

# **India's Geo-economic Moment: Strategic Pawn or Policy Architect?**

Independent Research Project

Twinkle Dhiman

June 2025

## Abstract

*The resurgence of the US–China trade war in 2025 marks a decisive shift in the global economic order. Unlike the tariff-focused dispute of 2018, the renewed conflict spans technology decoupling, supply chain fragmentation, and strategic realignments across multilateral frameworks. These developments have created both vulnerabilities and opportunities for developing economies—particularly India. This paper examines India's strategic and policy response to the 2025 conflict, contrasting it with its reactive stance in 2018. It finds that India has adopted a more mature, globally integrated trade strategy rooted in domestic reform and international coalition-building. Using macroeconomic indicators and sectoral data, the analysis highlights how India leveraged Production-Linked Incentive (PLI) schemes, Free Trade Agreements (FTAs), and Digital Public Infrastructure (DPI) to mitigate external shocks and attract investment realignment. The study focuses on four key sectors—electronics, pharmaceuticals, EVs, and semiconductors—and evaluates India's integration into frameworks such as the QUAD, IMEC, I2U2, and BRICS+. Notably, India's FDI inflows reached \$83.5 billion in 2024, and forex reserves rose to a record \$698.95 billion by mid-2025. The paper concludes that India is emerging as a credible rule-shaper in global trade, with lessons for resilience in a multipolar world.*

**JEL classification:** F13, F15, F21, O24, O53

**Keywords:** India, geo-economics, US–China trade war, supply chain resilience, Production-Linked Incentive, Free Trade Agreements, strategic autonomy

# Contents

<b>List of Abbreviations</b>	<b>4</b>
<b>1 Introduction</b>	<b>6</b>
<b>2 Historical Lessons from US–China Trade Conflicts (1949–2024)</b>	<b>8</b>
<b>3 Strategic Drivers of the 2025 Trade War</b>	<b>9</b>
3.1 Genesis of the 2025 Trade War . . . . .	9
3.2 Why Trump Targeted China Again . . . . .	9
<b>4 Global Economic Fallout</b>	<b>10</b>
4.1 Growth Slowdowns and Inflation Risks . . . . .	10
4.2 Volatility in Energy and Commodity Prices . . . . .	11
<b>5 India's External Trade Exposure</b>	<b>11</b>
5.1 Bilateral Trade Shifts . . . . .	11
5.2 Forex, Deficit, and Market Realignment . . . . .	12
<b>6 Supply Chain Realignment: India's Opportunities and Risks</b>	<b>13</b>
<b>7 India's 2025 Trade Policy Response</b>	<b>15</b>
7.1 Production-Linked Incentive (PLI) Schemes . . . . .	15
7.2 Free Trade Agreements and Bilateral Trade Strategy . . . . .	15
7.3 BIT Reforms and WTO Positioning . . . . .	15
<b>8 India's Strategic and Economic Dependencies</b>	<b>16</b>
8.1 Export Competitiveness and Import Vulnerabilities . . . . .	16
8.2 Rare Earths, Chips, and Strategic Inputs . . . . .	17
<b>9 Comparative Trade Wars: 2018 vs 2025</b>	<b>17</b>
9.1 Protectionism, Populism, and Policy Evolution . . . . .	18
9.2 India's Shifting Role and Institutional Maturity (2018 vs 2025) . . . . .	18
<b>10 Policy Recommendations for India</b>	<b>19</b>
10.1 Trade, Industrial, and FDI Strategy . . . . .	19
10.2 Energy, Digital, and Standards Infrastructure . . . . .	19
10.3 Fiscal, Labor, and Structural Reforms . . . . .	19
<b>11 Strategic Outlook: Institutions and Future Risks</b>	<b>20</b>
11.1 India in I2U2, IMEC, QUAD, and BRICS+ . . . . .	20
11.2 Gulf Policy and Energy Strategy . . . . .	20
11.3 Technological Decoupling and the AI Cold War . . . . .	20
11.4 India 2030 Scenarios . . . . .	21
<b>12 Conclusion</b>	<b>22</b>
<b>Appendices</b>	<b>23</b>

India's Geo-economic Moment: Strategic Pawn or Policy Architect?	3
Appendix A: India's Forex and CAD Trends (2018–2025)	24
Appendix B: Sector-wise Import Dependence & Localization (2025)	25
References	27

## List of Abbreviations

Below are selected abbreviations used in this paper, grouped by domain relevance.

### Multilateral Institutions and Trade Bodies

WTO	World Trade Organization
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
UNCTAD	United Nations Conference on Trade and Development
GVC	Global Value Chain

### India-Specific Institutions and Programs

DPIIT	Department for Promotion of Industry and Internal Trade
PLI	Production Linked Incentive
ONDC	Open Network for Digital Commerce
UPI	Unified Payments Interface
DPI	Digital Public Infrastructure

### Economic, Trade, and Policy Terms

FDI	Foreign Direct Investment
FTA	Free Trade Agreement
BIT	Bilateral Investment Treaty
GDP	Gross Domestic Product
PPP	Purchasing Power Parity
CAD	Current Account Deficit
API	Active Pharmaceutical Ingredient

### Strategic Alliances and Corridors

QUAD	Quadrilateral Security Dialogue
I2U2	India–Israel–UAE–USA
IMEC	India–Middle East–Europe Corridor
IPEF	Indo-Pacific Economic Framework for Prosperity
BRICS+	Brazil, Russia, India, China, South Africa + Extended Partners
ICET	Initiative on Critical and Emerging Technologies

### Technology, Energy, and Security Terms

AI	Artificial Intelligence
EV	Electric Vehicle
ISR	Intelligence, Surveillance, and Reconnaissance
DRDO	Defence Research and Development Organisation

LNG	Liquefied Natural Gas
RE	Rare Earths

**Miscellaneous**

SEZ	Special Economic Zone
R&D	Research and Development
USD	United States Dollar

# 1. Introduction

The global economic order has entered a period of heightened uncertainty, shaped by renewed tensions between the United States and China—the world's two largest trading nations. What began as a tariff-driven dispute in 2018 has evolved into a broader confrontation involving technology restrictions, supply chain decoupling, and intensifying strategic competition. The 2025 resurgence of the US–China trade war has disrupted trade flows, exposed weaknesses in multilateral institutions, and accelerated a shift toward economic fragmentation. Across both developed and emerging economies, this shift is forcing a recalibration of industrial policy, trade strategy, and institutional alignments.

India occupies a unique and strategically significant position in this environment. As an emerging economy with a large domestic market, a competitive labor force, and a rapidly evolving manufacturing base, India is increasingly viewed as a viable alternative to China in global supply chains. Its favorable demographics, digital infrastructure, and expanding diplomatic profile further enhance its appeal to investors and multinational corporations seeking resilience and diversification. At the same time, India continues to face persistent internal vulnerabilities—including dependence on Chinese inputs, exposure to commodity and energy shocks, and institutional fragmentation in trade policymaking and enforcement. This combination of structural potential and strategic exposure places India at a pivotal moment in defining its external economic trajectory.

This paper examines India's evolving role amid the 2025 US–China trade war. It investigates how India has been impacted by the global reconfiguration of trade and investment, and how it has actively responded using domestic policy instruments and strategic diplomacy. In particular, the paper analyzes India's deployment of *Production-Linked Incentive (PLI)* schemes, bilateral and regional *Free Trade Agreements (FTAs)*, and digital public infrastructure to mitigate external shocks and attract redirected capital and manufacturing capacity. It also assesses India's participation in emerging plurilateral and multilateral frameworks—such as the *India–Middle East–Europe Economic Corridor (IMEC)*, the *QUAD*, the *India–UAE–Israel–US (I2U2)* grouping, and the expanded *BRICS+* platform. The contrast between India's posture during the 2018 trade war and its more mature, confident strategy in 2025 offers a useful window into the country's institutional evolution and geo-economic ambition.

