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“Navigating Trade Disruptions: Implications for India and Policy Responses”

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Abstract

The international trading system is experiencing the most significant disruption since the formation of the General Agreement on Tariffs and Trade (GATT) in 1948. Five simultaneous shocks have converged to transform the environment in which India must pursue its Viksit Bharat 2047 development vision: the paralysis of the World Trade Organization's Appellate Body since December 2019; sweeping US unilateral tariffs that peaked at 50% on Indian goods before being renegotiated to 18% in February 2026; the European Union's operationalization of its Carbon Border Adjustment Mechanism (CBAM) from January 2026; China's accelerating weaponization of rare earth and critical mineral supply chains through export controls covering twelve of the seventeen rare earth elements; and, most acutely, the Strait of Hormuz crisis triggered by US-Israeli military operations against Iran on February 28, 2026, described by the International Energy Agency as the worst energy supply disruption in recorded history. Based on course lectures and session presentations of the International Trade, Business and Policy course, recent external research, and policy responses in recent times, this paper explores the structural aspects of this disruption, evaluates sector-specific implications to India, and details a prioritized, multi-pronged policy response that includes energy security, trade diplomacy, industrial ecosystem development, supply chain resilience, and multilateral reform advocacy.

1. Introduction

The international trading system that existed after World War II was built on the assumption that non-discriminatory, rules-based commerce leads to the emergence of collective prosperity and the minimization of the chances of economic warfare. The GATT, a result of the harsh lessons of the Smoot-Hawley Act of 1930 and the disastrous tariff wars of the 1930s, that resulted in the international trade declining by more than 50% in value and about 66% in volume over the period 1929-1934, and in the world, GDP falling by an estimated 15%. The new WTO formed in 1995, incorporated a two-level dispute settlement procedure and extended disciplines to services, intellectual property and agriculture.

It is now a coincident and growing stress on architecture in more than one direction. Most of the significant upheavals in trade in the past have seen countries unite, whether via the GATT system in its aftermath of the Second World War; the rise of services trade in the Uruguay Round and the WTO; the 2008 financial crisis has rejuvenated G20 cooperation again. It is a critical difference of the current moment: the prevailing reaction of the largest economy of the world is a transactional and inward-looking one based on unilateral actions that destabilize the predictable systems on which global value chains (GVCs) rely.

In the case of India, now the fourth-largest economy in the world in terms of nominal GDP after topping Japan in 2025 (Global Investigations Review, 2025), these changes require a critical analysis and proactive and adaptive policy response. The merchandise exports of India are still at a low 1.8 % level of world trade, its manufacturing sector is at 2.8 % level of the world output and its current account deficit is also an indicator of structural weaknesses in energy and technology imports. India has made high goals: USD - 2 trillion of goods and

services exports by 2030 and an increase in the manufacturing share of GDP to 25% by 2030. How to survive the disruption that India is facing is not the question that the policy makers in India should consider, but what they need to do is to make the most of this strategic moment and create the qualitative leap that the targets need.

2. The Altering International Trade Environment: Major Structural Adjustments

2.1 The Paralysis of the WTO Dispute Settlement System

The systematic destruction of the appellate structure of the WTO has been the most structurally consequential development of the multilateral trading system. Since the first term of President Trump (2017-2020) and up to now, the United States has vetoed the appointment of new members to the Appellate Body (AB). The last AB member retired in December 2019. Any decision made by a WTO panel can now be appealed as to the vacuum, meaning that members who are aggrieved can no longer receive any binding legal redress or legitimately retaliate under multilateral rules. The US has added to this, initiating in March 2026, Section 301 investigations against 16 countries, such as India, China, Japan, and South Korea, into industrial overcapacity in steel, semiconductors, and battery, and at the same time 60 countries on forced labour practices in imported goods. Such studies leave end-setting tariff powers in the hands of the US Trade Representative, establishing a continuous tariff uncertainty that makes it difficult to make long-term investment choices.

