



Beyond Approximations: An Empirical Series on India-China Trade, Disputes and Investment

REPORT 1

Electrical Machinery and
Equipment and Parts
thereof (HS Chapter 85)

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Institutional Partner



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Report 1 : Electrical Machinery and Equipment and Parts thereof (HS Chapter 85)

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Context for the Series

Bilateral trade between India and China reached \$151.1 billion in FY 2025-26, registering nearly 18 percent increase over the previous year.¹ China remains India's largest source of imports, totalling \$131.6 billion, while Indian exports to China stood at \$19.5 billion, leaving a trade gap of \$112.1 billion in 2025-26. That's the single largest trade deficit India has with any country.²

Even as New Delhi has stayed outside China-led regional trade agreements, recent policy developments point to a more calibrated and interest-driven economic engagement. On 10th March, 2026, the Indian government introduced targeted relaxations to the FDI framework governing investments from countries sharing land borders with India, including a three-tier structure that allows limited non-controlling investments, prioritises certain manufacturing sectors, and introduces expedited decision timelines for select proposals.³ These measures aim to separate passive capital flows from strategic control, allowing investments that support manufacturing and technology partnerships while maintaining safeguards over ownership and control. Alongside earlier steps to ease certain restrictions on Chinese equipment imports in critical sectors, these developments reflect a pragmatic response to economic realities.

This report series brings together HS-coded trade statistics, official investment announcements, and policy documents to map this critical economic relationship between India and China. Using publicly available data, it aims to identify short-term movements as well as longer-term structural trends, such as the impact of supply-chain concentration, technology dependencies, and shifts in licensing or regulatory regimes. The report also seeks to offer insights on associated risks, opportunities, and policy implications.

What are HS Codes? The Harmonized System (HS) code is an internationally standardised classification system that uses six digits to classify goods traded globally. The first two digits (two-digit level) denote the broad chapter under which a product is classified. The next two digits, i.e., the four-digit level code, identify a more specific group, and the last two digits (six-digit level) provide the precise product classification. The six-digit HS structure is uniform across all countries, while the more granular eight-digit level, used for tariff and regulatory purposes, varies by country.

For example, HS 85 refers broadly to electrical machinery and equipment. This chapter includes more specific 4-digit categories such as 8541, 8517, 8542, 8524, and 8507, each representing a distinct set of products. These, in turn, break down into corresponding 6-digit and 8-digit codes for greater granularity. For instance, HS 85011019 identifies motors with an output ≤ 37.5 W under HS 850110 (motors with an output not exceeding 37.5 W), which falls under the broader HS 8501 category for electric motors and generators.



India-China Trade in 2025-26

The heat map below visualises trade deficit intensities between India and China across 2-digit HS Code chapters for the year 2025-26. Trade deficits for India were systematically calculated using official export and import data extracted from the Ministry of Commerce and Industry database.⁴

Figure 1. Trade deficit between India and China, across 2-digit HS Code chapters, 2025-2026 (Low to High, L to R)

HS Code (2 Digit)	70	76	31	73	90	87	39	29	84	85
Description	Glass And Glassware.	Aluminium And Articles Thereof.	Fertilisers.	Articles Of Iron Or Steel	Optical, Photographic Cinematographic Measuring, Checking Precision, Medical Or Surgical Inst. And Apparatus Parts And Accessories Thereof.	Vehicles Other Than Railway Or Tramway Rolling Stock, And Parts And Accessories Thereof.	Plastic And Articles Thereof.	Organic Chemicals	Nuclear Reactors, Boilers, Machinery And Mechanical Appliances; Parts Thereof.	Electrical Machinery And Equipment And Parts Thereof; Sound Recorders And Reproducers, Television Image And Sound Recorders And Reproducers, And Parts.
Trade Deficit (USD Millions)	1,795.23	2,190.39	2,334.49	2,368.55	2,490.27	2,695.54	6,510.58	10,178.49	28,187.85	43,189.17

Source: Author's calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026

Figure 2. Trade surplus between India and China, across 2-digit HS Code chapters, 2025-2026 (High to Low, L to R)



Source: Author's calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026

The above figures highlight the top ten chapters with the highest trade deficits, represented by shades of brown, with the deepest shade corresponding to the highest trade deficit by value (Figure 1). Conversely, the trade chapters in which India recorded a trade surplus with China are shown in blue in Figure 2, with the deepest shade indicating the largest surplus.

At the 2-digit HS code level, India's trade deficit is most concentrated in HS 85, which covers electrical machinery, equipment, and parts. It touched \$43.1 billion in 2025-26, as illustrated above, followed by chapter HS 84 that covers nuclear reactors and machinery, with a deficit valued at \$28.1 billion. The pronounced trade deficits in these crucial industrial sectors emphasise India's heavy reliance on strategically important imports from China, highlighting vulnerabilities in the trade structure.

As shown in Figure 2, India's trade surplus with China in 2025-26 is concentrated across a number of product chapters, led by HS 27 (Mineral Fuels), followed by HS 26 (Ores, Slag and Ash), HS 03 (Fish and Crustaceans), HS 25 (Salt, Sulphur, Earths and Stone), and other primary commodity chapters. Although HS 27 records the largest trade surplus, it is Chapter 85 that emerges as India's largest export category to China on a 2-digit level.

India's total exports to China increased from \$14.25 billion in 2024-25 to \$19.47 billion in 2025-26, representing a 36.6 percent year-on-year increase. With exports of \$3.18 billion to China, HS 85 is India's largest export chapter at the HS2 level but is overshadowed by its considerable import values. The second-largest export chapter, HS 27 is dominated by a single product group, HS 2710 (petroleum oils and products, including naphtha), which accounts for the majority of exports to China under this chapter.

China's imports of Mineral Fuels, Mineral Oils and Products of their Distillation (HS 27) from India in 2025-26 totalled \$2.4 billion, making it India's second largest export category to China after HS 85 and a major contributor to India's trade surplus with China. Comparing it to previous year's exports under this category, Indian exports have nearly doubled from \$1.2 billion in 2024-25. The increase in India's HS 27 exports to China appears to have been driven primarily by higher Chinese purchases of Indian petroleum products, particularly naphtha. China's proposed domestic tax reforms in January 2026, levying a consumption tax on domestic consumption of naphtha products are likely to have provided a consumption-driven stimulus to the export growth.⁵

From Figures 1 and 2, there is a visible contrast between the nature of India's exports to China and China's exports to India. Fish and crustacean products (HS 03), animal & vegetable fats and oils (HS 15), and cotton (HS 52), which are primary raw materials, are among the top 10 sectors in which India has a trade surplus with China. On the other hand, the majority of Chinese imports primarily consist of manufactured goods, such as electrical machinery and equipment, reactors, boilers, and machinery, as well as organic chemicals.



Key Insight

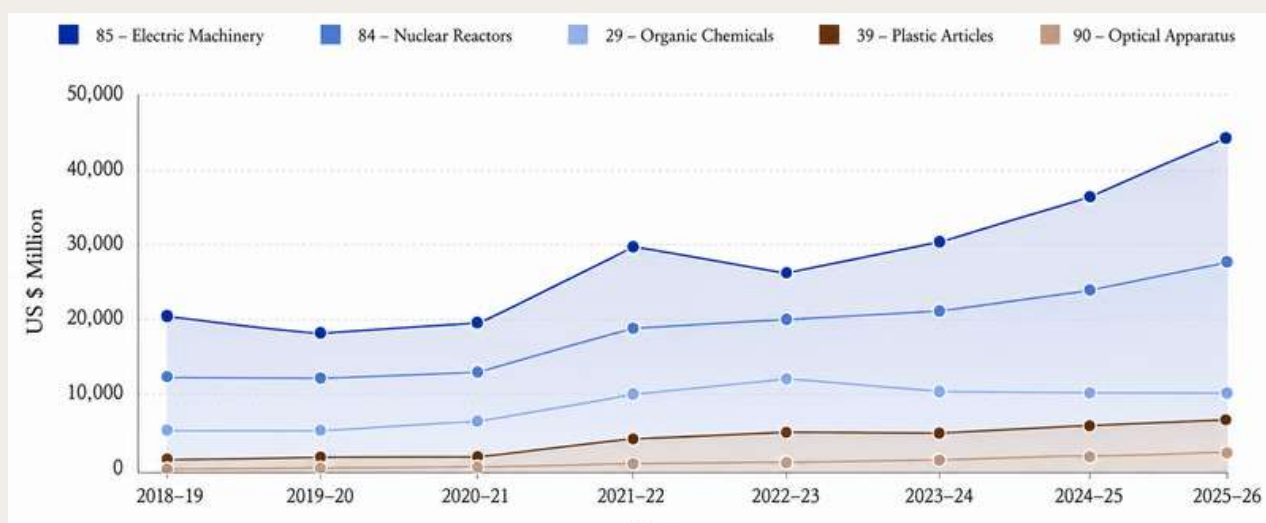
Analysis of the trade relationship between India and China reveals a major structural imbalance. China's exports to India predominantly comprise high-value manufactured goods, including electronics, machinery, active pharmaceutical ingredients (APIs), and consumer durables. In contrast, Indian exports to the Chinese market are confined mainly to low-value primary commodities and intermediate goods.



Evolution of India-China Trade

To understand India's exposure to China, it is important to examine how the trade relationship has evolved over time. Shifts in trade patterns reflect macroeconomic balances, domestic industries, supply chains, and investment decisions, especially during periods of global trade tensions and geopolitical realignments. The size and composition of the trade deficit show which sectors are driving dependence and how this has changed in recent years.

Figure 3. Evolution of India's trade deficit with China across HS2 chapters



Source: Author's calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026

The patterns in Figure 3 point to a structural, rather than cyclical, trade deficit in India's economic relationship with China. Figure 3 shows the trends pertaining to the HS2 Chapters that contribute the most to the rising trade deficit between India and China from 2018-19 to 2025-26. A cyclical deficit typically rises and falls with short-term economic conditions such as slowdowns or temporary shocks. In contrast, the deficits here remain concentrated in the same major product groups (HS 85, HS 84, HS 29) over the years and continue to rise. This suggests that the imbalance is rooted in gaps in domestic manufacturing capacity, technology, and scale, rather than in fluctuations in demand.

The trade deficit line marking HS 29 (Organic Chemicals) in Figure 3 peaks in 2022-23 and narrows in 2023-24 primarily because import values fall back from an unusually high level, and exports decrease further. Imports decline from about \$13.2 billion in 2022-23 to around \$11.4 billion in 2023-24 alongside exports that fall from \$1.5 billion to \$1.2 billion. The fall of the HS 29 trade deficit after the 2022-23 spike appears to reflect a normalisation in the prices of active pharmaceutical ingredients (APIs) and chemical intermediates, rather than a structural reduction in India's dependence on Chinese imports.⁶ Following the elevated prices observed during and after the COVID-19 period, industry reports indicate that prices of several major APIs declined sharply through 2023-24 as supply conditions in China improved.⁷ This reduced the value of India's imports, bringing down the trade deficit even as dependence on Chinese suppliers remained largely unchanged. The moderation in the trade deficit should be interpreted primarily as a price effect, rather than evidence of significant import substitution or diversification away from China.

At the same time, the continued widening of the largest deficit categories indicates that substitution away from Chinese supply remains sticky and rigid so far. Despite policy efforts to encourage domestic production and diversify sourcing, Chinese imports in these sectors have continued to grow, underscoring the difficulty of quickly replacing established suppliers. This establishes that reducing dependence in these areas is likely to be a gradual process, shaped by the time required to build capabilities, ecosystems, and scale, rather than something achievable through short-term trade measures alone.



Key Insight

India's trade deficit with China is structural rather than cyclical, remaining concentrated in the same major HS chapters over time and continuing to widen. The persistence of large and rising deficits in core sectors underscores the stickiness of dependence on Chinese supply and highlights that a sizable adjustment will require long-term capacity building.



India's Import Dependency on China

A comparison of 2025-26 with 2018-19 shows how India's import exposure to China has evolved. In 2018-19, India recorded imports from China across 3843 six-digit tariff lines. Of these, India had roughly 461 six-digit tariff lines (~12 percent), where China accounted for 80 percent or more of total imports.⁸ Applying the same ≥ 80 percent threshold to 2025-26 yields 636 tariff lines (Table 1). India's imports in several six-digit tariff lines are heavily concentrated in China, with China accounting for 80 percent or more of total imports in these products, while the count of these highly dependent imports rose by about 38 percent between 2018-19 and 2025-26. This suggests that the dependence problem has widened, if not deepened.

