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Resilience in a Fragmenting World

India's Economic Relations with Great Powers

May 2026

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Organisations
Chintan Research Foundation
Information Technology Industry Council
Institute of Chinese Studies
Koan Advisory Group

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Abbreviations

AI	Artificial Intelligence
ASEAN	Association of Southeast Asian Nations
BIS	Bureau of Indian Standards
BIT	Bilateral Investment Treaty
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
EU	European Union
EVFTA	European Union–Vietnam Free Trade Agreement
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FY	Financial Year
GST	Goods and Services Tax
GPU	Graphics Processing Unit
ICT	Information and Communications Technology
ICRIER	Indian Council for Research on International Economic Relations
IGST	Integrated Goods and Services Tax
IMG	Inter-Ministerial Group
IMMEX	Instrument for the Promotion of Manufacturing, Maquiladora and Export Services Industry Program (Mexico)
IT	Information Technology
JV	Joint Venture
MC14	14th Ministerial Conference of the WTO
MFN	Most Favoured Nation
MRA	Mutual Recognition Agreement
NAFTA	North American Free Trade Agreement
NTFAP	National Trade Facilitation Action Plan
ORF	Observer Research Foundation
PIB	Press Information Bureau
PLI	Production Linked Incentive
PM-EAC	Prime Minister's Economic Advisory Council
QCO	Quality Control Order
R&D	Research and Development
RoDTEP	Remission of Duties and Taxes on Exported Products
SAARC	South Asian Association for Regional Cooperation
TRUST	Transforming the Relationship Utilizing Strategic Technology
UAE	United Arab Emirates
UK	United Kingdom
US	United States
VAT	Value Added Tax
WTO	World Trade Organization

Executive Summary

Koan Advisory Group, in association with Chintan Research Foundation, the Information Technology Industry Council, the Institute of Chinese Studies, and the U.S.-India Business Council, hosted a closed-door roundtable: '*Resilience in a Fragmenting World: India's Economic Relations with Great Powers*' against a backdrop of great power competition, a weakening multilateral trading order, and supply chain pressure.

The event convened government, industry, and civil society to assess India's strategic trade and investment posture vis-à-vis the US and China and to identify actionable pathways forward.

Overall Recommendations: Stakeholders converged on the following foundational imperatives for India across thematic areas.

- Align trade, industrial, and tax policies, and rationalise non-tariff trade barriers, such as Quality Control Orders, to help Indian manufacturing.
- Find ways to manage Chinese supply chain dependencies and investments
- Deepen technological partnerships and market access with the United States.
- Capture opportunities in emerging areas like Artificial Intelligence while pursuing binding trade measures to mitigate the risk of weaponised export controls.
- Utilise FTAs, BITs, and multilateral bodies like the WTO to secure market access and policy certainty for businesses and investors.
- Build tech-absorptive capacity through sustained investment in R&D.
- Diversify exports by identifying the right product–market fit across underserved markets.

Thematic Recommendations: The conversation focused on multiple themes, including free trade agreements, multilateral institutions, bilateral investment treaties, key sectors, export diversification, policy coherence, investment screening, and non-tariff barriers. Recommendations in these areas include the following:

- **Making Free Trade Agreements Work:** India's existing FTAs have at times failed to meet their planned objectives. Stakeholders recommended that India must:
  - Audit current trade agreements to assess whether they have met their objectives.
  - Prioritise securing market access in key global markets as a mechanism to preserve policy space on tariffs without breaching WTO commitments.
  - Secure protections for India's technology partnerships with the United States.
  - Evaluate multilateral arrangements such as the CPTPP to access high-quality markets and diversify supply chains beyond China.

- **Reviving Multilateralism:** As a leading voice of the Global South, stakeholders recommended that India:
  - Champion the restoration of enforceability of WTO commitments, which is essential to providing businesses with the policy predictability they need.
  - Undertake a rigorous empirical assessment of the e-commerce moratorium's fiscal and developmental implications and push for definitional clarity on 'electronic transmissions'.

- **Modernising Bilateral Investment Treaties:** A predictable and credible framework for investment protection is vital as India deepens its engagement with and integration into global markets. Stakeholders recommended that India:
  - Institutionalise structured investor dialogue mechanisms to address grievances before they escalate into disputes.
  - Modernise the existing BIT model to balance robust investor protection with essential regulatory flexibility, in line with contemporary economic goals.
  - Establish an efficient, cross-ministerial response mechanism to promptly resolve investor grievances, addressing current procedural delays and coordination gaps.

