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# India–China Strategic Economic Dialogue (SED): Revival, Strategic Significance, Economic Challenges and the Way Forward

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## Recent Developments:

- **India and China have agreed to work towards the early resumption of the Strategic Economic Dialogue (SED)** during recent high-level diplomatic engagements, reflecting gradual normalization of bilateral relations after prolonged disruption.
- **The dialogue had remained suspended since the 2020 Galwan Valley clashes**, as India maintained that normal bilateral relations require peace and tranquility along the **Line of Actual Control (LAC)**.

## India–China Strategic Economic Dialogue (SED):

- **The Strategic Economic Dialogue (SED)** was established in **December 2010** during the visit of Chinese Premier **Wen Jiabao** to India, replacing the earlier **Joint Economic Group (JEG)** mechanism.
- **The dialogue provides an institutional platform** for discussing macroeconomic cooperation, development strategies and emerging economic challenges between Asia's two largest economies.
- **Between 2011 and 2019, six rounds of dialogue were conducted** under the leadership of **NITI Aayog** and China's **National Development and Reform Commission (NDRC)**.
- **Major sectors covered under the SED include information technology, infrastructure, energy, pharmaceuticals, high technology and resource conservation.**
- **The dialogue was suspended after the Galwan Valley incident in 2020**, leading to a broader slowdown in bilateral engagement.

## Need for Revival of the Strategic Economic Dialogue:

### *Managing Economic Interdependence:*

- **China continues to remain one of India's largest trading partners**, despite strategic competition and geopolitical differences.
- **Several Indian industries remain dependent on Chinese imports**, particularly for machinery, electronics, industrial equipment, solar modules and intermediate manufacturing inputs.
- **Institutional dialogue can help manage economic interdependence**, while reducing the risks arising from excessive supply-chain concentration.

### *Reducing the Trade Deficit:*

- **India continues to face a large merchandise trade deficit with China**, which remains close to **USD 100 billion** because imports significantly exceed exports.
- **The SED can provide a structured mechanism** to negotiate improved market access for Indian products and address non-tariff barriers affecting Indian exports.

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- **Balanced trade can strengthen long-term economic sustainability** and reduce excessive external dependence.

#### *Enhancing Economic Security:*

- **Economic security has become an integral component of national security** in an increasingly interconnected global economy.
- **Cooperation on resilient supply chains, semiconductors, critical minerals, rare earth elements and emerging technologies** can reduce strategic vulnerabilities.
- **Dialogue enables both countries to manage supply-chain risks** without necessarily pursuing complete economic disengagement.

#### *Addressing Global Economic Uncertainty:*

- **Rising protectionism, geopolitical conflicts and disruptions in global value chains** have increased uncertainty in international trade.
- **A structured bilateral economic dialogue can contribute to regional economic stability**, while improving resilience against external shocks.
- **Continued engagement also supports broader Asian economic growth**, particularly during periods of global economic slowdown.

#### Strategic Importance of the SED:

##### *Macroeconomic Policy Coordination:*

- **The SED enables exchange of experiences on macroeconomic management, industrial policy and sustainable development strategies.**
- **Regular consultations improve policy coordination** on issues affecting regional and global economic governance.

##### *Strengthening Sectoral Cooperation:*

- **The dialogue promotes cooperation across critical sectors**, including infrastructure, renewable energy, pharmaceuticals, digital technology and advanced manufacturing.
- **Sector-specific working groups facilitate technical cooperation**, investment opportunities and technology exchange.

##### *Supporting Regional Economic Stability:*

- **As two major Asian economies, India and China significantly influence global trade and investment flows.**
- **Stable economic engagement between both countries contributes to wider regional and international economic stability.**

#### India's Economic Dependence on China:

##### *Critical Manufacturing Inputs:*

- **Indian pharmaceutical manufacturing depends substantially on imports of Active Pharmaceutical Ingredients (APIs) from China.**
- **India's renewable energy sector relies heavily on Chinese solar cells and photovoltaic modules**, supporting national renewable energy expansion.
- **Telecommunications equipment, electronics components and industrial machinery** continue to have significant Chinese supply-chain linkages.

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### *Supply Chain Challenges:*

- **Complete economic decoupling from China remains impractical in the short and medium term**, given existing production networks.
- **India therefore seeks a strategy of calibrated de-risking**, reducing excessive dependence while preserving essential economic linkages.