The scope of the study spans the macroeconomic, sectoral, and geopolitical dimensions of India's trade exposure and policy response between 2018 and 2025. On the macroeconomic front, the paper considers India's foreign direct investment (FDI) trends, reserve accumulation, and trade balance adjustments in light of global volatility. At the sectoral level, it focuses on four critical domains—*electronics*, *pharmaceuticals*, *electric vehicles (EVs)*, and *semiconductors*—which are both highly exposed to global supply chain shocks and central to India's industrial policy priorities. These sectors reflect the dual nature of India's challenge: they are sites of both strategic vulnerability and targeted intervention.

Geopolitically, the analysis evaluates how India has repositioned itself in response to institutional voids left by WTO gridlocks and the retreat of multilateralism. By engaging with flexible coalitions and strategic economic corridors, India is signaling a willingness to shape rather than merely adapt to evolving trade norms. India's growing role in digital trade rulemaking, supply chain risk mitigation, and regional infrastructure diplomacy is discussed as evidence of its ascent as a credible actor in shaping global trade architecture.

Methodologically, the study adopts a qualitative, comparative approach grounded

in secondary data from official sources such as the Ministry of Commerce and Industry, Department for Promotion of Industry and Internal Trade (DPIIT), Reserve Bank of India (RBI), World Bank, International Monetary Fund (IMF), and World Trade Organization (WTO). Supplementary insights are drawn from high-quality reporting in the *Financial Times*, *Economic Times*, and *Reuters*, among others. The findings are framed using a mix of policy analysis and institutional comparison, anchored in the real-world policy responses to exogenous trade shocks in 2018 and 2025.

This paper contributes to the emerging literature on trade decoupling, economic realignment, and the strategic behavior of emerging economies. While much of the discourse on the US–China trade war has focused on the principal actors themselves, relatively less attention has been paid to how non-aligned economies such as India are recalibrating their trade, investment, and geopolitical strategies in response to these tensions. By positioning India as a case study of an actor navigating economic bifurcation while pursuing strategic autonomy, the paper offers both analytical depth and policy relevance. Its findings are likely to resonate with policymakers, economists, and strategists engaged in issues of trade diversification, economic sovereignty, and multipolar governance.

Ultimately, the paper asks whether India is merely reacting to a disrupted global order—or whether it is beginning to shape that order in meaningful ways. In an increasingly contested economic landscape, where agility, strategic clarity, and credibility will define long-term leadership, India's experience offers instructive lessons for other emerging economies. The central argument is that India is transitioning from a peripheral rule-taker to a proactive rule-shaper—using industrial policy, institutional maturity, and strategic coalitions to assert its interests in a fragmented but reconfiguring global system.



## 2. Historical Lessons from US–China Trade Conflicts (1949–2024)

U.S.–China trade ties have evolved from Cold War hostility to deep interdependence, and now, renewed confrontation. Following Nixon's 1972 visit, ties normalized in 1979, and China's 2001 WTO accession drove a 500%+ surge in bilateral trade.<sup>1</sup> However, the 2010s saw rising frictions over IP, cybersecurity, and subsidies.

The 2018 trade war, triggered by U.S. Section 301 tariffs on Chinese goods,<sup>2</sup> led to global supply disruptions and mirrored the 1973 oil shock's inflationary effects.<sup>3</sup> Both crises reflected power asymmetries and triggered lasting trade realignments.

India's responses show increasing institutional maturity. In 1973, it pursued import diversification. Post-2008 and 2013 shocks, it enacted financial and macroprudential reforms. COVID-19 and the Ukraine war emphasized supply security and digital infrastructure. In 2025, India adopted a dual-track model—tariff diplomacy and FTA expansion.

Table 1: India's crisis responses and strategic outcomes (1973–2025).

CRISIS	RESPONSE	OUTCOME
1973 oil crisis	Import substitution	Energy policy shift
2008 GFC	Fiscal + banking reform	IBC, cautious recovery
2013 taper	Tight monetary stance	Inflation control
2020 COVID-19	DPI, DBT rollout	Digital-led rebound
2022–24 Ukraine war	Oil sourcing shift	Low inflation resilience
2025 trade war	Tariff + FTA balance	Agri stress; supply gaps

### Key Lessons for India

1. *Tariffs do not ensure competitiveness.* Long-term gains depend more on Production-Linked Incentives (PLIs), Special Economic Zone (SEZ) productivity, and domestic R&D investments.<sup>4</sup>
2. *Policy volatility functions as a hidden tariff.* Clear and predictable norms for FDI and FTAs are essential to maintain investor confidence and supply chain continuity.
3. *Targeted sectoral intervention yields results.* Sectors like textiles and pharmaceuticals registered gains, while intermediate goods sectors lagged behind.
4. *Geopolitical alignment does not guarantee decoupling gains.* Stickiness in global value chains underscores the need for real productivity improvements and supply chain depth.
5. *Multilateral engagement supports strategic autonomy.* Deeper integration into frameworks like the WTO, BITs, and Quad+ can enhance India's institutional leverage.

<sup>1</sup>WTO (2001), "China's Accession to the WTO"; USITC Trade Data.

<sup>2</sup>USTR (2018), "Findings of the Section 301 Investigation."

<sup>3</sup>IMF (1974), "Oil Facility"; Brookings (2019).

<sup>4</sup>IMF (2025); EPW (2024).

6. *Services and energy buffers matter.* Future trade shocks are likely to cut across sectors, making resilience in services exports and energy security critical.

### 3. Strategic Drivers of the 2025 Trade War

#### 3.1. Genesis of the 2025 Trade War

The 2025 U.S.–China trade war was not ignited by a singular event but was catalyzed by the re-election of Donald Trump and his administration's proactive policy agenda. Within weeks of the November 2024 elections, expectations of renewed tariffs on Chinese goods soared. A Reuters poll conducted in November 2024 indicated that economists anticipated a median tariff level of 38% on Chinese imports—up from the previous 25% ceiling during Trump's first term.

Trump's executive memorandum, signed on April 2, 2025, launched “Liberation Day” tariffs with sweeping 34% duties on Chinese goods, citing years of trade violations and strategic coercion. China retaliated on April 4 with matching tariffs and rare earth export controls. The sequence of actions quickly escalated as Trump threatened another 50% duty unless China rolled back its measures.

1. *U.S. tariff triggers.* Trump cited fentanyl trafficking, forced intellectual property transfers, and unfair subsidies.
2. *China's retaliation.* Beijing responded with counter-tariffs, export bans, and a WTO lawsuit within days.
3. *Market fallout.* U.S. equities lost \$2.4 trillion in value; Brent crude fell by 6.6%; the FTSE 100 recorded its worst loss since 2023.

This sequence demonstrated that policy expectations alone—before formal orders—were sufficient to ignite global trade realignments.

#### 3.2. Why Trump Targeted China Again

Trump's 2025 approach built on his “America First” doctrine and grievance-driven protectionism. Analysts describe this as “The Grievance Doctrine”—employing trade tools not for economic correction, but symbolic retribution. Trump's re-election consolidated hardline factions within the Republican Party, institutionalizing his economic nationalism.

##### Key Drivers

1. *America First 2.0.* The trade doctrine was revived to penalize countries perceived as exploiters of U.S. economic openness—chief among them, China.
2. *Electoral strategy.* Tariff escalation served a domestic political purpose, appealing to Rust Belt voters affected by industrial job losses linked to Chinese competition.
3. *Security framing.* Trade deficits were reframed as national security risks. The 2025 Trade Memorandum linked tariff policy to military preparedness and industrial self-reliance.