- **Focusing on Key Sectors and Export Diversification:** Stakeholders argued for sector-specific prioritisation paired with targeted market intelligence. Key recommendations included:
  - Developing globally competitive AI applications in sectors where India holds an inherent advantage, including healthcare, agriculture, and education.
  - Co-developing interoperability and safety standards with the US, including through the TRUST initiative.
  - Establish a clear data centre policy to consolidate India's position as a global data centre destination and explore data embassy arrangements with partners.
  - Understand consumer preferences in key markets to identify and maximise export opportunities in previously untapped categories.

- **Policy Coherence and Coordination:** A disconnect between trade, tax, and industrial policy continues to undermine India's export competitiveness. Stakeholders recommended:
  - Moving towards integrated policy design, with trade agreements, industrial incentives, and tax structures calibrated to support export competitiveness.
  - Establishing a functioning, cross-ministerial rapid response mechanism to enable timely regulatory frameworks for emerging sectors.
  - Expanding policymaking engagement beyond large corporations to include startups and directly affected businesses.
  - Ensuring India's tax framework is competitive with peer manufacturing economies such as Vietnam, China, Thailand, and Mexico.

- **Investment Screening:** As India and China normalise economic, trade, and people-to-people ties, stakeholders recommend India progress by utilising Chinese capital and technology in non-strategic sectors as follows:
  - Recognise that restricting Chinese investment often has a negative effect on investment from the US, EU, and other partners, given integrated global supply chains.
  - Adopt a multi-year, sector-specific, phased substitution strategy to gradually reduce reliance on Chinese inputs.
  - Re-evaluate the joint venture requirement as a prerequisite for Chinese investment, given evidence that it has failed to secure meaningful technology transfer.
  - Above all, devise an FDI screening process that prioritises robust national security concerns over geography, enabling policymakers to identify risks from any sector or source.

- **Non-Tariff Barriers:** Quality Control Orders (QCOs) and conformity assessment procedures impose significant compliance costs on Indian manufacturers and importers alike, often without commensurate industrial benefit. To address these, stakeholders recommended:
  - Adopting global best practices in conformity assessment and mutual recognition of testing standards
  - Shifting towards greater reliance on industry-led certification and compliance mechanisms.

- Rationalising or removing QCOs on raw materials, intermediates, and capital goods in line with the Gauba Committee's recommendations.
- Expedite operationalisation of the Inter-Ministerial Group (IMG) mechanism introduced in 2025 to enable centralised, reasoned review of QCOs before notification.
- Preserve QCOs where they genuinely serve objectives such as quality assurance, consumer safety, or preventing substandard imports, while ensuring they do not dilute the commercial and strategic advantages of its FTAs.
- Accepting globally aligned self-certification standards—such as European frameworks, rather than mandating local testing and using BIS licensing as a regulatory barrier.
- Reassessing the practice of withholding BIS licences based on targeted geographies.

The recommendations from the roundtable suggest that India should shift from merely reacting to external disruptions to proactive integration. Such an approach will require reforming domestic policy architectures, deepening institutional engagements, and making deliberate choices about which partnerships, frameworks, and sectors to prioritise.

Introduction

The global economic landscape is transforming, characterised by a fragile rules-based order and a shifting triangular dynamic between the United States, China, and the rest of the world. Great power competition, disruptions in energy and maritime security, the weakening of WTO dispute settlement, and the rise of bilateral and plurilateral arrangements continue to alter the terms of trade, investment and technology flows. At the same time, India's own industrial ambitions in sectors such as semiconductors, electronics, clean energy and digital services require new approaches to market access, supply-chain resilience and regulatory coordination.

Over the past year, Koan Advisory Group has engaged policymakers, industry leaders, legal practitioners and strategic experts on questions ranging from digital governance and trusted supply chains to industrial policy, export controls, standards-setting and trade negotiations. These have culminated in a continuing series of discussions, the first on trade, technology and critical sectors in *June 2025*, and the second exploring the relationship between technology and geoeconomics in *November 2025*. These sessions have explored the weakening of multilateral trade frameworks, the rise of securitised supply chains, the growing overlap between technology governance and geopolitics, and the operational dilemmas facing India as it balances strategic autonomy with deeper integration into global markets.

