

SUMMER 2025

# INDIAN TIGER



SANJAY MALHOTRA BELIEVES  
INDIA IS POISED TO BE A  
DYNAMIC POWERHOUSE OF  
OPPORTUNITIES

GRAHAM BRIGHT CONSIDERS  
THE GLOBAL TRADE LANDSCAPE  
AND FEARS THE RISKS OF  
INSTABILITY AND CONFLICT

URSULA VON DER  
LEYEN DISCUSSES THE  
CONSEQUENTIAL PARTNERSHIP  
BETWEEN THE EU AND INDIA

Presented by  
 EURO EXIM BANK  
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## INDIA IN THE 21<sup>ST</sup> CENTURY

# Foreword

W

elcome to the *WCR* supplement, INDIAN TIGER. This publication has been prepared in response to readership demand for an overview of the Indian economy in these turbulent and unique times.

All aspects of the Indian economy are examined, with the most respected authors providing the reader with the most comprehensive information available. Our brief is to provide all the data necessary for the readership to make their own informed decisions. All editorials are independent, and content is unaffected by advertising or other commercial considerations. Authors are not endorsing any commercial or other content within the publication. ■

# CONTENTS

## *The consequential partnership*

The world is fragile, fractured and on the verge of change. Ursula von der Leyen believes there is an opportunity for Europe and India to reimagine their partnership, and stand to gain from a world of cooperation and working together

## *The time is right*

The EU and India both rank among the world's five largest economies. Ignacio García Bercero and André Sapir offer a broad perspective on the EU-India trade relationship and argue the time is right to make a European Union-India trade deal happen

## *FUD and the rise of economic nationalism*

The world is in a fragile state. Graham Bright considers the global trade landscape and fears that rather than a golden age, we must all be prepared to endure sustained and growing risks of global political instability and conflict

## *India-China rapprochement: what are the long-term prospects?*

India and China have experienced a complex and often contentious relationship. Nayanima Basu and Alicia García-Herrero say that despite signs of cautious improvement, India-China relations remain deeply strained by border tensions and mutual distrust

# CONTENTS

## *A partner in progress and prosperity*

The potential of India is enormous. Sanjay Malhotra presents his perspective on how India is poised to be a dynamic powerhouse of opportunities, innovation, and sustainable growth in the years to come

## *Indian tiger*

The global order is in a precarious state, and there is a reconfiguration of the structures of globalisation. Tom Page addresses India's economic ascendancy, its innovation and influence in a realigning global order

## *India's imperative for thought leadership in a fractured world*

Harsh V Pant and Vivek Mishra present a review of the India Think Tank Forum 2025, convened by the Observer Research Foundation

## *Will India benefit from the US-China tariff war?*

With the tariff showdown the US is veering the world into recession. The tariff confrontation between the world's two largest economies is wreaking havoc on the global economy, and India can take advantage of the situation, argues Sarosh Bana

## *Supporting digital payments*

Digital payments empower economic growth. Sanjay Malhotra discusses the payment ecosystem and argues for a balance between innovation and risk mitigation to ensure resilient digital payments





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# The consequential partnership

The world is fragile, fractured and on the verge of change. Ursula von der Leyen believes there is an opportunity for Europe and India to reimagine their partnership, and stand to gain from a world of cooperation and working together

It was Gandhi himself who famously said that a nation's culture resides in the hearts and in the soul of its people. This is certainly true of India, its people and its breathtaking cultural heritage and history. And above and beyond any economic or diplomatic relations, I believe it is culture that binds the people of India and Europe together.

We have a shared love of sport, art and literature. Our students and academics work and deepen their knowledge together. And our companies do business together on a scale almost unmatched around the world. All of this makes us natural and long-standing partners as we start our third decade of strategic partnership.

I believe what lies ahead is far greater than what has already been. Although history can always be a useful guide for how to approach the world of today. If we think back to 1947, we see how the soul of this great nation and its struggle through history propelled India to its independence. And looking back at the voices of the time, we also hear and feel the resolve and the determination of India to build prosperity, security and democracy for its future generations.

The words spoken at the time were as prophetic as they were poignant. At the same time in Europe, we were trying to put back together the pieces of our Continent ravaged by war. The countries of Europe chose to come together. To tie their destinies, their security and prosperity to one another in order not to repeat the mistakes of our past. This is how the seeds of our European Union were planted.

The point is that the world then was fragile, fractured and on the verge of change that would define the next eight decades. And both Europe and India, albeit in very different circumstances, understood the need to come together. I believe this is a clarion call for all of us as we stand here in 2025 at another inflection point in history.

I do not need to describe the geopolitical and geoeconomic headwinds that both the EU and India are confronted with. We have all seen how countries are weaponising their sources of strength against each other whether natural resources or new technologies, or economic and military coercion.

We have seen how supply chains and dependencies are used to gain influence or drive wedges between nations and regions. We have seen a more aggressive posture from major powers and of course the conflicts that have destabilised entire regions.

*I believe 2025 is a historic window of opportunity to build an indivisible partnership between Europe and India. Our interests align. Our commitment is iron-clad. And if it can be done anywhere, it can be done here*

How countries, in particular in the Global South, are looking for alternatives to what the international system has offered them. And we have seen clear attempts to split off parts of the world into isolated fragments.

This world is fraught with danger. But I believe this modern version of great power competition is an opportunity for Europe and India to reimagine their partnership. In many ways, the EU and India are uniquely placed to respond to this challenge together. India is the largest democracy and soon to be in the top 4 of the world's largest economies. It is the leading voice of the Global South. Europe is a unique crossborder democracy and open economy. The largest trading partner for some 80 countries around the world.

But this partnership makes sense not only because of our shared values or our close ties. Or even because of our respective geographies, demographics or economies. But it is because our interests in this hyper-competitive world align more often than not. We both stand to lose from a world of spheres of influence and isolationism. And we both stand to gain from a world of cooperation and working together.

Because we can offer each other distinctive alternatives and tools to make ourselves stronger, more secure and more sovereign in today's world. The kind of offer that cannot really be replicated by others. This is why the EU and India have the potential to be one of the defining partnerships of this century.

And it is why it will be a cornerstone of Europe's foreign policy in the years and decades to come. So, I want this to be the start of this new era. Prime Minister Modi and I share the same view. It is time to take our EU-India Strategic Partnership to the next level. For our own security and our prosperity. For the common global challenges that we face. And for the benefit of our respective regions and our partners around the world.



Over the last thirty years we have done a lot together. But in truth we have only been scratching the surface of the potential that is there. So, this is not a time to place limits on our cooperation. Or to get stuck looking for agreement on every issue of regional or global concern. It is time to be pragmatic and ambitious. And to realign our priorities for today's realities.

Allow me to very briefly map out my vision of the three areas which can take our partnership to the next level. The first is trade and technology. The second is security and defence. And the third is connectivity and global partnership.

The first area where I believe we can make real progress is on delivering prosperity in Europe and in India. Here we have a real shared interest and sense of purpose. India's *Viksit Bharat 2047* vision will help to transform the economy and create millions of jobs from traditional manufacturing sectors to high-tech industries and innovation. Europe is striving towards the same goal through our own economic and industrial transformation. I believe that we can help each other to reach our goals.

Make in India and 'made in Europe' can work together to drive our industries forward. And our common interests in de-risking our economies, in particular in sensitive technological areas, can help drive our economic security. Let's take some examples. We are both looking to diversify some of our most critical value chains. From our side this is for example the case on batteries or pharma, semiconductors, clean hydrogen or defence.

And we can support each other to achieve that. For that we need to have an ambitious trade and investment partnership. Today, the EU is India's largest trading partner, sitting ahead of both the US and China. European companies create 8 million jobs here in India. But we could do so much more by improving market access and







tackling the barriers to trade. And I believe this can be a launchpad to strengthen cooperation in key sectors which will drive the global economy as we head towards mid-century.

From semi-conductors to clean tech, from AI to high performance computing and digital public infrastructure. By investing together in this tech and by building strong supply chains, we can create a real advantage for ourselves in today's competitive global economy. And we should draw on each other's skills and talents. Such as our academics and researchers, to help make that happen.

A free trade agreement between the EU and India would be the largest deal of this kind anywhere in the world. I am well aware it will not be easy. But I also know that timing and determination counts, and that this partnership comes at the right moment for both of us. This is why we have agreed with Prime Minister Modi to push to get it done during this year. And you can count on my full commitment to make sure we can deliver.

The second broad area for renewed cooperation is security and stability. Here again we have many shared interests. Wars, conflicts and coups have erupted in Europe, the Middle East and Asia, in Africa and across different regions. And what happens in one part of the world matters to both Europe and India. Even if we sit far apart on the map. Because peace, security and prosperity are indivisible in this world.

In Europe, Russia's goal is to tear Ukraine apart. And we should be clear about what is at stake here. A failed Ukraine would not only weaken Europe. And that is why we have taken historic steps to support Ukraine and its future. But a failed Ukraine would also intensify the challenges in other parts of the world. Not least in this region.

Other countries around the world are watching very closely whether there is any impunity if you invade a neighbour or violate international borders. Or whether there are real deterrents. This is why we want any peace talks to lead to a just and lasting peace. With a free and prosperous Ukraine, that can join the European family.

And Europe is ready to live up to its responsibility when it comes to security and defence. We will step up our defence spending to ensure that member states have access to the full spectrum of capabilities that this new reality demands. But we also want to step up cooperation with crucial partners like India.

This is why I can announce that we are exploring a future Security and Defence Partnership with India in the mould of the partnerships we have with Japan and South Korea. This will help us step up our work to counter common threats whether on crossborder terrorism, maritime security threats, cyber-attacks or the new phenomenon we see: attacks on our critical infrastructure.

There is a lot that we can build on. For instance, the recent collaboration on maritime security. And I am delighted at India's interest in joining defence industrial projects under the EU's Permanent Structured Cooperation. India is working hard to diversify its military supply and to access new capabilities. And I believe we can help each other to deliver on our security objectives.

For instance, we can join forces where we have technology and expertise, such as on cyber security, space and drones. This is not only about stability in our respective regions. But it is also a key part in strengthening our economic security and ultimately our prosperity. And this is why security should be a core part of our new strategic partnership with India.

The third and final element I will touch on is the need to deepen our connectivity links and our global partnerships. And here there is a lot that Europe can learn from India. India has been a leading voice in bringing to the fore the concerns of many countries in the Global South. Addressing these issues becomes all the more important in a world where major powers are pulling away or even pulling at the seams of the international system.

And I believe India and Europe have a real opportunity to step up. To invest in each other, and to invest in our global partnerships. This is in our core economic and national security interest. India can play a unique role as a bridge between the Global South and the rest of the world. Between the Indo-Pacific and Europe. And Europe is ready to invest to help bring that to life.

Through Global Gateway, our €300 billion global infrastructure offer, we can invest in projects to transport energy across India, and between India and the world. And this is just the start of what can be done to build this connectivity between India, Europe and the regions between us.

The India-Middle East-Europe corridor launched here in New Delhi in 2023 during India's G20 Presidency is a historic opportunity to bring this to life. It's an amazing project. This can be a modern golden road – directly connecting India, the Arabian Gulf and Europe. With a rail link, that will make trade between India and Europe 40% faster. With an electricity cable and a clean hydrogen pipeline. And a high-speed data cable to link some of the most innovative digital ecosystems in the world.

This corridor is much more than 'just' a railway or a cable. It is a green and digital bridge across continents and civilisations. And it can help bring us closer together and boost trade on everything from batteries to clean hydrogen and digital services. This can be a win-win-win for Europe, India and our partners. We are ready to invest



in concrete projects that can already start making these connections happen. Europe is open for business, and we are ready to invest in our common future with India.

Investing in our common future. This is the driving force of this new era of partnership between Europe and India. In troubled times great opportunities come. And I believe 2025 is a historic window of opportunity to build an indivisible partnership between Europe and India. Our interests align. Our commitment is iron-clad. And if it can be done anywhere, it can be done here.

Because as Romain Rolland – the French writer and great admirer of India said: *“If there is one place on the face of earth where all the dreams of living men have found a home from the very earliest days when man began the dream of existence, it is India.”* And today we are one step closer to making our common dream a reality. ■

**Ursula von der Leyen is President of the European Commission**

*This article is based on a [speech](#) delivered at the 'The Consequential Partnership: Reimagining and realigning EU and India ties for today's world', New Delhi, 28 February 2025.*

# The time is right

The EU and India both rank among the world's five largest economies. Ignacio García Bercero and André Sapir offer a broad perspective on the EU-India trade relationship and argue the time is right to make a European Union-India trade deal happen

## Executive summary

Nearly 20 years have passed since the EU and India started negotiations on a bilateral trade and investment agreement. After seven years of intense negotiations, the process stalled in 2014, primarily because of the failure of the respective political leaders to make difficult choices.

Talks restarted in 2022 and now offer a reasonable chance of delivering a bilateral free-trade agreement “*within the course of the year*”, as Indian Prime Minister Narendra Modi and European Commission President Ursula von der Leyen declared in February 2025.

The EU and India both rank among the world’s five largest economies in terms of GDP. Yet much separates the two economically. India’s GDP per capita is much lower than the EU’s, and its level of trade and investment protection is much higher than that of the EU or even its middle-income peers.

However, India has recently enjoyed faster growth than any other large economy, including China. The EU and India are also being brought closer by the global geopolitical situation and their common pursuit of strategic autonomy and economic security.

The two sides should learn the lessons from past failure and reach an ambitious agreement in areas that previously proved difficult, such as goods tariffs and services, and in new areas, such as climate protection, that could again derail the revived negotiation if not managed well.

A deal by the end of 2025 will have economic benefits and will also reinforce the broader economic and political links between the EU and India at a time when world affairs are under severe strain. An ambitious agreement could

also help reconstruct a rules-based global order for the new multipolar world. This is particularly important for the multilateral trade and climate regimes, where converging EU and Indian positions could have a major influence on the redesign of international institutions and rules.

*The EU and India are also being brought closer by the global geopolitical situation and their common pursuit of strategic autonomy and economic security*



## 1 Introduction

The relationship between the European Union and India has a long history. Bilateral ties were established in 1962 and reinforced with the signature of a Cooperation Agreement of 1994. Since 2004, the EU and India have worked together in a Strategic Partnership that entails political, economic, security and technological cooperation (European Commission, 2004).

Part of this partnership was the start, in 2007, of negotiations on a broad-based bilateral trade and investment agreement<sup>1</sup>. However, negotiations were suspended in 2014. The EU-India Strategic Partnership since then has been called ‘under-performing’ and ‘high on rhetoric and low on substance’<sup>2</sup>.

Since the EU-India Summit of May 2021, the situation has changed substantially. Leaders from both sides agreed to resume negotiations on a comprehensive trade and investment agreement<sup>3</sup>. In 2022, the two partners established a bilateral Trade and Technology Council, a type of forum that, until then, the EU had only with the United States.

Then, in February 2025, the European Commissioners – the European Commission’s top officials – took the exceptional step of meeting the Indian Government in New Delhi, underscoring the importance of the EU-India relationship for both parties. The statement issued following this visit said the two sides would conclude their free-trade agreement “*within the course of the year*” and develop a new strategic agenda for adoption by the next EU-India Summit<sup>4</sup>.

This new attitude needs to be understood in the context of the broader geopolitical situation and the danger it poses to the rules-based multilateral trading system.

On the EU side, the increased focus on India arises from a recognition of India’s potential to become a major economic power, its critical role in achieving net zero carbon objectives and the EU’s need to derisk its economic

relationships with China and a protectionist United States. Similar considerations played an important role in the conclusion in December 2024 of the EU-Mercosur free-trade agreement, more than 20 years after the launch of the negotiations<sup>5</sup>.

Naturally, the agreement with Mercosur, which has a GDP nearly as large as India's, will be very present in the minds of EU negotiators, although they will have to keep in mind that India's per capita GDP is well below Mercosur's.

Meanwhile, the EU has already concluded comprehensive trade agreements with Singapore and Vietnam and is negotiating with several Association of Southeast Asian Nations (ASEAN) countries and looking into closer cooperation with Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) countries. EU-India trade negotiations should therefore be seen as part of a broader strategy of EU engagement with the Global South in general and the Indo-Pacific region in particular.

India's new attitude to the EU owes partly to the country's goal of derisking its economic relationship with China (Basu and García Herrero, 2025). The same considerations influenced the conclusion in May 2025 of the India-United Kingdom free-trade agreement, which will clearly serve as a benchmark for Indian negotiators, though the EU economy is far bigger than the UK's and the EU is likely to push in a number of areas for greater ambition than achieved in the India-UK deal.

This *Policy Brief* offers a broad perspective on the EU-India trade relationship (section 2) then discusses and makes recommendations on the bilateral FTA negotiations, which the two sides are committed to conclude by year-end (section 3). Section 4 discusses how the EU and India could build on successful bilateral FTA negotiations to help reinforce the multilateral trading system.

## 2 The EU-India trade relationship in perspective

In 2023, India's GDP (measured at current exchange rates) was the fifth largest in the world, regardless of whether one treats the EU as a single entity or not<sup>6</sup>. Its share of global GDP was 3.3 percent at current exchange rates and 7.9 percent at current purchasing power.

From 1992 to 2023, India's GDP grew at a remarkable average annual rate of 6.2 percent. Within the group of middle-income countries, whose ranks India joined in 2007 according to the World Bank, only China did better (8.9 percent). By contrast, Brazil, the third largest middle-income economy, grew much slower (2.4 percent average rate).

Admittedly, India's impressive performance owed partly to its faster population growth (1.6 percent per year for 1992-2023) compared to China (0.7 percent) and Brazil (1.1 percent), putting its GDP per capita growth achievement (4.6 percent for 1992-2023) well below China's (8.2 percent), though still impressive compared to other middle-income countries.

Since 2021, India has consistently grown faster than China (in GDP and GDP per capita terms), a situation that is likely to continue, partly because of India's lower income level. In 2023, India's GDP per head at purchasing power parity (PPP) reached \$10,000, a big improvement compared to the past but still considerably below China (\$25,000), Brazil (\$21,000) and obviously the EU (nearly \$60,000; Table 1).

