

Received on: 02 June 2025

Revised on: 10 June 2025

Accepted on: 22 June 2025

## **India's Position in the Global Trade War: Challenges, Opportunities, and Strategic Choices**

**Dr. Seitinmang Guite**

Assistant Professor

Faculty of Humanities and Social Sciences

Assam Down Town University, Guwahati

guitemangku84@gmail.com

### **Abstract**

India stands at a critical juncture as global trade tensions escalate, particularly amid the US-China trade war and broader trends of protectionism and de-globalization. These shifts present both significant challenges and unique opportunities for India's pursuit of a sustainable and resilient economy.

The intensification of global trade wars—driven by escalating tariff disputes, technology restrictions, supply-chain decoupling, and strategic competition among major powers—has introduced unprecedented uncertainty into the international economic system. For an emerging economy like India, these shifts present both significant challenges and transformative opportunities. This article examines India's strategic position within the evolving landscape of global trade fragmentation and explores pathways through which the country can safeguard growth, enhance resilience, and advance its long-term transition toward a sustainable economy.

On the challenge front, India faces heightened exposure to global price volatility, input supply disruptions, and fluctuating export demand in sectors such as electronics, pharmaceuticals, and manufacturing. The weaponization of technology and tightening of geo-economic alliances pose risks to India's access to critical components, energy, capital, and high-end technologies. Moreover, increased protectionism threatens the multilateral trading system, complicating India's trade negotiations and limiting the policy space for developing economies.

At the same time, the realignment of global value chains presents rare opportunities for India to reposition itself as a competitive, reliable, and sustainable manufacturing and services hub. As firms diversify away from concentrated production bases, India can attract investment in electronics, semiconductors, green technologies,

renewables, and agro-processing—sectors central to sustainable development. By strengthening infrastructure, improving ease of doing business, deepening regional and bilateral trade partnerships, and investing in technological capabilities, India can convert the shocks of global trade realignment into strategic gains. Additionally, the push for sustainability worldwide creates new export markets for green products, digital services, and climate-resilient agricultural innovations.

This article argues that India's ability to navigate the growing global trade war hinges on its capacity to balance economic security with openness, pursue strategic diversification, and embed sustainability into trade and industrial policy. The paper outlines a framework for leveraging the current turbulence to accelerate India's transition toward a resilient, competitive, and sustainable economy.

**Keywords:** Trade War, Tariff, Strategic Partnership, Economy

## Introduction

The global economy has entered a phase of heightened uncertainty marked by rising protectionism, strategic decoupling, and geopolitical rivalry among major powers. The US-China trade war, followed by renewed tariff escalations between major economies, export controls on advanced technologies, and the reconfiguration of global value chains (GVCs), has reshaped the landscape of international trade (Baldwin, 2020). These shifts signify a movement away from the era of hyper-globalization toward what many scholars call "slowbalisation" and "strategic fragmentation" (UNCTAD, 2023). For India—an emerging economy deeply integrated with global markets—this evolving scenario poses multifaceted challenges but also opens rare opportunities for repositioning its economy on a path of sustainable, resilient, and inclusive growth.

This article examines India's strategic position in the growing global trade war, identifies emerging challenges, and explores the potential opportunities that align with India's long-term goal of building a sustainable economy. It also develops a policy framework for navigating trade fragmentation while enhancing resilience, competitiveness, and environmental sustainability.

## Theoretical Framework

A robust theoretical framework for analyzing India's position in the global trade war draws from classical and modern theories of international trade, as well as concepts from international political economy and strategic trade policy. This framework integrates the evolution of trade theories, the dynamics of state behavior in the

international system, and the specific economic and political context of India's trade relations.

The foundation of this framework lies in classical theories such as absolute and comparative advantage, which explain how countries benefit from specializing in goods where they have efficiency gains. However, these models assume perfect competition and ignore real-world complexities like market imperfections, scale economies, and government intervention. Modern trade theories, including the new trade theory and strategic trade policy, address these gaps by considering increasing returns to scale, product differentiation, and the role of state intervention in promoting national interests (Bharat et al., 2023). These theories are particularly relevant for understanding how countries like India and China use tariffs, subsidies, and non-tariff barriers to protect domestic industries and influence trade flows.