More essentially, the US is currently putting forward WTO reform, under which member states would be permitted to self-certify national security exceptions to trade disciplines, and to waive MFN obligations, in effect transforming the WTO into a power-based structure, rather than a rules-based one. US reciprocal tariffs expressly break the MFN principle of GATT Article

I, and Chinese restrictions on gallium and industrial magnets probably will do so, as well, despite the GATT Article XI:1 which outlaws quantitative export restrictions. The net result is a trade environment whereby the transition to MFN non-discrimination to unilateral and plurilateral arrangements, which put geopolitical concerns ahead of economic efficiency, has taken center stage. WTO has reduced its world merchandise trade growth perspective of 2026 to merely half a percentage, and the expanded trade policy ambiguity could be close to tripling the decrease in GDP by 1.3 percentage points compared to the benchmark (WTO, 2025).

2.2 US Unilateral Tariff Actions and the India-US Interim Deal

The Trump administration's tariff actions against India since early 2025 have been dramatic and legally contentious. A country-specific reciprocal tariff of 26% above MFN duties was announced in April 2025. Tariffs on steel, aluminium, automobiles, and auto components under Section - 232 of the Trade Expansion Act - 1962, invoking national security, remain in force as US courts have not struck them down. IEEPA-based tariffs were struck down by the US Supreme Court on February 20, 2026, and the administration subsequently imposed 15% tariffs for 150 days under Section 122 of the Trade Act 1974. A 25% tariff linked to India's energy ties with Russia took total duties to 50% at their peak in mid-2025, the highest average US tariff rate since 1933 (Cleartax, 2026).

The 50% tariff regime threatened a USD 4 - 5 billion drop in engineering exports alone, with overall GDP growth forecasts revised down by 0.2 - 0.5 percentage points from 6.5% to as low as 6% (Deloitte, 2026). On February 2, 2026, India and the US announced an interim trade framework reducing tariffs on Indian goods to 18%, in line with most other Asian countries, in exchange for commitments including moves toward zero tariffs on US goods, halting Russian

crude purchases, and pledging major future US product imports exceeding USD - 500 billion (Goldman Sachs, 2026). Goldman Sachs estimates an incremental growth boost of 0.2 percentage points of GDP from this deal, based on India's goods exports exposure of roughly 4% of GDP to US final demand. However, key tariff risks remain: Section - 232 duties on steel and aluminium are intact, the Section - 301 overcapacity investigations are ongoing, and the full Bilateral Trade Agreement remains to be negotiated.

2.3 EU Regulatory Trade Barriers: CBAM and EUDR

While the US deploys tariff instruments, the European Union has leveraged regulatory mechanisms that impose significant compliance costs on trading partners. The Carbon Border Adjustment Mechanism (CBAM), which targets six carbon-intensive sectors, iron and steel, aluminium, cement, fertilisers, hydrogen, and electricity, became fully operational on January 1, 2026, requiring EU importers to purchase compensatory carbon credits where imported goods carry a higher carbon footprint than EU-produced equivalents. The EU is also reviewing expansion to polymers, organic chemicals, and up to 180 downstream goods by 2030. The Kiel Institute estimates that Indian steel exports face an effective additional cost equivalent to around 25% of their price, given India's lack of a domestic Emissions Trading System and its coal-powered steel sector, while engineering products could face a 10% annual export decline to the EU (Kiel Institute, 2026).

The EU Deforestation Regulation (EUDR) requires exporters of cattle, cocoa, coffee, oil palm, rubber, soy, and wood, and derived products including leather, furniture, and chocolate, to demonstrate deforestation-free, legally produced, geolocation-traceable supply chains, directly affecting Indian leather goods manufacturers. Against this backdrop, the India-EU Free Trade

Agreement concluded on January 27, 2026, described by both sides as the 'mother of all deals represents a transformative market access gain: zero duty on over 90% of tariff lines covering 91% of trade value, eliminating EU duties of 4 - 26% on labour-intensive sector exports worth approximately USD 33 billion (Drishti IAS, 2026). The FTA secured an MFN-type commitment ensuring any CBAM flexibilities granted to other countries also apply to India (ORF, 2026). The EU-India FTA also includes services and mutual recognition provisions that could substantially benefit India's IT sector and working-age population.