Table 1: Distribution of six-digit tariff lines by import dependence on China, 2018-19 and 2025-26

	2018-19		2025-26	
Range of China's import share	Tariff lines (all sectors)	Share of total 3,843 lines of import (%)	Tariff lines (all sectors), 2025-2026	Share of total 4,068 lines of import (%), 2025-2026
$\geq 80\% \text{ \& } < 90\%$	223	5.8 %	259	6.4 %
$\geq 90\% \text{ \& } < 100\%$	173	4.5 %	268	6.6 %
100 %	65	1.7 %	109	2.7 %
Total $\geq 80\%$	461	12.0 %	636	15.7 %

Source: Author's calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026

Table 1 also shows the way this has evolved in 2025-26. Of the total 4068 tariff lines for which India recorded imports from China in 2025-26, 636 lines (15.6 percent) recorded import shares of 80 percent or higher. Breaking down the 2025-26 data further, we find that 40.7 percent (259) of these 636 lines fall within the 80-89 percent band, 42.1 percent (268) within the 90-99 percent band, and 17.1 percent (109) are entirely imported from China.

Our series presents a snapshot of the evolving landscape of India–China trade relations, investment flows, and emerging disputes. The current iteration focuses on HS Chapter 85 (Electrical and Electronic equipment) and its critical products, given their central role in India’s industrial and strategic supply chains. This report is intended as the first in a series of sector-focused analytical assessments, each examining a specific HS chapter to develop a more systematic, product-level understanding of India’s trade exposure to China over time.

As the preceding analysis indicates, the bilateral relationship reflects a persistent reliance on imports, particularly in intermediate and industrial goods that underpin domestic production and manufacturing ecosystems. Such patterns require examination at the product and value chain levels, especially as India pursues industrial policy objectives, supply chain resilience, and expanded manufacturing capabilities amid a more volatile external environment. Recent geopolitical disruptions affecting energy markets and trade logistics have further underscored how concentrated import dependencies can shape trade balances, industrial continuity and broader economic resilience.

Forthcoming issues of the report will assess a selected HS line, tracing bilateral trade and investment trends to the granular 8-digit level. They will map alternative sourcing patterns and their place in India’s import mix, examine linkages with dependent industries and downstream manufacturing sectors and consider associated investment trends, questions of transshipment and origin. As part of the big picture, these reports will examine the trade policy and dispute landscape, including India–China frictions at the WTO and in other multilateral architectures. Even as the specific HS code examined varies across editions, this analytical framework will consistently offer a systematic and policy-relevant understanding of India’s sectoral exposure, diversification prospects and industrial dependencies over time.

Executive Summary

India's trade relationship with China is defined by a structural asymmetry. China's exports to India mainly consist of high-value manufactured goods such as electronics, machinery, and chemicals. In contrast, India's exports to China remain largely confined to primary commodities such as ores, mineral fuels, fish, and cotton. In 2025–26, India's trade deficit with China stood at \$112.1 billion, the largest bilateral deficit India holds with any country. This report uses HS-coded trade data, government reports and policy documents to map this relationship systematically. The present iteration focuses on HS Chapter 85 (electrical machinery and electronic equipment), which accounts for \$43.1 billion of India's trade deficit with China, making it the single largest deficit chapter at the HS2 level and, therefore, the most consequential to India's trade relationship with China.



Trade

Our analysis reveals a persistent and widening trade deficit under HS Chapter 85, driven not by cyclical demand fluctuations but by structural gaps in India's domestic manufacturing capacity. Key findings include:

- At the 4-digit level, India's two largest deficit categories within HS 85 are electrical apparatus for telephony (HS 8517, \$9.4 billion deficit) and electronic integrated circuits (HS 8542, \$8.9 billion deficit) from China. These are not finished consumer goods, they are upstream components and sub-assemblies that feed India's domestic electronics assembly operations.
- China's share in India's HS 8542 (electronic integrated circuits) imports stands at 29.5 percent, followed by significant sourcing from Hong Kong, South Korea, Taiwan, Singapore, and the United States.
- While India's semiconductor supply chain has diversified across multiple global manufacturing hubs, China continues to occupy a dominant position in key segments of the semiconductor ecosystem. Almost half (48.9 percent) of India's import of semiconductor devices covered under HS Chapter 8541 are sourced from China.
- At the 8-digit tariff level, more than half of the products that sourced over 80 percent of their imports from China in 2025–26 were not as dependent in 2018–19, indicating a growing concentration of sourcing from China across a wider range of electronics products.
- Lithium-ion batteries (HS 85076000) have emerged as one of the most strategically significant products within the chapter. India imported approximately \$3.9 billion worth of lithium-ion batteries from China in 2025–26. Domestic manufacturing remains constrained by China's scale and cost advantages, limited large-scale cell manufacturing capabilities, and near-total import dependence on critical minerals required for battery production.
- DGCIS transshipment data for 2021–22 show that while 85 percent of Chinese exports reached India directly, a significant share of electronics was transhipped through intermediary hubs, particularly Hong Kong and Singapore. This pattern persisted through 2025–26, with HS 85 imports shipped via Hong Kong (\$10.5 billion), Singapore (\$6.2 billion), and Vietnam (\$4.9 billion) remaining substantially above pre-2018 levels, indicating a sustained shift in transshipment routes for Chinese-origin electronics.



Disputes

- In October 2025, China filed a formal WTO complaint against India, the first time China has directly initiated a WTO dispute against India, targeting PLI schemes for Advanced Chemistry Cell batteries, automobiles, and electric vehicles.
- China alleges that these schemes constitute import-substitution subsidies contingent on domestic content requirements, in violation of the SCM Agreement, the TRIMS Agreement, and the GATT 1994.
- Following failed consultations and India's blocking of the first panel request in May 2026, the WTO has established a dispute settlement panel to examine the case, which remains ongoing.
- In parallel, India has deployed anti-dumping measures against several Chapter 85 imports from China, including a five-year duty of up to 35 percent on Soft Ferrite Cores (HS 85051110), duties on solar cells/modules and printed circuit boards, and ongoing investigations into copper data cables and mobile covers.



Investment

Following Press Note 3 (2020), which imposed prior-approval requirements on investments from land-bordering countries, Chinese FDI into India has remained negligible despite continued growth in bilateral trade:

- Bilateral investment has not kept pace with the rapid expansion in India–China trade. Chinese FDI equity inflows into India saw an increase from \$2.67 million in 2024-25 to \$5.91 million in 2025-26.
- Recent policy developments signal a calibrated shift towards facilitating Chinese investment in strategic manufacturing sectors. The approval of the joint venture between Dixon Technologies and Vivo Mobile India and the participation of four Chinese power-equipment manufacturers in government tenders indicate a selective reopening of investment channels in sectors where India continues to face significant import dependence.
- The March 2026 amendments to the PN3 framework introduced a 10 percent de minimis threshold for non-controlling beneficial ownership, a 60-day decision timeline for proposals in priority sectors such as electronic components and capital goods, and a mechanism for the Committee of Secretaries to revise the list of eligible sectors.
- The core approval requirements under Press Note 3 remain unchanged. Rather than liberalising Chinese FDI, the revised framework seeks to facilitate passive capital flows and manufacturing partnerships while maintaining safeguards over strategic ownership and control.



Chapter 85

Electrical machinery and equipment and parts thereof

The electrical and electronic equipment product category (HS 85) dominates India's imports from China, amounting to \$46.3 billion, followed by machinery and nuclear reactors. Organic chemicals (HS 29), plastics (HS 39), vehicles other than railway (HS 87) and optical, photo, technical, and medical apparatus (HS 90) also account for sizeable shares.



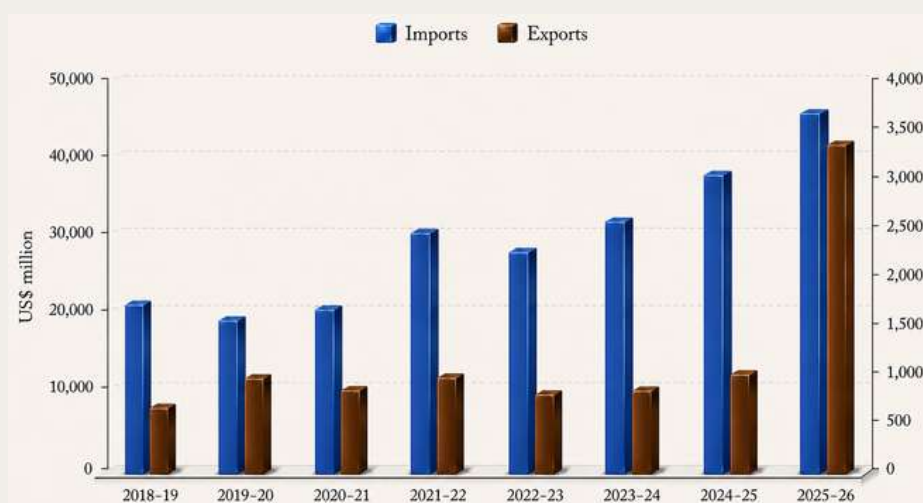
HS 85 Electrical Machinery and Equipment: Analysis

According to the ITC TradeMap database, HS Chapter 85 is the largest traded product category worldwide with global imports exceeding \$4 trillion in 2025-26.⁹ Its scale reflects the foundational role of electronics and electrical machinery in modern economies, making developments in this chapter critical to global trade dynamics and supply chain stability. In 2025-26, China was the world's leading exporter of electrical machinery and electronics (HS 85), with exports valued at approximately \$1.07 trillion, signalling its dominant position in global electronics supply chains.¹⁰ The sheer trade volume underscores the importance of examining India's HS 85 trade relationship with China within the broader global context.

Figure 4 illustrates a persistent and widening gap between India's imports (left vertical axis) and exports (right vertical axis) of electrical machinery and equipment (HS 85) from China over the past years (2018-26). HS 85 imports witnessed a 21.8 percent increase from \$38.02 billion in 2024-25 to \$46.4 billion in 2025-26. Alongside this, India's exports under HS Chapter 85 grew more than fivefold between 2018-19 and 2025-26. Export values remained below \$1 billion until 2024-25, before rising sharply to \$3.2 billion in 2025-26.

The 2025-26 surge in India's HS 85 exports to China was overwhelmingly concentrated in electronic components, particularly under HS 8517 which is printed circuit board assemblies (PCBAs). Within HS 8517, exports under HS 851779 (other parts of communication apparatus) increased from \$389 million in 2024-25 to \$2.32 billion in 2025-26. This increase was almost entirely accounted for by HS 85177910, which covers populated, loaded or stuffed printed circuit boards used in the production of cellular mobile phones. HS 85177910 exports surged from just \$35.8 million to \$1.50 billion and accounted for around 85 percent of the total increase in HS 85 exports to China.

Figure 4. India-China export (right vertical axis) and import values (left vertical axis) for HS 85 (2018-19 to 2025-26)



Source: Author's calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026

This sharp increase in PCB (HS 85177910) exports should be interpreted in the context of the highly fragmented nature of electronics supply chains. Components and sub-assemblies can cross borders multiple times before reaching the final product. In such cases, trade values do not necessarily correspond to significant domestic value addition. At the same time, while the scale and suddenness of the increase marks a notable shift in the trade pattern, only data observed across subsequent years can determine whether this represents the beginning of an established trend or a temporary spike.

Chapter 85 encompasses products crucial for both industrial applications and the manufacturing of domestic goods. Among others, it includes semiconductor devices (HS 8541), electric accumulators (HS 8507), and the broad category of electrical components and telecommunication devices, including apparatus for mobile telephony and communications (HS 8517). These products are variously used in the following industries, as depicted in the figure below:

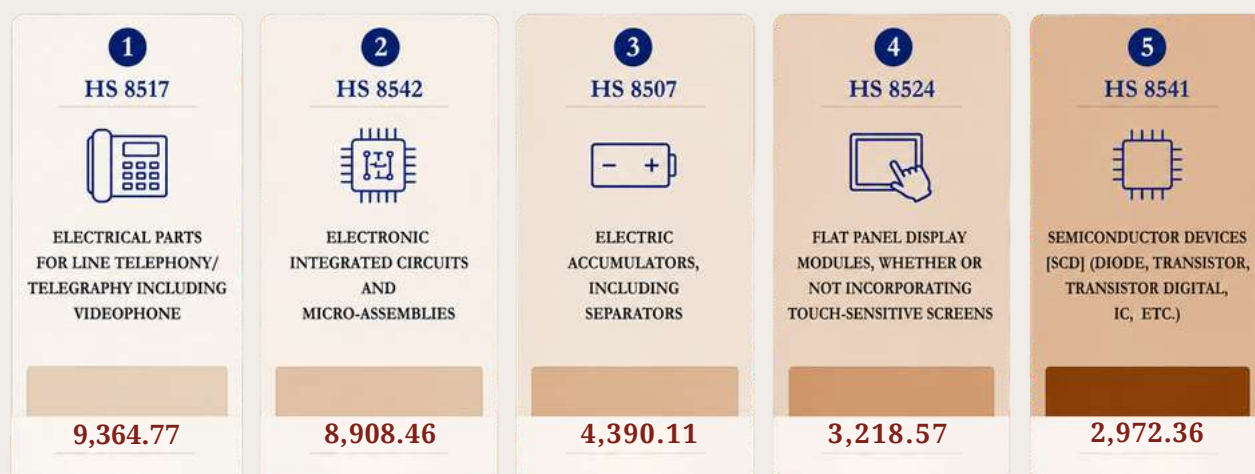
Figure 5. Industry uses of products classified under chapter 85



Note: The diagram depicts the various products and processes involving Chapter 85 items with their respective examples.