International Political Economy and Power Dynamics incorporates international political economy perspectives, recognizing that trade policy is shaped not only by economic factors but also by power relations, security concerns, and diplomatic strategies. Realist theories emphasize the pursuit of national interest and the use of economic tools for strategic advantage, while complex interdependence highlights the mutual vulnerabilities created by global supply chains (Ha, 2025). For India, this means balancing economic gains from trade with China against security concerns and the need for strategic autonomy.

India's trade policy responses are shaped by domestic political economy, global value chain integration, and the imperatives of economic self-reliance. The decision to recalibrate free trade agreement strategies, such as opting out of RCEP, reflects concerns about domestic industry protection, legal provisions, and geopolitical orientation (Singh, 2023). The framework thus situates India's actions within a broader context of economic reform, strategic diversification, and the pursuit of sustainable growth amid global uncertainties (Kumar, 2024).

This theoretical framework combines classical and modern trade theories, international political economy, and India-specific policy analysis to explain India's position and strategies in the global trade war. It enables a nuanced understanding of how economic, political, and strategic factors interact to shape India's trade outcomes and policy choices.

### **Understanding the Global Trade War**

The global trade war, most notably marked by the US-China tariff conflict since 2018, has fundamentally altered the landscape of international commerce. Triggered by the

imposition of tariffs and retaliatory measures between the world's two largest economies, the trade war has had ripple effects across the globe, impacting supply chains, investment flows, and the economic prospects of both developed and developing nations. India, as a major emerging economy with deep trade ties to both the US and China, finds itself at a critical juncture—facing both risks and opportunities as the global order shifts (Srivastava, 2024).

The global trade war has intensified competition among nations to secure strategic advantages in key industries such as technology, manufacturing, and agriculture. As tariffs and trade barriers have risen, global supply chains have been forced to reconfigure, leading to increased costs and delays for businesses worldwide (Srivastava, 2024). For India, this has meant both disruption and potential. On one hand, higher tariffs on Indian exports to the US have made it harder for sectors like textiles and pharmaceuticals to maintain their market share, while on the other, India has been able to fill some gaps left by China in global markets, especially in electronics and consumer goods. The trade war has also accelerated the trend toward regionalization of supply chains, with countries seeking to reduce dependence on any single trading partner. India's push for "Atmanirbhar Bharat" (self-reliant India) aligns with this shift, encouraging domestic manufacturing and innovation. However, the increased costs of imported raw materials and components have challenged Indian industries, particularly in sectors such as steel and electronics, where global input prices have surged due to trade restrictions.

Moreover, the trade war has prompted a reevaluation of trade agreements and partnerships. India has been actively pursuing new bilateral and multilateral trade deals to diversify its export destinations and reduce vulnerability to sudden policy changes in major economies. This strategic realignment offers opportunities for India to strengthen its position in global trade, provided it can overcome domestic structural challenges and invest in infrastructure and skill development. The global trade war has reshaped international commerce, presenting India with both risks and opportunities. Navigating this complex landscape will require a balanced approach, combining strategic policy reforms with targeted investments to ensure sustainable economic growth.

### **India's Trade Profile: Between the Giants**

The global trade war, especially the US-China tariff conflict, has fundamentally altered the landscape of international commerce. India, as a major emerging economy with deep trade ties to both the US and China, faces both risks and

opportunities as the global order shifts (Misra & Choudhry, 2020; Chadha et al., 2021).

India's trade profile is uniquely shaped by its relationships with two global economic giants: the United States and China. Over the past two decades, these relationships have evolved rapidly, positioning India as both a significant exporter and a major importer in the global economy (Ray & Miglani, 2021; Dar & Mehta, 2020).

The United States stands as India's largest export destination, absorbing a diverse range of Indian goods including textiles, pharmaceuticals, and information technology services. This robust export relationship has contributed to India's economic growth and helped diversify its export basket (Ray & Miglani, 2021; Galistcheva et al., 2021). In contrast, China has emerged as India's largest source of imports, particularly after joining the World Trade Organization in 2001. China's share of India's total trade rose from just 3.5% in 2001 to nearly 9% by 2012, overtaking other major partners such as the US and the UK (Dar & Mehta, 2020).