Against this backdrop, Koan Advisory Group, in association with Chintan Research Foundation, the Information Technology Industry Council, the Institute of Chinese Studies, and the U.S.-India Business Council, convened the third roundtable in the series titled *'Resilience in a Fragmenting World: India's Economic Relations with Great Powers'*, on *April 6, 2026*. Stakeholders from government, industry, and civil society gathered to discuss how India should navigate its evolving economic relationships with the United States and China amid growing geopolitical and technological uncertainty and to identify practical pathways forward.

The stakeholders agreed that India must:

- Align trade, industrial, and tax policies, and rationalise non-tariff trade barriers, such as quality control orders, to help Indian manufacturing scale and integrate into global value chains.
- Find a pragmatic approach to manage Chinese supply chain dependencies and investments, while simultaneously deepening technological partnerships and market access with the US.
- Position itself to capture opportunities in emerging areas such as Artificial Intelligence (AI) while working towards binding trade measures that mitigate the risk of weaponised export controls.
- Strategically harness free trade agreements (FTAs), bilateral investment treaties, and institutions like the World Trade Organization (WTO) to secure market access and provide policy certainty to businesses and investors.
- Build tech-absorptive capacity through investing in R&D in IT and hardware.
- Diversify exports by finding the right product–market fit.

This report synthesises the key themes emerging from the broader discussion and translates them into targeted recommendations to address existing vulnerabilities and strengthen India's trade strategy in a fragmented global economy.

Making Free Trade Agreements work

As India enters more FTAs, stakeholders are increasingly concerned that these pacts may primarily facilitate partner countries' entry into the Indian market rather than enhancing India's export performance. In several cases, imports have grown faster than exports, while in others, trade agreements have become transhipment gateways.[1] For instance, under the India-ASEAN trade agreement, India's imports from Association of Southeast Asian Nations (ASEAN) nearly doubled from around $30 billion in 2010 to over $57 billion in 2018-19, widening the trade deficit.[2] Much of this was due to Chinese goods being rerouted through ASEAN economies to benefit from preferential tariffs.

These outcomes reflect structural constraints in how trade agreements are designed and implemented. To address this issue, India must audit its current trade agreements to assess whether they have translated into meaningful gains.

As India seeks to manage its rising import dependence, the WTO's MFN rules constrain its ability to raise tariffs selectively. This constraint is particularly relevant given India's widening trade deficit with China, which reached an all-time high of $112.6 billion in 2025–26, driven by imports exceeding $130 billion.[3]

Stakeholders recommended that India prioritise securing binding market access in key global markets, including developed economies in Latin America and Africa. By encompassing a significant portion of its exports (excluding those to China) under these agreements, India could effectively set its MFN tariff at the level applied to Chinese goods. Such an approach would allow India to retain access to essential Chinese imports while preserving the policy space to raise tariffs in response to predatory practices, without breaching its trade commitments.

Since 2025, a series of US trade actions have changed the operating environment for Indian exporters.[4] These include tariffs, duty reviews, and investigations into allegations of excess structural capacity and production.[5] Though these measures do not specifically target India, they have had a spillover effect. The broader signal sent of increased scrutiny has made enterprises targeting the US market more cautious of the uncertain environment.

Even before the currently unfolding tariff regime, the Biden administration unveiled its Artificial Intelligence Diffusion Framework, designed to preserve the US's lead in AI research and deployment. The policy aimed to limit the capabilities of the US's technological competitors through export controls on graphical processing units (GPUs) and AI models. It categorised countries into three tiers.[6] India was categorised as a Tier-2 country, meaning it would be required to obtain licenses for importing chips.

Although the Trump administration discontinued the framework, the potential use of export controls as a policy lever remains a concern for India's AI aspirations.

Stakeholders highlighted that India must secure protections for its burgeoning technology partnerships with the US. Despite the push for deeper collaboration, Indian firms must be aware of the potential for unilateral disruption, especially given increasing reliance on US-based AI ecosystems.

In parallel, China's tight controls over rare-earth exports, along with restrictions on the transfer of critical processing technologies, indicate that structural supply-chain risks will persist. Given current strategic and economic considerations, an India–China FTA remains unlikely. India will need to pursue these and other interests through alternative frameworks. These point to the need for India to explore additional options for trade agreements and multilateral frameworks.