2.4 China's Industrial Overcapacity and Supply Chain Weaponization

China's emergence as the apex manufacturing economy is the single most consequential structural fact of contemporary trade. China increased its share of global manufacturing from 6.4% in 2000 to approximately 33% currently, and holds at least 25% of global output in 56 of 66 ISIC manufacturing sectors, a scale of dominance no single economy has achieved before (India Foundation, 2025). Capacity utilization in China fell below the 75% overcapacity threshold in early 2023, with steel and coal at 64%, silicon wafers at 57%, and electric vehicles at a stark 24.9%. Approximately 25% of Chinese industrial companies operate at a loss but continue production due to state subsidies and local government incentives (USCC, 2025).

Beyond overcapacity, China has systematically converted supply chain dominance into geopolitical leverage i.e. supply chokepoints. China controls over 90% of global processing capacity for rare earths, 92% of permanent magnet manufacturing, and dominates antibiotics, graphite anodes, and semiconductor-grade gallium (SFA Oxford, 2025). Since April 2025, China has progressively expanded export controls on rare earth elements, covering twelve of the seventeen elements by November 2025, and extending controls to processing equipment and

internationally produced goods containing Chinese-sourced materials (IEA, 2025). For India, which imported 93% of its rare earth magnets from China in FY 2024 - 25 with domestic stockpiles lasting only two to three weeks after the April 2025 restrictions, these controls expose the electronics, automotive, defence, and renewable energy sectors to acute disruption (Open the Magazine, 2026). In pharmaceuticals, China's share of India's API imports reached 74% in FY2025, rising from 70% in FY2023, making the API supply chain a particularly acute vulnerability (Whalesbook, 2026a).

2.5 The Strait of Hormuz Crisis: The Most Acute Immediate Shock

The most severe and immediate disruption to India's trade environment in 2026 has been the Strait of Hormuz crisis. US-Israeli military operations against Iran began on February 28, 2026, following failed nuclear negotiations. On March 2, 2026, Iran's IRGC officially confirmed closure of the Strait, the world's most critical maritime chokepoint, through which 15–20 million barrels per day of oil and 20% of global LNG trade normally transit (Congress.gov, 2026). The closure was de facto rather than de jure: war risk insurance premiums surged to six-year highs, major oil companies and shipping lines withdrew, and steel furnaces and other heavy manufacturing operations ran at critically low capacities of 20–25% due to gas supply shortfalls (Kpler, 2026).

This was described by the Dallas Federal Reserve as potentially eliminating nearly a fifth of the world's oil reserves with 80% of that oil heading to Asia-making India and China the most vulnerable economies (Dallas Fed, 2026). The IEA termed this as the most severe energy shock in the history of the world, worse than the oil crises of the 1970s and the war in Ukraine. By mid-April 2026, oil prices have hit a record of about USD 102/bbl, and analysts caution of USD

150/bbl in the event of a complete blockade (TIME, 2026). The disruptions increased the voyage time of ships by 15-20 days to the Cape of Good Hope, and logistics costs increased by as much as 30 percent (Whalesbook, 2026b).

India was able to negotiate bilateral transit rights with Iran - announced on March 26, 2026, with China, Russia, Iraq, and Pakistan - and the tanker Shenlong Suezmax was able to dock at Mumbai Port on March 12, 2026 (Al Jazeera, 2026). The crisis, however, has been marked by partial ceasefires and new closures up to April 2026, as Oman deepwater ports of Duqm, Salalah, and Sohar become bypass options that lack the capacity to accommodate full transit volumes. Shipping analysts cautiously predict that despite the official cessation of fire, supply chains will not normalize in several months because ports will have to clear their backlog. Another strategic dilemma: the India-US interim trade agreement binds India to cut down Russian crude imports, but the Hormuz crisis has rendered Middle Eastern oil acutely costly and unpredictable, which has placed a pressure to switch back to Russian supply at the very moment the agreement is discouraging it (Kpler, 2026).