4. *Escalated trade rhetoric.* In an April 2 speech, President Trump referred to China as a “plunderer” and warned of an “economic invasion”—language that intensified geopolitical friction.

Trump's tactics reflected a calculated blend of policy aggression and electioneering. Despite the economic risks, the strategy energized domestic bases and aligned with nationalist think tanks.<sup>5</sup>

## 4. Global Economic Fallout

### 4.1. Growth Slowdowns and Inflation Risks

#### Global GDP Deceleration

According to the World Bank and IMF (2025), global growth is forecasted at 2.3% in 2025—the slowest pace outside global recessions since 2008. Growth in advanced economies is projected at just 1.2%, with the U.S. down to 1.4%, the Euro Area and Japan at 0.7%. EMDEs fare modestly better, averaging 3.8%, led by India (6.3%) and China (4.5%).

#### Key Causes of the Slowdown

1. *Tariff shocks.* The U.S.–China trade war raised average global tariffs to the highest levels since the 1930s.
2. *Investment collapse.* Global FDI and portfolio flows dropped 15% year-on-year due to uncertainty.
3. *Policy fragmentation.* Nationalistic trade agendas delayed recovery from COVID-era disruptions.

#### Inflation Trends

Global inflation is projected at 5.1% in 2025, driven by cost-push factors—tariffs, logistics bottlenecks, and energy volatility. Core inflation remains high in advanced economies, with real income expected to fall 0.6% across the G7.<sup>6</sup>

Table 2: World Economic Outlook Growth Projections (IMF, April 2025)

REGION/ECONOMY	2024	2025	2026
World Output	3.3	2.8	3.0
<b>Advanced Economies</b>	<b>1.8</b>	<b>1.4</b>	<b>1.5</b>
United States	2.8	1.8	1.7
Euro Area	0.9	0.8	1.2
Germany	-0.2	0.0	0.9
France	1.1	0.6	1.0
Italy	0.7	0.4	0.8
Spain	3.2	2.5	1.8
Japan	0.1	0.6	0.6
United Kingdom	1.1	1.1	1.4
Canada	1.5	1.4	1.6
Other Adv. Economies	2.2	1.8	2.0
<b>Emerging &amp; Developing Economies</b>	<b>4.3</b>	<b>3.7</b>	<b>3.9</b>
Emerging Asia	5.3	4.5	4.6
China	5.0	4.0	4.0
India	6.5	6.2	6.3
Emerging Europe	3.4	2.1	2.1
Russia	4.1	1.5	0.9
Latin America	2.4	2.0	2.4
Brazil	3.4	2.0	2.0
Mexico	1.5	-0.3	1.4
Middle East & C. Asia	2.4	3.0	3.5
Saudi Arabia	1.3	3.0	3.7
Sub-Saharan Africa	4.0	3.8	4.2
Nigeria	3.4	3.0	2.7
South Africa	0.6	1.0	1.3
<i>Emerging Mkt + Mid-Income</i>	4.3	3.7	3.8
<i>Low-Income Developing</i>	4.0	4.2	5.2

<sup>5</sup>In 2025, the US imposed tech curbs (CHIPS Act, EAR) and high tariffs (100% EVs, 50% chips/solar), classifying China as Tier-3 and India as Tier-1. India benefited but faces alignment risks. Sources: USTR, White House, CSIS (2025).

<sup>6</sup>2025 forecasts – global GDP 2.9%, US 1.6%, China 4.7%, India 6.3%. Merchandise trade: -0.2%; services growth: 4.0%. 10pp tariff hike may cut global GDP by 0.3pp.

## 4.2. Volatility in Energy and Commodity Prices

*Oil price instability:* Brent crude fell below \$60/barrel in April after U.S. tariff hikes, before surging to nearly \$80 amid Middle East tensions. Volatility in energy markets was further exacerbated by OPEC+ decisions and geopolitical risks (IEA, 2025).

*Commodity dynamics:* According to the World Bank, the commodity price index is expected to fall 12% in 2025. Energy prices dropped sharply in May—natural gas by 8.4%, oil by 4.8%. However, fertilizer and agricultural costs remain volatile.

*Sectoral impact:* Energy-intensive sectors such as chemicals, metallurgy, and logistics saw sharp cost spikes, with volatility now embedded into supply-chain risk modeling. Central banks, including the Fed and ECB, delayed rate cuts due to these inflation pressures (OECD, EIU).

*Investment pullback:* CME data shows a 40% spike in oil futures volatility in Q1 2025. Hedge funds pulled 22% from Brent positions, signaling risk aversion.

*Strategic implication:* For India and other emerging markets, energy volatility has dual implications: imported inflation and strategic opportunity to hedge via alternate suppliers, green transition acceleration, and regional energy diplomacy.

*Conclusion:* The 2025 global economic fallout from the renewed U.S.–China trade war reflects both cyclical and structural fragilities: slowed growth, inflation persistence, energy volatility, and investment hesitation. While India remains relatively resilient, sustained policy agility is essential to navigate external shocks.

## 5. India's External Trade Exposure

### 5.1. Bilateral Trade Shifts

India's external trade has undergone significant realignment in response to the renewed U.S.–China trade war. The country's trade with major partners like the U.S., China, and Vietnam has been reshaped by shifting tariff policies, geopolitical strategy, and global supply chain reconfigurations.

#### India–U.S. Trade: Resilience and Reorientation

In 2025, the U.S. imposed a 26% tariff on Indian imports—far below the 54% on China and 46% on Vietnam. This relative leniency preserved India's access to key markets, especially pharmaceuticals (approximately \$9 billion in annual exports), which were exempted. Electronics and gems & jewellery (approximately \$23 billion annually) faced sharper impacts due to full tariff exposure.

#### India–China Trade: Strategic Decoupling

Trade volume between India and China shrank by 7.9% in the first half of 2025, largely due to India's effort to diversify sourcing. Imports of telecom equipment, solar panels, and chemicals declined significantly. Supported by the Production-Linked Incentive (PLI) scheme, India became a preferred partner for global firms exiting China.

## India–Vietnam Linkages

Vietnam's exposure to high U.S. tariffs (46%) led to sourcing realignments, benefiting Indian suppliers in textiles, electronics, and raw materials. Exports to Vietnam rose 18.6% year-over-year.

## Trade Diversification

India expanded partnerships with the UAE (rupee-based oil trade), the European Union (FTA negotiations), and Latin America (soybeans, electronics), further reducing reliance on Chinese trade corridors.

Table 3: Bilateral trade shifts between India and key partners in 2025.

PARTNER	KEY SHIFTS IN 2025	SECTORAL IMPACT
U.S.	12.3% rise in exports	Pharma ↑, electronics ↓
China	7.9% drop in trade	Machinery, chemicals ↓
Vietnam	18.6% rise in exports	Raw materials, machinery ↑
UAE / EU	New FTAs and CEPA	Oil trade, electronics ↑

India's gains from supply chain shifts were strengthened by targeted policy support (PLI, FTAs) and a stable macroeconomic environment.

## 5.2. Forex, Deficit, and Market Realignment

India's forex reserves hit \$698.95B by June 2025—covering 11 months of imports and 96% of external debt—providing the RBI a strong buffer for intervention.<sup>7</sup>

*Global context.* Global FX reserves fell 3% to \$12.36 trillion in Q4 2024. The U.S. dollar share rose to 57.8%, the euro fell to 19.8%, and the RMB remained stable at 2.18% (IMF COFER).