Given their extensive use, the products covered in this chapter account for a very high import value. As Figure 6 illustrates, the 5 products in Chapter 85 with the largest deficits account for a total deficit value of \$28.8 billion in 2025-26.

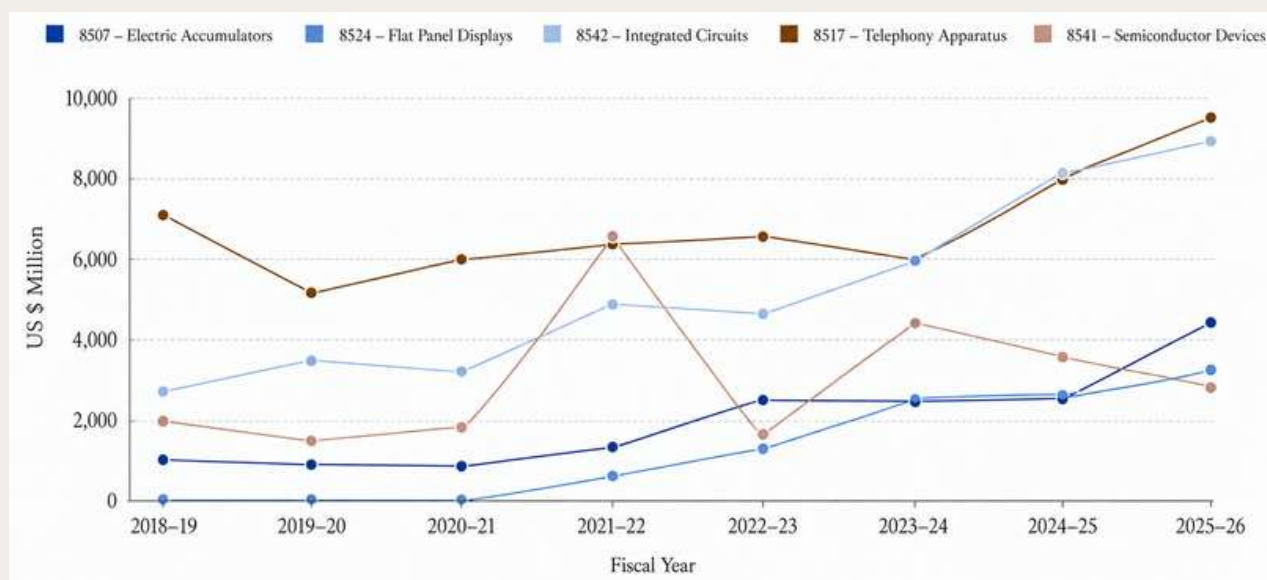
Figure 6. Trade deficit between India and China across 4-digit HS Codes under HS 85, 2025-2026, \$ million, (Low to High, R to L)



Source: Author's calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026

Figure 7 traces the evolution of trade deficits across major HS4 lines within Chapter 85 between 2018-19 and 2025-26. This helps track the concentration of the trade deficit at the 4-digit level within Chapter 85 over time. The trend lines highlight distinct impact points, reflecting shifts following policy changes and disruptions in global markets. It suggests that movements in these categories are shaped not only by domestic demand but also by changes in global supply chains and manufacturing policy.

Figure 7. Trends in India-China trade deficit for key HS4 Codes in chapter 85



Source: Author's calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026



HS 8542 and HS 8541

In 2025–26, electronic integrated circuits (HS 8542) and semiconductor devices (HS 8541) were among India's largest sources of trade deficit with China, with deficit values of about \$8.9 billion and \$3.0 billion, respectively. Electronic integrated circuits (ICs) (HS 8542) include microprocessors, memory chips, logic chips, and other packaged ICs. Semiconductor devices (HS 8541) include diodes, transistors, photosensitive devices, LEDs, and similar discrete semiconductor components. These categories together form the core electronic inputs used in nearly all contemporary electronic equipment.

As critical upstream inputs used in a wide variety of high-tech products, from smartphones and computers to electric vehicles, telecom equipment, and industrial machinery, components under these codes feed into every major electronics and automotive value chain. The trade deficit under HS 8542 (electronic integrated circuits) has increased by approximately 220 per cent, from \$2.8 billion in 2018–19 to \$8.9 billion in 2025–26.

From figure 7, the trend line of HS 8541 (semiconductor devices) shows an interesting spike in 2021–22 with the trade deficit jumping to \$6.63 billion. Looking at the imports under this subheading driving this sharp rise, there is an accompanying increase in HS 854140 (photosensitive semiconductor devices) imports at \$5.87 billion in the same year. This was an approximately 244 percent increase in imports relative to the previous year 2020–21. The sudden increase in India's HS 8541 imports was largely driven by a surge in this subheading.

Photosensitive semiconductor devices include solar photovoltaic (PV) cells, which are widely used in solar power generation. It also has industrial applications in fibre-optic communications, consumer electronics, automotive systems and medical equipment.

The sharp increase in photosensitive semiconductor imports was substantially driven by solar PV products (HS 85414012 & HS 85414011). Government data shows that India's imports of solar PV cells and modules increased from \$571.6 million in 2020–21 to \$3.36 billion in 2021–22. China accounted for 93 percent of these imports in 2021–22.

The surge coincided with the introduction of a separate classification for solar PV modules and the impending imposition of a 40 percent basic custom duty (BCD) on modules and 25 percent custom duty on cells from April 2022.¹¹ The prospect of higher import costs incentivised developers to accelerate purchases ahead of the duty's implementation, contributing to the sharp increase in imports during 2021–22.

A closer comparison of HS 8541 (semiconductor devices) and HS 8542 (electronic integrated circuits) offers a useful window into India's current position in the global semiconductor value chain. Although both categories sit at the core of India's electronics manufacturing ecosystem, specifically the semiconductor ecosystem and account for substantial import values from China, their sourcing patterns differ.

India's current role in global value chains remains concentrated at the assembly stage for many of these products. Thus, as India's domestic manufacturing base broadens, imports of semiconductors and ICs will rise accordingly.

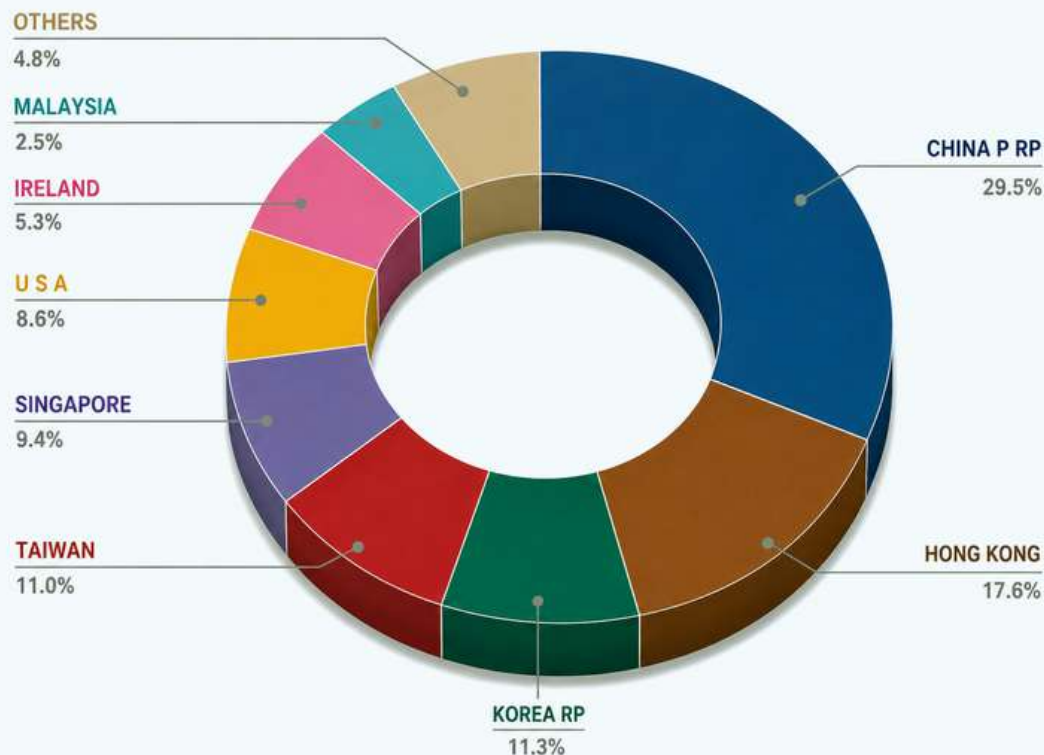


Key Insight

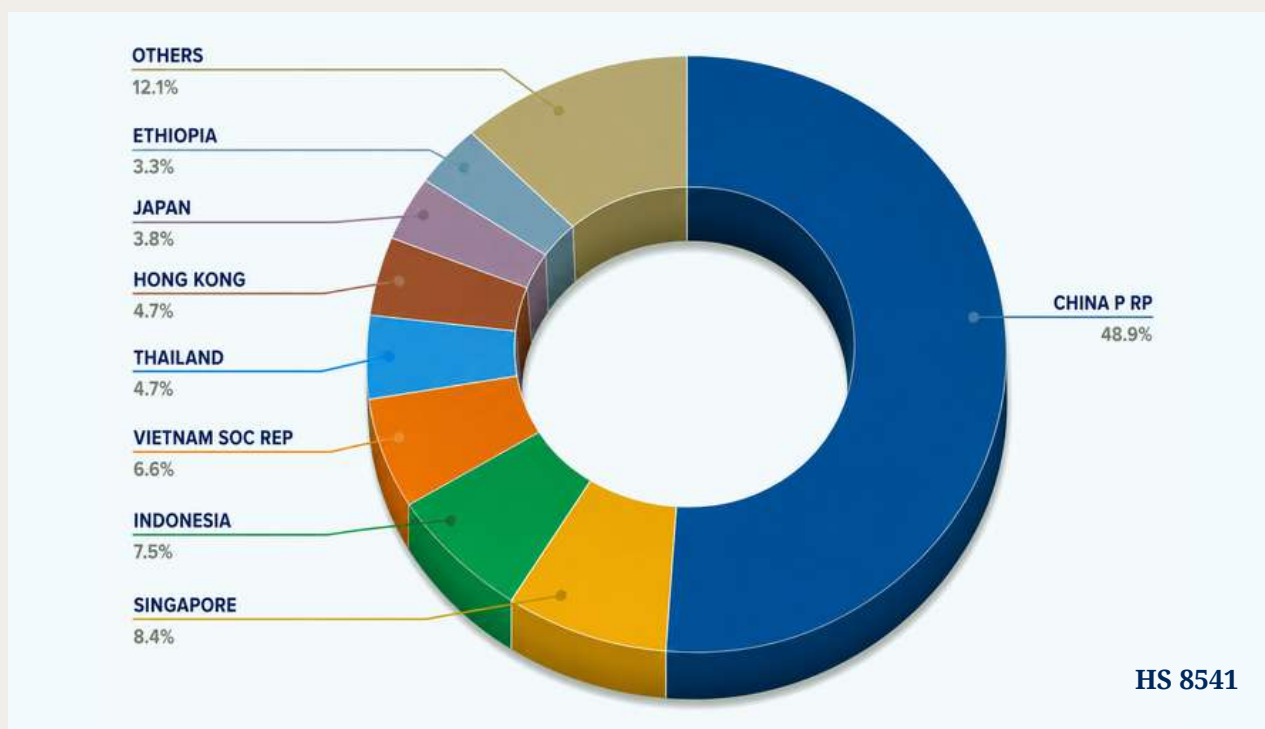
The sharp spike in the HS 8541 (semiconductor devices) trade deficit in 2021–22 was largely driven by a surge in imports of photosensitive semiconductor devices, particularly solar photovoltaic (PV) cells and modules. Imports under HS 854140 increased by more than 200 percent that year, coinciding with a sharp rise in solar PV imports. The surge was partly driven by importers bringing forward purchases ahead of the introduction of a 25 percent basic customs duty on solar cells and 40 percent on solar modules from April 2022, as the industry sought to avoid higher import costs.