2.6 The Greater Structural Change: Multilateralism to Geopolitically Controlled Globalization

Each of the five shocks above are indicative of a more profound structural change: away from rules-based multilateralism towards geopolitically managed globalization: that is, where supply chains are structured around geopolitical alignment and strategic indispensability instead of being structured around purely economic efficiency, where friendshoring, technological sovereignty, and energy security become more dominant than cost By 2025, the number of agreements in force was 375 Cumulative Regional Trade Agreements, indicative of the speeding

up of bilateralism in the absence of multilateral momentum. The private sector, MNCs are now looking to trade policy as a means to secure investments, create production networks, and shape market access, and intellectual property, energy transition, critical minerals, sustainability regulations (CBAM, CSDDD) and ESG frameworks are joining tariffs as prime policy instruments. In the case of India, a middle power with little capacity to weaponize its market size as of now, a mix of exploiting its increasing economic weight and demographic advantage to negotiate best-outcome solutions and actively develop its own supply chain capacities is the best strategic response.

3. India implications: Sectoral and Macroeconomic Analysis

3.1. The effects on Macroeconomic and Energy Security

The macroeconomic position of India is getting squeezed on several fronts at the same time. The US is the largest trading partner of India, and the bilateral trade in 202425 is USD - 131.84 billion, and Indian exports to the US amount to USD - 87 billion, which is 2.5% of GDP (Vision IAS, 2025). Although there was a tariff shock, the real GDP of India increased by 7.7 % in 2025, which is above the consensus with some underlying resilience; Goldman Sachs is projecting 6.9 % growth in 2026 (Goldman Sachs, 2026). Nevertheless, the current account deficit increased to a record high of about 2.8% of GDP in Q4 2025 due to the falling exports and increasing gold imports and the rupee depreciated by about 9.55% over 12 months to an unprecedented low of approximately 99.82 to the USD in March 2026.

These pressures have been overlaid with a dire energy shock due to the Strait of Hormuz crisis. India relies on imported crude oil and natural gas (86 % and 50 %) and natural gas (around 50 %) of which it is imported out of the Middle East. The successful blockage of the Strait

implies that a large part of India's traditional supply is not available or bypassed by more expensive options or prohibitive insurance fees. Prices of oil of USD - 102 per barrel are a catastrophic change in the terms of trade in India and pose a risk of inflationary pass-through in all products based on petroleum products; plastics, polyesters, synthetic clothing, footwear, fertilizers and petrochemical products which are central to the modern industry (Down to Earth, 2026). The 9 million Indians living in the Gulf remitting USD 45 billion a year 38 % of the total inward remittances in India are facing the uncertainty of employment and income as the economies in the Gulf are grappling with the disruption. The economic outlook of India by Deloitte estimated that the effect of US trade tariffs alone on the Indian exports would be 0.3-0.4% GDP; the energy shock represented by itself would be another considerable layer (Deloitte, 2026).

3.2 : GVCs, manufacturing, and the China-Plus-One Opportunity

The manufacturing industry is doing much below structural potential, as 2.8% of the world manufacturing production and 1.8% of world merchandise exports which is very far below the GDP share of India at 3.4%. India is still unable to absorb demographic dividend as only 11.4 percent of the Indian labour force is employed in manufacturing. However, the China-plus-one model (or the global companies actively moving out of China because of trade wars, supplier disruptions, and strategic challenges) is the most attractive short-term structural opportunity of India. India has already reaped the rewards of electronics: India is already the largest iPhone exporter to the US in Q2, 2025, with 44% of iPhone exports to the US, and Apple has already planned to increase Indian manufacturing capacity to 60 million units (Vision IAS, 2025). Smartphones have been made a leading export item and the growing sourcing interest worldwide

is a confirmation that India is no longer a backup item, but rather an active player in the international supply chain.

India's GVC integration has improved, with GVC-linked trade rising to 40.3% of gross trade in 2022 from 35.1% in 2019, supported by logistics improvements from PM GatiShakti, Dedicated Freight Corridors, Bharatmala, and Sagarmala that moved India's World Bank Logistics Performance Index rank from 44th in 2018 to 38th in 2023, and reduced logistics costs to approximately 7.97% of GDP in FY24. However, India's GVC participation remains skewed toward upstream activities, exporting yarns and fibres rather than finished value-added products. Countries like Vietnam, through deep backward integration importing intermediates at scale, have achieved far greater export volumes despite smaller domestic markets. The Strait of Hormuz disruption compounds this: logistics costs, already a key competitiveness weakness, are rising sharply with war risk premiums, and shipping rerouting via the Cape of Good Hope adds 15-20 days and up to 30% in logistics costs (Whalesbook, 2026b).

