



India's Trade at a Crossroads: Surviving in an Era of Tariff Wars, Energy Shocks and Geopolitical Uncertainty

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A battle in West Asia may seem quite far removed from the day-to-day concerns of Indian households. However, such crises can easily become economic problems for India. The uneasiness in New Delhi was not just diplomatic as tensions between Iran and Israel escalated, and concerns grew about the approaching interruption near the Strait of Hormuz. It was also about energy prices, transit costs, inflation, exports, and imports.

The report in Mint reflected fears of disruption in the Strait of Hormuz and concerns about India's crude oil supplies and energy costs (Mint, 2025). For a country that imports 70% of its Energy, instability in West Asia is never far from home. It hits gas pumps, shipping networks, factories, and household budgets. So, a crisis in the Persian Gulf can affect Indian markets sooner than many predict (KPMG,2025)

That is why India's trade strategy today cannot be explained by tariffs, exports, or trade agreements alone. Geopolitics is now tightly intertwined with trade. Wars, sanctions, maritime routes, technical rules, and supply-chain worries all make countries buy and sell stuff. India's dilemma is not simply about exporting more; the greater challenge is to trade with the world without excessive dependence on volatile sources of Energy, industrial inputs, and technologies.

Globalization provided India with a clear path to prosperity for several years. Through the 1991 economic reforms, it opened its economy, attracted foreign investment, and further integrated with global markets. Success stories were found in sectors such as information technology, pharmaceuticals and services. The idea was that deeper economic integration would bring growth, efficiency, and stability.

This view is now being challenged. Tariffs are returning. Supply chains are being re-configured. Countries are increasingly worried about dependence on a single provider or region. Protectionism, export power, and the geopolitical rivalry between the world's two biggest economies, the US and China, are also changing global trade. This is a "G-Negative-Two" future, in Arvind Subramanian's words, in which the great powers generate instability rather than leadership (Subramanian, 2025).



This move also jeopardizes the traditional idea of a fair, stable rules-based trading system. Trade talks may seem technical, but they are essentially political. In his article, *Subtle War at the WTO*, C. P. Chandrasekhar explains how the debate over global trade might be interpreted as an indication of the unequal negotiating power of industrialized and impoverished countries (Chandrasekhar, 2024). This matters for India because trade norms are not made in a power vacuum. They narrow the policy space of rising countries to protect farmers, promote domestic industries, limit imports, and build long-term competitiveness.

So, India's mission is not merely to oppose American protectionism or Chinese export might. It also has to be careful in the global trade institutions, where the interests of large economies generally determine nature of regulations. India cannot afford to be oblivious to the global commercial system, but it must be part of it with a clear understanding of its economic needs.

This changing global order presents both opportunities and risks for India. Many companies are looking to reduce their dependency on China, and India is often seen as a potential alternative. Economist Impact (Trade in Transition 2025), It states that firms are restructuring supply chains due to geopolitical uncertainties, protectionism, climate concerns, and technological advancements. In such a context, India's large domestic market, young workforce, and rising infrastructure make it attractive.

However, the chance is controversial. India depends on China for equipment, electronics, solar components, chemicals, and pharma ingredients. The departure of companies from China could be a blessing for India, but it cannot fully benefit from this shift as long as it relies on Chinese inputs for its own manufacturing.

The problem is not merely that India is importing too much from China. However, the most serious problem is the absence of critical outputs from domestic sources in India. Economists C. P. Chandrasekhar and Jayati Ghosh argue that India's trade deficit with China reflects fundamental inadequacies in India's industrial system (Chandrasekhar & Ghosh, 2025). India cannot become less dependent by just buying less from China. It has to create the capacity to manufacture more locally.

The electronics industry is a good example of this. As Smitha Francis's research shows, the Indian electronics industry has become dependent on imported components because trade liberalization was not accompanied by an effective industrial policy (Francis, 2018). That is a lesson worth learning. Liberalizing the economy may attract investment and open markets worldwide, but it does not, in and of itself, create a strong domestic manufacturing base.