*China.* China's reserves remained steady at \$3.285 trillion in May 2025. The U.S.–China trade deficit was \$264 billion in 2024. China's current account surplus widened to 2.3% of GDP.

*India.* Reserve buildup was supported by service exports, inward remittances, and capital inflows. The RBI sold \$56 billion in spot and \$77.5 billion in forward markets (Jan 2025) to stabilize the INR.

*CAD trends.* India's Current Account Deficit (CAD) hovered at 1.1–1.2% of GDP in FY25, supported by software exports and oil hedging strategies. For every \$10 increase in oil price, CAD risk rises by \$15 billion.

*RBI strategy.* The RBI's diversification policy helped mitigate volatility from the US–China shock. A stable forex buffer and dynamic hedging strengthened India's global investor confidence.

*Conclusion.* India's trade exposure in 2025 reveals both opportunity and risk—diversification and reserves offer stability, but import dependence and oil volatility demand deeper reform and trade resilience.

<sup>7</sup>For an extended time-series chart and detailed macroeconomic breakdown, see **Appendix A: India's Forex and CAD Trends (2018–2025)**.

Table 4: Macro indicators: India and global forex trends.

INDICATOR	VALUE	PERIOD
India forex reserves	\$698.95 bn	June 13, 2025
India CAD	1.1–1.2% of GDP	FY25 Q2–Q3
Global FX reserves	\$12.36 tn (–3%)	Q4 2024
USD share of reserves	57.8%	Q4 2024
China forex reserves	\$3.285 tn	May 2025

## 6. Supply Chain Realignment: India’s Opportunities and Risks

*Context.* The 2025 US–China trade war accelerated a historic realignment of global supply chains. The “China+1” strategy—once theoretical—has become a structural necessity. India, with its demographic depth, policy reforms, and geopolitical neutrality, emerged as a credible manufacturing alternative.<sup>8</sup>

### Sectoral opportunities and challenges.

*Electronics:* India became the world’s second-largest smartphone producer, with 97% localization by 2024 (up from 20% in 2015).<sup>9</sup> Apple, Foxconn, and Samsung ramped investments under the PLI scheme, yet core components—PCBs, chips, lenses—remain China-sourced.

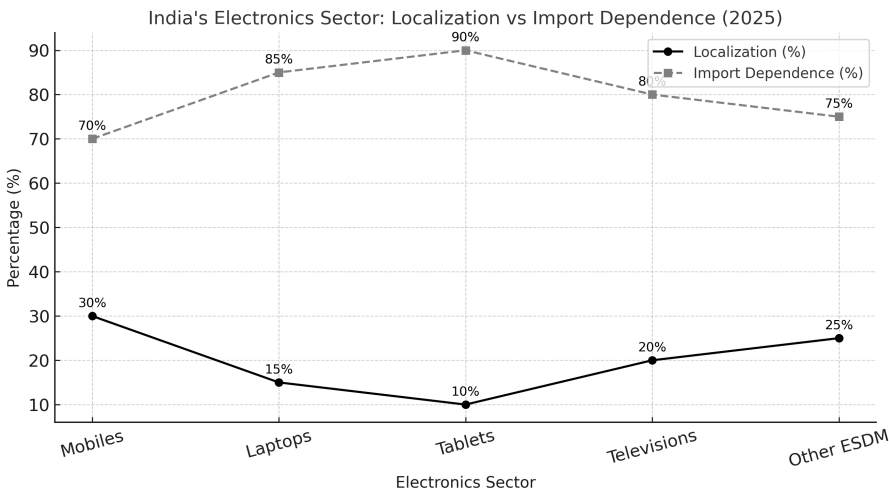


Figure 1: India’s Electronics Sector: Localization vs Import Dependence (2025).

*Pharmaceuticals:* India supplies 60% of global generics but depends on China for over 70% of APIs. The \$2B API PLI program aims to reduce this gap, with new clusters in Gujarat and Telangana.

<sup>8</sup>WTO (2025), DPIIT FDI Statistics, and World Bank Global Value Chains Report.

<sup>9</sup>Ministry of Electronics and IT, 2025 PLI Dashboard. **See Appendix B: Sector-wise Import Dependence & Localization (2025) for visual data on sectoral vulnerabilities.**

<sup>9</sup>Graph created by the author using sectoral estimates extracted from *India Dispatch* (2025), based on data from ACMA, MeitY, and DPIIT.

*EVs and batteries:* EV sales spiked under FAME II. Tata and Ola launched cell assembly projects, yet over 90% of battery cells and rare earth magnets are imported.

*Semiconductors:* Micron and Tata-Powerchip launched packaging units under ISM 2.0. But India lacks EUV capacity, skilled labor, and upstream wafer tech.

Table 5: India's sectoral supply chain opportunities (2025).

SECTOR	OPPORTUNITIES	CHALLENGES
Electronics	47% YoY smartphone export rise	Component import dependence
Pharma	API clusters, global demand	70% API imports from China
EVs	Cell capacity expansion, FAME II	Battery & rare earth reliance
Semiconductors	\$10B ISM 2.0 funding	Talent, capex gaps

*India's "China+1" Value Proposition.* India now anchors China+1 strategies globally due to:

- *FDI Magnet:* \$83.5B inflows (2024); DPIIT ranks India among top 5.
- *Young Workforce:* 500M+ working-age population; median age 29.
- *Geostrategic Leverage:* QUAD, IMEC, SCRI, I2U2 deepen trade-security links.
- *Reform Backbone:* 14-sector PLI rollout; GIFT IFSC, labor law simplification.

Table 6: India vs peers in the China+1 race.

COUNTRY	STRENGTH	INDIA'S EDGE
Vietnam	Fast FDI setup	Market size, DPI
Mexico	Nearshoring to US	PLI depth, English fluency
Indonesia	Resource-driven	Sector diversity, reform depth
China	Manufacturing base	Trust, friendshoring appeal

*Structural Gaps.* India ranks 38th in the 2023 LPI. Ports are improving, but power outages, zoning delays, and slow land acquisition remain barriers. Mid-tier clusters lack integrated logistics.

*Outlook to 2030,* India targets:

- \$100B electronics exports
- \$120–140B annual FDI
- >50% localization in green energy & chip packaging

*Conclusion.* India's supply chain realignment is real but incomplete. Strategic leverage exists, yet execution gaps persist. The China+1 opportunity remains wide open—though increasingly contested.

## 7. India's 2025 Trade Policy Response

*Overview:* In response to the escalating 2025 US–China trade war, India pursued a multi-pronged trade policy emphasizing domestic industrial resilience, FDI attraction, bilateral agreements, and multilateral rule-shaping. The Production Linked Incentive (PLI) schemes, strategic FTAs, and institutional reforms form the core of India's geo-economic strategy.

### 7.1. Production-Linked Incentive (PLI) Schemes

*Context and scope:* Launched in 2020 and scaled in 2025–26, India's PLI schemes target 14 strategic sectors including electronics, EVs, semiconductors, pharmaceuticals, textiles, and solar energy. With an outlay of over INR 2 lakh crore (US\$24–28 billion), the initiative aimed to promote domestic manufacturing and reduce import dependence.

*Key Performance Metrics (as of FY 2025):*

Table 7: PLI sectoral performance snapshot (FY2025).

SECTOR	OUTLAY (INR CR)	ACHIEVEMENTS	CONSTRAINTS
Electronics	50,000+	Exports \$23.6B; 97% localisation	Logistics, R&D gaps
EVs & Batteries	54,000	1 GWh cell capacity; 750K jobs	Raw material imports
Semiconductors	1.4 lakh	Fabs by Micron, Tata	Capex, skill pipeline
Pharma	15,000+	API clusters, doubled exports	Regulatory & ESG compliance
Textiles	10,683	Mixed export performance	Global demand dip

*Reform Direction.* Under Budget 2025–26, Phase II of PLI focuses on green hydrogen, passive electronics, AI hardware, and broader MSME inclusion. Key improvements include simplified eligibility, faster disbursements, and investor facilitation mechanisms.