3.3 Critical Minerals, Semiconductors, and Technology Chokepoints

China's escalating export controls on rare earth elements represent a direct strategic threat to India's key growth sectors. India imported 93% of its rare earth magnets from China in FY 2024–25, and China controls over 90% of global rare earth processing and 92% of permanent magnet manufacturing, with an average market share of 70% across 19 of 20 strategically important minerals (SFA Oxford, 2025). Alongside China's dominance in antibiotics, graphite anodes, and semiconductor-grade gallium as examples of 'supply chokepoints', where concentration in non-democratic economies creates weaponizable leverage. India's domestic stockpiles lasted only two to three weeks following the April 2025 restrictions (Open the

Magazine, 2026). The controls, extending through November–December 2025 to cover twelve rare earth elements, processing equipment, and internationally produced goods containing Chinese-sourced materials, create pervasive exposure across India's renewable energy, automotive, electronics, and defence sectors (IEA, 2025).

In semiconductors, EDA software for chip design is controlled by just three firms, while technology chokepoints in areas from high-purity photoresist chemicals (Germany, Japan) to turbofan technology (GE, Pratt & Whitney, Rolls Royce, Safran) illustrate how strategically important technological dependencies extend across multiple sectors. The US-India partnership has generated notable early results: Micron's USD 2.75 billion Gujarat facility began partial operations in early 2025, with the Bharat Semi compound semiconductor facility and Intel's glass substrate plant in Odisha scheduled for 2026–2027, collectively representing USD 5–6 billion in investment and 8,000 - 10,000 jobs (SAIS Review, 2025). India's Semiconductor Mission outlays of INR 1,16,000 crore remain proportionately smaller than the US CHIPS Act (USD 52.7 billion) or China's National IC Fund (USD 114 billion since 2014), but have catalysed private investment.

3.4 Textiles, MSMEs, and Labour-Intensive Sectors

The textile and clothing (T&C) industry in India is at a crossroads of its strategic position being a large employment generator and a significant earner of exports. The India-EU FTA has provided zero-duty access to Indian textiles, apparel, leather, and footwear into the EU market, which currently charges 4-26% duties, to exports valued at about USD 33 billion, a game-changer that eradicates the tariff disadvantage that India had over Bangladesh and Vietnam in EU apparel markets (Drishti IAS, 2026). The future textile strategies need to shift the traditional

production-based focus to the more innovative, sustainable, and competitiveness-based approaches. Strategic priorities of the sector are market diversification, trade diplomacy, competitiveness of raw materials, and the integration of digital factors.

Nevertheless, the industry is under mounting pressure. EUDR places on the producers of leather goods the heavy compliance costs, which are based on the supply chains that are linked to cattle ranching in Brazil and other countries with deforestation risks. The cost of petrochemical inputs is on the rise as a result of the Hormuz crisis, a squeezer of synthetic fibre-based apparel margins. The tariff risk is added to the US side as a result of the US section 301 overcapacity investigation. MSMEs, the most common in Indian textiles and leather, are less competitive than more capitalized competitors in Vietnam and Bangladesh, and do not have the compliance infrastructure needed to be EUDR certified (Cleartax, 2026). According to the observations, market access is currently reliant on strategic partnerships, rules of origin, and standards instead of tariffs in isolation- it demands a qualitative improvement of MSME capabilities.

3.5 Pharmaceuticals: Tariff and API dependence Dual Vulnerability

The pharmaceutical industry of India is unique in that it has a dual vulnerability, which is worth analysing separately. India has the third largest production volume in the world and supplies 60 % of the world vaccine demand and more than 20 % of generic medicines worldwide (Policy Edge, 2026). In 202425, pharmaceutical exports amounted to USD - 30.5 billion with a direct export of 191 countries. Nonetheless, half of deliveries are to the highly controlled US market, which makes the industry excruciatingly vulnerable to US tariff and regulatory measures. In the supply side, the proportion of China in the Indian API imports has increased to 74% in FY2025 compared to 70% in FY2023, with imports of APIs costing INR 39215 crore,

with INR 29,064 crore of it being Chinese imports (Whalesbook, 2026). The combination of demand vulnerability (to US tariffs) and supply vulnerability (to Chinese export controls) makes the pharmaceutical industry a prime strategic policy target.

