the basis of upcoming scholars and general academics who wish to conduct empirical research on the issues of political economics.

Theoretical And Practical Implications

The author claims that it is the first work that tries to carry out a theoretical predictive analysis of the conflict between India and China in the Ladakh region. The author believed that through the publication, scholars would have a chance to further explore this most recent subject. Moreover, the author wishes that the policymakers in the two areas should strive to minimize border tensions and to take into consideration the implications of engaging in a full-fledged trade war, which would certainly impact both economies and world trade and business.

Conclusion

The present paper tried to examine the adverse consequences of an outright trade war involving two super power nations, India and China, which was a result of a recent border dispute. The author proposes the study of commerce and economics to be separated with geopolitics. The main objective and subject content in the paper are largely defined by the economic environment, but not by the pure military or political situation. Being the sovereign neighbors, the supreme governments of both countries are entitled to make any decision that serves their country and people. The fact that the two nations have reached an agreement to calm the tension and pull out the excess troops in the Ladakh border is fantastic and in fact a very positive sign of relief. Also, both countries have resolved to avoid any further undesirable scenarios at the border by avoiding any unpleasant relations between the foreign ministers. These good gestures will simplify the tension in areas of bilateral trade and politics. As the world is a global village, it has been noted that no country in the world has ever benefited by a full-scale trade war. We are all, without any doubt, dependent on each other in a way. This statement holds more true when referring to China and India since they are the super powers in matters regarding military as well as economic issues. Thus, the two countries should avoid all costs in case of a full-scale trade war.



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