The nature of India's trade with these giants is distinct. Trade with the US is characterized by a relatively high level of intra-industry exchange, reflecting the competitiveness and diversity of Indian exports. Conversely, India's trade with China is predominantly inter-industry, with India exporting raw materials and importing finished goods and machinery. This pattern has led to a persistent and widening trade deficit with China, which reached over \$40 billion by 2019 (Dar & Mehta, 2020; Agrawal, 2021; Verma & Rizvi, 2025).

India's import dependence on China is particularly pronounced in sectors such as electronics, pharmaceuticals, and machinery, where Chinese products dominate the Indian market. For example, China is the primary source for 23 out of 260 key items in India's import portfolio, and a major contributor for over 38 additional items, including essential raw materials for pharmaceuticals (Chauhan & Kumar, 2024; Agrawal, 2021).

Despite the growing trade volumes, the intensity of India's exports to China has declined over time, while import intensity has remained high, underscoring India's increasing reliance on Chinese goods (Verma & Rizvi, 2025). This imbalance presents both economic and strategic challenges, prompting calls for greater diversification of trade partners and strengthening of domestic manufacturing capabilities. It highlights that India's trade profile is defined by strong export ties with the US and deep import dependence on China, resulting in a complex web of opportunities and vulnerabilities as it navigates the global economic landscape (Ray & Miglani, 2021;

Dar & Mehta, 2020; Verma & Rizvi, 2025; Galistcheva et al., 2021; Chauhan & Kumar, 2024; Agrawal, 2021).

### **Opportunities for India: Trade Diversion and Export Growth**

India stands to benefit from global trade shifts through both trade diversion and export growth. The US-China trade war and changing global supply chains have created opportunities for India to capture market share in sectors such as chemicals, metal ores, vehicles, electrical machinery, and toys, as tariffs on Chinese goods encourage importers to seek alternative suppliers (Nayak & Kumra, 2021). Trade agreements, such as the India-ASEAN Free Trade Agreement, have also led to increased trade creation, though import creation has outpaced export creation, highlighting the need for targeted export promotion (Singh, 2021).

Export diversification and innovation are crucial for India to reduce sectoral risks and enhance competitiveness. By identifying niche markets and high-value products—such as spices, tea, and coffee—India can leverage its comparative advantages and tap into underutilized markets in Europe, the US, and beyond (Jagadeshwaran et al., 2022; J. M. S et al., 2024). Government initiatives like “Make in India” and export promotion schemes further support this growth by improving infrastructure and encouraging SMEs to participate in global trade (Tripathi, 2025).

To maximize these opportunities, India must address challenges such as regulatory barriers, logistics inefficiencies, and the need for export-oriented FDI. Strategic reforms and a focus on innovation-led diversification will be key to sustaining export growth and capitalizing on trade diversion benefits (Yerram & Varghese, 2018; Tripathi, 2025).

### **Risks and Challenges: Supply Chain Disruptions and Policy Dilemmas**

Global supply chains are increasingly vulnerable to a range of disruptions, including pandemics, geopolitical tensions, technological risks, and climate-related events. The COVID-19 pandemic, for example, exposed deep vulnerabilities, causing widespread delays, shortages, and inflationary pressures that affected both firms and consumers worldwide (Ginn & Saadaoui, 2025). These disruptions are not only operational but also systemic, with shocks often arising from interconnected factors such as trade wars, energy crises, and digital threats (Baldwin et al., 2023; Hong et al., 2023).

Technological risks present a double-edged sword: while advancements can enhance resilience, they also introduce new vulnerabilities, such as dependency on critical technologies and exposure to cyber threats. Disruptions in technology supply—through export controls or embargoes—can halt production and trigger cascading

effects across global trade networks (Meng et al., 2025). The lithium supply chain, for instance, demonstrates how technological monopolies can amplify risk diffusion and economic losses.