India's rapid growth during the past three decades contrasts sharply with its performance during the previous three decades (1962-1990), when per-capita GDP grew at an average annual rate of barely 1.9 percent, far below China (6.0 percent) or even Brazil (2.9 percent). As universally recognized, the doubling of India's per-capita income growth in 1992-2013 compared to 1962-1990 owes to the Indian government's decision, in 1991, to liberalise the economy, both internally and externally, in response to a severe balance-of payments crisis.

**Table 1. GDP and GDP per capita, EU and India, compared to Brazil and China, 2023**

	GDP (\$ billions)		GDP per capita (\$)	
	Nominal ER	PPP ER	Nominal ER	PPP ER
EU	18,591	26,500	41,423	58,892
India	3,568	14,620	2,481	10,166
Brazil	2,174	4,457	10,295	21,107
China	17,795	34,660	12,614	24,569

*Note: ER = exchange rate and PPP = purchasing power parity.*

*Source: Bruegel based on IMF data.*

India's inward-looking policy after independence in 1947 resulted in its share of world merchandise exports falling from 2.1 percent in 1951 to a low of 0.4 percent in 1980 (Wolf, 2004). After 1991, this share started to increase, at first modestly, reaching 0.7 percent in 2001. By 2023, India's share of global merchandise exports had reached 2.3 percent – ahead of Brazil, with a share of 1.8 percent, but far behind China, the world's largest exporter of goods, with a share of 17.9 percent.

India's export success has been far bigger in services, for which its share of global exports increased from 1.4 percent in 2001 to 5.3 percent in 2023, only slightly behind China (Table 2, columns (1) and (2)).

The differing Indian and Chinese trade performances in goods and services reflect two opposite economic strategies towards the manufacturing sector in the two Asian giants. China adopted an export-led industrial strategy, combining relatively low trade protection and favourable foreign direct investment (FDI), inviting multinational corporations with global value chain (GVC) linkages to the country, resulting in a high share of manufacturing value added in GDP.

**Table 2. Selected trade indicators, EU and India, compared to Brazil and China, 2023**

	(1)		(2)		(3)	(4)		(5)		(6)
	Shares of the global goods trade, %		Shares of the global services trade, %		Manuf. VA, % of GDP	Share of manuf. in goods trade, %		MFN tariffs, simple average for all products, %		RTAs, All/XXIV, numbers
	X	M	X	M		X	M	Bound	Applied	
EU	14.2	13.8	23.4	22.2	15.3	81.3	67.5	5.1	3.0	47/47
India	2.3	3.4	5.3	4.1	12.9	67.9	47.7	50.8	17.0	19/4
Brazil	1.8	1.3	0.7	1.4	13.3	25.0	75.9	31.4	11.2	9/1
China	17.9	13.1	6.0	9.3	26.2	93.5	58.1	10.0	7.5	20/18

Note: M = imports, RTAs are regional trade agreements, VA = value added, X = exports, and XXIV = GATT Article XXIV RTAs.

Source: Bruegel based on World Bank and WTO data.



A key ingredient of this strategy for China was joining the World Trade Organization (WTO) in 2001, which resulted in less trade protection and better access to foreign markets.

Meanwhile, although it substantially opened up the economy in the early 1990s, India has continued to follow its earlier domestic-led strategy, but in a less trade-distortive manner (thanks to greater foreign competition), resulting in a relatively low share of manufacturing in the economy.

The main ingredient of this more gradual strategy, compared to China, was the fact that India was already a member of the General Agreement on Tariffs and Trade (GATT) in 1991, when it decided to liberalise.

Therefore, its liberalisation was not a quid pro quo to obtain better access to foreign markets, especially advanced economies, which were already relatively open to Indian imports. India's liberalisation in 1991 was therefore far more gradual than China's liberalisation in 2001. Whereas the latter reduced both its most-favoured nation (MFN) bound and applied tariff rates drastically, the former only lowered its applied rates, keeping its bound rates at very high levels.

The result for India was domestic-led growth (like in Brazil) rather than export-led growth (like in China and other East Asian countries). This is also illustrated by the relatively low share of manufacturing in exports and imports in India compared to China<sup>7</sup> (Table 2, columns (3)-(5)).

India's still has very high MFN bound rates (50.8 percent on average across all products) reflect the fact that the country never engaged in substantial reciprocal trade liberalisation within the multilateral framework of the GATT/WTO, insisting instead on its development status and 'special and differential treatment' to benefit from trade liberalisation by more advanced countries, without having to offer equivalent liberalisation. Most of India's

substantial tariff liberalisation since 1991 has been undertaken unilaterally, with MFN applied rates gradually reducing to an average of 13 percent by 2008.

The corollary of the unilateral nature of these tariff cuts is that they are ‘unbound’, implying that the country reserves the right to apply the higher bound rates when it wishes and without having to consult or compensate other WTO members.

India’s government used this possibility in 2018, when it increased the average applied tariff (which had remained below 14 percent for the previous 10 years) to 17.1 percent. Tariff protection then continued to increase, reaching more than 18 percent in 2021 and 2022, before returning to 17 percent in 2023.

This partial reversal in trade policy, which was accompanied by an increase in various non-tariff barriers (NTBs), has been criticised by Indian trade economists, such as Arvind Panagariya, who complained that India is *“deviating from the road of steady liberalization that we had adopted in 1991... and ha[s] now taken a U-turn to begin traveling in the reverse direction”*, adding that *“import protection as the path to global competitiveness is a non-starter”*<sup>8</sup>.

In the mid-2000s, India entered a new trade liberalisation phase, this time in response to increased competition from China, resulting from its entry into the WTO. For the past 25 years, India has sought to achieve reciprocal trade liberalisation by negotiating regional trade agreements (RTAs), including free-trade agreements (FTAs), with a number of important trading partners.

The WTO website (consulted on 1 June 2025) lists 19 RTAs currently in force between India and individual countries or groupings, of which only four involve FTAs notified to the WTO under GATT Article XXIV, which allows the signing of FTAs provided that they meet certain conditions meant to ensure that third countries will not be negatively impacted<sup>9</sup>.

The other 15 FTAs were notified under the so-called 'enabling clause', which allows developing countries to craft FTAs with less-stringent conditions than those imposed by GATT Article XXIV. The greater flexibility afforded by the enabling clause, which can only be used if all the parties to an FTA are developing countries, essentially means that these agreements provide for less trade liberalisation than those notified under GATT Article XXIV (Table 2, column (6)).

India's first GATT Article XXIV FTA was signed with Singapore in 2005. During the next two years, India launched similar FTA negotiations with Korea and Japan. Agreements were signed with Korea in 2009 and Japan in 2011, consisting, like that with Singapore, of separate FTAs for goods and services. All of these FTAs were, however, quite shallow in terms of commitments, focusing mainly on tariffs.

In 2007, India agreed to launch more comprehensive negotiations with the EU. As we detail in the next section, these negotiations were suspended in 2014 and eventually restarted in 2022. After Brexit, the UK started its own negotiations with India, reaching a successful conclusion on 6 May 2025<sup>10</sup>.

India has also signed FTAs (covering goods and services trade) with Australia (2022) and the European Free Trade Association (EFTA; 2024). India is not participating in the two mega regional trade agreements now operating in the Asia-Pacific region (the Regional Comprehensive Economic Partnership (RCEP) and the CPTPP) and is therefore much less-integrated into regional value chains than some of its competitors.

In 2024, the EU was India's largest trading partner, slightly ahead of the US and China. However, since (like China and the US) the EU does not have preferential access to the Indian market, which is protected by relatively high applied MFN tariffs, it has likely been hurt by trade diversion caused by the new Indian FTAs, especially those with Korea and Japan, whose producers compete with EU producers.

For the EU (and others without an FTA with India), such trade diversion has already translated into a loss of market share in favour of countries that have FTAs with India, such as in the case of automotive components with Korea and Japan<sup>11</sup>.

For India, trade diversion is likely to generate higher costs for the economy, compared to a situation without discrimination between suppliers based on whether they enjoy preferential access to the Indian market or not. India may wish therefore to combine conclusion of reciprocal FTAs with a reduction in MFN tariffs in non-sensitive sectors.

There would also be a good argument for reducing policy uncertainty by bringing bound tariffs closer to applied MFN rates, but this would require multilateral negotiation. The upshot is that both the EU (and also other partners without an FTA with India) and India have an economic interest in concluding a bilateral FTA. This is precisely what the EU and India are now hoping to achieve in 2025.

From India's perspective, therefore, an FTA with the EU would not be the first with an advanced economy with much lower trade protection than India, since it already has FTAs with several advanced economies. But it would be an FTA with a far bigger economy than previously, and also with India's largest trade partner.

Likewise, from the EU's perspective, an FTA with India would not be the first with a middle-income economy with much higher trade protection than the EU, but it would be a deal with the second biggest middle-economy and one of its top ten trade partners.

### 3 The EU-India FTA negotiations

#### 3.1 Twenty years of on-off talks

From the EU's perspective, the start of negotiations with India in 2007 was part of a first generation of comprehensive FTAs that also included Korea and ASEAN. The EU's goal was to open up the markets of highly protected emerging economies and tackle not only tariffs, but also services, procurement, regulatory issues and the interface between trade and sustainable development.

Negotiations with Korea were concluded rapidly, but talks with ASEAN soon stalled, and the EU decided to launch separate negotiations with Singapore and Vietnam, which were concluded respectively in 2018 and 2019.

From India's perspective, the EU was a good candidate to negotiate its first comprehensive FTA because of the expectation that the EU would be less demanding than the US on agriculture. Negotiations were preceded by a scoping exercise in which the EU and India agreed the key parameters for a comprehensive negotiation. This scoping also made clear that the EU was ready to respect India's sensitivities in relation to the elimination of many agriculture tariffs.

To what extent did negotiations fail in 2014 because of the EU insistence on a rigid comprehensive FTA template? The situation is complex. The EU was very conscious that the agreement with India could not follow the model of the agreement with Korea. It accepted from the beginning that tariff commitments would be asymmetrical and that on certain sensitive issues, such as patent protection, India could not be expected to change its domestic legislation.

The EU also signalled its readiness to sequence procurement negotiations, for which India was in the process of developing domestic legislation. Although the EU would have always insisted on the importance of a trade and

sustainable development chapter, it was conscious of India's political sensitivities and ready to explore a less-ambitious chapter than that included in the agreement with Korea.

At the same time, the EU was concerned that concluding negotiations at too low a level of ambition could create a poor precedent for negotiations with Vietnam, a country at a similar level of development to India, and for which the EU's objective was to establish a template that could be followed in bilateral negotiations with other ASEAN countries.

By October 2013, the EU and India had exchanged offers on tariffs and services, and efforts were focused on identifying the outlines of possible agreement for the market-access component of the FTA. By far the most politically sensitive topic was tariffs on car and car parts.

The EU had just gone through a difficult process of ratification of the FTA with Korea in the face of opposition from the EU car industry, which feared increased competition from Korean producers in the EU market. EU car producers wanted improved access to the Indian market, but this met strong opposition from the Indian industry, including Japanese and Korean firms that had recently invested in India – the FTAs concluded by their governments excluded the car sector.

Despite the entrenched positions of both sides, their respective tariff zones of possible agreement were eventually tantalisingly close, which raises the question of why it was not possible to bridge the difference at the end<sup>12</sup>.

Here the issues of timing and political engagement came to the fore. By the time landing-zone negotiations started, the Indian elections were looming and prime minister Manmohan Singh was in a weak political position.



With the benefit of hindsight, it is clear that both sides should have started negotiations on an outline agreement earlier, and should have more regularly brought the state of FTA negotiations to the attention of their leaders. Clearly, negotiations between strategic partners require regular leadership involvement on both sides.

After the election of Prime Minister Narendra Modi in May 2014, the EU sought to establish whether negotiations could resume on the basis of the proposal shared in October 2013. But it soon became clear that the momentum had been lost, and India was now much more focused on increasing protection for the manufacturing sector.

At the EU-India summit on 8 May 2021, leaders agreed to relaunch the FTA<sup>13</sup>. Significant progress has been achieved during the past four years, but much remains to be done if the declared objective of reaching a conclusion before the end of the year, set in February 2025 at the New Delhi meeting, is to be met.

### 3.2 The US and Chinese shadows

The hoped-for EU-India FTA must be understood in the context of India-China and India-US relations.

Security tensions and an unbalanced trade relationship between India and China make it unlikely that the two Asian giants will strengthen their trade and economic relationship in the near future (Basu and García Herrero, 2025). While India would have an interest in attracting more Chinese investment because of its job creation potential, it will need to balance this against economic security concerns and the limited prospects of narrowing a massive bilateral trade deficit.

India might wish to foster greater integration in Asian value chains, potentially by joining RCEP and CPTPP<sup>14</sup>. But such a step would be difficult because of the deficit with China, US pressure to derisk from China and the fact that joining the CPTPP requires acceptance of high standards in a number of regulatory areas, plus market-access negotiations with countries that may seek further opening of agriculture markets.

Meanwhile, India and the US announced on 13 February 2025 the start of negotiations on “*the first tranche of a mutually beneficial, multi-sector Bilateral Trade Agreement (BTA) by the fall of 2025*”<sup>15</sup>. For India, the immediate objective of these negotiations is to seek relief from the application of US ‘reciprocal’ and sectoral tariffs<sup>16</sup>.

It is not clear, however, how much the US is ready to offer in terms of relief from the across-the-board 10 percent import surcharge introduced by President Trump, or from sectoral tariffs on steel and aluminium, cars and potentially pharmaceuticals.

More fundamentally the US has no legal authority to offer India the elimination of MFN duties. India may therefore find it difficult to justify before public opinion an agreement that would reduce India’s tariff protections without equivalent concessions from the US.

Moreover, if India offers such concessions on a preferential basis, it will further undermine respect for non-discrimination, a central tenet of the WTO system. A better approach would be for India to reduce some of its very high tariffs on an MFN basis, even if the reduced tariffs remain unbound pending a broader multilateral negotiation.

### 3.3 Priorities

To meet an end-2025 deadline for agreement on an EU-India FTA, particular attention should be given to the following issues<sup>17</sup>:

#### *Tariffs*

At 17 percent, India’s average tariff is much higher than other Indo-Pacific countries that are competing to attract foreign investment – for example, Thailand (11.5 percent), Vietnam (9.6 percent) and Malaysia (5.6 percent)

(Pradhan, 2025). The EU already has a comprehensive FTA with Vietnam and is negotiating comprehensive agreements with Thailand and Malaysia.

To attract export-oriented investments, Indian tariffs should be comparable to those of other emerging markets in the region. Eliminating tariffs on intermediate products and capital goods will be critical for development of an export-oriented Indian industry.

At the same time, the EU should respond to India's request for asymmetric liberalisation and eliminate rapidly most of its industrial tariffs, so that the benefits of the FTA are visible for export-oriented Indian industries. Tariffs on passenger cars and car parts are likely to be again the most sensitive item. In light of the sensitivities of both sides, tariff commitments are not likely to be very ambitious in the agriculture sector.

Negotiations are apparently difficult on rules of origin. Here a possible approach would be to agree on rules of origin similar to those included in EU agreements with ASEAN countries, but to provide for cumulation with countries that have concluded FTAs with both the EU and India. This could also prepare the ground for a common protocol on rules of origin between the EU, CPTPP, EFTA and other Indo-Pacific countries (García Bercero, 2025).

#### *Standards and conformity assessment*

India has developed a system of mandatory standards that require certification in the form of quality control orders (QCOs) following audits of manufacturing facilities. Most products subject to QCOs are not subject to mandatory third-party certification in Europe. Since QCOs are a major obstacle for marketing products in India, creative legal solutions should be explored. The issue is also a priority in negotiations between India and the US (Linscott, 2025).

More broadly, both sides have an interest in including in the trade agreement chapters on technical barriers to trade and sanitary and phytosanitary standards that will establish the basis for closer regulatory cooperation.

European companies have indicated that the overall cost of doing business in India is a greater obstacle than tariffs, so the success of the EU-India trade and investment agreement will hinge on the reduction of regulatory obstacles. Similar demands are made by US business (Köhler-Suzuki, 2023).

### *Services and digital trade*

India has very few service commitments in its WTO General Agreement on Trade in Services (GATS) schedule. The EU-India FTA should therefore at least maintain the current level of openness. The EU would also need to consider asymmetry of commitments and explore creative solutions on the temporary provision of services by professionals, perhaps by also encouraging visa-related commitments at member-state level outside the FTA.

There appears to be a very significant scope for expanding cross-border digital trade, although it would be difficult to negotiate a digital chapter with a level of ambition similar to EU agreements with Japan, Singapore and Korea.

In particular India is unlikely to accept commitments on localisation requirements or on the non-application of duties on e-commerce. In case it is not possible to conclude an ambitious digital chapter, the EU may wish to privilege negotiations with the CPTPP countries and conclude an open plurilateral agreement with them that India may consider joining at a later stage.

In any event the EU and India could cooperate more on digital regulation, in particular on artificial intelligence, within the framework of their Trade and Technology Council.

### *Investment*

The EU and India are negotiating a separate investment agreement, although the goal is not to conclude it this year together with the FTA. India has terminated its bilateral investment treaties with EU member states and is in

the process of developing a new template for investment agreements. This has negatively impacted on FDI flows (Köhler-Suzuki, 2023).

No EU-level investment-protection agreement has yet entered into force with any third country because of the need for member-state ratification of any agreement that includes a procedure for investor-state adjudication. It may therefore be the right time for an innovative approach to investment negotiations.

The objective should be to create the conditions to facilitate more European investment and greater integration of Indian and EU value chains. This could be achieved through a combination of market-access commitments (both tariffs and investments) in the FTA, and investment facilitation and investment protection standards in the separate investment agreement<sup>18</sup>.

To avoid the difficulty of national ratification and EU unanimity rules, the investment protection agreement should only provide for state-to-state dispute settlement, since investor-state dispute settlement remains a national prerogative in the EU.