### 7.2. Free Trade Agreements and Bilateral Trade Strategy

*Active Engagement.* India finalized or accelerated FTAs with the UK, EFTA (TEPA), UAE (CEPA), and Australia (CECA), while negotiating with the EU, GCC, and the US. These treaties aim to deepen market access, attract investment, and diversify away from China-centric supply chains.

*India–US Bilateral Strategy.* A new BTA with the US is under negotiation to address tariff asymmetries and expand bilateral trade to \$500 billion by 2030. India has offered zero-for-zero tariff concessions on auto parts and is rationalizing duties on non-sensitive goods while shielding vulnerable sectors (e.g., dairy, rice).

### 7.3. BIT Reforms and WTO Positioning

*BIT Reform.* India revised its 2015 Model BIT in 2025 to attract high-quality FDI and address investor concerns. Key changes include:

- *Broader investment definition:* Includes IP, digital assets, and debt instruments
- *Dispute resolution:* Fork-in-the-road options, mediation layers, relaxed local remedy exhaustion
- *Investor obligations:* Mandatory ESG, anti-corruption, and tax compliance



- *Policy carve-outs*: Explicit exclusions for health, AI, data, and environment

BITs signed with the UAE and Uzbekistan (2024) reflect the new architecture, with negotiations underway with the UK, EU, Saudi Arabia, and Canada.

*WTO Engagement.* At the 2025 Paris Informal Ministerial, India:

- Urged restoration of the Appellate Body and opposed plurilateral overreach.
- Advocated for Special & Differential Treatment (SDT), especially in digital trade.
- Called for inclusive reform of voting mechanisms and transparency mandates.
- Joined coalitions like G-90 and G-33 to protect developmental space.

## 8. India's Strategic and Economic Dependencies

India's 2025 economic trajectory balances two priorities: sustaining export competitiveness and reducing import vulnerabilities. Though exports have grown across electronics, pharma, and auto sectors, strategic dependence on key imports—especially rare earths, semiconductors, and energy—remains a challenge. This section outlines these trends and India's policy responses.<sup>10</sup>

### 8.1. Export Competitiveness and Import Vulnerabilities

*Export strengths.* By 2025, India made gains in:

- *Electronics*: Mobile exports reached US\$11.1B in FY2023, 52% of total electronics exports (US\$23.6B), led by PLI clusters
- *Pharmaceuticals*: India supplies 70% of global vaccines, though 70% of APIs are still imported from China
- *Auto/EVs*: FAME-II and ACC-PLI helped exports grow 40% YoY; lithium and cobalt imports persist
- *Petroleum*: Refined oil exports rose from 38.9 Mt (2008–09) to 56.8 Mt (2020–21)

*Import Dependencies.* Key areas of concern:

- *Energy*: >80% of oil and 45% of gas is imported; Russia now supplies 43% of crude.
- *Electronics*: 60–70% of inputs from China.
- *Pharma APIs*: 70% from China.
- *EV Materials*: Lithium, cobalt, and rare earths are still mostly imported.

---

<sup>10</sup>For additional macro visualizations and data, see **Appendix B**.

Table 8: India's key import vulnerabilities (2025).

CATEGORY	IMPORT DEPENDENCY	DEPEN- RISK FACTOR
Electronics	60–70% from China	Tariffs, supply bottlenecks
Pharma APIs	~70% from China	Regulatory exposure
EV materials	High import share	Price shocks, ESG issues
Energy	>80% crude import	Fiscal/geopolitical risk

*Policy levers.*

- PLI schemes for backward integration in EVs, APIs, and electronics
- FTAs with EU, UK, EFTA to expand sourcing/diversify exports
- Gulf energy pacts and Gati Shakti-led logistics streamlining

## 8.2. Rare Earths, Chips, and Strategic Inputs

*Rare Earths.* China holds 66% of global production. India, despite having 6.3% of reserves (6.9 Mt), produces under 1%. In FY2024, RE magnet imports (53,748 MT) were 81–90% China-origin. India ramped up IREL, halted RE exports to Japan, and signed JVs with Toyota Tsusho and Lynas.

*Semiconductors.* Domestic output meets < 9% of demand. Imports in FY2024: INR 1.71 lakh crore (US\$20.7B). India committed US\$20B under 2025 PLI, supporting fabs by Tata, Micron, CG Power, and design hubs like SCL and B-SRC (IIT-Madras). iCET and CHIPS Act links provide support.

*Urban Mining.* India generates 2 Mt/year e-waste but formally recycles only 1.5%. Startups (Attero, Metastable) and CSIR-backed R&D aim to extract rare earths and battery minerals.

Table 9: Strategic dependencies and policy interventions (2025).

SECTOR	DEPENDENCY LEVEL	POLICY RESPONSE
Rare earths	81–90% from China	IREL ramp-up, urban mining, JVs with Japan/Australia
Semiconductors	< 9% domestic supply	\$20B PLI, fabs, R&D, iCET links
EV/ESDM/Defense	High import reliance	Cluster SEZs, Quad tie-ups

*Conclusion.* India's twin strategy—strengthening exports and derisking imports—remains vital amid 2025's disruptions. Sector-specific reforms, infrastructure upgrades, and trusted global alliances underpin India's evolving role in shaping resilient supply chains.

## 9. Comparative Trade Wars: 2018 vs 2025

The 2018 and 2025 trade wars both targeted China's rise but differed in scale, tools, and impact. This section compares them, focusing on India's shifting role.

## 9.1. Protectionism, Populism, and Policy Evolution

*2018: Populist protectionism.* The U.S. imposed \$370B in tariffs on Chinese goods under Sections 232 and 301, targeting steel, electronics, and consumer items. “America First” disrupted global trade and invited Chinese retaliation.

*2025: Strategic containment.* Tariffs persist under Biden but serve national security aims via tech controls and supply chain shifts—benefiting India, Vietnam, and ASEAN.

Table 10: Comparative protectionist framework: 2018 vs 2025.

DIMENSION	2018	2025
US tariff policy	Broad, unilateral (Sections 232, 301)	Strategic, tech-focused (IEEPA, CBAM)
Narrative	Populist, electoral	Technocratic, national security
Global impact	Tit-for-tat retaliation, WTO strain	Coordinated controls, global bloc formation
India's position	Reactive, import curbs	Proactive, part of Quad, IPEF, FTAs

## 9.2. India's Shifting Role and Institutional Maturity (2018 vs 2025)

*2018: Cautious rule-follower.* India reacted defensively to U.S. tariffs—curbing Chinese imports post-Galwan and raising duties on solar and electronics. Trade silos, BIT withdrawals, and institutional inertia limited responsiveness.

*2025: Strategic system-builder.* India now leads on digital governance (UPI, ONDC), anchors trade corridors (IMEC, IPEF), and shapes WTO reform. FTAs with the UK, UAE, EFTA, and Australia signal proactive diplomacy.