4. Policy Recommendations: Prioritized Framework

The following recommendations are arranged according to urgency, that is, the urgency and time horizon of the challenge which they tackle. The priority of first tackles the crisis as it is the most urgent, the second tackles the structural vulnerabilities in the medium term and the third tackles requirements in the long term in institutions.

Priority 1 (Immediate): Energy Security and Strait of Hormuz Resilience

The most urgent and pressing policy issue facing India is the Strait of Hormuz crisis, where fluctuations in energy prices are threatening to derail the growth, increase the current account deficit, and undermine the competitiveness of the trade and the well-being of households. A number of parallel tracks are needed at the same time.

First, India must now hasten the process of increasing its strategic petroleum reserves to 6.5 million tonnes, and create special emergency stocks of LPG, LNG and petroleum products in line with at least 90 days of essential industrial demand. Second, the effective negotiation of individual Hormuz transit rights by India (announced March 26, 2026) must undergo institutionalization into a standing framework agreement with Iran which may be linked with development cooperation at Chabahar Port, providing continuity of passage rights on Indian-flagged vessels beyond crisis-by-crisis diplomacy. Third, the Oman bypass routing through deepwater ports of Duqm, Salalah, and Sohar should be systematically developed as a permanent alternative logistics corridor through agreements with Oman and UAE. Fourth, the RELIEF

scheme and ECGC risk cover established in March 2026 with an outlay of Rs. 497 crores must be scaled substantially to match the duration and depth of the disruption. On energy sourcing, the India-US interim deal's commitment to reduce Russian crude purchases creates a genuine tension with the Hormuz crisis, as Kpler (2026) notes that India has the most acute near-term exposure of any economy and strong incentives to pivot toward Russian supply. India should seek a pragmatic accommodation within the US-India bilateral framework acknowledging the emergency nature of the current disruption, while maintaining the medium-term trajectory of supply diversification. Simultaneously, India should accelerate its domestic energy transition: ethanol blending at 20% is already saving an estimated 45 million barrels annually; railway electrification has saved 1.8 billion litres of diesel; and approximately half of India's total installed power capacity is now renewable. Deepening this transition, targeting 140 GW of installed solar and 140 GW of wind by 2030, reduces structural hydrocarbon import dependence and simultaneously mitigates the CBAM burden on Indian industry by reducing carbon intensity in production (Indian Infrastructure, 2026).

Priority 2 (Near-Term): Implement the New FTA Architecture Effectively

India has concluded an unprecedented burst of bilateral trade diplomacy in 2025–26: The India-UK Comprehensive Economic and Trade Agreement (July 2025) granting duty-free access to 99% of Indian exports to the UK; the India-EU FTA (January 2026) delivering zero-duty access on USD 33 billion in labour-intensive exports; and the India-US interim framework (February 2026) restoring export competitiveness at 18% tariffs (The Diplomat, 2026). This near-simultaneous conclusion of three major agreements with India's largest trading partners is genuinely unprecedented and constitutes a strategic achievement. However, the value of these

agreements is realized only through effective implementation, and this requires a distinct policy effort.

The Export Promotion Mission with its INR 25,060 crore outlay should be specifically and urgently targeted at helping labour-intensive MSME exporters build the compliance infrastructure, rules-of-origin documentation, quality certifications, and technical capacity that market access under the EU and UK FTAs requires. Within the India-EU FTA, India must urgently operationalize the CBAM flexibility commitment, the MFN-type assurance that any exemptions granted to third countries will also apply to India. Simultaneously, India must develop a concrete roadmap for domestic carbon pricing mechanisms that would reduce the CBAM burden over time by establishing an Emissions Trading System aligned with EU parameters. Given CBAM's potential to inflict 25% effective price increases on Indian steel exports, and to expand to 180 downstream goods by 2030, this is a structural priority that cannot be deferred (Kiel Institute, 2026). India should also pursue ongoing FTA negotiations with the GCC (particularly valuable given the Hormuz crisis and India's Middle East diaspora and trade relationships), Australia, Canada, and Israel with renewed urgency (Organiser, 2025).