The EU and India could also agree a joint declaration stating India's readiness to negotiate bilateral investment treaties with interested EU countries. Such bilateral agreements would have to respect the protection standards in the EU-only agreement.

The EU-India investment agreement could also be an opportunity to implement the new EU concept of Clean Trade and Investment Partnerships (CTIPs) – frameworks for clean industrial collaboration with third countries on clean energy, critical raw materials, clean-tech trade and investment<sup>19</sup>.



Green industries, including energy-intensive industries, are particularly promising areas for European investment in India. The investment agreement could establish a structure for consultation with industry to identify investment opportunities and, where necessary, support this through financial derisking instruments. It would be important that any such investments benefit from the green industrial policies applied by India and the EU, in order to create lead markets.

### *Procurement*

India's federal procurement laws apply 'made in India' preferences. In the absence of commitments by India to non-discriminatory treatment of EU suppliers, the EU may prefer to keep open the option of also discriminating against Indian suppliers.

A possibility would be for both sides to agree initially to non-discriminatory access to their respective public contracts for a limited number of sectors, subject to review after some years. These sectors could include those for which the EU, through the Clean Industrial Deal, intends to introduce 'buy European' requirements consistent with international commitments<sup>20</sup>.

In the absence of FTA commitments, Indian companies may not be able to benefit from access to EU procurement in sectors supported by the CTIP under the investment agreement. As an incentive for India to offer meaningful national treatment commitments, the EU could also be ready to offer asymmetric procurement commitments.

### *Sustainable development*

The inclusion of a trade and sustainable development (TSD) chapter has been a feature of all EU FTAs since the agreement with Korea. India appears now ready to include such a chapter in its FTAs, having done so in its agreements with EFTA and the UK.

It is clear though that the possibility of sanctions for breaching TSD commitments, and therefore a binding dispute settlement mechanism, would cross a red line for India. Another sensitive area is the inclusion of a formalised procedure to consult civil society on issues covered by the sustainable development chapter. The EU could explore whether a TSD chapter similar to that included in the EU-Mercosur agreement could also be applied with India.

It might be necessary, however, to give India more leeway. For instance, the EU could establish its own mechanism to consult civil society in relation to all the activities relating to the implementation of the FTA and to ensure full transparency of its proceedings.

India has raised a number of concerns about EU climate-related measures, most notably the carbon border adjustment mechanism (CBAM) and the EU Regulation on Deforestation-free Products (Regulation (EU) 2023/1115). India has asked to be exempted from CBAM, which the EU cannot do without compromising its environmental objectives and the need to comply with WTO non-discrimination rules.

The EU could however offer reinforced cooperation on the implementation of CBAM, either as part of the trade agreement or separately. It could also start discussions with countries that have already or are developing domestic carbon markets (as is the case for India), to develop a framework for cooperation on decarbonisation commitments.

The annex to the TSD chapter in the EU-Mercosur agreement includes a section on 'sustainability measures affecting trade', which commits its signatories to cooperate on the implementation of trade-related sustainability measures.

In particular, the annex includes specific commitments relating to the implementation of the EU Regulation on Deforestation-free Products. In relation to India, specific commitments could be included relating to CBAM implementation, including measures to reduce the administrative burden on SMEs, technical assistance to support

India in the development of its carbon pricing scheme, facilitation of accreditation and early consultation about future regulatory developments.

Together with the support for investment in energy-intensive industries, such as green steel intermediate products, this could go a long way towards alleviating Indian concerns. In the medium term, a climate coalition, could provide an alternative to the application of CBAM<sup>21</sup>.

In summary, the benefits of EU-India trade and investment agreements hinge on being able to provide the necessary incentives for the expansion of trade and investments for both parties. While this does not require an agreement as comprehensive as recent EU FTAs, the agreements should include a critical mass of issues that make India an attractive destination for European investment compared to other countries in the region.

The EU market-access offer should be sufficiently attractive and be accompanied with a genuine commitment to reinforce regulatory dialogue, in particular on green and digital regulation. The FTA could be concluded as planned by end-2025, and then more time given to develop an innovative investment agreement that includes specific green value chain investment projects.

In our view, the EU is better placed than China or even the US to offer India a transformative and balanced trade agreement. If combined with a new type of investment agreement, an FTA could increase export-oriented investment in India and boost its manufacturing sector.

The EU-India trade agreement should also be viewed as an important contribution to a more strategic geopolitical partnership between the two parties. This should allow for more honest engagement on major foreign policy challenges.

In particular, India and the EU have the potential to be leading players in restructuring the multipolar global order in relation to the global trading system (see section 4) and the climate regime. The EU and India could also work with other countries that have introduced domestic carbon prices, to agree on the decarbonisation of trade-intensive sectors, which could eventually provide an alternative to CBAM (Clausing *et al* 2025).

#### **4 The EU, India and the multilateral trading system**

The WTO is experiencing an existential crisis. Since the failure of the Doha Round negotiations in 2008, the WTO has ceased being a credible forum to negotiate market access or the updating of trade rules.

In his first term, President Trump put an end to binding dispute settlement. So far in his second term, Trump has ignored the two most basic principles of the GATT/WTO system: MFN and stability of tariff bindings.

Beyond their bilateral engagement, the EU and India should reflect on how to position themselves in view of the risk of the demise of the rule-based trading system and its replacement by power-based trade relations. While the EU and India are better placed to defend their interests than smaller players, their interests would be impacted negatively by the continuous erosion of the WTO and the emergence of a bipolar US-China trading regime based on managed trade and spheres of influence.

India's path to global competitiveness and development requires the critical factors behind China's successful development strategy: stable conditions and protection against arbitrary trade measures. Likewise, the EU will find it difficult to defend its central position in the global trading system in a world without rules.

The prospect of EU-India cooperation at the WTO, although sorely needed, is hindered by a legacy of misunderstandings and established 'doctrines' that no longer correspond to the current environment of

geoeconomic competition. A history of EU-India trade relations in the context of the WTO remains to be written, but three elements are worth highlighting:

1. The EU and India maintained a close level of strategic engagement during the Uruguay Round negotiations that led to the establishment of the WTO in 1995<sup>22</sup>. While India was a strong defender of developing-country interests, it also had a strategic interest in reinforcing disciplines on US unilateralism and was ready to consider how improved WTO rules could support the opening up of the Indian economy to more international competition.

2. A strategic gap between the EU and India emerged when defining the WTO agenda after its creation. While the EU became the main advocate of WTO expansion into new areas of rulemaking – investment, competition and trade and the environment – India insisted on the need to correct the ‘development deficit’ in WTO agreements and led the opposition to the inclusion of new issues into what eventually became the Doha Development Agenda (DDA).

With the benefit of hindsight, it is clear that the EU should have given much more thought to how to reconcile new rule-making activities with the challenges for developing countries in implementing Uruguay Round commitments. On the other hand, India’s strident opposition to bringing new issues to the WTO agenda has contributed to the partial demise of the WTO and risks condemning it to complete irrelevance.

3. Despite this strategic gap, the EU has maintained a fairly productive level of engagement with India. This was the case both during the DDA negotiations on agriculture and during the efforts to get India to lift its opposition to plurilateral agreements, such as the WTO agreement relating to services domestic regulation<sup>23</sup>.



The question is whether this relatively high level of trust can be used to revisit long established positions and respond to the major strategic questions affecting the global trading system.

In view of India's reputation as a sceptic in WTO negotiations, it may seem paradoxical to suggest that the EU and India should engage in a more strategic dialogue on how to reposition the WTO in the new geoeconomic environment<sup>24</sup>.

It is clear however that no major reform of the WTO is possible without the active participation of India and that the current crisis may also create conditions for new thinking that goes beyond both India's and the EU's longstanding positions. The focus should not be primarily on the issues currently on the WTO agenda, but rather on exploring the types of multilateral rules and institutional arrangements that would best serve the long-term interests of India and the EU.

The priority strategic question is how multilateral trade institutions should be adapted to a multipolar world. Is it still possible to imagine a rule-based institution such as the WTO, in which both the US and China participate? What changes to the WTO rules and institutional structure would be needed to engage the US, China and the broader WTO membership?

In the absence of engagement by the US and or China, what options are available for India and the EU? How can the stability that is critical for growth and development be maintained, and how can further fragmentation of global trade and marginalisation of vulnerable developing countries be avoided? What is the proper interface between the trade regime and the international monetary, development and climate regimes?

To encourage more systemic analysis of these questions, the EU and India could establish a reflection group of independent experts to present recommendations for discussion at the next EU-India Trade and Technology Council and Summit, currently scheduled to take place in India in 2026.

## 5 Conclusion

Nearly 20 years have elapsed since EU-India trade negotiations were first launched. While not quite as long as the EU-Mercosur negotiations, which started in 2000 and concluded in 2024, the EU-India talks are reaching a point where there is sufficient political involvement at leaders' level to strike a deal. Failure would be a huge economic and political setback for both sides, especially given the current state of the world.

Geopolitics is the reason why the EU-India relationship has become much more important for the two sides, and others, than it was 20 years ago, when it was upgraded to the level of Strategic Partnership but without much actual substance. The change obviously has much to do with the growing rivalry between China and the United States, encompassing economic, technological and geopolitical spheres, and their efforts to coerce each other and other countries.

In this new world, the EU and India share strategic autonomy and economic security goals with a *“shared interest in shaping a resilient multipolar global order that underpins peace and stability, economic growth and sustainable development”*<sup>25</sup>.

An EU-India trade deal by the end of 2025 will have not only economic benefits but will also reinforce the broader economic and political links between the EU and India at a time when world affairs are under severe strain. An ambitious bilateral trade and investment agreement should serve to reinforce cooperation between the EU and India in the global context to help reconstruct a rules-based global order for the new multipolar world.

This is particularly important for the multilateral trade and climate regimes, where converging EU and Indian positions could have a major influence on the redesign of international institutions and rules. ■

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## Endnotes

1. One of the authors of this Policy Brief, Ignacio Garcia Bercero, was EU chief negotiator for the 2007- 2014 EU-India FTA negotiations. This Policy Brief draws on that direct experience.
2. Dipanjan Roy Chaudhury, [‘European Union: More than just its parts’](#), The Economic Times, 27 March.
3. See [Joint Statement, EU-India Leaders’ Meeting](#), 8 May 2021.
4. See [‘Leaders’ Statement following the visit of President of the European Commission Ursula von der Leyen and College of Commissioners to India, 27-28 February 2025’](#).
5. See European Commission statement of 6 December 2024, [‘Joint Statement by the Signatory State Parties of MERCOSUR – Argentina, Brazil, Paraguay and Uruguay – and the European Commission on the Conclusion of the Negotiations of the Partnership Agreement’](#).
6. India ranks only behind the US, the EU, China and Japan in one case and behind the US, China, Germany and Japan in the other. Measuring GDP at PPP, India ranks only behind China, the US and the EU in the former case and behind China and the US in the latter.
7. On the link between India’s trade and investment policy and its lagging manufacturing competitiveness compared to other emerging Asian economies (besides China), see Prabhakar et al (2025) and Ray and Miglani (2020).
8. Arvind Panagariya, [‘Modi’s plans to reform India hinge on one aspect: Free trade’](#), The Economic Times, 16 August 2020. See also Kathuria (2025).
9. For the sake of completeness, one should add that all the GATT Article XXIV FTAs in goods negotiated by India are complemented by GATS Article V FTAs in services.
10. See UK Department for Business and Trade press release of 6 May 2025, [‘UK concludes trade deal with India’](#).
11. We are grateful to Nicolas Köhler-Suzuki for pointing this out. For evidence, see Köhler-Suzuki (2023).
12. On the history of the EU-India trade negotiations, see also Köhler-Suzuki (2021).
13. See [joint statement from the EU-India Leaders’ Meeting of 8 May 2021](#).



14. Nikunj Ohri, *'India should join China-backed Asian trade bloc, government think tank CEO says'*, Reuters, 7 November 2024.
15. The White House, *'United States-India Joint Leaders' Statement'*, 13 February 2005.
16. Through so-called reciprocal tariffs, the US administration wants to reduce US trade deficits with other countries. See The White House, *'Reciprocal Trade and Tariffs'*, 13 February 2025.
17. The European Commission provides regular reports on the state of negotiations. See, for instance, European Commission, *'Report of the Eleventh Round of Negotiations on a Free Trade Agreement between the European Union and India'*, 12-16 May, New Delhi.
18. The EU has so far concluded an investment facilitation agreement with Angola and negotiations have also been concluded on a plurilateral agreement in the WTO, although India is not a party to it and is opposing integration into the WTO framework.
19. Simone Tagliapietra and Cecilia Trasi, *'Making the most of the new EU Clean Trade and Investment Partnerships'*, First Glance, 16 October 2024, Bruegel.
20. Zia Weise, *'EU pushes 'buy European' quotas in major plan to revive industry'*, Politico, 18 February 2025.
21. On climate coalitions and trade in green steel, see Pisani-Ferry et al (2025).
22. This statement is based on the experience of one of the authors who participated in the Uruguay Round negotiations.
23. In February 2024, disciplines on services domestic regulation entered into force for a group of WTO members. A total of 71 governments – representing 92.5 percent of global services trade – are committed to implementing these new disciplines. See WTO, *'Services Domestic Regulation'*.
24. On India's position in the WTO, see Manak (2025).
25. Leaders' statement following the visit of the President of the European Commission Ursula von der Leyen and College of Commissioners to India, 27-28 February 2025.

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# FUD and the rise of economic nationalism

The world is in a fragile state. Graham Bright considers the global trade landscape and fears that rather than a golden age, we must all be prepared to endure sustained and growing risks of global political instability and conflict

It goes without saying that the world is in a fragile state, where we are living in a FUD culture. (Fear, Uncertainty, and Doubt). These sentiments are pervasive economic forces and even psychological drivers that influence behaviour of buyers and sellers across the globe.

Critical events such as significant stock market losses and rebounds, that were typically experienced years apart (such as the South Sea Bubble, Wall Street crash, sub-prime banking crisis) are now almost daily occurrences.

In our interconnected global economy, international trade is vulnerable to tariffs and sanctions, and more intangible elements such as poor perception, lack of trust, and low confidence. So how does fear, uncertainty and doubt manifest itself in trade?

Firstly fear. What economies dread most are threats from home and abroad that may destabilise current process, necessitate uncoded, unexpected and unpredictable rapid changes in policy, and importantly, unforeseen outcomes and demands that may take years to unravel, such as suddenly needing to find alternative supply chains.

Then, uncertainty. Challenges in making logical provisions, understanding constant changes to regulations, customs incompatibility, and regulatory mandates affecting single countries and larger trading blocs. This may also affect trade agreements, movement of labour and the resulting bureaucracy around crossborder activity. And it could all change overnight.

And finally, doubt. Basic mistrust and scepticism abound regarding the stability, intent and means of partners, suppliers and institutions, whether local or global to act ethically and morally. Trust is key, as is the hope that product will not be stolen, counterfeited, misrepresented or your intellectual property and patents are not misappropriated.



As companies' de-risk, delay large investments, try to prevent currency flight, make more product in home markets, international trade is becoming hijacked by economic nationalism.

Thankfully today nobody throws themselves off buildings when experiencing financial loss, and large banks survive, the wealthy remain unaffected, and buses still run.

*Events are cyclical. From the East India company world domination to independent states, emerging economies, new supply chains, collective trading blocs, free trade agreements across continents, the breakup of the former USSR, the formation and divergence within the European Union, we see a return to isolationist, protectionist and economic nationalism*

But for the small investor, home owning saver and man in the street without bitcoin, these times are increasingly challenging.

Of course, this is not helped by fluctuating political sentiment. Diplomatic U-turns, attempts at high level talks and conflict resolution failing, are not helping, nor are the predictions in a TV interview of legendary banker Jamie Dimon; *"Global fiscal deficits are inflationary. I think the remilitarization of the world is inflationary. The restructuring of trade is inflationary."*

The eyes of the world have recently witnessed the 'just in time' avoidance of a major conflict between India and Pakistan, continued posturing of a peace agreement between Ukraine and Russia, and continued action in Gaza, whilst armaments manufacturers prosper, ordinary people are under extreme hardship.

So, it's easy to see why traders are reticent in making big commitments, noting serious rapidly evolving geopolitical tensions, almost daily economic policy changes and headline seeking implications. These elements affect market sentiment, trust and confidence, wondering how to deal with disrupted global supply chains, and engendering a feeling of being out of control.

For SMEs, which account for up to 90% of global businesses, these are yet more challenges to their existing issues of lack of liquidity and funding, and frequent and onerous regulatory challenges.

In a recent article, I wrote about how the continent of Africa was seeking to extend the free trade agreement African Continental Free Trade Area (AfCFTA) with its Project 54 ideals, announced in Rwanda in April. The project starts with implementation of new technologies, for a Next-Gen Digital Payment Infrastructure.

The goal is to see the benefits of technological innovation become inclusive, sustainable, and transformative, reaching every individual and enterprise, regardless of geography.

The objective? A seamless, trusted, interoperable and efficient crossborder payment system, promoting data exchange economic empowerment, financial resilience, and ensuring that Africa's digital economy is built on an infrastructure that meets the needs of businesses and individuals alike.

The simple outcomes are to further digital interconnectivity, standardise, rationalise and re-use resources and systems, reduce trade barriers and harmonise regulations.

Additionally working collaboratively for the common good in realising assets, processing raw materials closer to the point of extraction, and taking the true economic value of rare commodities would further stimulate trade and allow the continent to truly benefit from its natural resources, manpower and cost of production.

And this is possible, with free trade and fair trade working together. However, these valiant efforts may well be thwarted at the first hurdle.

With great fanfare, and fair amount of shock (especially when announcing new tariff rates for China) the US openly declared its global intentions.

To make America great again, the administration has a clear policy to rebuild industries, re-invigorate infrastructure, efficiently and economically supply its home markets, restrict expensive imports and provide new employment opportunity.

But after the hue and cry, and thought that this was just another tax, many countries will potentially be better off. India's rate was 26%, Vietnam 46%, Botswana 27%, Lesotho 50%, Mauritius 40% and South Africa 30%. Now, or for the time being at least until July, they are rated at 10%.