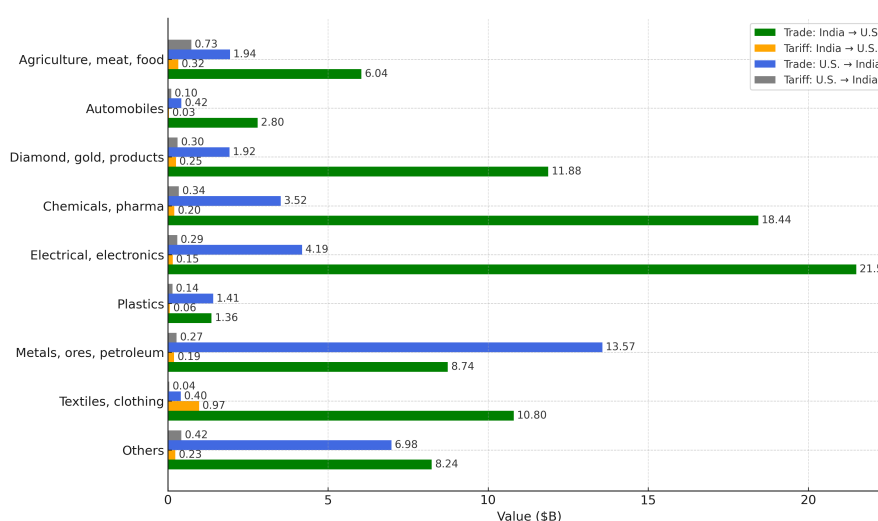


Figure 2: Sector-wise trade and tariff burden between India and the U.S. (2024).

<sup>10</sup>Chart source: Statista, “Indian Tariffs on U.S. Trade Weigh Heavier Than Vice Versa,” based on GTRI data via Reuters (2024).

## 10. Policy Recommendations for India

India's response to the 2025 US–China trade war must be anchored in institutional agility, economic resilience, and targeted global engagement. Based on multilateral insights (IMF, CFR, FT, Economic Times), the following condensed roadmap is proposed:

### 10.1. Trade, Industrial, and FDI Strategy

- Finalize India–US BTA with clawback protections and legal safeguards to limit tariff shocks.
- Align FTAs (UK, EFTA, Australia) with strategic sectoral goals while shielding MSMEs and dairy via MIPs or phased concessions.
- Focus PLI schemes on high-value sectors (semiconductors, EVs, clean tech); rationalize tariffs on inputs to lower manufacturing costs.

### 10.2. Energy, Digital, and Standards Infrastructure

- Remove duties on LNG and critical minerals; secure resource partnerships with Australia and the Gulf.
- Scale Gulf-funded renewables to meet India's 500 GW green energy goal.
- Expand ONDC, DPI, and India Stack for seamless customs, SME onboarding, and trade digitization.
- Invest in national quality infra; shape ISO/IEC standards to reduce non-tariff barriers.

### 10.3. Fiscal, Labor, and Structural Reforms

- Rationalize energy subsidies and widen GST to create space for green and logistics capex.
- Reform land, labor, and tax codes to improve manufacturing competitiveness.
- Boost R&D with tax credits; bridge skilling gaps, especially among women in tech and export sectors.
- Retain export buffers (MSME support, duty drawbacks) under shock-linked sunset clauses.

*Conclusion.* A resilient and competitive India must balance strategic autonomy with open, rules-based trade—leveraging FTAs, digital infra, and industrial depth to shape its post-2025 global trade identity. .

---

<sup>10</sup>*Sources:* IMF (2025), Council on Foreign Relations (CFR), Economic Times, Reuters, CFA Institute, Financial Times, Times of India.

## 11. Strategic Outlook: Institutions and Future Risks

### 11.1. India in I2U2, IMEC, QUAD, and BRICS+

India's multipolar alignments have deepened amid the U.S.–China trade war, balancing Western frameworks and Global South blocs:

- *I2U2 (India–Israel–UAE–USA)*: Targets cooperation in food, energy, and space. India secured \$2B in agri-investments and built renewables in Gujarat.
- *IMEC*: Expected to lift GDP by +1.98% by 2030 through better trade connectivity and lower logistics costs.
- *QUAD*: Enhances Indo-Pacific role, tech norm-setting, and access to \$50B in infrastructure finance.
- *BRICS+*: Provides \$100B liquidity via NDB and CRA. India uses it to fund green infrastructure and hedge Western financial dependence.

*Conclusion*: These frameworks reduce binary alignment risks and boost resilience through diversified trade corridors, capital access, and institutional trust.

### 11.2. Gulf Policy and Energy Strategy

India's Gulf outreach now spans energy security, renewables, and capital access:

- *Hydrocarbon Security*: Long-term crude/LNG deals with UAE, Qatar, and Saudi Arabia; reserves and alternate routes hedge Hormuz volatility.
- *Green Transition*: \$30B in Gulf-backed renewables backs India's 500 GW target; nuclear collaboration with UAE enhances clean baseload.
- *Sovereign Capital*: PIF exemption removes investment caps, unlocking \$100B in Saudi-backed projects.

*Geostrategic Implications*: Gulf ties buffer energy shocks while reinforcing India's roles in I2U2, IMEC, and QUAD.

### 11.3. Technological Decoupling and the AI Cold War

India's digital posture is shaped by tech alliances and strategic decoupling:

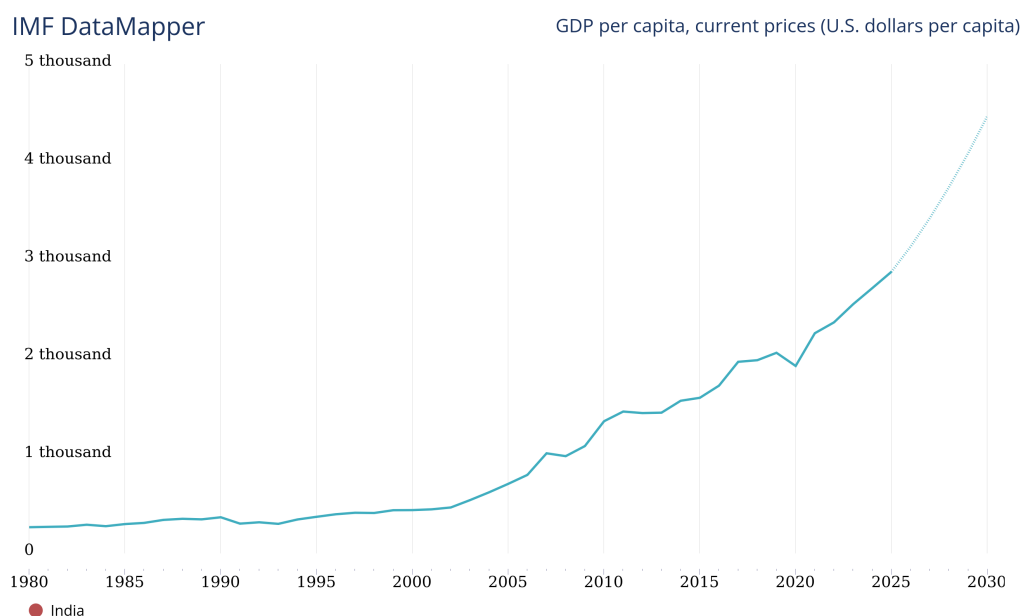
- *iCET Participation*: As a Tier-1 tech ally, India works with the U.S. on AI, chips, and quantum.
- *Domestic Tech Base*: DRDO, Tata, and Sarvam AI are driving local defense and commercial innovation.
- *Policy Framework*: Draft AI law promotes algorithmic transparency and asserts digital sovereignty.

## 11.4. India 2030 Scenarios

Growth, urbanization, and digital policy define India's long-term path:

- *GDP per Capita (PPP)*: Projected to double to ~\$6,000 by 2030, driven by structural shifts.
- *Urbanization*: 40% by 2030; inclusion and infrastructure key to absorbing this shift.
- *Energy Goals*: Targeting 500 GW renewables—backed largely by Gulf capital.
- *Digital Economy*: DPI-led growth via UPI, Aadhaar, ONDC; frontier tech scaling under iCET.
- *Climate Risks*: Urban air/water stress and erratic monsoons may undercut economic momentum.