Priority 3 (Near-Term): Upgrade Industrial Policy from Assembly to Ecosystem

India's PLI schemes have successfully catalysed manufacturing in targeted sectors, most visibly mobile phones. However, India still imports high-value components, remaining stuck in lower-value assembly activities, the critical gap in its GVC integration. A PLI 2.0 framework should shift incentives from final assembly output to component ecosystem development: electronic components, EV battery supply chains, advanced semiconductor substrates, specialised chemicals, and precision engineered parts. The India Foundation (2025) notes that

about one-quarter of India's exports are contingent on imports, underscoring the urgency of backward linkage development.

For textiles, the PM MITRA parks and Districts as Export Hubs initiatives provide cluster-based vehicles for industrial upgrading, and the India-EU FTA has now provided the market access that was the key missing piece. Indian textile producers must capitalize on this by investing in supply chain modernization, EUDR compliance infrastructure, design capabilities, and high-value technical textile segments less vulnerable to pure cost competition from Bangladesh and Vietnam. For pharmaceuticals, the Union Budget 2026–27's Biopharma SHAKTI initiative, with an outlay of INR 10,000 crore over five years, addresses the critical API dependence vulnerability by building an end-to-end ecosystem for biologics and biosimilars, establishing three new NIPERs, upgrading seven existing ones, and developing over 1,000 accredited clinical trial sites (PIB, 2026). China's API share of Indian imports has reached 74%, making this initiative both commercially strategic and a national security imperative (Whalesbook, 2026a). India should also leverage India's IndiaAI mission's GPU Grid initiative to build sovereign AI infrastructure that enhances productivity across manufacturing, logistics, and services.

Priority 4 (Medium-Term): Build a Strategic Critical Minerals Ecosystem

China's weaponization of rare earth and critical mineral supply chains is a medium-term strategic threat of the first order. India's National Critical Mineral Mission (NCMM) with INR 16,300 crore, the Union Budget 2026–27's Dedicated Rare Earth Corridors in Odisha, Kerala, Andhra Pradesh, and Tamil Nadu, and the INR 72.8 billion Rare Earth Permanent Magnet Manufacturing Scheme targeting 6,000 MTPA capacity are essential first steps (Indian

Infrastructure, 2026). These must be accelerated, given that India's stockpiles lasted only two to three weeks under China's 2025 restrictions.

India should institutionalize a National Critical Mineral Stockpile, modelled on the strategic petroleum reserve, for the most strategically vulnerable rare earth elements, with reserves sufficient for at least three to six months of industrial requirements. On the international front, India must implement KABIL more proddingly, focusing on lithium-abundant country acquisitions (Argentina, Chile, Australia) and alliances with Japan on rare earth processing, having extensive experience in deep diversification since the 2010 embargo of China (Open the Magazine, 2026). Membership of India in Mineral Security Partnership, Pax Silica, and TRUST Initiative means access to allied supply chains and technology transfer which are to be used at the maximum level. The India Foundation (2025) points out that FTAs must contain more explicit disciplines on the export bans to diminish the threat of weaponization of the supply chain, which is a key multilateral aspect to an otherwise bilateral problem.

Priority 5 (Medium-Term): Take Advantage of the Demographic Dividend by Services and Mobility

A big, young, and growing workforce is a unique structural resource that cannot be imitated by other competitors, especially in India, at the time when advanced economies are experiencing acute demographic ageing. In order to sustain working age ratios, OECD member states need about 15 million new workers each year, the global workforce deficit is projected to 85 million in 2030, and India is projected to provide about 24 % of the additional global workforce. The number of colleges educated individuals in India is the largest in the world, of

about 140 million, surpassing the population of 90 million in China. By 2030, the working-age population of India will have increased to about 1 billion.