And this has already affected trade. The dollar has been falling against other currencies (1.22 to Stirling in January up to 1.33 in May). The global impact could be a fall in global GDP of 1%, with latest economic outlooks indicating a 40% likelihood of US recession.

And economic nationalism is the result and actively encouraged. Through trade policy, industrial policy, competition policy, restricted foreign direct investment (FDI), immigration, and macroeconomic policy, offensive use of tariffs rather than unbounded free trade, restricted rather than free labour movement, and tight control on movement of funds to prevent capital flight, no nation is immune from its effects.

By advocating protectionist policies and routes to self-sufficiency, there is a much more aggressive involvement by the state, often stifling entrepreneurial flair, to satisfy nationalistic, isolationist policy.

The thought-process of trading with liberalism and benefits for all has been hijacked, in favour of nationalist goals, not personal or corporate, enabling the building of greater military power and national security.

The construct of economic nationalism has never been more prevalent, designed to maximize exports and minimize imports for an economy, accumulating resources for one-sided trade with one-sided benefits, and clearly anti-globalisation.

In this scenario, international trade is not viewed as a 'win-win' between nations, a meeting of minds, a sharing of revenue, but where success, especially economic success, is only possible at the expense of other people's failure, or where the aim is to achieve gains for oneself only.

As with all nations suffering huge trade gaps, mercantilism aims to reduce a possible current account deficit, attempting to secure domestic funds, and build reserves of finished goods through investment in industrial processes.

History shows us that such policies may have contributed to conflicts and with little agriculture or manufacturing, countries then embarking on aggressive foreign policies, embracing colonial expansion.

The 16<sup>th</sup> century saw the rise of the East India Company, in its day the world's largest company, accounting for half of world trade, with global influence and value of more than 7.9 trillion USD in today's money.

However, nations were already restricting trade, promoting tariffs and subsidies, and building domestic infrastructure with a view to creating the framework for long term exports.

Scroll forward to the twenty first century, and nothing much has changed. Challenges of globalisation, economic inequality, security issues, limited critical raw materials required in new technology industries and political extremism and unrest now abound.

Through tariffs, sanctions and blatant discrimination, with adoption of protectionist policies, these factors have created an ever-changing complex landscape compromising the global trade arena, especially around global supply chains.



Where in the past economies relied on relatively few products, new technologies have created unprecedented demand for critical raw materials (ie. used in mobile phones and communications devices powering the internet) requiring lengthy, costly extraction processes, from small deposits in unique areas.

Traditional sources are in many instances no longer economically viable or exhausted (ie. for critical materials and metals), where companies are forced to seek materials further afield, or even resorting to moving manufacturing to avoid having to import goods and face restrictions, regulation and risk.

And tariffs, either by design or retaliatory, have certainly been an effective means to beat off competition in agriculture, automotive and electronics industries. Indeed, by creating more barriers, nations are creating their own standards and regulatory arenas, pulling away from a once cooperative contact surface to fierce competition, leaving a disrupted, fragmented trading and technology landscape.

By decoupling technology, stopping collaboration on strategic projects in defence, AI, cyber security, blockchain and crypto are compromised, with missed opportunity, additional risk and duplicated excessive cost.

Just as important will be the continued dependency on the US dollar. Wars may rage, but international deals continue with the majority still undertaken in the dollar, which remains the official currency for reserves and for global crossborder trade.

Countries need dollar reserves to pay for imports and to cover local liabilities in dollars in crises. But, whilst the US seeks to protect its primary position and flex political muscles through imposition of financial sanctions and tariffs, it is no wonder that affected countries are looking to find alternatives to circumvent lack of liquidity, high rates of

exchange and contraction of trade through non-participation among domestic institutions. However, as the world's leading reserve currency, this is not likely to change any time soon.

Even as China expands use of renminbi loans for oil and commodity deals, the question remains whether they would effectively open capital accounts and float the currency on world markets. Probably not, with the short to medium prospect of the currency becoming mainstream and eventually eclipsing US dollars remaining remote.

More likely is the uptake of unregulated crypto currency, consensus in trading blocs such as BRICS to determine their own payments, trade movement and collective currency, and further reliance on the digital form of a country's fiat currency through central banks namely CBDCs, fully regulated, protected and not wildly fluctuating.

Demand for gold as a commodity but not any longer a reserve currency has certainly grown, forcing up prices by 28% in 2024 and reaching record highs in 2025.

Where the gold standard was once the primary factor affecting currency, and limiting the amount of printed money in circulation, with finite supply, it did control volatility a situation where an increase in the price of gold can create a trade surplus or help offset a trade deficit.

### **In conclusion**

Events are cyclical. From the East India company world domination to independent states, emerging economies, new supply chains, collective trading blocs, free trade agreements across continents, the breakup of the former USSR, the formation and divergence within the European Union, we see a return to isolationist, protectionist and economic nationalism.

World economies are experiencing fear, uncertainty and doubt, unprecedented challenges, greater fragmentation, unseen critical cyber threats from state actors, intellectual property theft, possible economic destabilisation and trust in fiat currency from cryptocurrencies, and unethical trade practices.

Unfortunately, rather than a golden age, we must all be prepared to endure sustained and growing risks of global political instability and conflict. ■

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# India-China rapprochement: what are the long-term prospects?

India and China have experienced a complex and often contentious relationship. Nayanima Basu and Alicia García-Herrero say that despite signs of cautious improvement, India-China relations remain deeply strained by border tensions and mutual distrust

## Introduction

China-India relations, which have long been fraught, were further complicated by the 2020 military standoff on the Himalayan border. The political disruption had a significant impact on Chinese companies' presence in India. And yet, India's dependence on Chinese imports has increased since.

The Indian economy is decelerating at a challenging time for Prime Minister Modi, who governs in a coalition. China could offer a partial solution to India's economic woes by providing manufacturing FDI and creating jobs. The Modi-Xi 'rapprochement' after their encounter at the October 2024 BRICS summit signals that relations could improve. India may be willing to accept targeted investment from China, but relations are unlikely to fully normalise, particularly since the 2025 India-Pakistan military stand-off.

There are three main reasons for this. First, the Indian army remains cautious about the situation at the border and security risks relating to China. Second, the United States under President Trump will exert pressure on Modi not to depend further on China. This is even more relevant in the context of Trump's threat to impose tariffs on India. Third, Indian public opinion on China and the Belt and Road Initiative remains negative.

India is predicted to experience greater growth than China in the coming decades, meaning China could lose its upper hand in economic relations between the two countries. This, however, will depend on how dependent India becomes on China for imports or for jobs through FDI and other channels. The militarised border, India's asymmetric economic dependence on China and China's leadership in the Global South will still shape the relationship even if the Indian economy grows to a similar size to China's. India-China 'rapprochement' is possible but will remain fragile and is unlikely to be maintained in the long run.



## 1 How have China-India relations evolved?

The relationship between China and India has been marked by cooperation and rivalry, with economic engagement offset by tensions and security concerns. Since the installation of Xi Jinping as Chinese President in March 2013 and the election of Narendra Modi as Prime Minister of India in May 2014, relations have remained thorny, and their long-standing border dispute has become even worse.

*The relationship between China and India has been marked by cooperation and rivalry, with economic engagement offset by tensions and security concerns*

During President Xi's visit to India in September 2014, the countries aimed to redefine their relationship through a closer developmental partnership to advance common interests and regional and global stability and prosperity. Efforts were made to enhance trade and investment through the Five-Year Development Program for Economic and Trade Cooperation<sup>1</sup>.

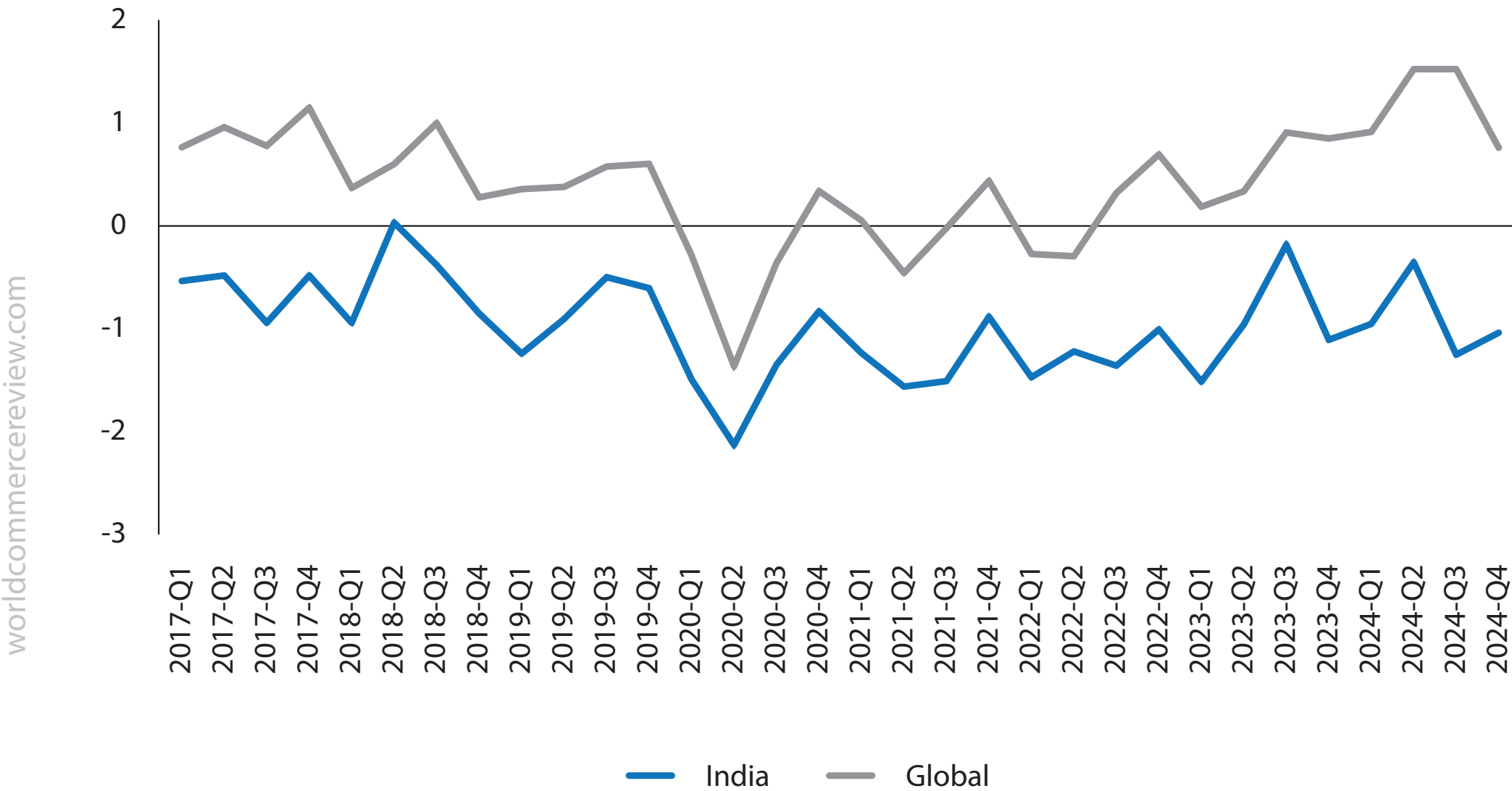
Since then, the India-China bilateral relationship has seen positive and negative developments in economy, defence and security. On 16 June 2017, a military face-off between India and China started on the Doklam plateau, a strategically important region at the trijunction of India, China and Bhutan, which lasted for 73 days. On 27 April 2018, Modi went to Wuhan for an informal summit.

Both sides agreed to improve military communications to prevent miscalculations at the China-India border and committed to establishing better crisis management mechanisms (Joshi, 2018). Modi also expressed his concerns about the growing bilateral trade deficit, while Xi agreed to open China's market to Indian products (Kumar and Singh, 2018).

Despite this rather successful Wuhan summit, problems continued to pile up right after, starting with China's push to have India become a member of the Belt and Road Initiative (BRI). Indian public sentiment about China and its BRI remains much more negative than that of the rest of the world (Figure 1).

India is strongly opposed to the BRI for two reasons: first, an important part of the BRI, the China-Pakistan Economic Corridor, passes through Pakistan-occupied Kashmir. China's strong cooperation with Pakistan under the BRI was perceived by India as a potential security threat, which became even more obvious in the lead-up to the 2019 Indian general elections as tensions with Pakistan flared up after a suicide bomber targeted a convoy of Indian paramilitary police in Jammu and Kashmir<sup>2</sup>.

Figure 1. India and global sentiment towards China and the Belt and Road Initiative



Source: Natixis

Closer China-Pakistan relations since then have not helped, especially since the terrorist attack in Indian-administered Kashmir on 22 April, which was met with India's 'Operation Sindoor', comprised of multiple strikes on Pakistan. China has played a significant role in supplying Pakistan with advanced weaponry used to shoot down Indian aircraft<sup>3</sup>.

Second, India feared that a successful BRI could put China in a leadership role in the Global South. To some extent, this has happened, evident in China's central role in an expanded BRICS.

India's role as de-facto leader of the G33, a coalition of 47 developing countries coordinating positions on trade and economic issues at the World Trade Organisation (WTO), has lost its lustre as the G33 has become increasingly ineffective. India's reluctance to engage in trade agreements, including the Regional Comprehensive Economic Partnership (RCEP), has not helped it to maintain a leading role in the Global South<sup>4</sup>.

Beyond India's concerns about China's relations with Pakistan and its growing leadership in the Global South, the military stand-off at the Himalayan border in 2020 immediately derailed the economic relationship and high-level contacts between the two countries (Li, 2023).

In the next section we will analyse the causes and consequences of this standoff. It is important to understand that China-India relations can often be seen as a triangle, with the third actor being the United States, particularly since Trump presented his Free and Open Indo-Pacific strategy.

While there have been some signs of tensions easing since the BRICS summit in Kazan in October 2024<sup>5</sup>, doing business together will remain difficult as the uncertainties about bilateral relations have not fully disappeared. In fact, while the Government of India has decided to stabilise bilateral ties with China, military tensions continue to simmer and the chances of a full-fledged conflict cannot be ruled out (Bajpae and Jie, 2025).

## Economic ties

Economic ties between India and China remain relevant but are very concentrated in Indian imports from China, with minimal Indian exports to China and investment between the two. India has been facing an increasingly large trade imbalance, created by its growing reliance on Chinese imports and stagnating exports to China (Figure 2).

These imports have continued to increase despite Indian efforts to limit imports through non-tariff barriers including quality controls. The trade deficit reached \$100 billion in 2022 and has remained at that level since (Figure 3). China is India's largest trading partner on the import side while it ranks fourth on the export side (Figure 4 and 5).

Since Modi came to power, there was an attempt to address India's unequal trade relationship with China by attracting foreign direct investment (FDI) into manufacturing to reduce dependency on Chinese imports and create more jobs in the formal economy but with increasingly constraints, especially since the military stand-off in 2020.

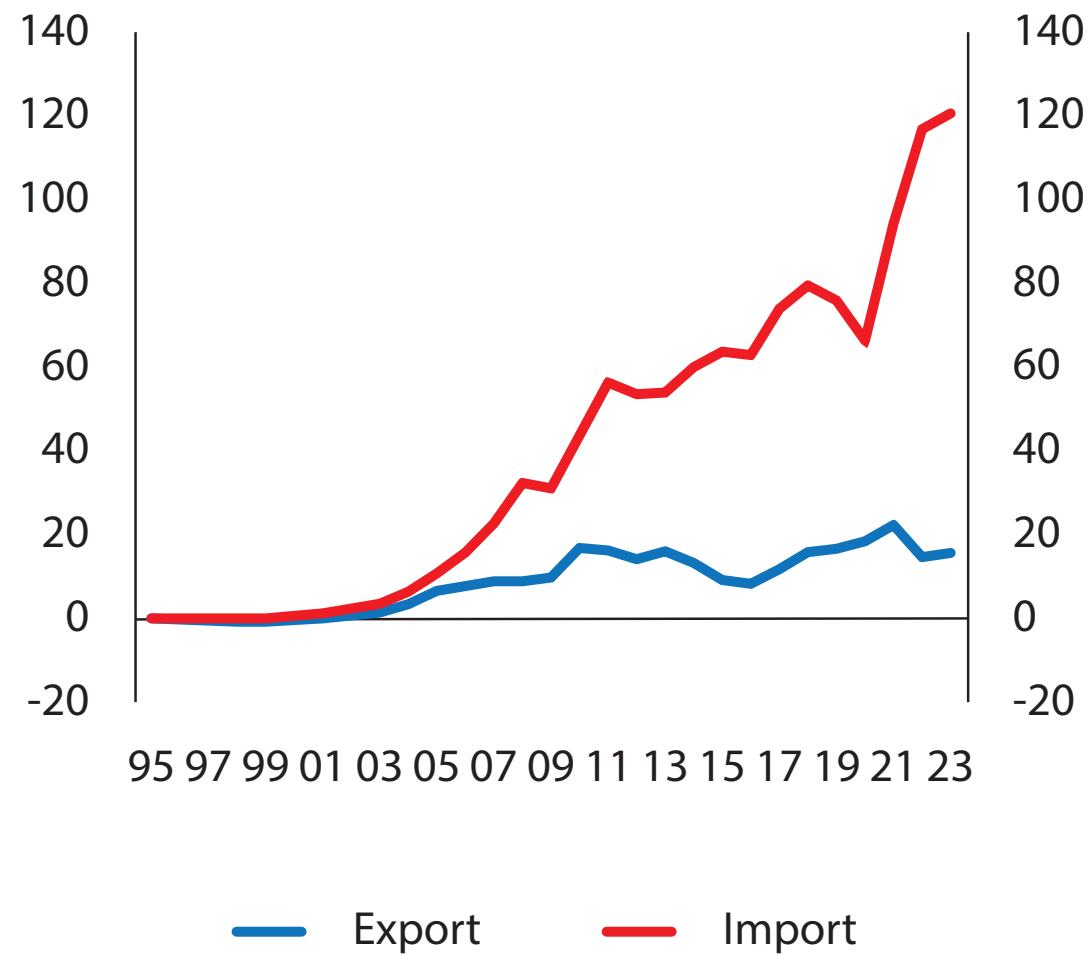
This is particularly important for Modi, as the lack of formal jobs was one of the issues that may have led to the rather disappointing result for his party in the 2024 general elections<sup>6</sup>.