*Afterword*: India's future rests on hedged diplomacy, resilient tech and energy ecosystems, and rule-setting roles in multilateral blocs.



©IMF, 2025, Source: World Economic Outlook (April 2025)

Figure 3: India's GDP per capita (current USD), 1980–2030.

*Long-Term Growth Trajectory.* According to IMF projections, India's GDP per capita is expected to nearly double by 2030, reaching \$6,000 (PPP).<sup>11</sup> This acceleration reflects India's structural transformation via productivity growth, digital public infrastructure, and supply chain integration—despite global headwinds from trade fragmentation and energy volatility.

<sup>10</sup>India's GDP per capita (current prices) rose from \$1,981 in 2010 to \$2,540 in 2020, and is projected to reach \$3,432 in 2025 and \$6,011 by 2030, per IMF WEO April 2025 estimates.

<sup>11</sup>Chart Source: IMF World Economic Outlook, April 2025.

## 12. Conclusion

This paper has examined India's evolving trade strategy in response to the 2025 US–China trade war, highlighting the shift from a reactive posture in 2018 to a more proactive and structurally grounded approach in 2025. Faced with intensified global trade fragmentation, technological bifurcation, and institutional instability, India leveraged a combination of domestic policy reform and international alignment to reposition itself within an increasingly multipolar economic order.

The evidence suggests that India's deployment of industrial instruments such as the *Production-Linked Incentive (PLI)* schemes, expansion of *Free Trade Agreements (FTAs)*, and development of *Digital Public Infrastructure (DPI)* helped mitigate exposure to global supply shocks. Simultaneously, India's engagement with strategic frameworks—including the *India–Middle East–Europe Economic Corridor (IMEC)*, the *QUAD*, and the *I2U2* grouping—reflected a deliberate effort to enhance its bargaining power and credibility within global trade governance.

While these shifts indicate a maturing institutional strategy, persistent vulnerabilities remain. India's reliance on external sources for semiconductors, rare earths, and energy inputs continues to present structural risks. Moreover, challenges related to regulatory capacity, export competitiveness, and geopolitical volatility may limit the durability of recent gains. The trade-offs between \*strategic autonomy\* and multilateral alignment will likely define India's trajectory in the coming years.

More broadly, India's response illustrates how large emerging economies can navigate great power rivalries without choosing sides, but instead by pursuing layered coalitions and selective de-risking. This approach provides a useful framework for other countries seeking policy space in a world of contested global norms and reconfigured trade regimes. India's case underscores that industrial policy, when coupled with credible diplomacy and institutional coordination, can offer viable pathways toward resilience and \*rule-shaping\* capacity.

Ultimately, the 2025 trade war may be remembered not only as a flashpoint in US–China competition, but as a catalyst for mid-sized powers to reassess their economic strategies and assert a more autonomous role in global governance. India's trajectory from 2018 to 2025 represents more than tactical adaptation—it marks the early architecture of a long-term transition toward geo-economic agency in a fractured world economy.

## Appendices

This section contains extended macroeconomic data, sectoral charts, and policy-relevant visuals referenced across the main paper. Each appendix deepens the empirical basis for key arguments in Sections 5, 6, and 8. Data sources include RBI, DPIIT, MeitY, UNCTAD, and other official repositories.

### Appendix A: India's Forex and CAD Trends (2018–2025)

*Extends: Section 5.2 — Forex, Deficit, and Market Realignment*

- Time-series chart: India's Forex Reserves (2013–2024)
- RBI intervention data (spot & forward sales)
- Macro interpretation of CAD trends (FY25)

### Appendix B: Sector-wise Import Dependence & Localization (2025)

*Extends: Section 6 — Supply Chain Realignment & Section 8 — Strategic Vulnerabilities*

- Bar chart: Electronics exports growth (2013–2023)
- Area graph: ICT Goods Imports into India (2011–2022)
- Import origin breakdown: ICT/electronics components
- Summary table: Import dependence vs. policy response (Electronics, APIs, EVs, Energy)



## Appendix A: India's Forex and CAD Trends (2018–2025)

India's foreign exchange reserves rose significantly between 2018 and 2025, providing a crucial buffer during successive global trade disruptions. From \$413 billion in 2018, reserves peaked at \$704.9 billion in September 2024 and stood at \$698.95 billion by June 2025—covering 11 months of imports and 96% of external debt. This buildup was supported by strong service exports, remittances, and targeted Reserve Bank of India (RBI) interventions.

India's Current Account Deficit (CAD) remained moderate at 1.1–1.2% of GDP in FY25, aided by oil hedging and capital inflows. The data complements the analysis in *Section 5.2*, offering a fuller macro view of India's external resilience under trade war pressures.

### India's foreign exchange reserves at record high

Forex reserves rose to \$642.49 billion as of March 15, 2024

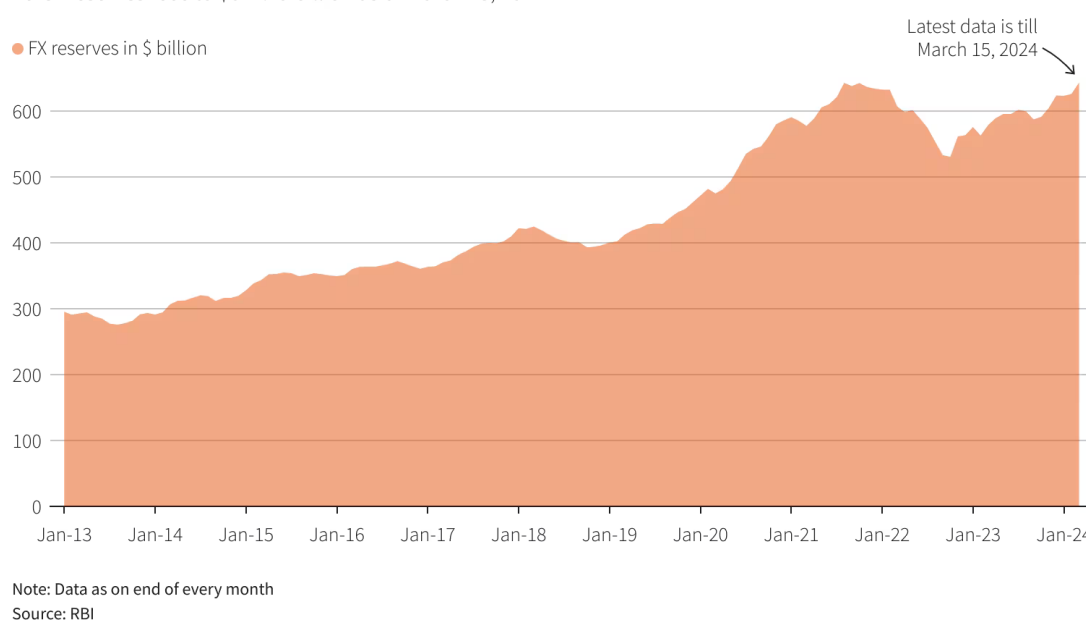


Figure 4: India's Forex Reserves, 2013–2024.

*Strategic Relevance.* These reserves enabled the RBI to conduct over \$56 billion in spot and \$77.5 billion in forward currency sales (as of January 2025) to stabilize the INR amid US–China trade tensions. This strategic use of reserves reinforced investor confidence and enhanced India's image as a trade-resilient emerging economy.

## Appendix B: Sector-wise Import Dependence & Localization (2025)

India's 2025 trade posture highlights critical vulnerabilities in upstream inputs—particularly electronics, energy, and EV materials. While export-led schemes like PLI have accelerated output, strategic reliance on imports—especially from China—remains substantial. This appendix extends data referenced in Sections 6 and 8 through quantitative visuals and sector-wise summary tables.