In the case of electronic integrated circuits (HS 8542), China remains the single largest supplier, accounting for approximately 29.5 percent of total imports, but India continues to source a significant proportion of ICs from other countries. In 2025–26, imports from Hong Kong reached \$5.3 billion, followed by South Korea (\$3.41 billion), the United States (\$2.6 billion) and Ireland (\$1.6 billion). The United States, along with Ireland, recorded the fastest growth among the major suppliers, with imports increasing by 159 percent, from \$1.0 billion in 2024–25 to \$2.6 billion in 2025–26. With China's import share under HS 8542 falling from 33 percent in the previous year to 29.5 percent currently, the broader sourcing pattern suggests that India's semiconductor supply chain is becoming relatively diversified across multiple global manufacturing hubs.

Figure 8. Share of partner countries in India's HS 8542 & HS 8541 imports, 2024–25



HS 8542



Source: Author's calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026

Semiconductor devices (HS 8541), by contrast, remain more concentrated, with China accounting for about 48.9 percent of India's imports, well ahead of Singapore (8.4 percent), Indonesia (7.5 percent), and Vietnam (6.6 percent). However, China's share has declined markedly from around 64 percent in 2024–25 to 48.9 percent in 2025–26. The reduction has been accompanied by simultaneous higher imports from Indonesia, Thailand, Malaysia, Singapore and Japan, indicating that India has begun to diversify sourcing across a set of semiconductor suppliers possibly to reduce the high import dependency on China under this category. The two categories highlight that while India's semiconductor supply chain has diversified across multiple global manufacturing hubs, China continues to occupy a dominant position in key segments of the semiconductor ecosystem.

Key Insight

India's trade deficit in HS 8541 (semiconductor devices) and HS 8542 (electronic integrated circuits) reflects the country's assembly-led electronics manufacturing model, under which semiconductors and chips are imported for use in smartphones, telecom equipment and consumer electronics. As these industries expand, demand for imported semiconductor components is likely to remain strong until domestic fabrication and component manufacturing capabilities mature. While sourcing of integrated circuits (HS 8542) is relatively diversified across multiple global suppliers, semiconductor devices (HS 8541) remain more concentrated, with China accounting for nearly half of India's imports.



HS 8517

Electrical apparatus for line telephony under HS 8517 refers to devices that transmit voice, images or data over communication networks, such as telephone sets, smartphones, routers and other telecom equipment. In 2025–26, India imported electrical apparatus for line telephony (HS 8517) worth \$11.8 billion from China, accounting for 54.3 percent of total imports in this category. Ireland (\$3.2 billion; 14.9 percent) and Hong Kong (\$1.4 billion; 6.3 percent) were the next largest import sources representing nearly 76 percent of India's imports in this category.

Chinese imports under this subheading declined sharply in 2018–19, almost halving from \$15.4 billion in the previous year to \$7.2 billion. This sharp decline coincided with disproportionately large increases in imports from Hong Kong and Vietnam. Imports from Hong Kong rose from \$729.4 million to \$3.5 billion, while those from Vietnam more than doubled from \$1.02 billion to \$2.27 billion. These series of events in 2018-19 may point to possible rerouting of Chinese imports through neighbouring markets.

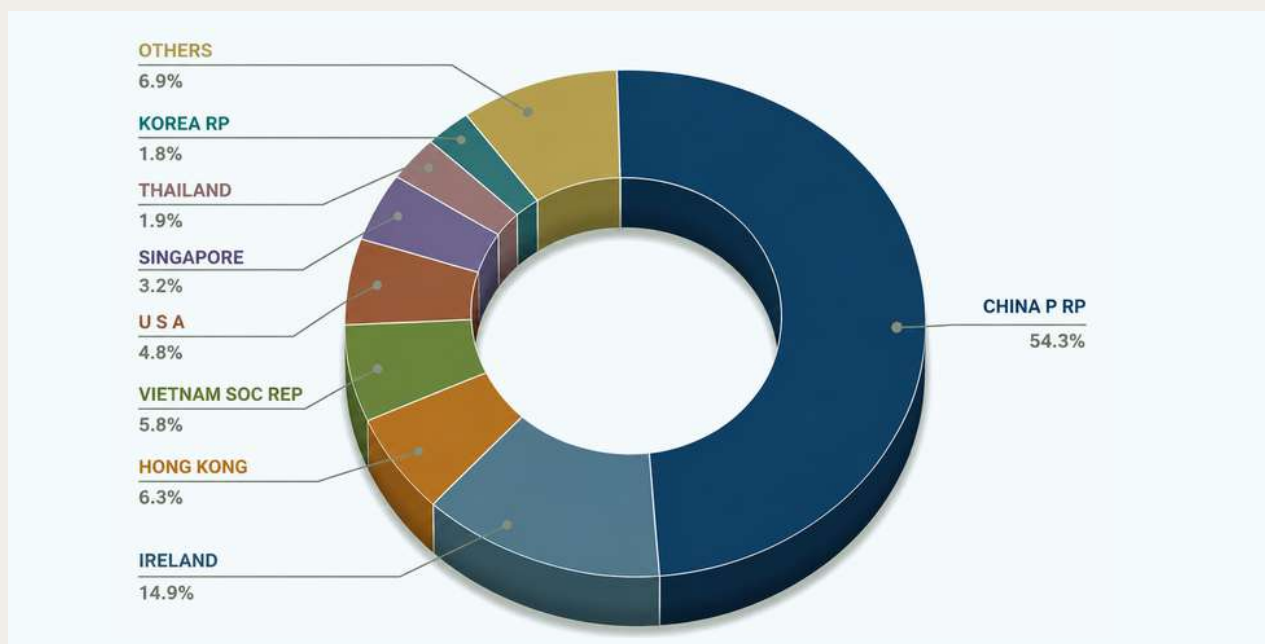
Given that most domestic demand for mobile phones is now met through local manufacturing and India is also an exporter of mobile phones, much of this high import value is concentrated in parts and sub-assemblies that come under HS 851779. Components under this product line include printed circuit board assemblies (PCBAs), antenna assemblies, camera modules, connectors, charging ports, microphones, speakers and other communication-device components that are imported for further assembly in India.

An additional driver of imports is HS 851762, which mainly covers equipment for data transmission, routers and network switches. Given that this equipment sits at the core of telecom infrastructure, this high degree of dependence is a vulnerability. While the PLI scheme for telecom and networking products has broadened the domestic manufacturing base, dependence on China continues.



Key Insight

Despite India emerging as both a major domestic manufacturer and exporter of mobile phones, a significant share of import dependence persists in the upstream electronics value chain. The bulk of mobile-related imports is concentrated in HS 851779, reflecting continued reliance on Chinese imported electronic components and sub-assemblies that are critical inputs for the smartphone ecosystem.

Figure 9. Share of partner countries in India's HS 8517 imports, 2025–26

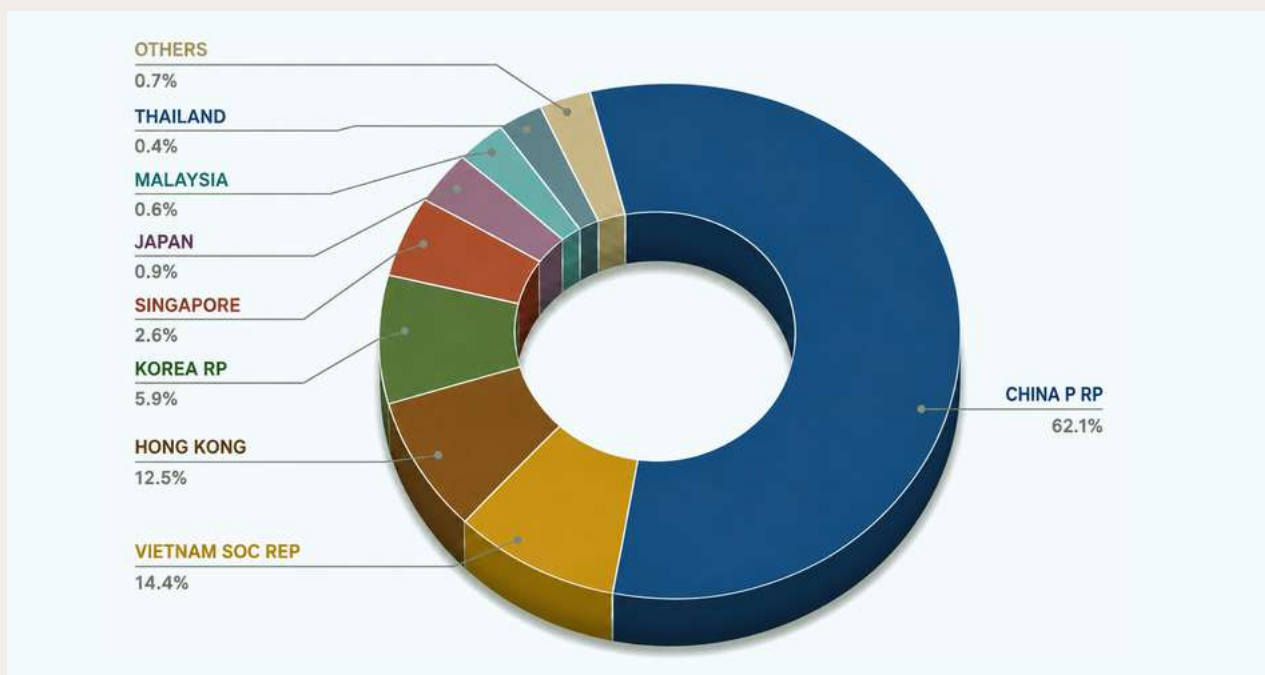
Source: Author's calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026



HS 8524

Under HS 8524 (flat-panel display modules incorporating touch-sensitive screens used in smartphones, tablets, laptops, and other digital display devices), India continues to show high import dependence, as reflected in a \$3.2 billion trade deficit with China in 2025–26. Flat-panel display modules were reclassified under HS 8524 only from 2022-23 onwards and thereby reflect no values till then. Since the reclassification in 2022-23 till 2025-26, China has supplied approximately 60 percent of India's total imports in this category. Vietnam (\$0.8 billion; 14.4 percent) and Hong Kong (\$0.7 billion; 12.5 percent) come next with relatively smaller import values in 2025-26. This steady reliance on Chinese imports is driven by India's growing role as an assembly hub for electronic devices, further compounded by limited domestic manufacturing of display modules.

To address this dependence, the Union Budget (February 2025) increased the basic customs duty on imported Interactive Flat Panel Displays (IFPDs) from 10 percent to 20 percent, while reducing duties on open cells and other key components to encourage domestic sub-assembly. Complementing this, the Modified Scheme for Setting Up of Display Fabs (2023), provides fiscal support covering 50 percent of the project cost.¹² Under the scheme, the government matches the investor's contribution in equal proportions, signalling a targeted effort to build domestic capacity in display fabrication manufacturing.

Figure 10. Share of partner countries in India's HS 8524 imports, 2025–26

Source: Author's calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026

Recent developments show that India's display fabrication ambitions are shifting from policy support towards early-stage manufacturing. In May 2026, the Union Cabinet approved two new projects under the India Semiconductor Mission (ISM), including the country's first commercial Mini/Micro-LED display facility based on Gallium Nitride (GaN) technology in Gujarat.¹³ The facility, led by Crystal Matrix Limited in Dholera, is expected to manufacture Mini/Micro-LED display modules and GaN wafers, marking India's entry into advanced display manufacturing. These approvals are part of a broader, ongoing push in the semiconductor ecosystem, alongside efforts to establish India's first domestic display fabrication capabilities.

Key Note

Basic Customs Duty is reduced to 5 percent on Open Cells components with or without touch, classified under heading 8524 (flat-panel display modules) for the manufacture of Interactive Flat Panel Display module.

[S.No. 515AA of Notification No. 50/2017-Customs dated 30th June, 2017 as amended by Notification No.5/2025 -Customs, dated 1st February, 2025 refers].