As part of a broader strategy, stakeholders noted that India must consider whether it could join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The CPTPP is a regional trade agreement comprising 11 economies that covers trade, investment, and disciplines such as digital trade, state-owned enterprises, and labour standards. India is not a member and has not formally applied to join, having stayed out of earlier Asia-Pacific trade frameworks, such as the Regional Comprehensive Economic Partnership in 2019, due to concerns around import surges and trade imbalances.

Despite ongoing global discussions about supply chains and the formation of trade blocs, India has remained hesitant about the CPTPP, driven by concerns about potential trade deficits and the vulnerability of its dairy and agricultural sectors.

Stakeholders noted that arrangements such as the CPTPP can provide India with access to high-quality markets, improving export opportunities while giving consumers greater choice. They can assist in diversifying import sources beyond China, support domestic manufacturing by importing intermediates and capital goods, and open new markets among CPTPP members, including Canada, Mexico, and Australia.

However, expanding market access through new trade agreements will not, in itself, translate into improved export outcomes. The effectiveness of such agreements depends on India's ability to address operational and regulatory barriers that continue to constrain FTA utilisation.

Reviving Multilateralism

Since 2019, the WTO's Appellate Body is in limbo, leading to uncertainty in the enforcement of agreements and grievance redressal. Between 1996 and 2019, WTO members filed an average of 23.7 dispute settlement requests per year.[7] The number dropped to an average of 7.3 requests annually between 2020 and 2022, a 69 percent decline, indicating reduced effectiveness.

Subsequently, major economies have bypassed the WTO's dispute settlement process, resorting to measures like tariffs and non-tariff barriers to protect their markets.[8] Such measures have impacted economies such as Vietnam and India.[9] Stakeholders agreed that while the current environment around the WTO is turbulent, middle economies will continue to need a functioning multilateral system to help set the rules of the global trading order.

As a key representative of the Global South, India must champion the restoration of enforceability of WTO commitments, as this is essential to providing businesses with the policy predictability they need.

India strongly opposed a permanent e-commerce moratorium at the MC14 to safeguard policy space, notably the ability to impose tariffs and generate revenue.[10] Furthermore, the lack of a clear definition for 'electronic transmissions' made a commitment difficult.

Stakeholders were of the view that India must undertake a rigorous empirical assessment of the moratorium's implications and push for definitional clarity.

India needs to deepen commercial engagement within South Asia

India's trade connectivity with its South Asian neighbours is limited compared to its engagement with other global partners. India's trade with South Asian Association for Regional Cooperation (SAARC) countries accounts for a small fraction of India's total global trade, positioning it among the lowest figures for intra-regional trade worldwide.[11]

In comparison, intra-regional trade accounted for approximately 22.6 percent of total exports in the ASEAN and 48.5 percent in the North American Free Trade Agreement (NAFTA) in 2024. In the same year, India's exports to SAARC countries accounted for only 6.1 percent of its total exports.[12]

In FY 2024-2025, India's cumulative trade with Bangladesh, Nepal, Sri Lanka, Bhutan and the Maldives amounted to $30.48 billion compared to $127.71 billion with China.

Stakeholders noted that persistent barriers, such as weak logistics and complex customs procedures, hinder deeper Indian commercial engagement with South Asian countries. Addressing this will require a threefold approach: investing in cross-border transport infrastructure; operationalising long-pending regional transport facilitation frameworks; and reducing non-tariff barriers on imports from neighbouring countries to stimulate intra-regional trade.

To foster regional economic integration and establish a more lasting foundation for regional leadership, India needs to prioritise investments in regional public goods. These investments should focus on key sectors, including trade, investment, transport, Information and Communications Technology (ICT), energy, and people-to-people linkages, to reduce friction and build trust across the region.

Modernising Bilateral Investment Treaties

A predictable and credible framework for investment protection is vital as India deepens its engagement with and integration into global markets. India's history of investor disputes underscores this challenge.

For instance, in *Vodafone International Holdings B.V. v. Union of India*, the investor challenged India's retrospective taxation under the India–Netherlands Bilateral Investment Treaty (BIT). The tribunal ruled in favour of Vodafone and awarded damages. A similar outcome followed in *Cairn Energy v. Republic of India*, where retrospective tax measures were again found to have violated treaty obligations. Such outcomes heightened the perception of regulatory uncertainty, thereby eroding investor confidence.