However, Chinese FDI into India remains extremely low (Figure 6) and even more so for manufacturing. This can be explained, at least partially, by the many restrictions imposed by India, especially when it comes to Chinese FDI.

China is interested in the Indian market as it is the only country big enough to become the main player in an alternative supply chain. China's core interest would be to avoid India creating its own manufacturing capacity independently of China, which further increases China's interest in investing in manufacturing in India and its exports of intermediate goods.

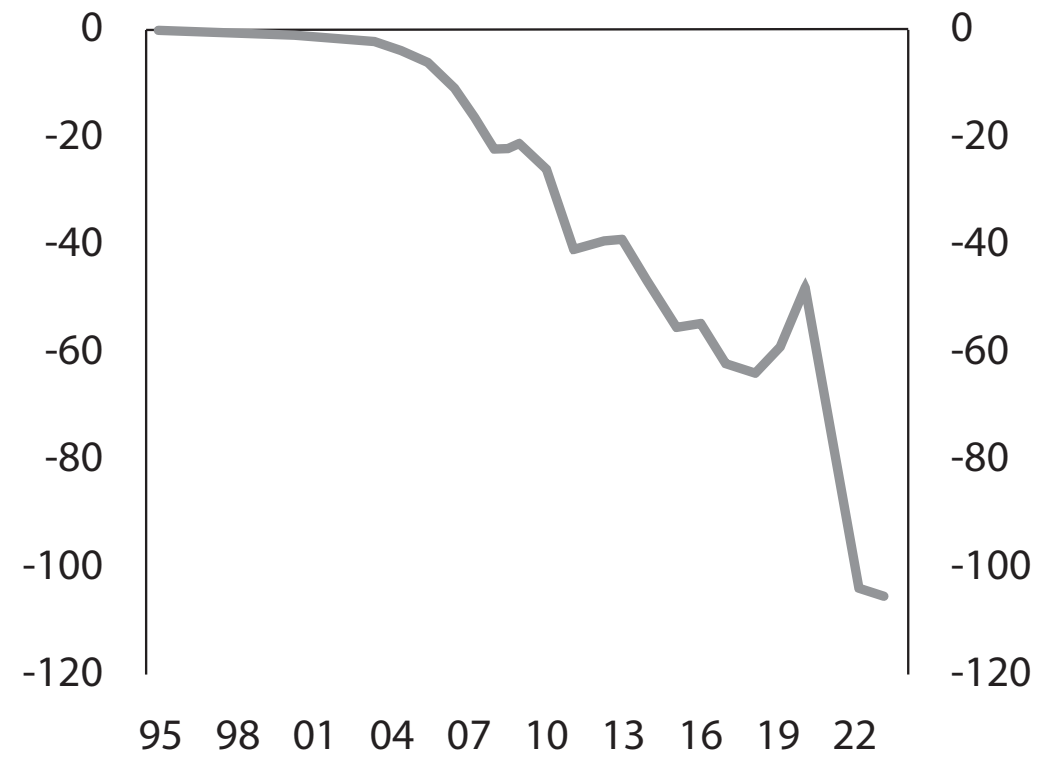


**Figure 2. India trade with China (billions \$)**

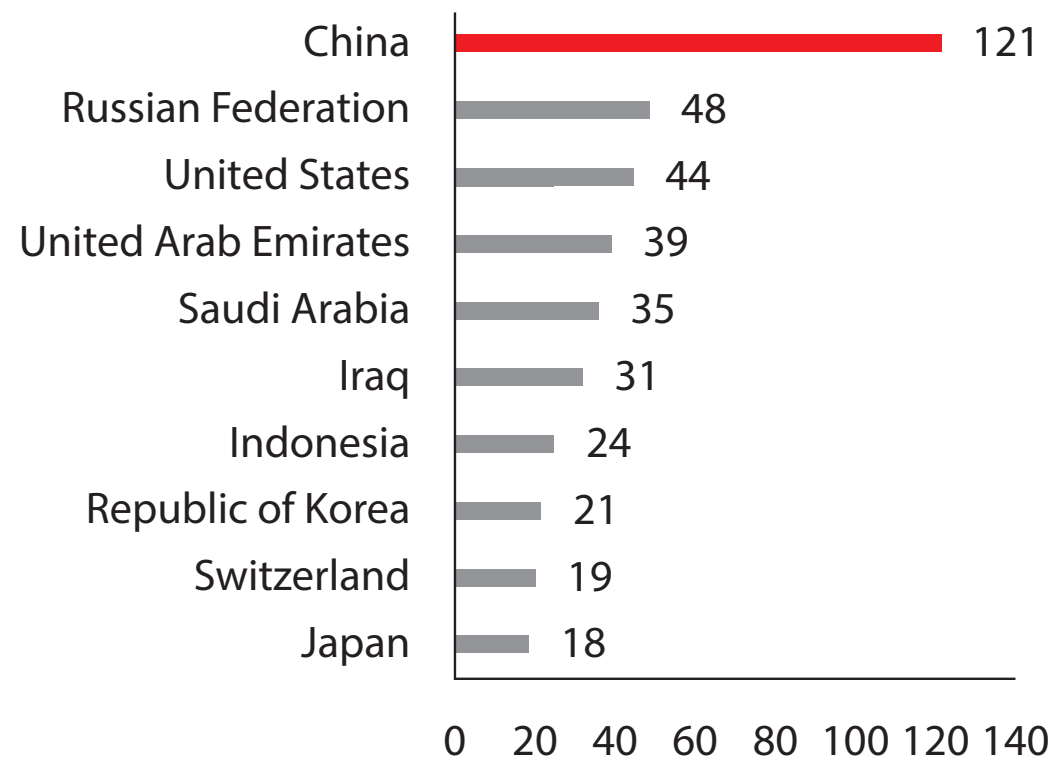


Source: Natixis based on OECD TIVA.

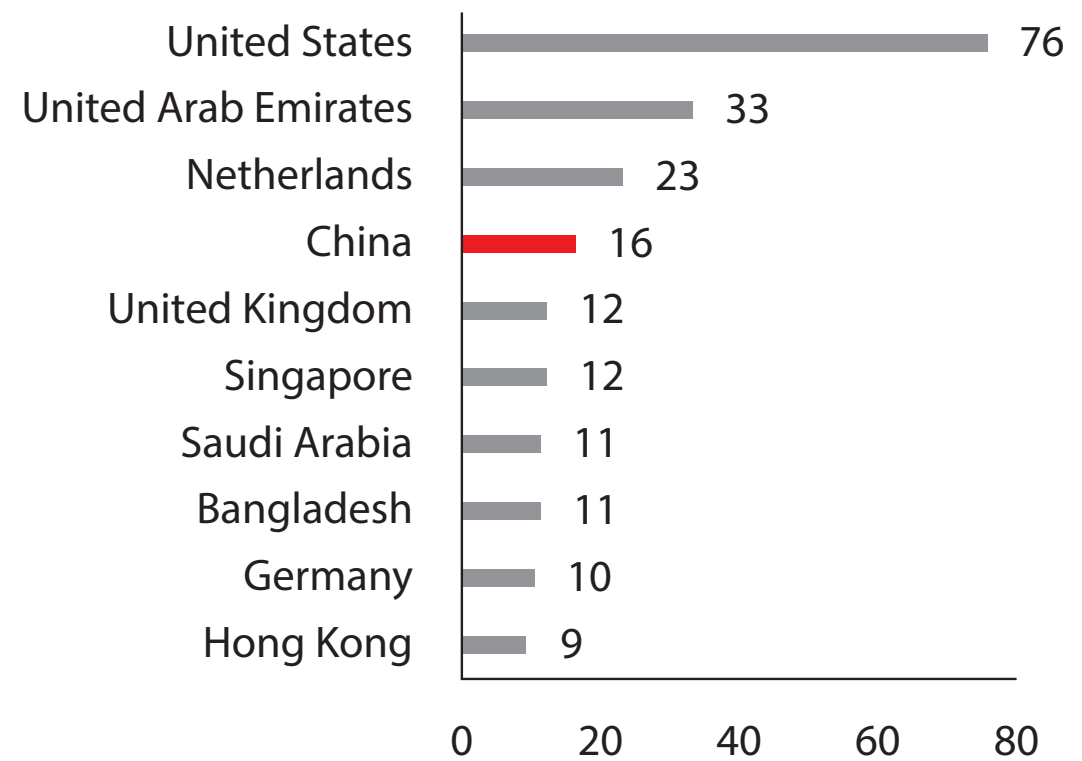
**Figure 3. India trade balance with China (billions \$)**



Source: Natixis based on UNCTAD.

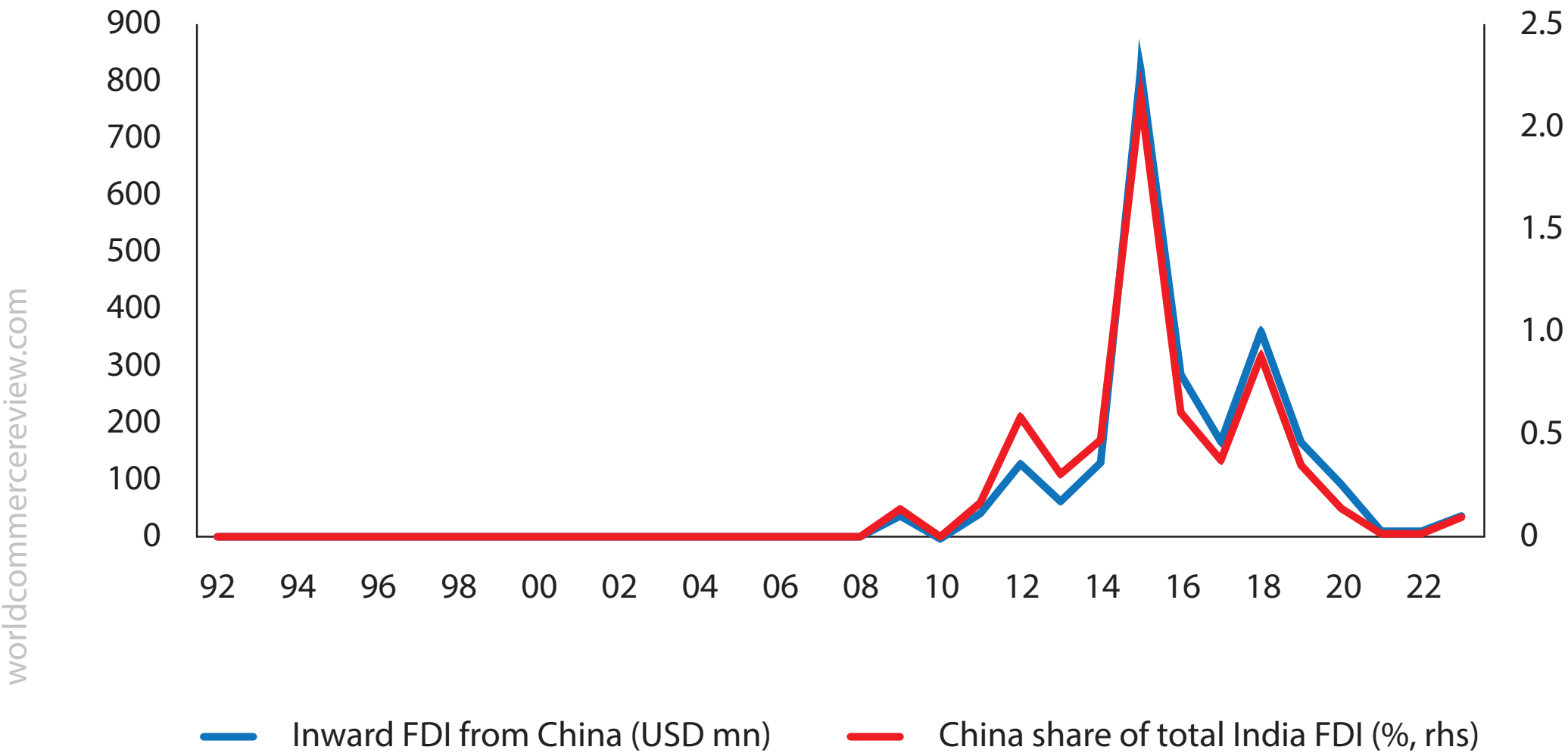
**Figure 4. India largest import partners (billions \$)**

Source: Natixis based on UNCTAD.

**Figure 5. India largest export partners (billions \$)**

Source: Natixis based on UNCTAD.

Figure 6. India inward FDI from China



Source: Natixis based on CEIC.

Chinese investors, instead, seem to be increasingly interested in the Indian market given its strong growth and its size. For example, in 2023, BYD, the largest producer of electric vehicles (EVs) in the world, expressed interest in manufacturing in India by proposing a \$1 billion investment plan in collaboration with a local partner<sup>7</sup>.

While this proposal has not yet received approval from the Indian government, there could be a breakthrough if the situation at the border could be fully normalised. In the same vein, in September 2024, Lenovo announced plans to manufacture artificial intelligence (AI) servers at its facility in Puducherry, India<sup>8</sup>. Additionally, Lenovo has inaugurated a research and development lab focused on AI servers in Bengaluru.

Finally, Shein, the global fast-fashion retailer of Chinese origin, has re-entered the Indian market, after having been forced to abandon it in 2020, through a strategic partnership with the retail arm of Reliance<sup>9</sup>. Fast fashion is not a strategic industry, and it is therefore much easier for it to go through India's investment screening than it is for other sectors.

### Security issues

India and China have experienced a complex and often contentious relationship marked by deep-seated historical tensions, territorial disputes, and periodic escalations. The 1962 Sino-Indian War, triggered by disagreements over the demarcation of the Himalayan border was a significant flashpoint, resulting in a decisive Chinese victory and lingering mistrust.

Since then, the Line of Actual Control (LAC), the de facto border, has been a source of frequent friction, with both countries maintaining large military presences in the region (Joshi, 2018).

Although in second order compared to border clashes, relations between India and the US constitute a second important factor in China-India relations. The official announcement of the Free and Open Indo-Pacific (FOIP) strategy in 2017, saw the US seek closer relations with India<sup>10</sup>.

In the same vein, the Quadrilateral Security Dialogue (Quad), initially formed in 2007, by President Bush, which went dormant in 2008 due to Australia's fears of provoking China, was resuscitated by Trump in 2017, bringing the US and India closer<sup>11</sup>. How much these security issues may have weighed in the 2020 military stand-off versus other, more economic, reasons, is hard to tell.

Before the 2020 military stand-off in the Galwan Valley, India and China had established border agreements that laid down a series of protocols for the armed forces and diplomats of both sides to follow given the lack of officially recognised borders<sup>12</sup>.

In 2003, then prime ministers Atal Bihari Vajpayee and Wen Jiabao signed a separate pact that led to the appointment of a 'Special Representative' for both sides, entrusted with the task of bringing out a political solution to the border question. This eventually came to be known as the 'SR Dialogue' and it has become a channel of communication between the countries because they have the political mandate to discuss the border issue.

Finally, in 2012, a Working Mechanism for Consultation and Coordination on India-China Border Affairs (WMCC) was set up with the sole objective of addressing border issues. A similar dialogue mechanism also exists between military commanders in charge of the border on each side, which is generally held at a neutral point along the border.



None of these protocols or the dialogue between special representatives prevented a 2020 stand-off. Its origin could possibly have an economic rationale. In fact, in April 2020, India issued Press Note 3, that sought to restrict FDI from China and other countries that share a land border with India.

The directive stipulated that any entity from a country that shares a land border with India must get government prior approval from the official authorities before investing in India. This also included indirect investments where the beneficial owner is from a country that shares a land border with India<sup>13</sup>.

In May 2020, China's People's Liberation Army transgressed the border leading to a bitter military standoff in the eastern part of Ladakh<sup>14</sup>. This led to a complete plummeting of ties with both sides ramping up troop deployments with a real risk of a military confrontation. India also took an unprecedented step of banning Chinese apps including Shein, TikTok, WeChat and PUBG Mobile, following the standoff<sup>15</sup>. New Delhi said it took this step to safeguard its national security and sovereignty.

The relationship between Prime Minister Modi and President Xi significantly worsened. When Modi went to Samarkand, Uzbekistan in 2022 for the Shanghai Cooperation Organisation (SCO) Summit, he did not shake hands with Xi<sup>16</sup>. As chair of G20, India invited President Xi to attend the 2023 summit in New Delhi, but he sent his deputy<sup>17</sup>.

The 2020 standoff was an important wake-up call for India in terms regarding China's massive increasing in military capabilities given the rapid increase in military spending<sup>18</sup> and its more aggressive stance with its neighbours and beyond (Masuda and Mattelaer, 2024).

While both countries have engaged in a plethora of defence dialogues, underlying tensions regarding border security and China's strategic partnerships, particularly with Pakistan, have complicated these discussions and the larger bilateral relationship. The unresolved border issue continues to be a major security concern, with both countries enhancing their military presence along the LAC. Despite occasional agreements to manage border tensions, the security environment remains fragile, with both sides maintaining a cautious stance<sup>19</sup>.

## 2 How important is the recent turnaround?

Despite the negative consequences of the 2020 border standoff, India and China continued to hold steady military and diplomatic communication. Both sides are working to resolve or at least mitigate the faceoff in three phases: disengagement, de-escalation and de-induction (ie. gradual removal) of troops.

The first phase, that of disengagement of troops, or pull-back of troops from a confrontational posture, started in February 2021 but a much clearer step-up in disengagement started after Modi and Xi's meeting in Kazan (Russia) on the sidelines of the BRICS Summit on 23 October 2024.