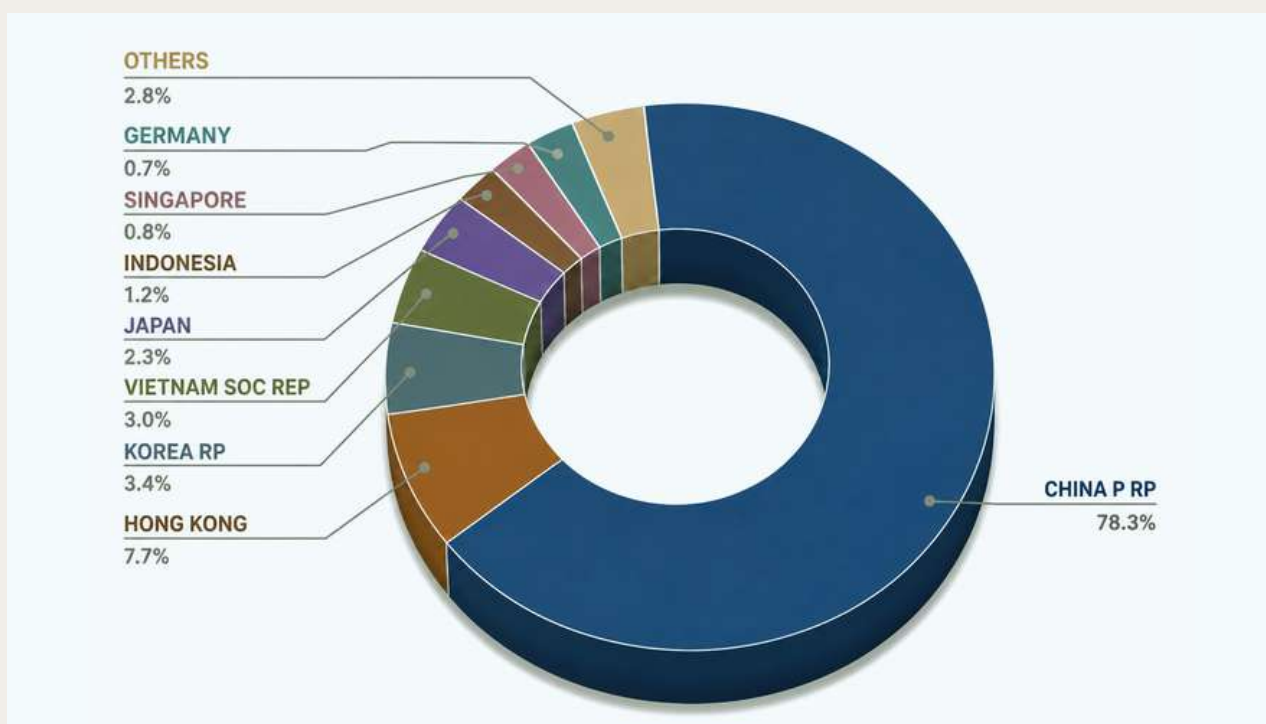
Finance Bill,¹⁴
Changes in Customs Act 1962, Customs Tariff Act, 1975,
Central Excise Act, 1944, CGST Act, 2017
01 February 2025.



HS 8507

HS 8507 covers electric accumulators, which are rechargeable batteries used to store and supply electrical energy for later use. The trade deficit under HS 8507 increased sharply by approximately 335 percent, from \$1.01 billion in 2018–19 to \$4.39 billion in 2025–26, reflecting a rise in import dependence. Imports under this category from China amounted to \$4.40 billion in 2025–26, accounting for 78.3 percent of India's total imports under this sub-heading. Hong Kong (\$430.4 million; 7.7 percent) and South Korea (\$189.7 million; 3.4 percent) were the next largest sources, with China's imports exceeding Hong Kong's by more than ten times, underscoring its overwhelming dominance as India's primary supplier in this category.

Figure 11. Share of partner countries in India's HS 8507 imports, 2025–26



Source: Author's calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026

The most important product item under this category is HS 85076000 (lithium-ion batteries), widely used as rechargeable power sources in portable electronic devices and electric vehicles. The product is significant both for its central role in the rapidly expanding global EV ecosystem and its position among the highest-value imports within this category. It is examined in greater detail in the subsequent sections of the report.



HS Chapter 85 at the six-digit level

The Harmonized System follows a hierarchical structure in which four-digit codes represent broad product groups while six-digit codes provide a more detailed categorisation and are internationally standardised. Applying the ≥ 80 percent concentration framework to the 278 six-digit lines in Chapter 85 reveals the pattern shown in Table 2 below.

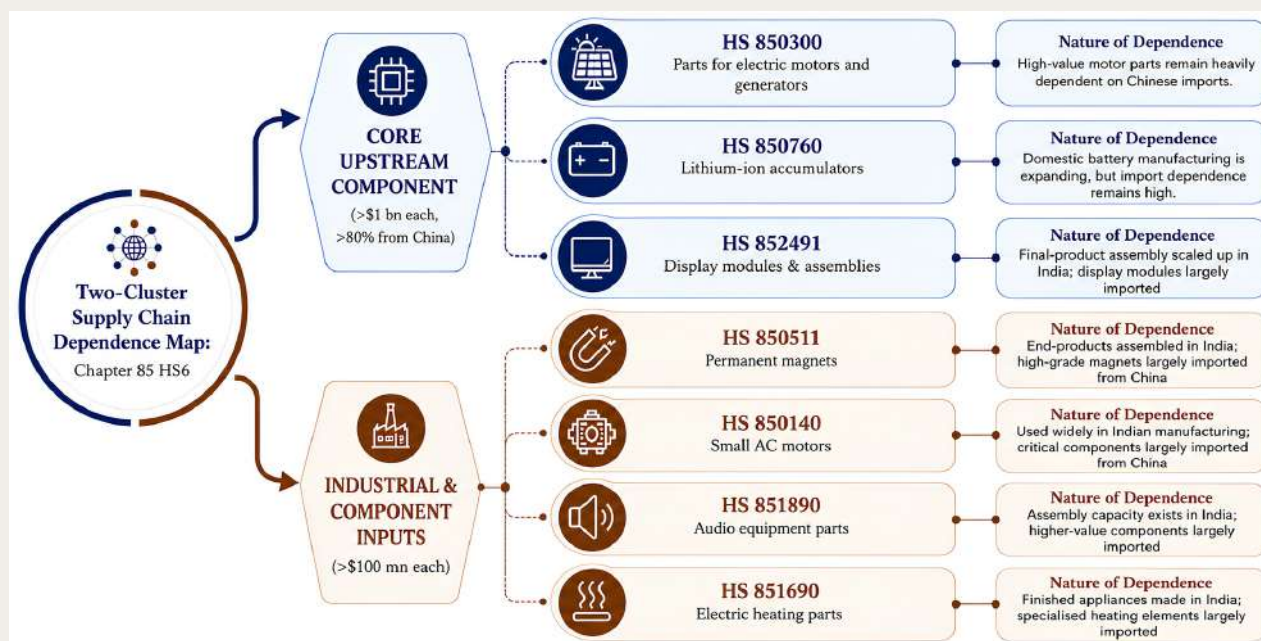
Of the total 278 six-digit tariff lines in chapter 85, 27 (9.7 percent) have an import dependence of 80 percent or more from China. This includes 12 lines in the 80–90 percent band, 14 in the 90–100 percent band, and one line that is entirely sourced from China. Imports under the one tariff line that is entirely sourced from China, HS 852210 (pick-up cartridges for record players), were negligible at just \$0.01 million, indicating limited commercial significance.

Table 2: Distribution of six-digit tariff lines under chapter 85 by import dependence on China, 2025–26

Range of China's import share	Tariff lines (All sectors)	Share of total 4,068 lines (%)	Tariff lines (HS 85 only, 278 total)	Share of HS 85 lines (%)
$\geq 80\% \text{ \& } < 90\%$	259	6.4 %	12	4.3 %
$\geq 90\% \text{ \& } < 100\%$	268	6.6 %	14	5.0 %
100 %	109	2.7 %	1	0.4 %
Total $\geq 80\%$	636	15.7 %	27	9.7 %

Source: Author's calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026

A closer analysis of the remaining tariff lines shows that India's exposure is not spread evenly across Chapter 85. By import value, two clusters stand out as they are important upstream components feeding into India's active manufacturing programmes.

Figure 12. Two-cluster supply chain dependence map under chapter 85 at the six-digit level

Across both clusters, import dependence is driven by gaps in upstream and component-level manufacturing rather than in final assembly. In the first cluster, individual product lines exceed \$1 billion in annual imports, with over 80 percent sourced from China, whereas in the second cluster, several industrial components each exceed \$100 million in annual imports. This underscores how China's dominance in critical inputs continues to anchor India's reliance despite expanding domestic production of finished goods.

Key Insight

HS 850760 (Lithium-ion accumulators) emerges as a new area of strategic dependence in 2025–26, joining the category of products that combine high import values with over 80 percent dependence on China. Given its strategic importance to India's electronics and electric mobility ecosystem, this product is examined in greater detail in the following sections.

While the six-digit-level examination highlights where India's dependence on China is concentrated across broad product groups, it inevitably masks variation within individual tariff lines. Many six-digit categories bundle together multiple distinct products with different sourcing patterns, making it difficult to assess how widespread and how deep this dependence is at a more granular level.

To address this, the analysis now shifts to a more detailed, eight-digit view of Chapter 85 to examine how dependence on China varies across individual product lines.



HS Chapter 85 at an eight-digit level

Unlike HS4 and HS6 codes, which are globally consistent, HS8 codes are country-specific product codes that provide a more detailed breakdown of goods within national trade classifications. To understand how deeply India's electronics imports rely on China, it is useful to look beyond broad product categories and examine trade patterns at the eight-digit tariff level. Table 3 compares the 2018–19 and 2025–26 dependency structures to show how India's import exposure to China in Chapter 85 has evolved over time.

Table 3: Distribution of eight-digit tariff lines by import dependence on China under Chapter 85, 2018-19 and 2025-26

Range of China's import share	2018-19		2025-26	
	Tariff Lines, 2018-19	Share of total 482 lines of import (%), 2018-19	Tariff Lines, 2025-2026	Share of total 521 lines of import (%), 2025-2026
≥ 80% & < 90%	18	3.7	28	5.4
≥ 90% & < 100%	18	3.7	32	6.1
100%	8	1.7	11	2.1
Total ≥ 80%	44	9.1	71	13.6

Source: Author's calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026

India's electronics imports at the eight-digit tariff level show that dependence on China remains widespread across many individual products. In 2025–26, 71 HS8 product lines in Chapter 85, sourced at least 80 percent of their imports from China (Table 3).

This pattern has changed only slightly since 2018–19, when 44 tariff lines (9.1 percent of total lines of import) were already importing at least 80 percent of their value from China. Within the 2025–26 distribution, 32 lines fall within the 90–99 percent dependence band, 28 lines within the 80–89 percent band, and 11 lines are entirely sourced from China. Although the overall share of highly dependent products has remained broadly stable, the large number of tariff lines in the 90–99 percent band highlights how deeply embedded Chinese sourcing has become in India's electronics imports.

Looking specifically at products that are entirely sourced from China, the number of such tariff lines increased from eight in 2018–19 to eleven in 2025–26. However, only two product lines remained fully dependent in both years: portable electric lamps and specialised safety equipment (HS 85131030) and monochrome cathode-ray picture tubes (HS 85401110). Imports of portable electric lamps increased from \$0.06 million in 2018–19 to \$0.14 million in 2025–26, representing an approximately 133 percent increase. In contrast, imports of monochrome cathode-ray picture tubes

declined from \$0.07 million to just \$0.01 million over the same period, suggesting that while dependence on China remains absolute for this product, its commercial significance in India's import basket has diminished considerably.

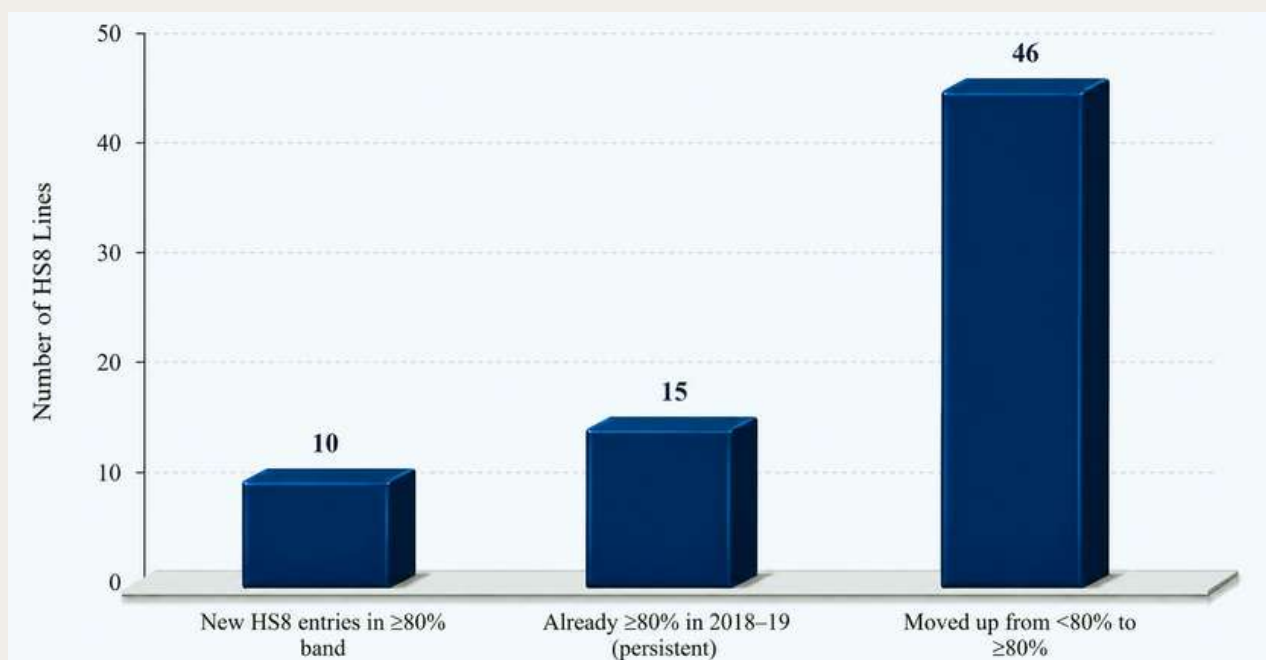
HS 85258090 (Television cameras, digital cameras, and video camera recorders) illustrates how complete dependence on China does not necessarily persist over time. In 2018–19, the product line recorded imports of approximately \$410 million. Although it remained in the 100 percent dependency category in 2024–25, import values had already fallen sharply to \$28.4 million. By 2025–26, imports had declined further to just \$0.08 million, while the import dependency on China fell to 80 percent. Imports under this tariff line decreased by approximately 99.9 percent between 2018–19 and 2025–26.