Stakeholders suggested that India should institutionalise structured investor dialogue mechanisms while revisiting its approach to bilateral investment. Investors and the government must engage regularly through joint committees, consultation platforms, and early-warning mechanisms to address concerns before they escalate into disputes. Such mechanisms would enable greater transparency, align expectations on regulatory changes, and provide a non-adversarial pathway for resolving issues. Ultimately, the objective must be to build confidence that India is a predictable destination for long-term investment.

The 2015 Model BIT guides India's approach to bilateral investment agreements.[13] The 2015 version serves as the foundational framework for India's bilateral investment treaties and recalibrates the country's approach by introducing tighter constraints on investor protection and treaty usability. It reduces investor protections by narrowing the definition of investment, excluding the MFN clause, and limiting Fair and Equitable Treatment standards. Additionally, investors are required to utilise local remedies for five years before they can file for arbitration, a requirement further complicated by the protracted enforcement timelines characteristic of India. Limited uptake of new BITs post-2015 reflects partner resistance to the model, reinforcing the misalignment between trade liberalisation and investment protection.

Stakeholders emphasised the need for India to modernise its existing BIT model. The updated model should align with contemporary economic goals while carefully balancing robust investor protection with essential regulatory flexibility.

A separate concern raised was the lack of an efficient and coordinated government response mechanism to address grievances. Current procedures are deemed too slow and lack the necessary coordination to resolve investor issues promptly.

Policy Context: India's 2015 BIT Model Under Review

Announced in the Union Budget 2025, India is currently undertaking a major overhaul of its Bilateral Investment Treaty framework, marking the most significant revision since the 2015 Model BIT that has guided all of India's bilateral investment negotiations.[14] Recognising the need to restore balance between investor rights and state interests, the government has initiated a formal review to make the framework more investor-friendly while retaining policy flexibility. The revised approach will focus on improving predictability, strengthening dispute resolution mechanisms, and addressing structural gaps in the current model.

Ongoing negotiations with key partners, including the US, signal a shift towards rebuilding investor confidence and expanding India's treaty network.

Focusing on Key Sectors

Stakeholders agreed that, rather than pursuing broad, unfocused trade strategies, India will benefit from identifying and strengthening priority sectors to enhance their competitiveness. They referred to China, which has clear five-year plans mapped to specific sectors. The Prime Minister's Economic Advisory Council (PM-EAC) has also endorsed the importance of sector and location-specific initiatives that can identify the distinct needs of individual clusters and regions for growth and competitiveness enhancement.[15] In this respect, the stakeholders suggested focusing on the following sectors.

- **Artificial Intelligence:** India must aim to develop globally used AI applications in sectors where it has an inherent advantage, including healthcare, agriculture, and education. India should also co-develop global interoperability and safety standards for AI with the US. India is already working towards this through the Application Development Pillar under the IndiaAI mission.[16]
- **Collaboration on global technical standards:** Developing global standards across AI and telecommunications is of key importance. There is room for India and the US to collaborate on developing shared technical and safety standards for AI applications, with the potential for these standards to gain global acceptance. The *'Transforming the Relationship Utilizing Strategic Technology (TRUST)'* initiative between India and the US offers a ready platform for such cooperation, but remains underutilised, even as other actors, including the UK, are actively shaping this space.[17]
- **Data Centres:** India's recent Union Budget has offered a tax holiday until 2047 for foreign cloud providers utilising data centres in the country.[18] To further boost this sector and position itself as a global data centre capital, India must establish a clear data centre policy. India must also continue exploring the option of hosting data embassies for data from other countries. India has discussed a proposal to this end with the UAE; it must explore the possibility of taking this up with other partners.[19]

Understanding consumer preferences

Boosting and diversifying exports requires more than just market access; a thorough understanding of market preferences is equally crucial. For instance, even though China has emerged as India's largest trading partner, India's primary exports consist of raw materials and industrial components. To diversify exports, India needs to gather targeted market intelligence on Chinese consumer preferences and identify specific sectors where Indian products have potential.

