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Shifting Global Trade: Implications for India and Policy Responses

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Shifting Global Trade: Implications for India and Policy Responses

Introduction

International trade of the mid-2020s has been fundamentally transformed, no longer centered around decades of cost-optimized efficiency but a new paradigm of resilience, national security, and convergence of regulations. The current international trade environment is an elaborate holistic ecosystem of geopolitical alliances, multilateral and bilateral regulatory systems, technological integration and environmental standards that dictate cross-border movement of goods and services. By the beginning of 2026, the world economy is struggling with a slow growth curve, with the total output growth expected to be moderate at 2.6% during the fiscal year (UNCTAD, 2026). It is a cooling of a world economy that is increasingly characterized by managed trade and the reemergence of aggressive industrial policy in advanced economies, where consumer welfare no longer is the primary goal, supply chains are the main priority.

In the case of India, this period is a strategic turning point which can be said to be inflexible to classical Ricardian logic. In comparison with classical trade theory, which focuses on specialization which depends on the existence of a static comparative advantage, the current programme of the "Atmanirbhar Bharat" (Self-Reliant India) and the transition to the new programme of Make in India 2.0 are closer to Strategic Trade Policy and New Trade Theory. These models imply that in oligopolistic competition markets with increasing returns to scale, the state can generate a comparative advantage in high-tech industries like semiconductors, advanced batteries and electronics with the help of state intervention in the form of performance-based subsidies. India is troubled by a disjointed global system where hyper-globalization has given way to resilient interdependence and that both domestic production systems and external alliances must be radically re-calibrated to guarantee economic sovereignty in a post-efficiency world.

Significant Alterations in global trade circumstances.

The global trade structure is undergoing a major change since the establishment of the World Trade Organization (WTO), shifting the broad-based multilateralism to focused friend-shoring, regional value chains, and selective bilateralism (UNCTAD, 2026).

The WTO Deadlock and Crisis of Multilateralism.

The multilateral order having been the foundation of predictability in the world is finding itself in the depth of credibility crisis. A profound structural rift was noted between the Global North and South as the 14th WTO Ministerial Conference (MC14) took place in Yaounde in March 2026. As developed countries urged to adopt plurilateral Joint Statement Initiatives (JSIs) on digital trade and investment facilitation to avoid the consensus requirement, India and the Global South demanded the restoration of the Appellate Body of the dispute settlement mechanism to implement the existing rules.

Indian analysis: India is at a presently experienced bilateral dilemma of New Delhi. India has actively been a proponent of the WTO as a fortification of its policy space especially in the area of agricultural subsidies and the food security provision, the Peace Clause. But the ongoing stalemate of the WTO dispute settlement system has compelled New Delhi to make an aggressive turn towards bilateral Free Trade Agreements (FTAs) with its partners such as the European Union and the United Kingdom. This change guarantees entry into the market with partners that they can trust, but it can create a spaghetti bowl type scenario on a tangled and intersecting mass of conflicting and overlapping regulations that add a substantial compliance cost burden to Indian exporters. It is more so with MSMEs who do not have the institutional legal resources to negotiate the different Rules of Origin (RoO) and technical standards that are entrenched in these deals in a disparate manner.

The Strategic Protectionism Rebirth and Tariff Uncertainty in the U.S.

An age of hyper-globalization has given way to an age of controlled trade with tariffs being used more and more by governments as strategic instruments of industrial policy and less as a source of revenue (UNCTAD, 2026). This paradigm shift in which economic security is prioritized over consumer costs is reflected in the average effective US tariff rate, which shot up to 22% in early 2025, then stabilized at about 11.1% in early 2026. Such volatility was interspersed with the USTR action to launch Section 301 investigations of excess structural manufacturing capacity, against 16 economies such as India and China.

India Analysis: This tariff shock brings in an atmosphere of continued uncertainty that upsets long-term export planning. As India has seen its exports of smartphones to the US increase by 47.4% to $30.13 billion in 2025, because of the Chinese trade diversion, such gains are fragile (Tiago Devesa et al., 2026). Indian exports to the US are exposed to abrupt bilateral tariff increases, which might go up to 18 percent on such vital imports as generic drugs, automobile parts, and aircraft components without a bilateral trade agreement that is long-term in nature.

Geopolitics Realignments: The Strategy Autonomy Tension.

The continued US-China trade war and the effects of the conflict between Russia and Ukraine are redrawing the geometry of global trade. In the past two years, nearly 18,000 new discriminatory trade instruments have been introduced worldwide, and non-tariff measures

(NTMs) currently impact 2/3 of global trade (UNCTAD, 2026).