This important meeting was followed by a meeting between India and China's ministers of foreign affairs on the sidelines of the G20 in Brazil on 19 November 2024. At that meeting, China requested that India ease visa restrictions on Chinese tourists and businesspeople and the countries discussed strengthening transport links and data-sharing on shared rivers<sup>20</sup>.

The question of whether this 'rapprochement' is real remains. On the one hand, both sides have started to implement disengagement processes that entailed not just the pulling back of the troops but also removing temporary structures. And yet, China and India have been actively building infrastructure along the LAC, including

roads, bridges and military installations, which has been the main source of tension and the catalyst for standoffs in the past.

Nonetheless, a positive development took place on 26-27 January 2025, when the Foreign Secretary of India, Vikram Misri, went to Beijing. This was the first visit of a high-level official since the military stand-off. During the visit, it was decided that both sides would restart direct flights that first got suspended due to the COVID-19 pandemic and never resumed because of the border standoff<sup>21</sup>.

While clearly positive, the reality is very little action has followed the high-level visits, making the 'rapprochement' more symbolic, at least in terms of lifting bilateral restrictions, especially on India's side.

### **3 How much is the current rapprochement related to the economic situation?**

The thaw in bilateral relations which started last October at the highest level seems to be economically motivated. China's share in India's industrial goods imports has soared over the last 15 years, highlighting a deepening dependency on Chinese products including telecoms, machinery and electronics.

India's reliance on China extends to critical sectors such as pharmaceuticals, electronics, solar power cells, electric vehicles and heavy machinery. India also imports a significant portion of its active pharmaceutical ingredients from China, making its pharmaceutical industry particularly vulnerable to disruptions in Chinese supply chains.

This dependency has been flagged as a national security – or at least economic – concern due to the strategic implications it poses. The two key factors that have fuelled this dependence on China are absence of an ecosystem of innovation and a robust industrial policy.

India's efforts to attract FDI to diversify its supply chain have not fully materialised, and there's an acknowledgment that reducing reliance on China requires substantial investment in research, development and manufacturing capabilities by India's corporate sector.

The several initiatives by the different Modi governments, such as 'Make in India,' officially launched by Prime Minister Narendra Modi in September 2014, and 'Aatmanirbhar Bharat'<sup>22</sup> (or self-reliance) have not led to an increase in FDI, especially in manufacturing. The Production Linked Incentive<sup>23</sup> scheme introduced since 2020 to boost local production has failed to attract investors.

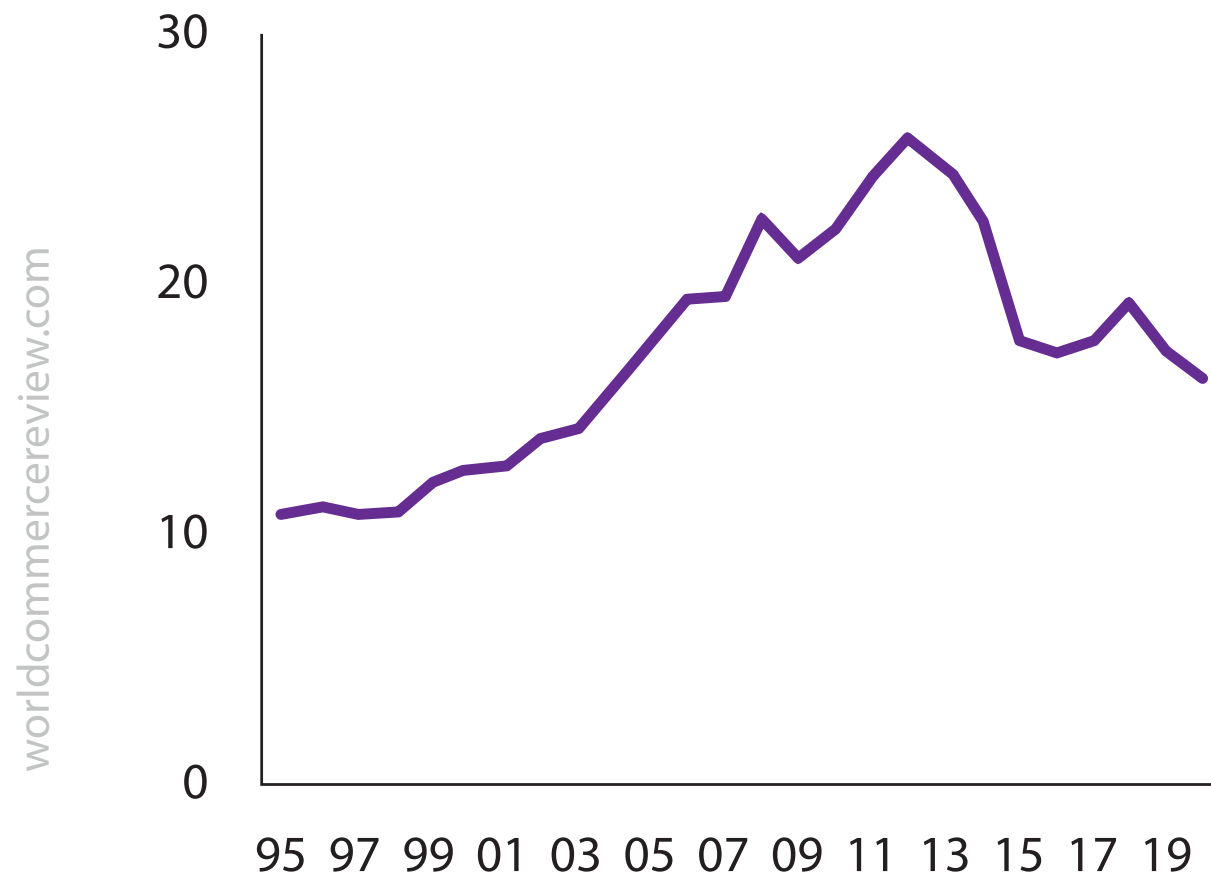
One could argue that the push towards import substitution has worked if measured by the reduction in foreign content of Indian exports, or the so-called 'backward participation in the jargon of global value chains' (Figure 7). But this does not need to be a good thing unless such substitution is a consequence of an increase in competitiveness of Indian products.

The reality is that India's import tariffs are high and have been ramped up even further since 2022 (Figure 8). By making imported goods more expensive, the substitution towards domestic content has accelerated in the past few years but has not really achieved the goal of increasing manufacturing capacity locally.

On the contrary, the share of manufacturing in India's GDP continues to decline and is now 14 percent (Figure 9). Another sign of India not having gained competitiveness is its stagnant share of exports as a percentage of global exports (Figure 10).

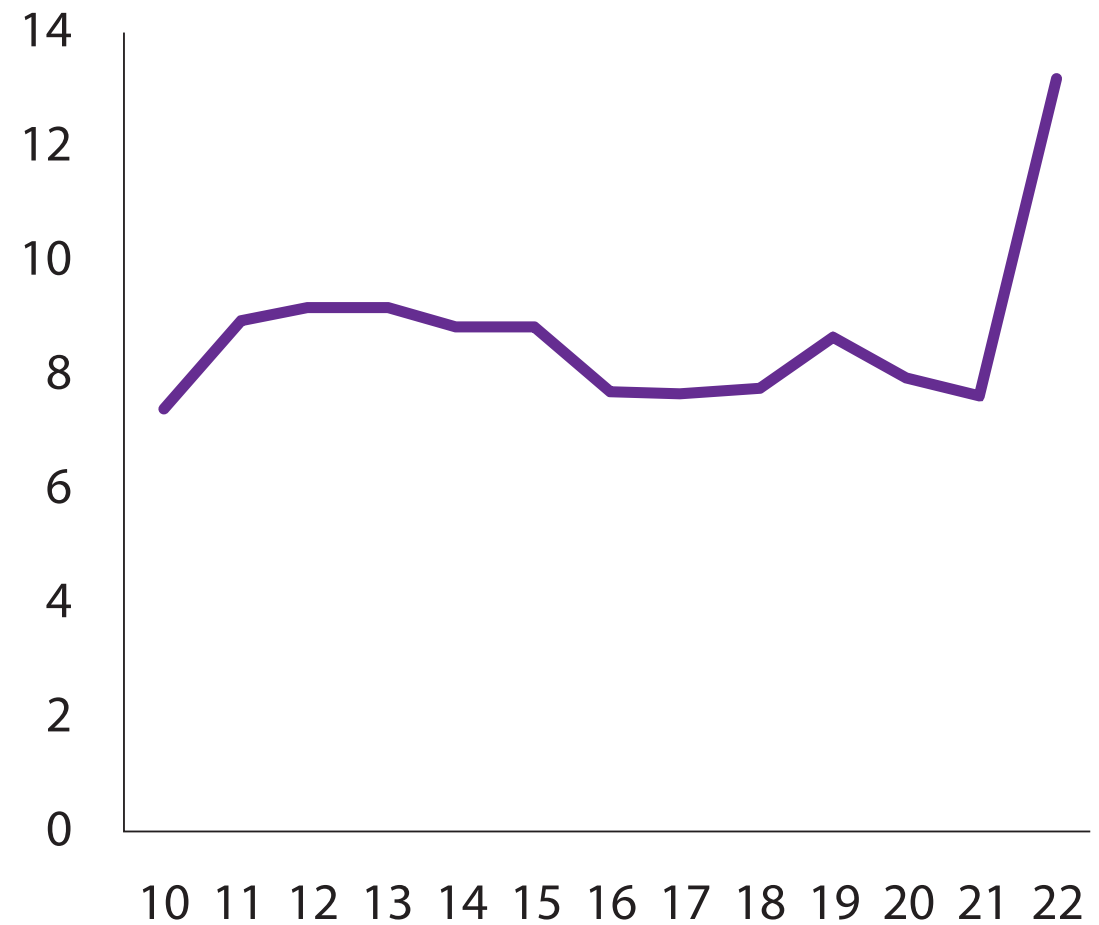
India's lack of external competitiveness, especially against China, is behind its increasing trade deficit and overall dependence on Chinese goods. Prime Minister Modi – who is now much more constrained politically compared to his previous two terms as he is in a coalition government – is increasingly focused on the economy.

**Figure 7. Backward participation with the world (% of gross exports)**



Source: Natixis based on OECD TIVA.

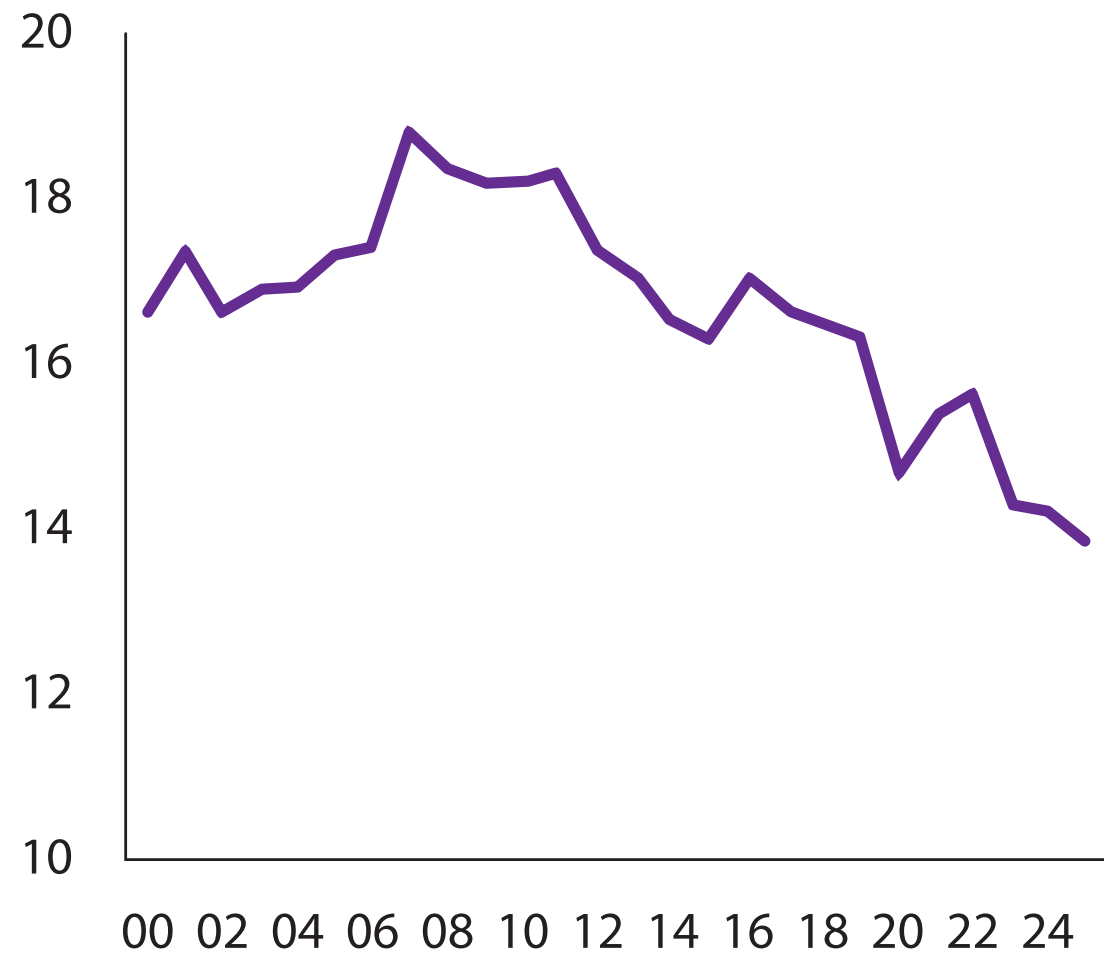
**Figure 8. India Intermediate goods tariff (effectively applied, simple average)**



Source: Natixis based on UNCTAD.

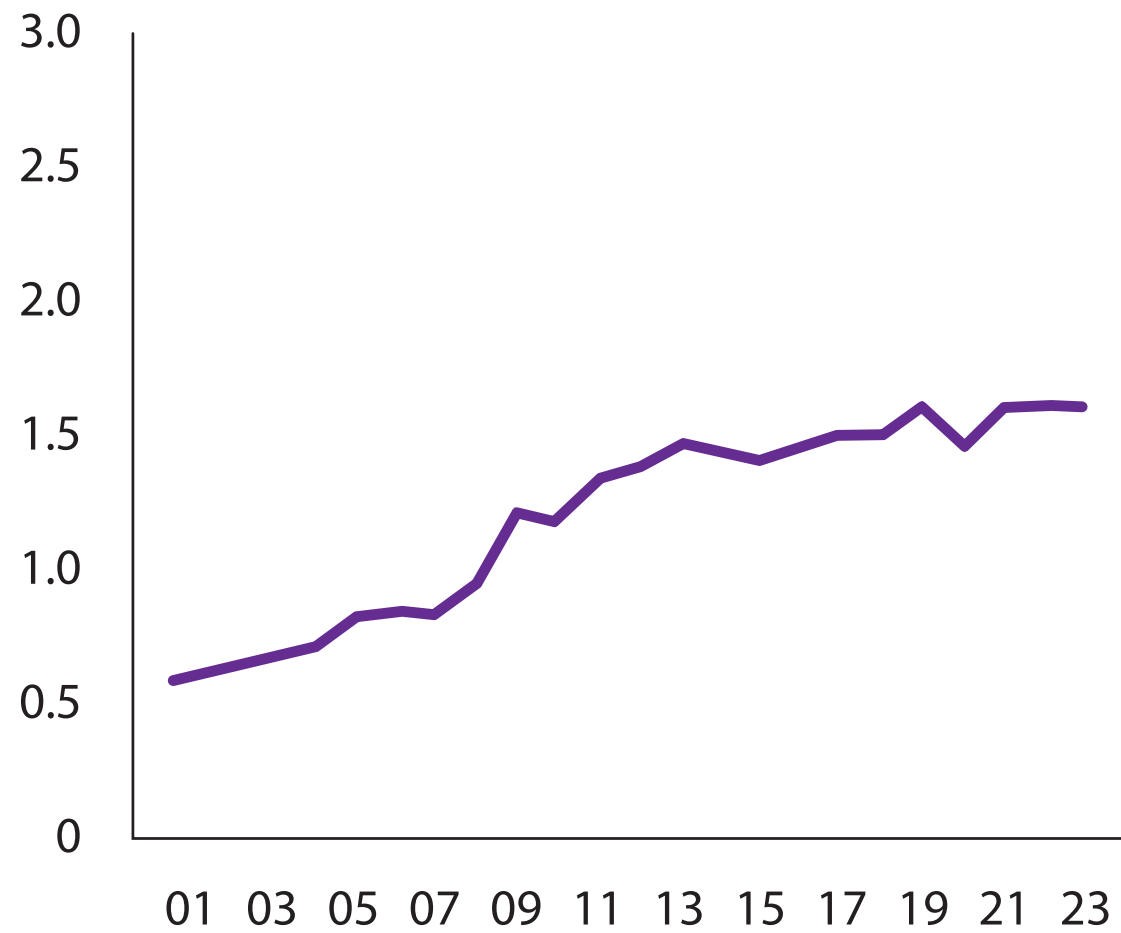


Figure 9. India: manufacturing as share of GDP



Source: Natixis based on CEIC.

Figure 10. India: share of global exports



Source: Natixis based on UNCTAD.

FDI from China, especially in manufacturing, could help create new jobs which the Modi government needs. In fact, many argue that one of the reasons for Modi to have lost part of its constituency during the general elections last May was the lack of job creation<sup>24</sup>.