### Major Challenges in Reviving the SED:

#### *Border Dispute and Security Concerns:*

- **The unresolved boundary dispute and recurring tensions along the Line of Actual Control remain the biggest obstacle** to restoring normal bilateral relations.
- **India continues to emphasize that durable economic normalization requires sustained peace and stability along the border.**

#### *Persistent Trust Deficit:*

- **The Galwan Valley clashes significantly weakened political trust** between the two countries.
- **Confidence-building measures remain essential** before expanding strategic economic engagement.

#### *Structural Trade Imbalance:*

- **India's manufacturing sector remains structurally dependent on Chinese industrial production**, resulting in an asymmetric economic relationship.
- **Unless Chinese markets become more accessible**, trade imbalances are likely to persist.

#### *National Security Considerations:*

- **Following 2020, India strengthened scrutiny of Chinese investments, digital platforms and strategic infrastructure projects** due to national security concerns.
- **Balancing economic cooperation with strategic autonomy** remains a major policy challenge.

#### *China's Industrial Model:*

- **China's export-oriented manufacturing ecosystem benefits from state support, industrial subsidies and integrated production clusters.**
- **These advantages create competitive pressure for Indian manufacturers**, making balanced competition more difficult.
- **Low-cost exports and occasional dumping practices further widen competitive disparities.**

### India's Policy Approach:

#### *Calibrated Economic Engagement:*

- **India seeks a balanced approach based on the principle of cooperating where mutually beneficial while protecting strategic interests.**
- **Economic engagement is viewed as an instrument of strategic statecraft rather than unconditional economic integration.**

#### *Promoting Reciprocal Market Access:*

- **India can utilize the SED to seek greater access for its information technology services, pharmaceuticals, agricultural products and other competitive sectors.**

- **Reciprocity should remain the guiding principle** for expanding bilateral economic cooperation.

### *Strengthening Domestic Manufacturing:*

- **Simultaneous expansion of domestic manufacturing capacity remains essential** to reduce import dependence.
- **Initiatives such as the Production Linked Incentive (PLI) Scheme** can strengthen industrial competitiveness and diversify supply chains.
- **Greater self-reliance in strategic sectors will improve India's long-term bargaining position during economic negotiations.**

### Way Forward:

#### *Revive Institutional Dialogue:*

- **Regular meetings under the Strategic Economic Dialogue should resume**, while maintaining separate mechanisms for addressing border and security issues.
- **Sector-specific working groups should focus on practical cooperation**, particularly in technology, energy, manufacturing and infrastructure.

#### *Promote Managed Economic Reciprocity:*

- **Economic engagement should be accompanied by reciprocal market access, transparent investment practices and fair trade conditions.**
- **Diversification of supply chains should proceed alongside constructive engagement**, reducing strategic vulnerabilities without disrupting economic growth.

#### *Strengthen Domestic Competitiveness:*

- **India should continue expanding indigenous manufacturing, innovation, semiconductor production, critical mineral security and technology capabilities.**
- **Improved logistics, infrastructure and ease of doing business will enhance India's global competitiveness and reduce excessive import dependence.**

### Value Addition for UPSC:

#### *Important Terms:*

- **Strategic Economic Dialogue (SED):** A high-level institutional mechanism established in **2010** to promote macroeconomic cooperation and sectoral engagement between India and China.
- **Joint Economic Group (JEG):** The earlier bilateral economic consultation mechanism replaced by the Strategic Economic Dialogue.
- **Line of Actual Control (LAC):** The de facto boundary separating Indian and Chinese controlled territories pending final boundary settlement.
- **Active Pharmaceutical Ingredients (APIs):** The biologically active substances used in the manufacture of medicines.
- **Non-Tariff Barriers (NTBs):** Regulatory, technical, licensing or procedural restrictions that limit imports without imposing customs duties.
- **De-risking:** A strategy of reducing excessive dependence on a single country or supplier while avoiding complete economic disengagement.

#### *UPSC Prelims Facts:*

- **The Strategic Economic Dialogue was established in December 2010.**

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- **Six rounds of the SED were conducted between 2011 and 2019.**
- **The dialogue is coordinated by NITI Aayog (India) and the National Development and Reform Commission (China).**
- **The SED covers infrastructure, information technology, energy, pharmaceuticals, high technology and resource conservation.**
- **The dialogue has remained suspended since the 2020 Galwan Valley clashes and is now being considered for revival amid gradual normalization of bilateral relations.**