Policy dilemmas further complicate the landscape. Governments face the challenge of balancing efficiency and resilience, often needing to intervene in markets to address public-private risk tradeoffs (Baldwin et al., 2023). Regulatory differences, non-tariff barriers, and the complexity of harmonizing standards across borders can impede trade and slow recovery (Hoekman, 2018). Moreover, policy responses to supply chain shocks—such as tightening monetary policy to combat inflation—can introduce additional uncertainty and impact global economic stability (Ginn & Saadaoui, 2025).

To address these challenges, experts emphasize the need for international cooperation, investment in infrastructure, diversification of suppliers, and the adoption of advanced risk management and forecasting tools (Sardar & Akram, 2025; Fu, 2025). Ultimately, a systemic and adaptive approach is required to navigate the evolving risks and policy dilemmas in global supply chains.

### **Strategic Policy Choices for India**

India's response to the global trade war has been a mix of defensive and proactive measures. Some key policy options and recommendations from the literature include:

*Reducing Tariffs and Enhancing Efficiency:* Studies suggest that India could benefit more by reducing its own tariffs, improving port and transport infrastructure, and making trade and logistics more efficient. These steps would enhance India's export competitiveness and help it capitalize on trade diversion opportunities (Chadha et al., 2021).

*Joining Regional Trade Agreements:* Participation in regional trade blocs, such as the Regional Comprehensive Economic Partnership (RCEP), could provide India with greater market access and strengthen its position in global value chains. However, concerns about domestic industry protection and trade deficits have made India cautious about such agreements (Kumar et al., 2019).

*Strategic Diversification and Self-Reliance:* The trade war has reinforced the need for India to diversify its export basket, reduce dependence on a few markets, and build domestic capabilities in key sectors. The "Make in India" initiative and the push for "Atmanirbhar Bharat" (self-reliant India) reflect this strategic shift (Sarangapani & Muthu, 2020).



*Leveraging Digital and Technological Strengths.* India's growing IT and digital services sector offers a unique opportunity to move up the value chain and attract investment diverted from China. The relocation of global tech manufacturing to India, as seen with companies like Foxconn and Wistron, highlights the potential for India to become a hub for electronics and technology production.

### **The India–China Trade War: A Subplot**

Beyond the US–China conflict, India's own trade tensions with China have intensified in recent years, driven by economic imbalances, territorial disputes, and protectionist measures. While India has the potential to reduce its trade deficit with China by boosting exports of certain products, the process is challenging due to the dominance of Chinese goods in India's supply chains and the high cost of finding alternatives (Kumar, 2024). Escalating tensions can lead to industry disruptions, job losses, and higher costs for consumers and businesses.

### **The Role of Multilateralism and Global Leadership**

India's position in the global trade war is not just reactive. As a major player in the World Trade Organization (WTO) and a proponent of a stable multilateral trading order, India has the opportunity to shape the future of global trade rules. By advocating for fair trade practices, supporting regional and sectoral agreements, and engaging in global economic governance, India can enhance its influence and protect its interests in a rapidly changing world (Joshi et al., 2023).

### **Conclusion**

The global trade war has presented India with a complex mix of risks and opportunities. While there are short-term gains from trade diversion and the potential to attract investment and production away from China, the long-term benefits depend on India's ability to implement strategic reforms, enhance competitiveness, and integrate more deeply into global value chains. Overly protectionist measures could limit India's potential, while proactive engagement, efficiency improvements, and a focus on innovation and self-reliance offer the best path forward.

India's response to the global trade war will determine its long-term economic trajectory. While the country has seen short-term benefits such as increased exports to markets affected by US-China tensions and the relocation of some manufacturing units, these gains are not guaranteed to persist without deeper reforms and investments in infrastructure, innovation, and human capital. Overly protectionist policies may provide temporary relief but could isolate India from global value chains.



and stifle competition, ultimately hindering growth and efficiency. Conversely, embracing open trade, improving regulatory frameworks, and focusing on skill development can position India as a preferred destination for global investment and production. The emphasis on innovation and self-reliance, as seen in initiatives like "Atmanirbhar Bharat" must be balanced with efforts to remain globally competitive and integrated. As the world economy continues to reconfigure, India's strategic choices today will play a crucial role in shaping its future as a sustainable and influential global player.

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