Stakeholders highlighted multiple sectors with strong potential for export growth. India is among the top global exporters of gems and jewellery, leading in cut/polished diamonds and gold jewellery. Despite significant demand for gems and jewellery in the country, valued at around $117 billion, the sector currently accounts for only 0.09 percent of India's total exports to China. The figures highlight substantial under-penetration and significant untapped potential.

Similarly, the strong growth (21.45 percent) in the export of organic chemicals from India to China from 2023-2024 to 2024-2025 reflects the latent potential of Indian pharmaceutical exports to China.

China's position as the world's largest crude oil importer, with imports exceeding 11 million barrels per day, coupled with its ongoing efforts to diversify energy sources and augment reserves, demonstrates robust and sustained demand for petroleum products.[20] India, as the second-largest exporter of refined petroleum in the world, has an opportunity to cater to a part of this market.[21]

Policy coherence and coordination

The disconnect between trade, tax, and industrial policy constrains India's export performance, leading to misalignment across multiple policy areas. For instance, while India's industrial policy promotes domestic manufacturing through production-linked incentives, trade policy imposes relatively high tariffs on intermediate inputs, raising costs for export-oriented firms. Similarly, although exports are zero-rated under Goods and Services Tax (GST), incomplete tax credit coverage and partial remission persist, leaving taxes embedded in export prices.

Stakeholders were in favour of a deliberate move towards integrated policy design. India must prioritise global export competitiveness alongside trade agreements, industrial incentives, and tax structures simultaneously calibrated to support industries and investors. Fulfilling this objective will require a whole-of-government approach.

Stakeholders also emphasised the need for a functioning, cross-ministerial rapid response mechanism to enable the timely development of regulatory frameworks for emerging sectors. Policymaking must also expand beyond large companies to engage startups, citizens, and businesses directly affected by these policies. Similarly, the industry must increase the volume and frequency of its input to the government through public and social media to adequately guide policy priorities.

Another example of the disconnect between tax policy and manufacturing aspirations is the persistence of cascading taxes, which make Indian exports uncompetitive. The issue is particularly evident in the design of export-related tax instruments.

GST and the Remission of Duties and Taxes on Exported Products (RodTEP) together aim to render Indian exports tax neutral. Under GST, exports are treated as zero-rated supplies, enabling exporters to claim refunds of input tax credit or IGST paid. However, GST does not cover or refund certain embedded taxes and levies that remain embedded in production costs. In 2021, the government introduced RoDTEP to bridge this gap by remitting such non-creditable taxes through product-specific rates. In practice, however, exporters must navigate parallel compliance systems; GST filings and refund claims alongside RoDTEP claims through shipping bills.

Two structural gaps continue to limit RoDTEP's effectiveness in fully neutralising tax burdens. First, remission rates are standardised and capped, rather than linked to firm-level tax incidence, often resulting in under-compensation. Sectoral studies estimate that embedded taxes can amount to 3–5.5 percent of export value.[22] Meanwhile, RoDTEP rates for many sectors remain significantly lower (~0.5–4 percent).[23]

Second, RoDTEP operates within a fixed budget envelope (₹15,000–18,000 crore annually), leading to periodic rate rationalisations and uneven coverage across products. Consequently, a portion of the taxes on domestic inputs continues to reflect in export prices. Unless India resolves these constraints, its tax framework will remain less competitive than those in peer manufacturing economies, ultimately undermining cost competitiveness.

Policy Context: How Peer Manufacturing Economies Achieve Export Tax Neutrality

While India has made progress toward tax-neutral exports through GST and RoDTEP, competing manufacturing economies achieve this more comprehensively through structurally integrated systems. These systems include:

- **Vietnam:** Near-complete VAT refunds and deep FTA integration (e.g., CPTPP, EVFTA) minimise residual tax burdens
- **China:** Dynamic export VAT rebate system calibrated by sector to maintain price competitiveness
- **Thailand:** Efficient VAT refund and duty drawback mechanisms with low administrative friction
- **Mexico:** The IMMEX regime allows duty-free imports for export production, resulting in minimal tax incidence.

Unlike India's partial remission approach, these economies embed tax neutrality directly within their production and export systems, resulting in lower cost structures and stronger global competitiveness.