Key Insight

In 2025–26, at the 8-digit level of Chapter 85, 13.6 percent of active tariff lines recorded an import dependence of at least 80 percent on China, highlighting concentrated reliance across a notable share of Chapter 85 tariff lines. Notably, television cameras, digital cameras, and video camera recorders (HS 85258090), which were fully dependent on China in both 2018–19 and 2024–25, recorded a sharp decline in import value with import dependency on China share falling to 80 percent in 2025–26.

Figure 13. Decomposition of HS8 electronics product lines with high import dependence on China (2025–26)



Source: Author's calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026

To distinguish between genuine deepening of dependence on China and changes driven by product classification, HS8 lines in Chapter 85 with a China import share of at least 80 percent in 2025–26 are decomposed into three groups:

1. **New HS8 lines in ≥ 80 percent of the band, compared to the existing pool in 2018-19:** These are new or newly split product codes that are already China-dependent.
2. **Already ≥ 80 percent in 2018-19 (persistent):** These are long-standing dependencies.
3. **Moved up from < 80 percent to ≥ 80 percent:** These are the true new problem cases; products where India has become more dependent on China over time.

To better explain the evolution of this dependence, the highly dependent tariff lines in 2025-26 are grouped into three categories (Figure 13). First, 15 tariff lines were already above the 80 percent threshold in 2018-19, reflecting long-standing structural dependence. Second, 46 tariff lines moved from below 80 percent to above 80 percent, indicating a genuine deepening of dependence on China over time. Third, 10 tariff lines are newly introduced product codes that already appear highly China-dependent, which may partly reflect classification changes rather than new sourcing patterns.

The results from the analysis show that while real deepening in existing product lines remains the dominant driver of India's high import dependence on China in electronics, a marked share is explained by persisting dependency, and a further share by the entry of new product lines.



Key Insight

Most of India's high import dependence on China in Chapter 85 reflects a genuine deepening over time, with the largest share of highly dependent lines having crossed into the 80 percent threshold since 2018-19. A smaller but substantial share represents long-standing structural dependence that has persisted across both years.



Deepening dependence is concentrated in core electronics inputs

Focusing on the 46 product lines where dependence has genuinely deepened shows a clear pattern. These cases are not evenly distributed across electronics products but are concentrated in a few key component categories.

A large share of these tariff lines fall under electric motors and generators (HS 8501), electrical machines and apparatus not elsewhere specified (HS 8543), insulated wires and cables (HS 8544), and switching and control apparatus (HS 8535-8536). These are core inputs in electrical equipment, telecom infrastructure, consumer electronics, and industrial machinery.

This concentration suggests that the recent increase in dependence on China in Chapter 85 is driven primarily by key components and intermediate goods rather than by a broad rise across all electronic products. These categories represent the most critical areas for policy intervention, as reducing dependence on these upstream components is likely to have the greatest impact on strengthening India's electronics manufacturing ecosystem and reducing structural import dependence.

**Key Insight**

Between 2018–19 and 2025–26, the deepening of India's import dependence on China in electronics was concentrated in a small set of core component categories, including motors, electrical machinery, cables, and switching equipment. This suggests that rising dependence is being driven primarily by intermediate inputs used across the electronics industry, rather than by a broad increase in finished electronics imports.

**Critical Areas**

The earlier analysis at the 4-digit level under Chapter 85 identified HS 8542, HS 8517, HS 8541, HS 8524, and HS 8507 as the key categories where India's trade deficit with China is concentrated. A granular examination at the eight-digit level reveals specific product lines with particularly pronounced dependence.

Since eight-digit-level codes provide a country-specific breakdown of goods within each tariff line, analysis at this level helps identify the specific products that account for a significant share of India's import reliance on China. This deeper analysis highlights certain critical tariff lines within these broader sectors where imports are overwhelmingly sourced from China.

One such case emerges within HS 8507 (electric accumulators), where the tariff line HS 85076000 (lithium-ion batteries) stands out for its exceptionally high import value and a concentration of sourcing from China, underscoring its growing strategic and industrial significance.

Table 4: Imports from China across 8-digit HS Codes under HS 8507, 2025-2026

HS Code	Description	Import Value (\$ Millions)
85071000	LEAD ACID ACCUMULATORS OF A KIND USED FOR STARTING PISTON ENGINES	15.85
85072000	OTHER LEAD-ACID ACCUMULATORS	102.57
85073000	NICKEL-CADMIUM ACCUMULATORS	0.61
85075000	NICKEL-METAL HYDRIDE	1.81
85076000	LITHIUM-ION	3,927.72
85078000	OTHER ACCUMULATORS	8.08
85079010	HRD RUBBER ACCMLTRS CASES AND SEPARATORS	40.25
85079090	OTHER PARTS	304.12

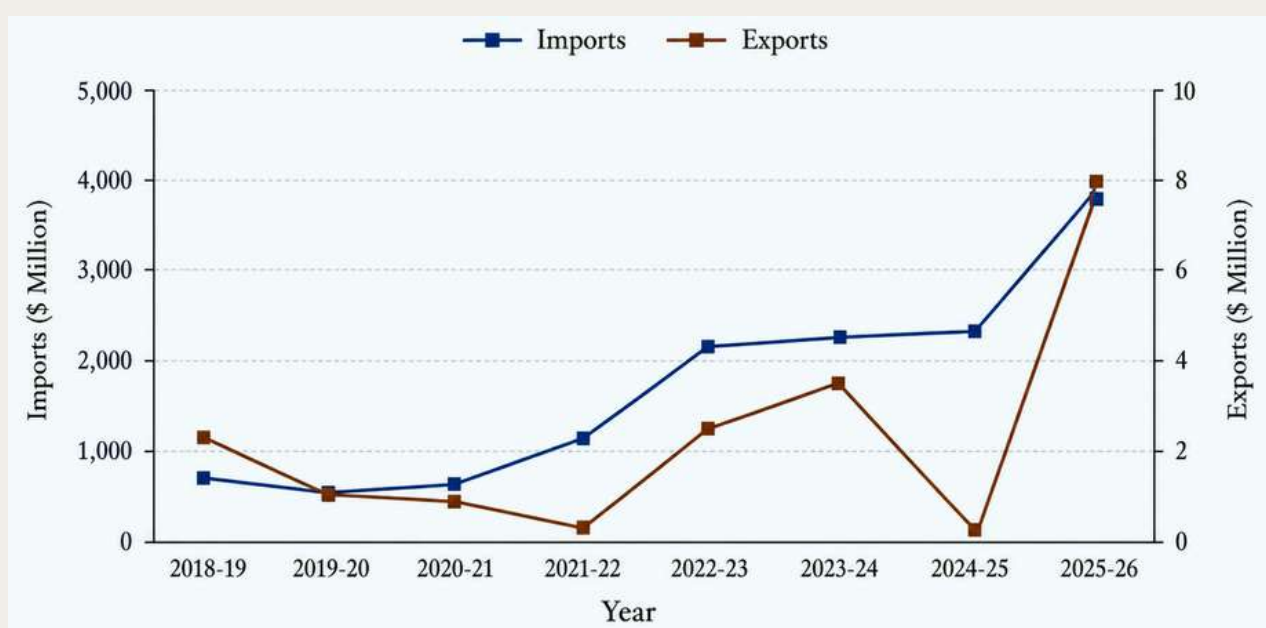
Source: Based on data from the Ministry of Commerce and Industry as of July 26, 2026

Lithium-ion batteries (LiB) under HS 85076000 have emerged as items of both industrial and strategic significance. They account for 89.2 percent of the total value of Chinese imports under this subheading.

India's imports of LiB from China have more than doubled since 2021-22, reaching \$3.9 billion in 2025-26 (see Figure 14). Given the rapid expansion of India's EV ecosystem, this reflects the rapid growth in domestic demand for energy storage and the continued reliance on Chinese supply chains. LiBs (HS 85076000) have emerged as one of the most strategically critical products within Chapter 85, even as the government is channelling major investments into building local manufacturing capacity.

As the leading global producer, China actually holds a dominant position in several of these product lines, so the concentration is structurally expected.

Figure 14. Lithium-ion battery imports & exports between India and China, 2018-19 to 2025-2026, with the export line illustrated on the right vertical axis



Source: Author's calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026

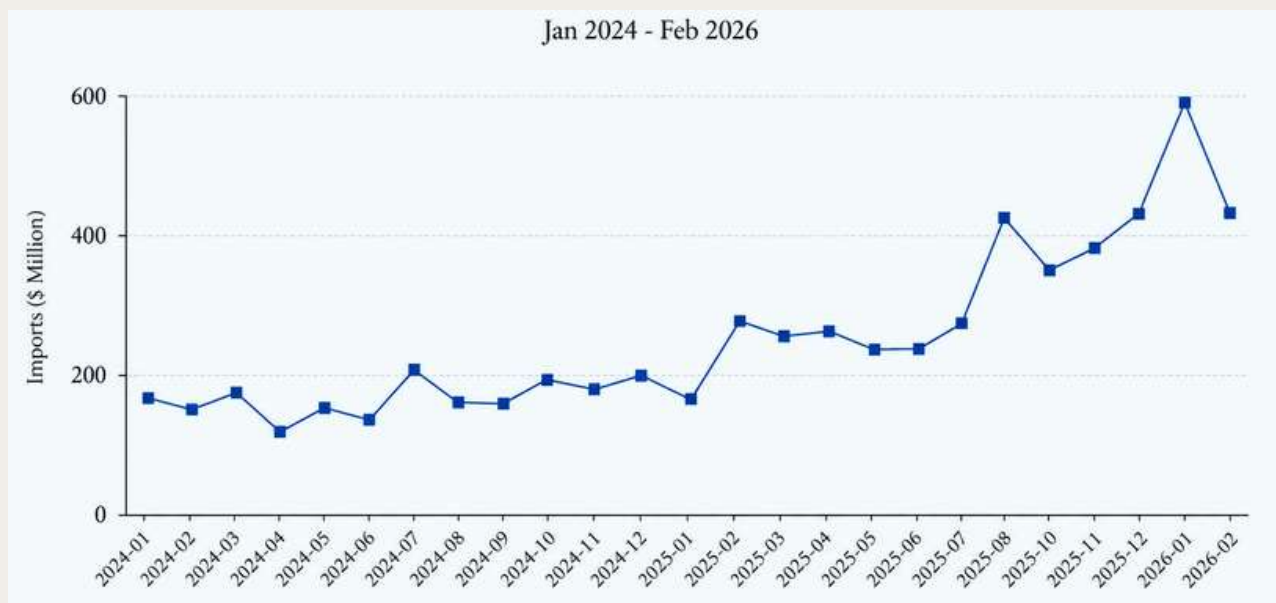
Note: Exports are plotted on the right-hand axis

Examining this product can help assess both the scale of India's dependence and the challenges that could shape the future trajectory of the domestic LiB industry.

India's bilateral trade in lithium-ion batteries with China: India's LiB demand is driven primarily by electric vehicles, consumer electronics, and energy storage systems.¹⁵ The LiB demand for the EV sector is expected to grow at a 48 percent compound annual rate, reaching 115 GWh by 2030. Currently, nearly all domestic demand for lithium-ion cells and batteries is met through imports. China's share in these imports (HS 85076000) increased from 75 percent in 2024-25 to 83.6 percent in 2025-26, bringing the product into the category of tariff lines where India has more than 80 percent import dependence on China. The sharp increase highlights lithium-ion batteries as an emerging area of strategic dependence for India's electronics and electric mobility ecosystem, while also indicating limited diversification into alternative supply sources.