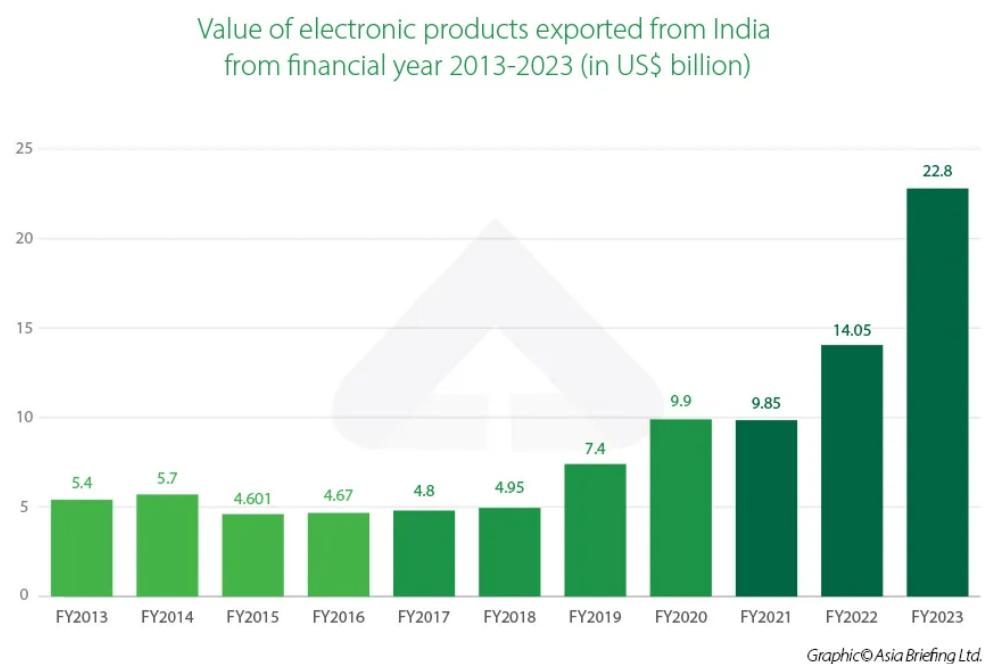


Figure 5: Electronics Exports from India (FY2013–FY2023).

*Interpretation.* Increase in India's electronics exports—from under \$5 billion during FY2013–FY2018 to over \$22.8 billion by FY2023. The post-2019 surge reflects PLI-linked assembly scale-ups, primarily in smartphones and consumer electronics. FY2022–2023 alone saw exports jump 62%, driven by Apple, Foxconn, and Dixon operations. Yet, much of this growth is value-light—limited to final assembly—while high-value components are still imported.

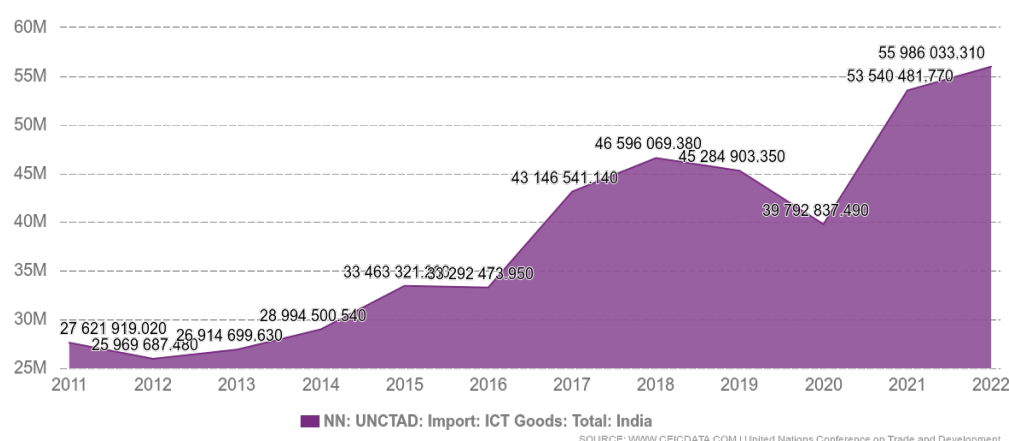


Figure 6: Total ICT Goods Imports into India (2011–2022).

*Interpretation.* The steep rise in India's ICT imports—especially post-2017—underscores persistent electronics dependency, with Chinese-origin components dominating even as local assembly surged. Despite PLI-led export gains (as shown above), core semiconductors, display units, and connectors remain largely imported. This dichotomy of outward competitiveness vs inward vulnerability is central to Section 8's thesis.

*Strategic summary: Sector-wise exposure and policy response*

Table 11: India's strategic import dependencies by sector (2025).

SECTOR	IMPORT DEPENDENCY (2025)	POLICY RESPONSE
Electronics	60–70% of inputs from China	Smartphone PLI, chip packaging JV (Foxconn, Micron)
Pharma APIs	~70% from China	\$2B API PLI; bulk drug parks in Gujarat, Telangana
EV battery materials	90% imported	ACC-PLI, Quad supply pact, cell assembly mandates
Energy	>80% crude oil; 45% gas	Diversification to Russia, UAE; rupee-based crude settlements

*Relevance:* These visuals and tables reinforce the arguments made in Sections 6 and 8, illustrating the contrast between India's rising exports and its unresolved import dependence. The data is essential to understand both the opportunity and fragility in India's evolving supply chain strategy.

## References

- Autor, David H., Lawrence F. Katz, and Melissa S. Kearney.** 2006. "The Polarization of the U.S. Labor Market." *American Economic Review* 96 (2): 189–94.
- Becker, Gary S.** 1973. "A Theory of Marriage: Part I." *Journal of Political Economy* 81 (4): 813–46.
- Brookings Institution.** 2019. "The 2018 U.S.–China Trade Conflict: Causes and Consequences."
- Center for Strategic and International Studies.** 2025. "Technology Decoupling and Strategic Competition."
- Economic and Political Weekly.** 2024. "India's Trade Strategy in a Fragmented World." *Economic and Political Weekly* 59 (17): 23–29.
- Financial Times.** 2025. "India's Global Trade Strategy Amid Decoupling."
- International Monetary Fund.** 1974. *Oil Facility and Global Recession Response*. Washington, DC: IMF.
- International Monetary Fund.** 2025. *World Economic Outlook, April 2025*. Washington, DC: IMF.
- Ministry of Commerce and Industry, Government of India.** 2025. "Export–Import Trade Statistics."
- Ministry of Electronics and Information Technology.** 2025. "Electronics Manufacturing Dashboard."
- Organisation for Economic Co-operation and Development.** 2025. *Trade Policy Monitoring Report*. Paris: OECD Publishing.
- Reserve Bank of India.** 2025. "Weekly Statistical Supplement."
- Reuters.** 2025. "India's Forex Interventions and Policy."
- Statista.** 2024. "Tariff Rates and Trade Performance: India vs United States."
- United Nations Conference on Trade and Development.** 2025. "ICT Goods Import Dependency Report."
- United States Trade Representative.** 2018. *Findings of the Section 301 Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation*. Washington, DC: USTR.
- United States Trade Representative.** 2025. *Trade Policy Outlook on China*. Washington, DC: USTR.
- World Bank.** 2025. *Global Value Chains Development Report*. Washington, DC: World Bank Group.
- World Trade Organization.** 2001. "China's Accession to the WTO."
- World Trade Organization.** 2025. *World Trade Outlook and Statistics*. Geneva: WTO.