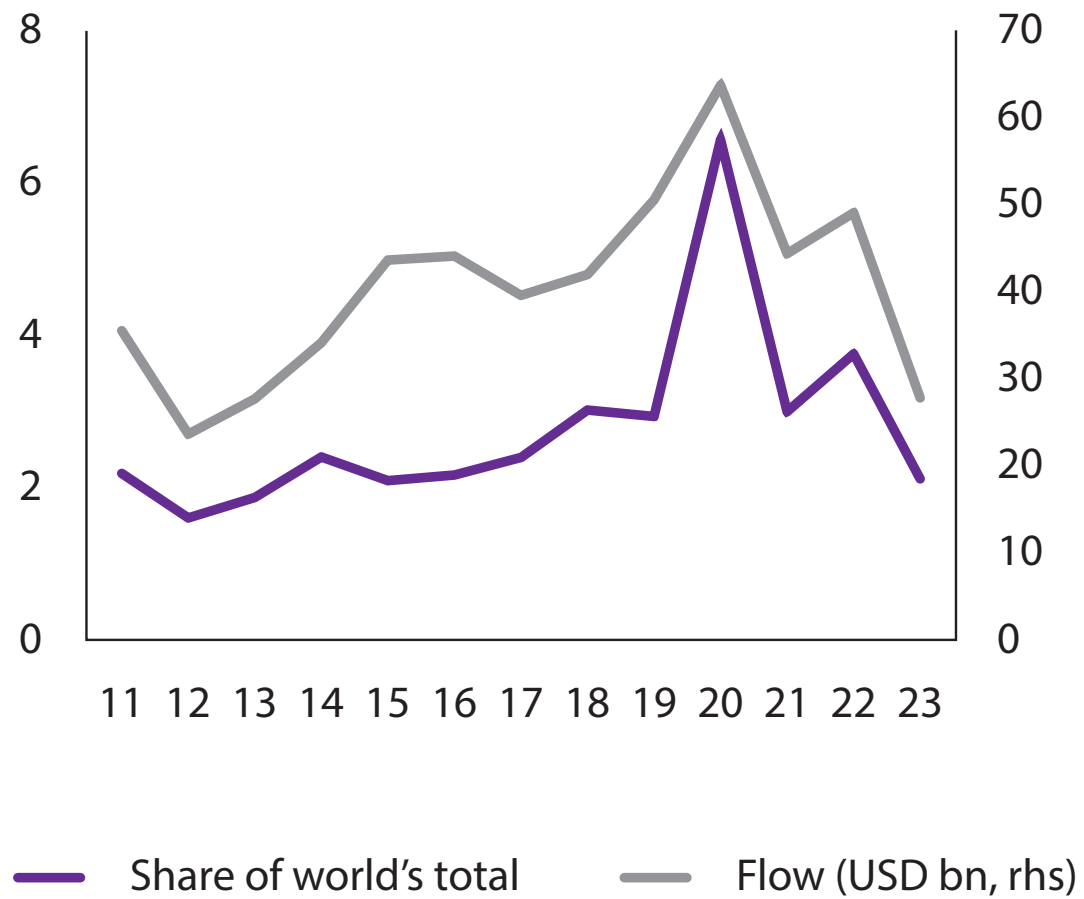
While Modi might have preferred non-Chinese FDI, India has not been able to attract much FDI, with its global share stagnating at 2 percent (Figure 11). The situation is even worse for manufacturing. Vietnam alone attracts more FDI in manufacturing than the whole of India and the gap is only increasing (Figure 12).

The Chinese government has not issued any official statement explicitly encouraging Chinese investment in India, but it has consistently advocated for a fair and non-discriminatory business environment for Chinese enterprises operating in India<sup>25</sup>. Chinese companies, especially in the EV sector, have been much more outspoken.

For example, SAIC Motor, China's largest automaker, has shown significant commitment to the Indian market through its subsidiary, MG Motor India, which it acquired in November 2023, SAIC, with a 35 percent share, from India's JSW Group. Further emphasising its commitment, SAIC announced plans in May 2024 to invest up to \$2 billion in India by the end of the decade. The investment includes setting up a second manufacturing plant and aims to produce and sell over a million vehicles annually<sup>26</sup>.

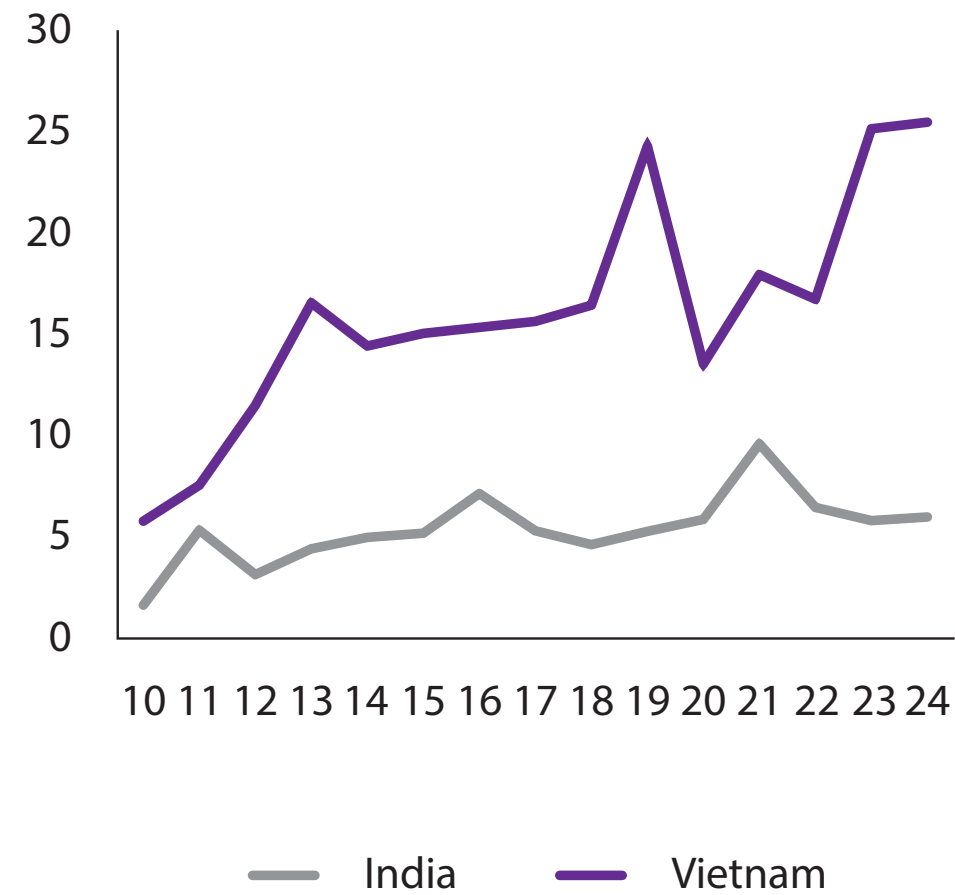
BYD has not yet secured approval of its proposal for a \$1 billion investment in India through a joint venture with Megha Engineering<sup>27</sup>. Beyond India's market size, making sure that India remains linked to the Chinese supply chain is important for Chinese companies and even more so for the Chinese leadership as it reduces the West's options for derisking/decoupling.

**Figure 11. India: inward FDI flow**



Source: Natixis based on UNCTAD.

**Figure 12. India and Vietnam inward FDI in manufacturing (billions \$)**



Source: Natixis based on CEIC.

#### 4 How might US-India relations influence the rapprochement?

In his first term, President Trump sought to build a closer relationship with India, mostly on security issues, through the FOIP strategy and the Quad. Trump met with Modi twice in the weeks after his second presidency started, first for the Quad summit on 21 January and then for a bilateral meeting in Washington DC on 13 February.

This visit ended on a positive note, in part because Modi decided to buy more military equipment from the US and oil and gas while also announcing a reduction of import tariffs on some US exports right before the visit<sup>28</sup>.

Beijing responded cautiously to the Modi-Trump summit, emphasising that their bilateral cooperation should not harm a third country's interests<sup>29</sup>. This response clearly indicates that Beijing is worried about the US meddling with Beijing 'rapprochement' with India and the related business opportunities.

More generally, the Trump administration has been deepening ties with New Delhi through a combination of defence cooperation, trade negotiations and a shared stance on countering China's growing influence. Although Trump is clearly focused on his 'America First' policy, he has recognised India as a critical economic and strategic partner.

Modi and Trump set a goal to double bilateral trade to \$500 billion by 2030, and negotiations for a trade agreement are underway<sup>30</sup>. The agreement aims to provide security and transparency for American companies interested in India and, reciprocally, for Indian firms in the US.

In this context, the Trump's administration imposition of 'reciprocal' tariffs of 24 percent on India was received very negatively in New Delhi. At the time of writing, the tariffs have been suspended until 9 July, with negotiations ongoing<sup>31</sup>.

The main hurdles are in agriculture, intellectual property and digital trade. Outcomes could range from an interim deal boosting trade to \$300 billion by 2028, to stalled talks risking \$20 billion in losses, or a limited pact phasing in reforms by 2030. A successful deal, especially if accompanied by a trade agreement, could make India an alternative global manufacturing hub which is not overtly dependent on China.

US companies, encouraged by the Trump administration, are seeking this alternative. On 6 May the United Kingdom and India concluded negotiations on a trade deal<sup>32</sup>. On the EU side, the FTA negotiations, which were relaunched in June 2022, are important for India (with the EU being its largest trading partner on the export side) and for the EU, which is looking to expand market access but also to offer its companies a different destination to produce, other than China, in line with the EU's China derisking strategy.

While these two deals were expected to be concluded in 2025, Trump's tariff threat is making India put its attention on the US, which could have consequences in terms of a potential delay in the conclusion of negotiations with the EU.

Trump's ability to keep India away from opening up to Chinese foreign direct investment will likely hinge on Trump's final decision on reciprocal and/or sectoral tariffs on India and whether a trade agreement can be finalised. Without real outcomes on the economic side, Trump's proactive courtship of India might not be enough to avert this risk as India needs to create manufacturing jobs more than ever.

## **5 What to expect in the short run?**

India and China are in regular discussion regarding de-escalation across the LAC, but the process is advancing very slowly and requires sustained dialogue. Trump's push to isolate China and China's disdain for the Quad, further complicate the situation.



India is planning to host the Quad Summit this year, which President Trump may attend, although there is no confirmation yet<sup>33</sup>. On the other hand, Trump threatened BRICS nations with a 100 percent tariff on all imports into the US if they proceeded with launching a common currency, just hours before his meeting with Modi<sup>34</sup>.

Given the potential constraints from the Trump administration and the Indian Army's own doubts about the de-escalation process (Bloomfield, 2021), any opening must be targeted and not increase India's dependence on China in strategic sectors. In that regard, India has no plans to remove the restrictions on Chinese FDI under Press Note 3 although it may still grant specific approval of FDI that creates a large number of jobs in the manufacturing sector.

India has already removed the ban on the Shein app, under Reliance control although it seems difficult to imagine that the lifting of the ban will extend to information-related apps such as Tiktok<sup>35</sup>. This is all the more the case since the Indian government cannot really confirm that China is no longer active at the border nor is India which is still expanding infrastructure networks at the LAC.

Against this backdrop, a Modi-Xi meeting at the SCO summit will be important. China holds the rotating presidency from 2024-2025 and will host the next summit. Modi's decision to attend the summit will depend on domestic and external factors.

On the domestic side, India expects China to follow the border protocols and not engage in border incursions by unilaterally changing the status quo. On the economic side, the deceleration of the Indian economy plays in China's favour as India needs to create more jobs in the formal economy and also increase its manufacturing capacity.

Externally, Trump's tariff threat will be key and the confirmation that the US will continue to cooperate militarily with India at the highest end. Modi would be expecting the two agreements signed under the Biden administration on

AI and critical and emerging technologies to be maintained<sup>35</sup>. Trump's visit to Delhi for the Quad summit could also be decisive.

Given the rapidly evolving nature of Indo-Chinese and Indo-US relations. Modi is likely to continue pursuing strategic autonomy for India.

## 6 What about the long run?

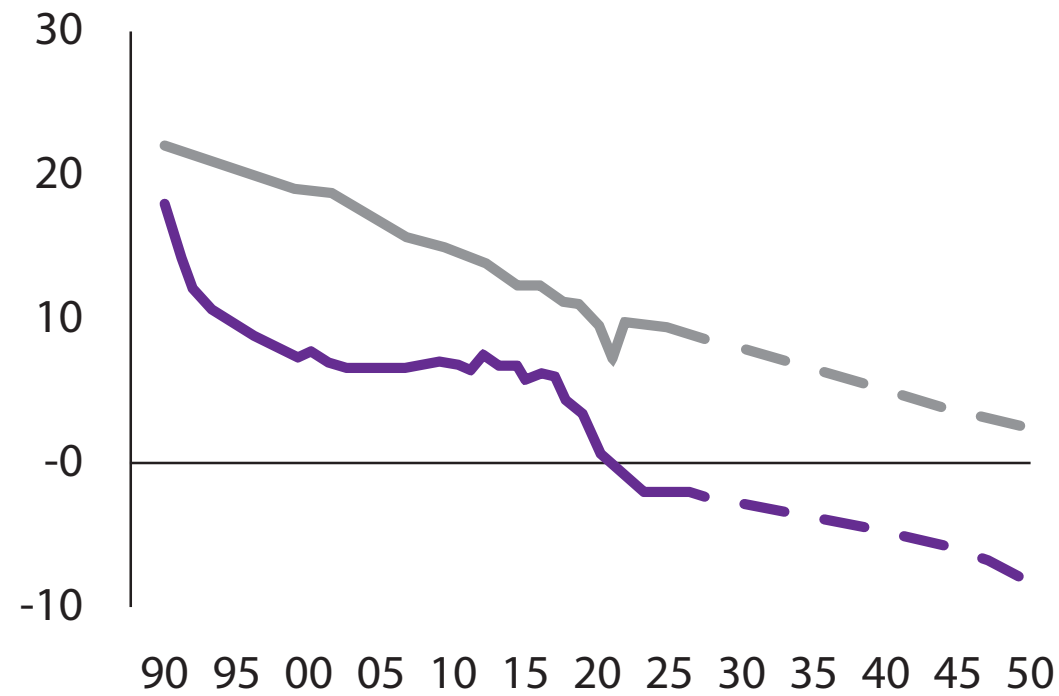
The current unbalanced state of play, in which China has an economy five times the size of India's, and a much bigger military capacity, is likely to continue for some time, but will change. The growth differential for the next decades is clearly in India's favour. The Chinese economy has been decelerating for more than 10 years and will continue to do so with GDP growth expecting to hover around 2.3 percent by 2035 and around 1 percent, by 2050.

The further reduction in growth from 2035 stems from China's rapid depopulation (Figure 13) but, also, the fact that the urbanisation process, which is now mitigating the impact of depopulation in productivity and, thus, economic growth, will be completed (García Herrero and Xu, 2023) (Figure 14). India's demographic dividend remaining positive for at least 15 more years and, even if declining over time, the gap China will remain the same.

Furthermore, India's urbanisation process is still at its infancy, especially when compared with China (with 36 percent urbanisation rate compared to 66 percent for China).

Finally, India's stock of capital is much lower than that of China (Figure 15). Given the massive infrastructure gap, this also explains why the return on investment is so much higher, feeding the positive growth differential for India.

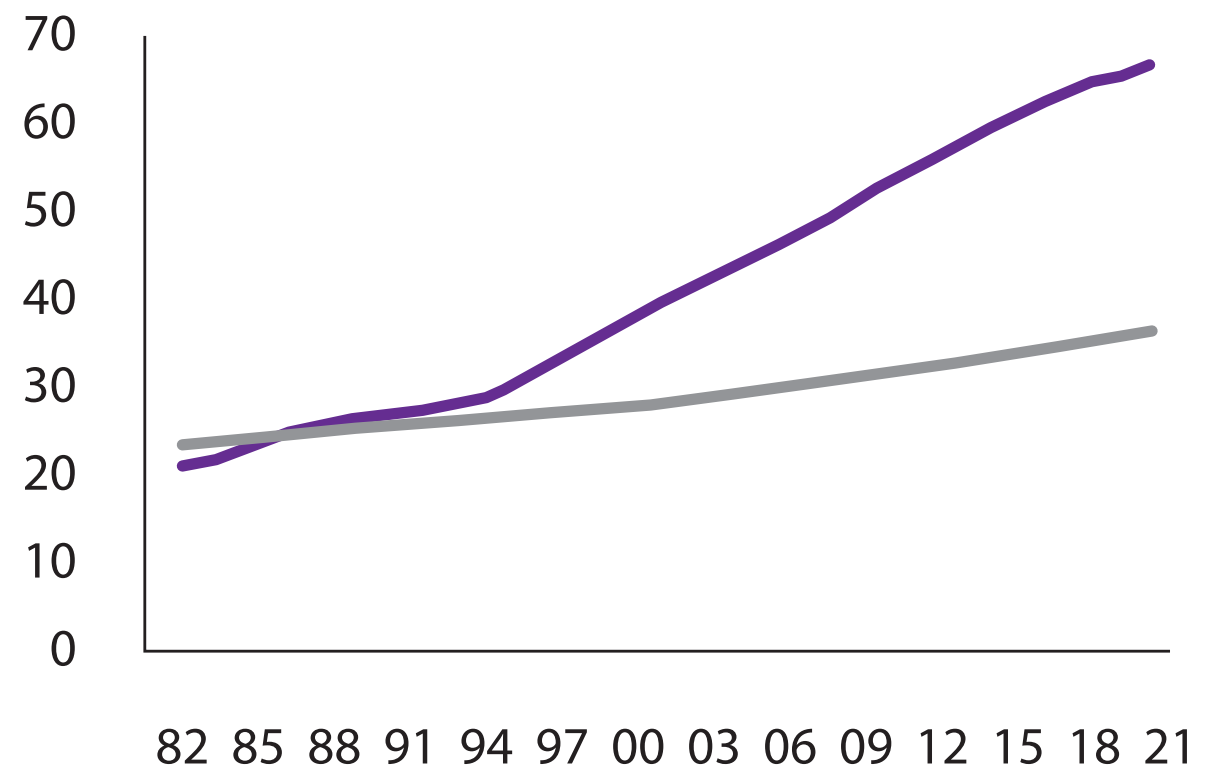
**Figure 13. China and India rate of natural change of population**



— China — China (projection)  
 - - India (projection) — India

Source: Natixis, World Bank.