The monthly import values for LiBs from China over the past two years show a marked increase, although the trajectory has been uneven. As Figure 15 indicates, imports rose sharply in March 2025 before gradually declining in subsequent months, followed by another spike in September the same year. The March 2025 increase may have coincided with Indian companies bringing forward purchases in anticipation of potential US tariffs, following the February 13, 2025 announcement that the United States would impose reciprocal tariffs on countries that levy tariffs on US imports, including China.¹⁶

Figure 15. Monthly lithium-ion battery imports from China, January 2024 - February 2026



Source: Author's calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026

Domestic cell manufacturing capabilities have started emerging with support from the government's PLI Scheme for the National Programme on Advanced Chemistry Cell (ACC) Battery Storage (2021).¹⁷ However, major structural barriers may limit the pathway of domestic production capacity. These include:

- **India-made LiBs are projected to be 20–30 percent more expensive than Chinese batteries due to continued reliance on imported raw materials.** China's excess production capacity keeps prices low, making it difficult for new Indian manufacturers to compete. Prices of cells manufactured by Indian companies such as Exide and Amara Raja Energy Mobility Ltd, whose products will enter markets soon, are unlikely to match those of Chinese batteries.¹⁸
- **LiB production requires complex techniques applied from start to finish;** from electrode preparation and chemical coating to activation, each step depends on specialised expertise and equipment. While India possesses capabilities in lower-value segments of the chain (battery pack assembly), cell manufacturing remains the most technically challenging step. It is also highly expensive, requiring investments of approximately ₹1,000 crore for a minimum 5 GWh facility.
- Despite recent pushes for domestic mining, **India is still years away from commercial utilisation of its lithium reserves.** Nearly all rare earth elements (REEs) required for cell production continue to be imported, predominantly from China. This leaves India with limited alternatives for sourcing critical inputs.



Key Insight

The Government of India has been explicitly pushing to build a competitive domestic battery-manufacturing ecosystem under the PLI Scheme for Advanced Chemistry Cell (ACC) Battery Storage. While the Union Budget 2025 increased customs duties on finished lithium-ion batteries to 20 percent and exempted raw materials to favour local value addition, Budget 2026–27 extended duty exemptions on capital goods used in lithium-ion cell manufacturing.



India's Emerging Critical Mission Strategy

India's heavy dependence on Chinese imports under HS Chapter 85 extends beyond finished electrical equipment to the upstream materials required for electronics manufacturing. Several products identified in this chapter, including lithium-ion batteries, permanent magnets, electric motors and other electronic components, rely on critical minerals such as lithium, cobalt, nickel and rare earth elements. While these minerals are essential inputs into batteries, semiconductors, consumer electronics, electric vehicles and renewable energy technologies, China continues to dominate not only their mining but, more importantly, their processing, refining and downstream manufacturing ecosystems. This concentration has created a structural supply-chain vulnerability for India, particularly as domestic electronics manufacturing continues to expand.

Recognising these risks, India has recently broadened its critical minerals strategy. In January 2025, the Government approved the National Critical Mineral Mission (NCMM) with a proposed expenditure of ₹16,300 crore alongside an additional ₹18,000 crore of investments by public sector enterprises and other stakeholders.¹⁹ The mission seeks to develop the entire critical minerals value chain, covering exploration, mining, beneficiation, processing, overseas asset acquisition, recycling and research, with the objective of reducing long-term import dependence for strategic manufacturing sectors, including electronics.

Domestic exploration has also accelerated. In July 2026, the Ministry of Mines launched the eighth tranche of auctions comprising 20 critical and strategic mineral blocks across nine states, taking the total number of critical mineral blocks offered for auction to 88, of which 56 had already been successfully auctioned.²⁰ Several of these blocks contain rare earth elements, lithium, graphite, gallium, vanadium, titanium and tungsten, minerals that are directly relevant to electronics, semiconductors, electric mobility and advanced manufacturing.

Alongside expanding domestic resource availability, India has begun building downstream processing capabilities. The Government has approved a ₹7,280 crore programme to establish 6,000 tonnes per annum of integrated rare earth permanent magnet manufacturing capacity, covering the value chain from rare earth oxides to finished magnets.²¹ These magnets are critical inputs for electric motors, consumer electronics, renewable energy equipment, defence systems and industrial automation, and are currently heavily dependent on Chinese supply chains.

India is simultaneously diversifying overseas supply sources.²² Through KABIL (Khanij Bidesh India Limited), a strategic Indian government joint venture for critical minerals and broader diplomatic engagement, India has pursued partnerships with resource-rich countries such as Australia and Argentina. Australia and India have recently agreed to establish a Critical Minerals Corridor aimed

at developing integrated value chains spanning mining, processing, manufacturing and recycling, recognising that secure supply requires much deeper industrial integration rather than simply sourcing raw materials.²³

Myanmar has also emerged as a potential strategic partner because of its significant deposits of heavy rare earth elements, including dysprosium and terbium, which are essential for high-performance permanent magnets used in electric vehicles, electronics, industrial automation and defence applications.²⁴ However, China's dominance in rare earth processing means that securing alternative mineral supplies alone will not eliminate India's dependence unless accompanied by investments in domestic refining, processing and magnet manufacturing capabilities.

For HS Chapter 85, this transition is particularly significant because strengthening upstream capabilities in critical minerals and permanent magnets directly supports the localisation of electronic components, reduces import dependence and addresses one of the structural drivers of India's trade deficit with China.



Key Insight

India is now actively executing a multi-pronged critical minerals strategy through scaling up domestic exploration, overseas asset acquisition, and strategic partnerships to reduce supply dependence on China. This signals a clear shift from intent to implementation, even as pronounced supply diversification will unfold only over the medium- to long-term.



Transshipments

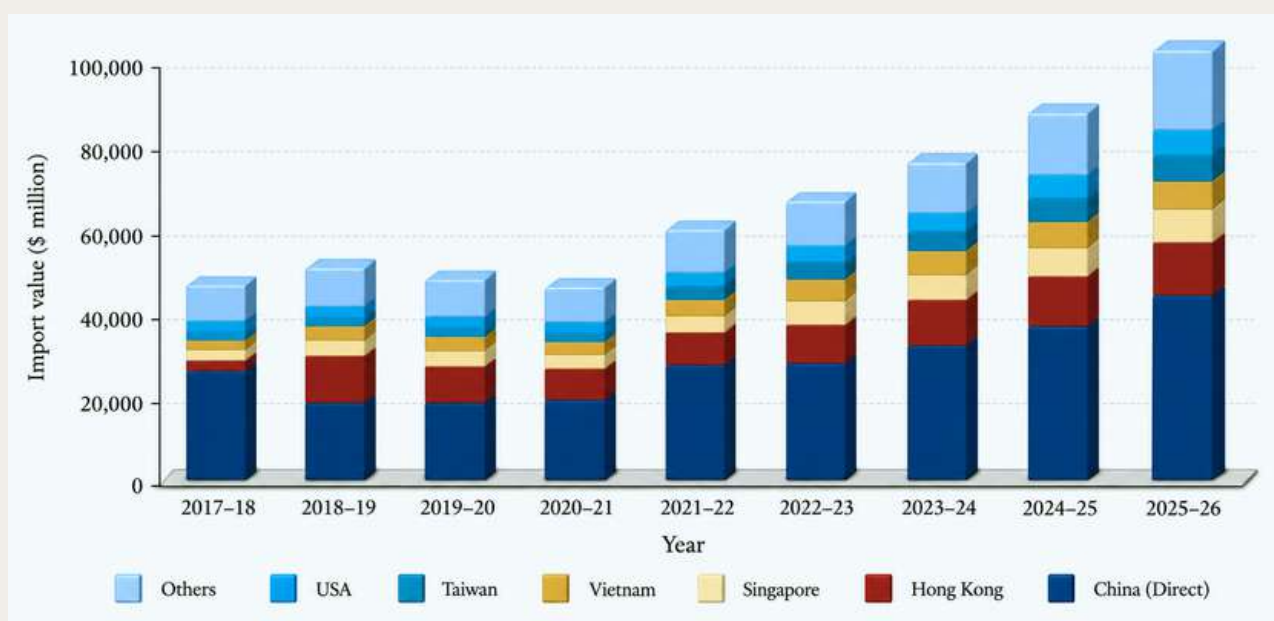
As official country-of-origin data on indirect imports is not yet regularly published, the latest analysis available on China-origin imports routed through intermediary countries dates to April–February 2021–22. The report by Directorate General of Commercial Intelligence and Statistics (DGCIS), Ministry of Commerce, uses a methodology for identifying such transshipments by comparing the country of origin with the country of consignment.²⁵

For the period under study in the DGCIS report, 85 percent of China’s total import value reached India through direct shipments. China, as the consigning country, also routed exports via Hong Kong, Singapore, Taiwan, the United States, and other destinations. During the same period, 10 percent of China’s exports to India were shipped through Hong Kong, while 2 percent were routed via Singapore.

Electronic goods were the primary commodities transhipped from China to India through Hong Kong, accounting for 78 percent of the total value of Chinese imports routed that way. In the 2021–22 period, electrical and non-electrical machinery (3.8 percent) and pearls and semi-precious stones (3.3 percent) were the next largest categories.

Most of China’s exports to India, routed through Singapore, were electronic goods, followed by transport equipment, totalling approximately \$2.35 billion in 2021–22. Among electronic goods, the principal contributing commodities included Electronic Components (15.3 percent), Computer Hardware and Peripherals (10.4 percent), Telecom Instruments (8.6 percent), Electronic Instruments (3.6 percent), Consumer Electronics (3.2 percent), and Accumulators and Batteries (1.8 percent). In an import list, these components would broadly be classified under various provisions of Chapter 85.

Figure 16. India’s HS 85 imports by partner: Changing trends of re-routing via third countries



Source: Author’s calculations based on data from the Ministry of Commerce and Industry as of July 26, 2026

Figure 16 plots India's import values under HS Chapter 85 by country, distinguishing between direct shipments from China and imports through major transit hubs such as Hong Kong, Singapore, and Vietnam. Two features stand out. First, there is a clear break around 2018–19, when the share of imports sourced directly from China falls sharply from nearly 60 percent in 2017–18 to about 40 percent in 2018–19. Second, this decline is mirrored by a simultaneous rise in imports from regional hubs, indicating a likely shift in routing rather than a simple reduction in reliance on China-origin supply.

Over the same period, Hong Kong's share increased from about 2.5 percent to 16.6 percent, while imports from Singapore and Vietnam also recorded noticeable increases. Although direct imports from China recover steadily in subsequent years, reaching \$46.3 billion in 2025–26, imports routed through regional hubs continue to expand in parallel. By 2025–26, imports from Hong Kong (\$10.5 billion), Singapore (\$6.2 billion) and Vietnam (\$4.9 billion) remain substantially higher than their pre-2018 levels, suggesting that the shift observed in 2018–19 reflects a persistent change in sourcing routes rather than a temporary fluctuation.

Starting in 2018, the trade war between China and the US led to substantial new tariffs and trade barriers on a broad set of Chinese intermediate goods that feed into energy equipment, renewable energy systems, and consumer electronics. These steps raised costs across energy, renewable energy, and consumer electronics supply chains worldwide. During the same period, India's imports under HS 85 from Hong Kong, Vietnam, and Singapore increased significantly. Data from 2018–19 show a growth of 616 percent (Hong Kong), 130 percent (Vietnam), and 158 percent (Singapore), respectively, compared to the previous year. During the same period, imports under HS 85 from China decreased by 28 percent.



Key Insight

China's most economically significant Free Trade Agreement(FTA) partners, in export terms, are Vietnam, South Korea, Malaysia, Thailand, Singapore, and Indonesia, which together account for the bulk of China's exports. DGCIS data from 2021-22 ranks Hong Kong and Singapore as major conduits for channelling Chinese exports to India.



Trade disputes between India and China concerning Chapter 85 products

In October 2025, China filed a formal complaint with the World Trade Organisation (WTO) against India over its Productivity Linked Incentives schemes targeting the EV and battery manufacturing industries. The Chinese Commerce Ministry alleges that India violates several WTO trade obligations through subsidy schemes under the Advanced Chemistry Cell (ACC) PLI and the PLI for the Automobile and Auto Component Industry.

Key Note

China has requested WTO dispute consultations with India regarding certain Indian measures in the automotive and renewable energy sectors. The measures in question include:

- The PLI Advanced Chemistry Cell Scheme
- The PLI Auto Scheme
- The EV Passenger Cars Scheme.

China is of the view that the measures are contingent on the use of domestic rather than imported inputs, or otherwise discriminatory against Chinese products, and are inconsistent with various provisions of the Agreement on Subsidies and Countervailing Measures, the Agreement on Trade-Related Investment Measures, and the General Agreement on Tariffs and Trade 1994. According to China, the schemes violate Articles 3.1(b) and 3.2 of the SCM Agreement, Article III:4 and Article I:1 of the GATT 1994, and Article 2.1 of the TRIMS Agreement.