The services and mobility provisions of the India-EU FTA must be operationalized to the fullest extent in order to establish systematic channels of access by Indian professionals and skilled workers to the ageing EU labour markets. Mode - 4 services liberalization and bilateral mobility partnerships should be insisted upon by India in its BTA negotiations with the US. The Global Capability Centres (GCCs) in India are a relatively insulated exponentially growing comparative advantage in digitally delivered services, which should be actively safeguarded against data localization demands potentially hindering cross-border data flows. India must oppose the offers of its trade agreements that interfere with regulatory independence regarding digital services and have non-discriminatory treatment of Indian digital services in all markets of its FTA partners. The fact that the digital trade regulations of India were identified as a concern in the 2026 USTR National Trade Estimate Report reveals the significance of India actively influencing the disciplines and not reactively (Deccan Herald, 2026).

Priority 6 (Long-Term): Leader Multilateral Reform and Plurilateral Coalitions

Although the bilateral diplomatic surge of 2025-26 may be effective, India should not take its foot off the multilateral reform as the only long-lasting basis to provide a predictable trading environment. India must seek to enter into FTAs with all leading economies by 2030, as India Foundation (2025) argues, so that the MFN tariffs would have no real effect on India except against China and those other non-market economies not members of the FTA network. This would enable India to employ MFN tariffs strategically to cushion against predatory

practices of non-market economies, whilst still maintaining free trade relations with all of her key partners.

India ought to be a member of the Multi-Party Interim Arrangement (MPIA) as an interim appellate mechanism to WTO dispute settlement and actively form coalitions among developing and middle-income WTO members to oppose those that would scrap MFN obligations, or permit national self-certification of national security. India must also take the lead in building developing-country coalitions to challenge the CBAM and EUDR at the WTO as possibly disguised protectionism not in line with the GATT principles, although bilaterally through the India-EU FTA regime.India ought to assume the primary role of proposing WTO reform on the industrial policy disciplines and subsidy disciplines that are development-friendly, taking into account the legitimate demands of the industrializing countries without allowing the overcapacity practices of non-market economy to distort the market. The Indian experience as the voice of the Global South in the WTO and on the multilateral front is a strategic asset which should not be compromised despite the pace at which bilateral deal-making is being made.

5. Conclusion

The global trading system is experiencing a shift of breadth and concurrently like never before since the 1930s. The combination of five structural shocks: WTO Appellate Body paralysis, US tariff aggression to 50% on Indian goods, EU regulatory trade barriers under its CBAM and EUDR, weaponization of rare earth supply chains by China of twelve of the seventeen critical elements, and the Strait of Hormuz crisis as the worst energy supply shock in history have conjoined to create a new environment in which India must seek to achieve its

To India, the disruption poses level-two vulnerabilities but level-two structural opportunities of equal magnitude. The weaknesses are obvious: energy import reliance on its most vulnerable exposed frontier; a rare earth/APIs supply chain that is almost entirely reliant on China; a manufacturing industry that is under-performing; and export industries based in markets vulnerable to high levels of tariff and regulatory risk. These opportunities are likewise structural: The China-plus-one model of manufacturing FDI; the India-EU FTA of providing unprecedented EU market access worth USD 33 billion in labour-intensive exports; the India-UK and India-US model of reestablishing competitiveness; and a demographic dividend that no rival can match.

The urgency is used to structure the policy framework suggested in this paper. The emergency response to the Hormuz crisis and energy resilience are pressing needs, the strategic petroleum reserve, transit diplomacy via Chabahar, and bypass logistics in Oman, as well as energy transition, cannot be delayed. The implementation of FTA, PLI 2.0, Biopharma SHAKTI, and MSME compliance support are short-term focus areas that will help ascertain whether an increase in market access will translate into actual export growth. The Viksit Bharat vision has medium-term structural needs of critical minerals ecosystem development and mobilization of demographic dividend. The only long-term solution that can be used in trade policy uncertainty is multilateral reform advocacy. The steps already taken are a recognition of the institutions; the challenge is to implement them with the cohesion, cross-ministry alignment and urgency that the country goals on development and the disruptions it is currently facing require.

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