Investment Screening

Despite rapidly growing trade between China and India, Beijing's investments accounted for barely 0.37 percent of the total foreign direct investment (FDI) inflows to India between April 2000 and March 2024.[24] The 2023 Economic Survey argued that India must adopt approaches similar to those of the East Asian tiger economies and enable foreign investment to embed itself in global value chains. It highlighted that countries such as South Korea and Vietnam have benefited not only from the US-led shifts in manufacturing away from China, but also from substantial inflows of Chinese FDI.

The military confrontation in Eastern Ladakh in 2020 and the subsequent standoff led to a period of deteriorating India-China relations, affecting all aspects of the bilateral relationship.[25] However, since late 2024, both sides have worked to stabilise the bilateral relationship, especially the economic dimension. While the thaw has improved connectivity and people-to-people relations and led to the resumption of visa services, India remains cautious about Chinese investments.

China remains a significant source of India's imports, primarily supplying intermediate goods and capital equipment. In the 2024–25 period, electronics and machinery accounted for the largest share of these imports, specifically: electronic components (12.13 percent), telecom instruments (8.42 percent), computer hardware (7.96 percent), and industrial machinery (7.26 percent). The dominance of these categories indicates that approximately 86–87 percent of imports are linked to production requirements, serving as manufacturing inputs or capital assets.

Even though sections of the government acknowledge that India cannot advance its manufacturing ambitions without the Chinese supply chain, stakeholders pointed out that policymakers need to move to the next stage in utilising Chinese capital and technology in non-strategic sectors as crucial enablers. Further, policymakers must recognise that restricting Chinese investments often, in effect, impacts investments from the US, the EU, and other parts of the world, given the deep integration of global intellectual property and supply chains with China.

India has room to deepen its engagement with China, which could unlock greater market access, attract more investment, and enhance integration into global supply chains. On the other hand, attempts to immediately decouple from China risk disrupting India's integration into global value chains. A potential solution lies in adopting a multi-year, sector-specific, phased substitution strategy to gradually reduce reliance on Chinese inputs.

Stakeholders recommended that India re-evaluate its approach to ensure genuine ecosystem development and technology transfers associated with Chinese investment. As highlighted by the Cabinet, the government's objectives to amend investment rules and ease FDI inflows are based on multiple objectives. These include access to new technologies, domestic value addition, expansion of domestic firms and integration with the global supply chain, with the overall aim of enhancing India's competitiveness as a preferred investment and manufacturing destination.[26]

The current requirement for joint ventures (JVs) as a prerequisite for Chinese investment has been ineffective, as high-value design and innovation capabilities continue to be based outside India. For instance, in the electronics sector, domestic value addition remains low at approximately 18–20 percent, indicating a persistent dependence on imported components despite improvements in assembly. This development suggests that JVs may not be sufficient to achieve technology and knowledge transfer.[27]

Stakeholders also recommended moving beyond an FDI screening process that relies solely on geography as the core determinant. A mechanism that prioritises robust national security concerns over geography will allow policymakers to identify risks from any sector or source.

Non-tariff barriers as a bottleneck

The discussion focused on the Indian government's use of non-tariff barriers to regulate imports and protect domestic industries. While the measures are intended to protect domestic manufacturers and address trade imbalances, they often lead to higher compliance costs, increased procedural delays, and logistical bottlenecks, stifling the competitiveness of Indian businesses. Stakeholders examined various government measures and explored ways to rationalise them.

Conformity assessment procedures: A lack of mutual recognition agreements forces exporters to undergo costly, duplicative testing, hindering effective utilisation of FTAs. Indian exporters in sectors like electronics and medical devices face compliance burdens and delayed market access due to separate US regulatory requirements, a friction mirrored by US concerns over India's complex QCOs and limited acceptance of foreign test results.[28] India's National Trade Facilitation Action Plan (NTFAP) 2025 identifies testing, certification, and regulatory coherence as critical bottlenecks to export competitiveness, as limited standards alignment and inadequate acceptance of foreign test results restrict FTA benefits despite improvements in border dwell times.[29]

Stakeholders emphasised that for India to leverage its FTAs fully, it must adopt global best practices in conformity assessment and the mutual recognition of testing standards. Further, the approach to conformity assessment must shift towards greater reliance on and trust in industry-led certification and compliance mechanisms.