Request for Consultations by China²⁶
India – Measures Concerning Trade in the Automotive and
Renewable Energy Technology Sectors
20 October 2025.

The complaint accuses India of violating agreements, including the principle of national treatment, and of constituting import-substitution subsidies, which are explicitly prohibited under WTO rules. The complaint alleges that the subsidies provide an unfair advantage to India's domestic players by linking subsidies to local production and domestic content requirements, and that they pose a threat to China's trade interests. The matter is pending before the WTO's Dispute Settlement Body since February this year.

Beijing's objection coincides with the country's efforts to increase its share in India's EV market.²⁷ Burdened by overcapacity in large-scale production, slowdown in domestic sales, and tariff and other barriers in Western markets, Chinese hybrid and EV makers, including BYD, XPeng and Leapmotor, are looking to overseas markets. With the EU imposing a 27 percent tariff on Chinese electric vehicles, Chinese automakers now view India as a significant new market. The complaint also marks the first time China has directly targeted India at the WTO.

In December 2025, China filed a second WTO complaint targeting India's solar PLI scheme and import duties on Chapter 85 products, specifically semiconductors, integrated circuits, and display manufacturing equipment.²⁸ The complaint alleges the same pattern of domestic content discrimination. Bilateral consultations held prior to this escalation failed, and China requested a formal dispute panel with the WTO. On May 22, 2026, India blocked this request, stating that the

support measures are fully consistent with WTO rules and regulations. China, however, renewed its demand and the WTO's Dispute Settlement Body agreed to it on June 23.²⁹

The WTO complaints run parallel to a wider set of anti-dumping actions taken by India against imports from China under Chapter 85 during 2024-25.

India has used anti-dumping duties (ADD) as a trade-protectionist measure to protect domestic industries from low-priced imports that cause losses to domestic producers. Under the WTO Anti-Dumping Agreement and India's Anti-Dumping Rules, the Directorate General of Trade Remedies (DGTR) investigates cases where imported goods are allegedly sold below normal value, causing material injury to domestic producers.³⁰

During 2024-25, India initiated several anti-dumping investigations against imports originating in or exported from China, particularly for products under HS Chapter 85 (Table 5).

Table 5. India–China: Anti-dumping cases on HS Chapter 85 products (2024–25)

PRODUCT	HS CODE	Case Summary	ADD	Year	Status
Solar cells/solar module	85414200 85414300	A three-year anti-dumping duty was imposed on Chinese solar cells/modules after DGTR found dumping margins of 10–115 percent and injury to the domestic industry.	Imposed	2025	Concluded ³¹
<i>Copper Data Cables</i>	85444900	The investigation is ongoing.	Under Investigation	2025	Ongoing ³²
<i>Mobile covers</i>	85177900 85176900	Mobile covers are being examined for dumping practices from China. The case reflects increasing scrutiny of imports of consumer electronic accessories.	Under Investigation	2025	Ongoing ³³
<i>PCB boards</i>	85340000	A five-year anti-dumping duty was recommended on imports of PCBs from China to protect the domestic industry.	Imposed	2024	Concluded ³⁴
<i>Soft ferrite cores</i>	85051110	DGTR recommended a five-year anti-dumping duty of up to 35 percent on Chinese soft ferrite cores used in transformers and electronic circuits.	Imposed	2024	Concluded ³⁵

Source: Directorate General of Trade Remedies (DGTR), Government of India



India-China investment

Bilateral investment has not kept pace with the rapid expansion in India–China trade. While bilateral merchandise trade reached \$151.1 billion in 2025–26, FDI equity inflows from China into India remained negligible, increasing from \$2.67 million in 2024–25³⁶ to \$5.91 million in 2025–26.³⁷ In 2020–21, foreign inflows from China stood at \$60 million, followed by an immediate decrease in the FDI levels at \$11.4 million in 2021–22. This reflects the continued impact of India's Press Note 3 (PN3) framework, introduced in April 2020, which requires prior government approval for investments from entities based in countries sharing a land border with India, including China.

At the same time, the persistence of India's large and growing import dependence on Chinese manufacturing has prompted a gradual shift in the policy discourse.³⁸ The Economic Survey 2023–24 argued that, as global supply chains diversify under the China+1 strategy, attracting Chinese investment into India could help relocate manufacturing capacity, increase domestic value addition, and reduce reliance on imports.³⁹ Rather than importing Chinese products, undertaking limited assembly, and re-exporting them, the survey suggested that local production supported by Chinese capital and technology could strengthen India's manufacturing base and export competitiveness.

Recent developments suggest that this approach is beginning to translate into selective policy implementation. In July 2026, the Government approved a joint venture between Dixon Technologies and Vivo Mobile India for manufacturing electronic devices and smartphones.⁴⁰ The venture, which will be 51 percent owned by Dixon and 49 percent by Vivo, is among the first major approvals involving Chinese participation in a strategic manufacturing sector since PN3 was introduced. Similarly, four Chinese manufacturers already operating in India; TBEA Energy, Nanjing Electric India, New Northeast Electric India, and Taikai Electric (India) were permitted to participate in government tenders for critical power-transmission projects, reflecting a calibrated easing in sectors where domestic manufacturing capabilities remain limited.⁴¹

These developments indicate a selective reopening of investment channels rather than a broad liberalisation of Chinese FDI. While actual Chinese FDI inflows remain extremely low, recent approvals suggest greater willingness to facilitate investment that brings manufacturing capacity and technology into India, particularly in sectors where import dependence on China remains high. At the same time, the core safeguards under PN3, including government screening and requirements for Indian ownership and control, remain firmly in place. The changes to the investment-screening framework enabling this approach are discussed in the following section.



Developments Related to Press Note 3

Since the introduction of PN3, the approval process has acted as a strong filter. As of April 2024, 124 of 526 total proposals under PN3 were approved, 201 were rejected, and the balance were pending.⁴² The pipeline is dominated by proposals from China, with a smaller number from other neighbouring countries. The new clearance regime has slowed inflows, particularly in sectors with large Chinese footprints, including electronics, telecom and e-commerce, even as some corporations (Xiaomi, Vivo, OPPO, Huawei and others) continue to operate and seek to expand.

In March 2026, the Government of India introduced targeted amendments to the FDI framework governing investments from countries sharing land borders with India.⁴³ The revised guidelines retain the core approval requirements under Press Note 3 (2020) but introduce limited relaxations

to facilitate investment in select manufacturing sectors. These include a 10 percent de-minimis threshold for non-controlling beneficial ownership, a 60-day decision timeline for proposals in specified priority sectors such as electronic components and capital goods, and provisions allowing the Committee of Secretaries, under the Cabinet Secretary, to revise the list of eligible sectors. These changes signal a more calibrated approach to managing investments from neighbouring countries, seeking to enable passive capital flows and manufacturing partnerships while maintaining safeguards over strategic ownership and control.

Table 6. Key features of the 2026 Press Note 3 amendments, 2026

Policy Measure	What the Amendment Introduces	Rationale	Intended Impact
Trade Context: India's Import Dependence in Electronics	India's trade deficit in electronic integrated circuits reached about \$8.9 billion in 2025–26, while that for semiconductor devices was about \$2.9 billion. More broadly, electronics-related imports under HS Chapters 84 and 85 together account for about 57.3 percent of India's imports from China.	These sectors provide critical upstream inputs to electronics manufacturing and semiconductor supply chains, and their heavy import dependence contributes significantly to the bilateral trade imbalance.	Strengthening domestic production in these sectors could help reduce import dependence and shift parts of the supply chain from imports to local manufacturing.
10 percent De-minimis Rule	Investments in which beneficial ownership from countries sharing land borders with India is 10 percent or less and is non-controlling may proceed under the automatic route, subject to sectoral caps and reporting requirements.	Simplifies existing market practice affecting global private equity and venture capital funds, many of which have diversified investor bases that may include small Chinese shareholdings. The rule recognises that such passive investments do not imply strategic control.	Expected to restore confidence among global financial investors and reduce delays for investments involving diversified international funds.
<i>Priority Sectors</i>	The policy identifies capital goods, electronic capital goods, electronic components, polysilicon, and ingot-wafer manufacturing as priority sectors for investment approvals.	These sectors form critical upstream segments of India's electronics manufacturing value chain and account for a large share of India's imports from China. Electronics-related imports under HS Chapters 84 and 85 together account for roughly 58 percent of India's imports from China.	Encourages localisation of supply chains and domestic production of key components, particularly in the electronics and semiconductor ecosystem.

60-Day Decision Timeline	Investment proposals in the specified priority sectors will be processed and decided within 60 days, subject to regulatory conditions and Indian ownership requirements.	Previously, joint ventures and technology partnerships were pursued mainly by a limited number of large Indian firms due to regulatory uncertainty and approval delays.	Intended to encourage joint ventures, technology collaborations, and manufacturing partnerships, particularly in electronics components and capital goods sectors.
Expected Economic Benefits	The revised framework aims to facilitate greater FDI inflows, access to new technologies, domestic value addition, expansion of domestic firms, and integration with global supply chains.	The amendments are designed to provide greater clarity and ease of doing business while addressing earlier investor uncertainty arising from the PN3 approval process.	Over time, the policy is expected to strengthen India's manufacturing ecosystem, increase domestic production of electronics components, and enhance India's role in global manufacturing supply chains.

Source: Author's compilation based on policy announcements and analysis

Despite relaxations, the revised framework does not represent a rollback of India's investment screening regime but an attempt to separate passive capital flows from investments that may involve strategic ownership or control. Despite the 10 percent de-minimis threshold and faster processing timelines, the core approval requirements under Press Note 3 remain in place for investments originating from countries that share land borders with India. Additionally, the 60-day timeline applies only to the processing and decision on proposals and does not guarantee approval, as investments will continue to be assessed under existing regulatory and security considerations. The responsibility for revising the list of priority sectors has been assigned to the Committee of Secretaries (CoS) under the Cabinet Secretary, enabling the government to review investor responses to the relaxations and amend the list of eligible sectors as necessary.

In this sense, the 2026 PN 3 amendments represent a calibrated and adaptive policy approach, under which the government is likely to monitor whether these relaxations translate into new FDI inflows before extending similar facilitation to additional sectors. Broadly, the changes signal an effort to reconcile national security concerns with the practical need to attract capital and technology into sectors where India remains heavily dependent on imports from China.



Key Insight

With Press Note 3 imposing barriers on Chinese FDI inflows, there has been a significant decline in investment flows between the two countries since 2020. The 2026 amendments signal a more calibrated approach, allowing pathways for capital and technology to enter priority sectors such as electronics and capital goods.



Conclusion

- India's trade deficit under HS Chapter 85 is fundamentally an upstream manufacturing challenge, driven largely by dependence on imported components and intermediate goods rather than finished electronics.
- China's dominance in these product segments reflects structural advantages in manufacturing scale, supplier ecosystems, technical capabilities, and cost competitiveness that cannot be addressed through assembly-led growth alone.
- Future industrial policy should prioritise localisation of upstream component manufacturing alongside final assembly. A greater emphasis on supplier ecosystems, domestic capabilities, and technology-intensive production will lay the foundation for resilient future growth.
- In segments where domestic capabilities remain limited, a calibrated framework for selectively permitting Chinese manufacturers may help localise production, deliver domestic value addition and the required technology transfer.

The analysis at both the six-digit and eight-digit levels points to a consistent pattern: India's deficit in HS 85 is not driven by finished electronics imports but by components and intermediate goods (display modules, permanent magnets, electric motors, insulated cables, and switching equipment) where China holds decisive advantages in scale, cost, and technical specialisation. Policy efforts focused on restricting imports or incentivising domestic assembly have expanded India's role in final manufacturing, but have not meaningfully addressed this upstream gap. As long as the components feeding Indian assembly lines continue to originate almost entirely from China, the trade deficit in this chapter will remain structurally anchored, regardless of growth in domestic electronics output.

A more targeted approach may involve selectively facilitating Chinese component manufacturers to establish production in India in segments where domestic or third-country alternatives remain technologically constrained, commercially unviable, or insufficient at scale. This differs from a broad reopening of Chinese FDI. The case is narrower and contingent: it applies principally to non-sensitive intermediate and upstream manufacturing segments that support India's own industrial and assembly ecosystems, including sectors encouraged through industrial policy initiatives.

The prevailing policy challenge, therefore, centres not on the prohibition of Chinese engagement, but on structuring that engagement to advance India's industrial objectives while mitigating strategic risks. Facilitating localised production by Chinese entities in specific sectors could potentially transition segments of the value chain to India, thereby easing imports and bolstering downstream manufacturing resilience. However, such benefits remain contingent on significant domestic value addition, genuine technology diffusion, and the maturing of local supplier ecosystems. The ultimate objective is a calibrated shift from persistent reliance on imports toward locally embedded manufacturing capacity, ensuring that industrial competitiveness is achieved through indigenous capabilities rather than merely altering the channel of dependence.

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