India's overall trade deficit tells a similar story. India's economy is growing, and its imports are increasing for oil, machinery, electronics, gold, and industrial inputs. Growth itself can be a source of external pressure if exports and domestic production do not expand in sync. Dasgupta and Chowdhury (2015) believe that India's trade deficit is related to the nature of its growth, not just to low exports.

All these arguments lead to the same conclusion. India's trade vulnerability is not attributable to any particular country or crisis. It is the result of a mix of global economic volatility and deficits in home production. Subramanian speaks of the chaos wrought by the major powers. Chandrasekhar points to the power asymmetry in the standard: Chandrasekhar and Ghosh on India's reliance on China. Francis exposes the precariousness of electronics manufacturing. Dasgupta and Chowdhury connect the question to India's wider growth model. The message is obvious and familiar: India must build its domestic production base if it wants to reap the benefits of global commerce without becoming overly dependent on it.

The most significant part of this challenge is the Energy. Most of India's crude oil is imported. This makes the economy vulnerable to global price shocks and to hostilities in oil-producing countries. Higher oil prices affect transport, manufacturing, inflation, and the current account. Sharma and Subramanian (2026) argue that India should reduce its reliance on imported fuels to enhance economic security. Renewable Energy should not be viewed only as a climate policy. It is also a policy of trade and security.

Renewable Energy is only part of the picture. India is making progress in the field today, but the next stage is to build the industry behind it. If India produces solar power but imports most of its solar equipment, then one form of dependence could be replaced by another—also batteries, electric vehicles, and ecological technologies. India should not just consume new technologies but also learn to generate them.

That is where industrial policy comes in. India's production-linked incentive programs, semiconductor projects, logistics investments, and renewable energy initiatives demonstrate that the government understands the need to strengthen indigenous skills. However, incentives are not enough. Industries also need skilled labor, stable policies, easy access to capital, strong infrastructure, and sound supply chains.

India, too, should be wary of trade pacts. It should not turn its face from the world. India, as a large economy, needs foreign investment, technology, export markets, and global cooperation. However, it has to negotiate trade arrangements that maintain its ability to grow domestic industries. Openness is helpful only when it makes the economy stronger, not more reliant.



The target must be clear. India has to be integrated into global trade, while managing the perils of over-dependence. This means diversifying suppliers, investing in home manufacturing, investing in sustainable Energy, supporting small and medium-sized enterprises, and creating jobs through trade.

A good trade policy is not measured solely by export figures. It has to be judged by how many jobs it creates, how many local industries it helps, and how many external shocks it protects the economy from. India's services sector is strong. However, for trade to provide broad-based prosperity, the manufacturing sector needs to play a bigger role.

Trade will be hit by climate change, too. Carbon border taxes, green standards, renewable energy supply chains, and climate-linked finance are all part of global trade. The European Union's Carbon Border Adjustment Mechanism, for example, could raise the cost of exporting carbon-intensive goods to the EU and affect the competitiveness of exporters from developing countries (World Bank, 2025; UNCTAD, 2021). Indian exporters would have to comply with environmental standards to enter an increasing number of key markets. It will be difficult for many smaller firms, but it also offers an opportunity. To be competitive in the next phase of global trade, India will need to invest early in green manufacturing, battery storage, renewable Energy, green hydrogen, and sustainable production.

There is a clear policy path. India must enhance its energy security through renewables, storage, and grid upgrading. It must create domestic capacity in critical areas such as electronics, semiconductors, active pharmaceutical substances, solar equipment, and batteries. This is especially important because clean-energy supply chains are themselves highly concentrated: the International Energy Agency notes that China dominates battery cell production and key parts of critical-mineral processing (International Energy Agency, 2024). India therefore has to diversify its supply-chain partners, not replace one dependency with another.

The world economy is less predictable. Tariff battles, oil shocks, climate restrictions, technology limits, and geopolitical rivalry are reshaping trade. India cannot dictate all these developments, but it can prepare for them. India is not choosing between self-reliance and globalization. It takes both. It has to be open to the world. However, it has to have domestic strength to deal with chaos. That is the trade policy India needs.

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