*India Analysis***:** India is in the middle of a high-stakes game between Strategic Autonomy and Western Integration. The conclusion of the landmark India-European Union FTA in January 2026 is an indication of a shift towards a trusted democratic trade bloc. On the other hand, India did not give up multi-alignment as seen in its refined product importation that resulted in 50% US penal tariffs being imposed, which reflects a dedication to the principle of Strategic Pragmatism. This enables India to insure itself against a volatile US policy environment, but at a cost in the form of a credibility tax in the West. European and American companies will be skeptical of thorough, high-tech supply chain integration so long as India continues to take a pole position in non-Western paradigms such as BRICS and RIC.

Reconfiguration of the Supply Chain: The Gap of Predictability.

Global companies are radically reorganising supply chains to emphasise risk management as opposed to just-in-time efficiency. But India is still lagging behind its peers such as Vietnam and Malaysia in the capture of this shift.

*India analysis***:** The major constraint is not labor cost, India is approximately 30% less than Vietnam with regard to the cost of raw labor, but Predictability. Vietnam is better because it is predictable, has single-window industrial parks, flexible labor documentation and high retention of workers in electronic assembly. Indian manufacturing on the other hand has been dirty and disjointed; development of infrastructure is often held up due to land acquisition wrangles and red tape. Therefore, India has the highest potential of workforce but in the Asia Manufacturing Index 2026, it is 9th in tax policy, trade integration and political risk.

Global Trade Indicator	**2025 Actual**	**2026 Projection**	**Primary Driver**
Global GDP Growth	2.7%	2.6%	Subdued Demand
Merchandise Trade Growth	2.4%	0.5%	Tariff Volatility
Services Trade Growth	9.0%	4.4%	Digitalization
US Effective Tariff Rate	15.0%	11.1%	Strategic Reciprocity
South–South Trade Share	54%	57%	Regional Value Chains

Table 1 : *Global Trade Indicators and Projections (2025–2026)*

Servicification and Digitalization of Trade

The growth of merchandise trade has slowed, but services are an inexorable powerhouse. By 2025, services contributed to 27% of the world trade, and increased by 9% much higher than the growth of goods. The importance of this servicification is that 71% of world intermediaries are supported by services.

India Analysis: India is a world outlier in terms of service growth, yet this success obscures a growing digital divide within. Global Capability Centres (GCCs) and Tier-1 IT companies are completely encompassed in the global AI-based logistics network. Nevertheless, the MSMEs in India are still structurally disadvantaged when it comes to these digital benefits; they are not equipped with the fundamental infrastructure and AI-powered applications to become the inputs of high-value services in the manufacturing sector.

Green Protectionism and sustainability

The imperatives of the environment are now taking a center stage in market access (UNCTAD, 2026). The European Union has been on the forefront of this change through the Carbon Border Adjustment Mechanism (CBAM) and the EU Deforestation Regulation (EUDR).

*India Analysis***:** CBAM is a long-term structural filter that encourages low-carbon production. Indian steel production is coal-dependent (blast furnace) so the 32% rise projected by 2032 is the highest worldwide increase as per BCG. Low-emission producers such as JSW Steel, which is already investing in certified plant-level emissions data, are the only ones that will be able to receive the 2-3% price premium in the EU (Degot, 2025).

Implication to India: Opportunities and Vulnerabilities

*Good Implications***:** Strategy to gain in both manufacturing and services.The shift in India towards manufacturing as a policy-oriented process has shown its fruits, but its achievements are extremely focused in a few areas.

PLI Successes and Assembly Trap

By late 2025, the PLI schemes had actualized investments in 14 sectors amounting to more than 2.16 lakh crore and the total production was more than 20.41 lakh crore. In the electronics industry, smartphone exports increased by 47.4 to reach a high of $30.13 billion in 2025 (Kiran Rathee, 2026).

Critical Analysis: Despite increase in production, domestic value addition in electronics is stagnant at 18-20%. Although smartphones are the leading Indian export, the Chinese suppliers continue to control 70-80% of the bill of importation of components (PCBs, camera modules, displays). Moreover, the nature of employment is also questionable; the average wages of indirect employees in PLI hubs are down to ₹14,000 monthly, which indicates that the existing model focuses on low-skilled assembly rather than on high-value engineering jobs.

The Services as an External Anchor Resilience

The services sector in India is the pillar of its external stability. In 2025-26 during April-February services exports amounted to 39.53 billion in February 2026 with good year-on-year growth of 24.9%. The excess services of more than 200 billion have been imperative in balancing the merchandise shortage.