Policy Context: Mutual Recognition Gap in India's FTAs

India's Mutual Recognition Agreement (MRA) framework remains limited and fragmented, with existing arrangements largely confined to select sectors such as telecom. A notable example is the Telecommunication Engineering Centre's MRA with Singapore. However, such arrangements are not widespread. Most of India's trade agreements lack comprehensive, operational MRAs in key manufacturing sectors, leading to ongoing duplication of testing and certification requirements. The lack of MRA weakens the effective utilisation of FTAs, as exporters face persistent non-tariff barriers despite tariff liberalisation.

Aligning domestic standards with global benchmarks and expanding sectoral coverage is critical to reducing compliance costs, improving market access, and ensuring that FTAs translate into real export gains.

Quality Control Orders: India's electronics sector has transformed, rising from a relatively minor category to become one of its largest export sectors. Electronics exports have surged to roughly $35 billion in FY2024–25, reflecting strong growth and greater integration into global value chains. A major driver of this shift is the exponential rise in smartphone exports, which grew from just ~$10.7 million in FY 2014-2015 to ~ $20 billion in 2024-2025, making them one of India's top export categories.[30]

However, along with the absence of domestic component capacity and a cost differential of about 10-12 percent relative to producing in China, the regulatory landscape is further complicated by QCOs.[31] These orders mandate that specific products comply with standards prescribed by the Bureau of Indian Standards (BIS), India's national standard-setting body. To date, 187 QCOs have been notified, encompassing 769 products across various sectors that require compulsory BIS certification.[32] This compulsory certification applies to both domestic manufacturers and importers, ensuring that all goods produced, sold, or imported in India meet defined quality and safety benchmarks.

In effect, however, QCOs can cause delays and increase costs for downstream industries in domestic production, particularly in the absence of sufficient domestic capacity or certification infrastructure, or if the measure is used as a coercive instrument.[33] Thorough mapping of available non-tariff measures and the supply and demand for goods affected by QCOs is necessary to ensure that remedies are available if local manufacturing is disrupted. For example, the 2023 QCO for copper products initially mandated BIS certification for items like copper strip (IS 1897:2008) for the electronics industry, but was subsequently withdrawn following feedback from the industry about readiness. Elsewhere, QCOs for some inputs used in electronic goods were found to cover products already included under the 2012 *'Electronics and Information Technology Goods (Requirement for Compulsory Registration) Order'*, pointing to an overlap between the policy measures.[34]

The changed circumstances in India's trade policy and standards-setting regime add an additional layer of complexity. When introduced, QCOs were meant to address a genuine need to regulate safety standards. As dependence on Chinese intermediate goods increased, they were effectively used to monitor and curb imports as necessary. However, at present, in an environment where India is actively negotiating multiple trade agreements, the QCO and FTA policies may no longer be aligned.

Since QCOs apply broadly and do not distinguish between imports that support domestic industry and those that may harm it, they can reduce the practical benefits of FTAs. Products covered by FTAs may still face restrictions or compliance burdens under QCOs, limiting market access and weakening trade liberalisation gains. The policy challenge for India is therefore to preserve QCOs where they genuinely serve objectives such as quality assurance, consumer safety, or preventing substandard imports, while ensuring they are designed and implemented in ways that do not dilute the commercial and strategic advantages of its FTAs.

Stakeholders were of the view that India would benefit from the following:

- **Rationalised QCOs:** The Gauba Committee Report observed that many QCOs on raw materials, intermediates and capital goods undermined domestic manufacturing competitiveness and recommended that they be revoked or suspended.[35] It called for a more practical regime that includes safeguards without disrupting supply chains. Rationalisation or removal of QCOs in line with the Committee's recommendations would benefit multiple sectors.
- **Reasoned QCOs on products:** In response to concerns over QCO implementation and inter-ministerial differences, the government introduced a unified mechanism in 2025 through an Inter-Ministerial Group (IMG) to streamline their formulation.[36] The mechanism required the Ministries to seek IMG recommendations before notifying QCOs, enabling centralised review and potential modification; however, this mechanism has not yet come into effect. Expedited operationalisation of institutional mechanisms such as IMG can lead to reasoned QCOs.
- **Adopting self-certification:** Consider accepting globally aligned self-certification standards (such as European frameworks), rather than mandating local testing and using BIS licensing as a regulatory barrier.
- **Restrict the use of geography as a prerequisite for BIS licences:** The government must consider and reassess the practice of withholding BIS licenses based on targeted geographies.

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