Analytical Insight: This triumph covers an innovation ceiling. When Tier-1 firms prosper, small manufacturers do not have AI-powered logistics and digital documentation capabilities to integrate into the new supply chain. This strengthens a two-tier trade economy: high tech, service leaders and digitally backward MSMEs.Adverse Implications: Structural Weaknesses

Adverse Implications: Structural Weaknesses

- *Increase in Merchandise Trade Deficit:* India experienced an increase in its merchandise trade deficit to USD 27.10 billion in February 2026, due to the increasing energy demand and high levels of gold imports. Dependence on imports of Chinese electronics and machinery of key components and equipment continues, subjecting India to shock in supply in the event of a geopolitical upheaval.
- *MSME Compliance Burden and Market Exclusion:* The EUDR is a regulation that requires geolocation information on all farm plots that source raw materials. Smallholders in the coffee, rubber and leather sectors of India, most of the Indian smallholders are dependent on traditional land surveys and do not have the digital logs to comply. These fragmented sectors run the risk of structural exclusion within the $1.5 billion annual EU leather market without state intervention since buyers will favour suppliers in Brazil or Indonesia who have already established national traceability systems.
- *Human Capital Crisis:* India experiences a huge skills-employment gap in spite of a workforce of 500 million. In FY2024 some 90,000 talented yet unemployed young people made it to the US border, underscoring an institutional inability to retain and absorb talent in the home manufacturing centers.

Policy Measures Proposed: A Strategic Roadmap.

1. The Export Promotion Mission (EPM) Needs to be institutionalized: The EPM, authorised with a cost amount of ₹25,060 crores before the year 2031, should be used as a top-level institution to coordinate the policies of industries and foreign policies.

Critical Evaluation: The EPM will have to achieve breakthroughs in terms of closing the 30% productivity gap between the Indian and Vietnamese workers in order to succeed. It should not rely on ad-hoc agricultural export bans and must adopt due process, which also gives the involved parties fair notice of the policy modification and hence regain the confidence of the world as a trusted source.

2. Digitalization: Bharat Trade Net 2 vs. Singapore TradeNet: The proposed portal is known as the Bharat Trade Net which intends to bring together customs, banks and documentation in one window by 2027 (Rahul Ruhela, 2025).

Precedent and Risk: India is advised to take a look at the example of Singapore TradeNet, which shortened the time spent on the processing of the documentation to only several minutes. Indian success however will require it to combine technology with Legal Stability Certificates- binding commitments that give foreign investors assurance they will not have to endure retroactive changes in custom rules and tax policy.

3. Deep Localization as part of Make in India 2.0: To minimize the structural trade deficit, India needs to change its assembly-based to component-based manufacturing.

Strategic Shift: In 2026, the Electronics Component Manufacturing Scheme (ECMS) outlay was increased to ₹40,000 crores in order to encourage local chip and display manufacturing. Fiscal sustainability is however a key issue; before the sunset of subsidies in 2031 India has to make sure that these industries can be export competitive on a structural cost basis lest they will just run away with the money.

4. Green Trade Proactive Strategy and Pricing of Carbon: India needs to secure its heavy industries through matching domestic policy to the international carbon standards.

Star Rating System: The green steel rating system given by the Ministry of Steel (3-5 stars) offers a definite guideline to the meaning of green production. As an illustration, 5 star rated steel should have an emission intensity of less than 1.6 tCO_2e per tonne finished steel.

MRV Infrastructure: The government needs to instruct the National Institute of Secondary Steel Technology (NISST) to conduct EU-recognized verification. Viewing CBAM as an indicator of modernization, not merely a hindrance enables those that move early to achieve a price premium of 2-3% in up-end segments of the EU.

5. Chemicals and Bio-Pharma High-Value Sector Initiatives: India is not confined to generic medicines but extending to Bio-pharma SHAKTI scheme. This initiative, combined with the introduction of three special plug-and-play Chemical Parks, will create high-trust supply chains in areas where India has depth in raw materials.

Conclusion

The development of international trade in 2026 can be characterized by a paradox: the global growth is slowing by 2.6% but Indian strategic opportunities are growing. India has been able to take advantage of the China Plus One shift thanks to PLI schemes and a high-value services boom. Nevertheless, the rise of green protectionism and structural lock out of MSMEs of digital trade benefits indicate the shortcomings of an assembly-based, Tier-1-centered framework. India needs to move to a Predictability-defined model in order to become one of the top-five world trading countries by 2031. This will demand the establishment of an inside-the-border infrastructure: a domestic carbon market to an even-handed legal framework of digital commerce, and changing global division into a strategic drive to integrated national development.

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