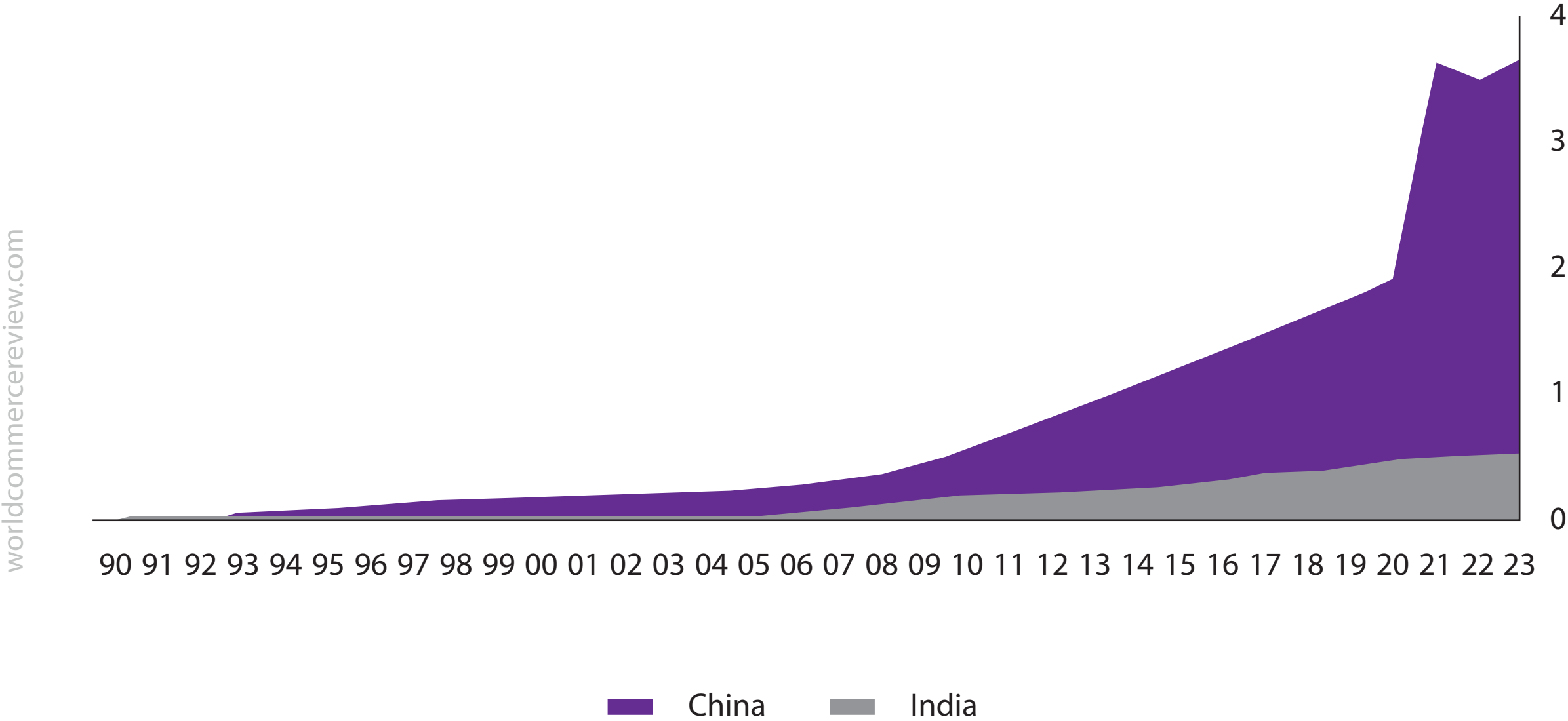
**Figure 14. China and India: urbanisation rate (%) manufacturing (billions \$)**



— China — India

Source: Natixis, CEIC.

Figure 15. China and India stock of FDI (trillions of \$)



Source: Natixis, CEIC.

With conservative growth forecasts for India (at 6 percent until 2030, which is below consensus<sup>36</sup>, and coming down to 5.5 percent and 5 percent until 2035 and 2040, respectively, and 4.5 percent by 2050), India's growth will continue to outpace that of China by an increasing margin.

In fact, China's growth is expected to grow by only 2.3 percent by 2035 given the lower labour productivity and return on assets and only 1 percent thereafter until 2050, as the growth engine stemming from urbanisation is exhausted (for more details about China's long-term prospects, please see García Herrero (2023)).

With such growth differential, in India's favour, and the Indian rupiah expected to appreciate against the RMB because of the convergence<sup>37</sup>, India should be able to reach China's size by 2050 in dollar terms<sup>38</sup>.

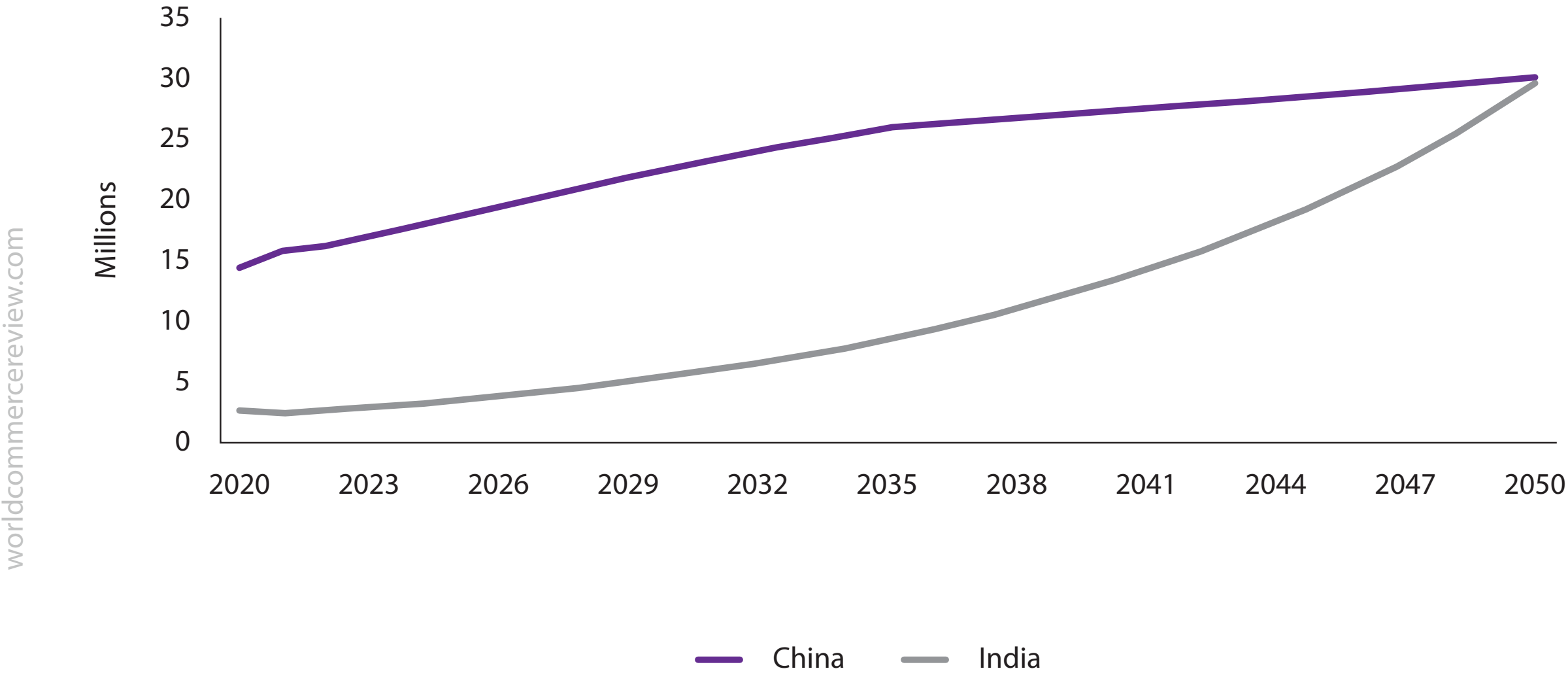
Whether such projection will become true depends on a large number of factors from China and India. China's risks to this growth scenario are mainly on the downside due to the very rapid accumulation of debt and geopolitical tensions with the US. Still, there is potential upside from China's technological upgrade and increasingly dominant role in the Global South.

The latter is particularly important for India since it would come at its expense. India's growth prospects are also at stake. This is yet another reason for India to remain cautious in its relations with China as it might come at a cost in terms of India's influence in the Global South and, especially, its neighbourhood.

As for India, the downside risks to this growth scenario stem from the rather stagnant reform agenda and the very limited attraction of FDI, especially in manufacturing. FDI would be highly beneficial for India to create more jobs in the formal sector, supporting the urbanisation process and also the creation of a middle class but this seems to depend on China, as the West does not seem to be investing enough in India's manufacturing.



Figure 16. Real GDP Forecast (\$ trillion)



Source: Natixis based on IMF.

This could of course change if the US puts more emphasis on India as part of its Ind-Pacific strategy but also if India strikes a trade and investment deal with the EU, following its deal with the UK. The growth divide between the North and the South is another important risk as are tensions with Pakistan on the external side.

India's upper hand regarding growth prospects is important to understand China's interest in engaging with India. China has created a web of dependent relations on the economic front with many countries.

This is particularly true for Asia but also beyond. India is an outlier given long-term security concerns. China is fully aware that India is the only economy that can become as large as that of China in the foreseeable future, making fostering economic relations (especially asymmetric ones with China as investor and exporter) crucial.

This is particularly important in the current context of fierce strategic competition with the US. Ultimately, India's increasing economic weight could tilt the balance of power between the US and China.

## 7 Conclusions

China-India relations have never been easy, especially since the 2020 military standoff on the Himalayan border. This sudden severe disruption in political relations also had a major toll on Chinese investment in India, especially e-platforms, which had to abandon the Indian market. At the same time, and ironically, India's import dependence on China has only increased.

Given that the Indian economy is decelerating at a challenging time for Prime Minister Modi, who governs in a coalition, China could offer a partial solution to India's economic woes by providing manufacturing FDI and creating jobs in the formal economy, which is probably behind the Modi-Xi 'rapprochement' after their encounter at the

BRICS summit last October. And yet, this important signalling has not yet led to economic decisions bringing the two countries closer together.

One of the key question marks is which measures to bring the economies closer will go through and it seems clear that it will be targeted Chinese investment into India for manufacturing. And yet, it is very unlikely that relations will fully normalise.

There are three main reasons for this. First, the Indian army remains cautious as to the situation at the border but also more generally in terms of security risks relating to China directly or indirectly (Joshi and Mukherjee, 2018). Second, Trump will exert pressure on Modi to remain well anchored in the Indo-Pacific strategy and not depend further on China. This is even more the case given the very real tariff threat that Trump has imposed upon India. Third, Indian public opinion is still very negative on China and the BRI.

In the short run, Modi's potential visit to China for the SCO summit later this year is clearly an important event where economic cooperation could be enhanced, in terms of China's new investment in India in the manufacturing sector.

This development needs to be followed against the backdrop of Trump's pressure on India, whether negative through the threat of tariffs to be imposed on Indian exports to the US, but also positive, with Trump's potential visit to India for the Quad summit later in 2025.

Finally, in the long run, the positive growth differential in India's favour should give him the upper hand when it comes to economic relations, which is very different from the current juncture. This, however, will depend on how

much India might have become dependent on China not only in terms of imports, which is the case today, but also for jobs through FDI and other potential channels.

While the Modi administration will push for strategic autonomy, the attempts so far have not been successful. More investment from the West (US and/or Europe) could be a way out but it remains stubbornly low. In other words, India's challenges regarding China – a militarised border, an increasingly asymmetric economic dependence and China's growing leadership in the Global South, including India's neighbourhood, remain important. They make a 'rapprochement' only tactically possible but surely fragile and unlikely in the medium run. ■

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# A partner in progress and prosperity

The potential of India is enormous. Sanjay Malhotra presents his perspective on how India is poised to be a dynamic powerhouse of opportunities, innovation, and sustainable growth in the years to come

**T**he Indian economy has demonstrated remarkable resilience and dynamism. Over the past four years (2021-22 to 2024-25), it has recorded an average annual growth rate of 8.2 per cent. It was and continues to be the fastest-growing major economy in the world. This is a significant step up from the average growth rate of 6.6 per cent in the preceding decade (2010 to 2019).

Even this year, our growth is expected to remain robust at 6.5 per cent. This is despite the tremendous increase in uncertainty and volatility in global financial markets. While this rate is lower than in recent years and falls short of India's aspirations, it remains broadly in line with past trends and the highest among major economies.

No wonder, over the last ten years, we have leapfrogged from the tenth largest economy to the fifth. In terms of purchasing power parity, we are already third. Even nominally, we are poised to become the third largest economy shortly. We aspire to become *Viksit Bharat*, ie. a developed economy by 2047, when we complete 100 years of our independence.

While there is indeed a scope for India's growth trajectory to rise over the medium to long-term, I am sanguine of our continued success. There are a lot of positive factors that give me this confidence. Let me outline a few of these.

### **Policy continuity and stability**

First and foremost, we are all aware of the research that shows that political and policy stability with certainty are prerequisites for long-term planning of investments to fuel growth in any economy. Our vibrant democracy has been able to ensure the same, especially since the initiation of economic reforms, despite change of political parties in government.



Economic liberalisation focusing on market-oriented policies has been a consistent theme across successive governments. While the pace and specific focus of reforms may have varied from time to time, the commitment to a more market-oriented economic structure has not changed.

In a phased manner, almost all sectors have been opened up to 100% foreign direct investment (FDI). Almost 90% of the FDI is now under the automatic route. In the recent years, we have introduced a series of liberalisation measures to further open up the economy, particularly in key sectors such as defence, insurance, petroleum & natural gas, telecom, and space<sup>1</sup>.

*Economic liberalisation focusing on market-oriented policies has been a consistent theme across successive governments. While the pace and specific focus of reforms may have varied from time to time, the commitment to a more market-oriented economic structure has not changed*

## Financial stability

Second, while policy continuity and stability are prerequisites, they in themselves do not ensure financial stability, which is the bedrock on which a strong economy is built. Financial stability is essential for businesses and people to make expenditure and investment decisions with confidence. India's financial sector is strong and vibrant, efficiently catering to funding requirements of various economic agents.

**Financial sector:** the banking sector, which continues to meet the large funding requirements of the economy, has demonstrated resilience with healthy balance sheet. The soundness of scheduled commercial banks (SCBs)<sup>2</sup> has been bolstered by strong profitability, lower non-performing assets and adequate capital and liquidity buffers.

The health of the non-banking financial companies (NBFCs) sector is also robust. Bank credit growth although moderating in recent months, continues to be in double digits (about 12 per cent) compared to an average of about 10.5 per cent in the last 10 years.

We are committed to further enhancing the capacity, responsiveness, and resilience of the banking and non-banking financial sectors with emphasis on balancing regulation with efficiency and stability. While offering excellent opportunities for investment, as private debt to GDP is still on the lower side, the banking sector is poised to meet the investment needs of the society and industry.

**Capital markets:** the Indian capital markets – equity and debt – have increasingly deepened, providing avenues for market-based funding to businesses. India's capital markets have witnessed record participation from retail and institutional investors, channelizing savings into productive investments.



Today, there are almost 106 million unique demat accounts and more than 54 million unique mutual fund accounts. The stock market has delivered returns at a staggering 11 per cent CAGR over the last twenty years. With more than 500 listed companies having a market capitalisation of more than 1 billion USD each, the capital market offers enormous opportunities to participate in India's growth story. Indian financial markets offer seamless entry and exit for foreign investors, reflecting the maturity of its economy.

**External sector:** India's forex market has the required depth and liquidity to weather pressures, such as seen in the last few months. India's current account deficit (1.3 per cent of GDP during April-December 2024) remains eminently within manageable limits, supported by robust services exports<sup>3</sup> and private remittances.

Even in the recent volatile period, the Indian rupee (INR) has moved in an orderly manner and performed relatively better compared to its peers, reflecting strong macroeconomic fundamentals, adequate foreign exchange buffers and depth of our foreign exchange market.

Gross foreign direct investment (FDI) inflows to India increased to 75.1 billion USD in April-February 2024-25 from 65.2 billion USD during the same period a year ago, reflecting foreign investors continued confidence in the Indian economy. Net FDI inflows, however, moderated during this period due to higher repatriations and outward investment, which is a sign of a mature market where foreign investors can enter and exit smoothly, reflecting positively on the Indian economy.

India's foreign exchange buffer continues to be strong. As on April 18, 2025, India's foreign exchange reserves at 686.1 billion USD covers over 11 months of import and 96 per cent of external debt outstanding at end-Dec 2024.

**Price stability:** the role of price stability in fostering sustainable growth and economic resilience is paramount. Monetary policy in India has played a stabilising role, containing inflationary pressures through coordinated action with fiscal authorities.

India adopted a flexible inflation targeting framework in 2016, which has significantly strengthened policy predictability: inflation levels and volatility have come down markedly, inflation expectations are better anchored, and the transmission of monetary policy has improved.

In view of the benign inflation outlook and moderate growth, monetary policy has turned accommodative. We have reduced policy interest rates cumulatively by 50 bps this year since February 2025.

### **Fiscal prudence and efficiency**

Fiscal policies of the government have a critical role in catalysing and sustaining economic development by ensuring that savings and public funds are used efficiently in productive sectors. India continues to demonstrate fiscal prudence to foster faster and inclusive growth.

Its approach to the pandemic is a case in point. India adopted a calibrated approach to the pandemic. Rather than front-loading stimulus packages, as most countries did, India adopted a flexible and agile approach to support the vulnerable sections of society and small firms.

This enabled a resilient recovery as it was followed up with enhanced capital expenditure and concerted push to manufacturing. The government is now committed to fiscal consolidation after the pandemic-induced stimulus, maintaining a focus on reducing the fiscal deficit without compromising on expenditure quality ie. growth inducing

spending. The central government's fiscal deficit to GDP ratio has declined from 9.2 per cent in 2020-21 to 4.8 per cent in 2024-25 and it is budgeted to moderate further to 4.4 per cent in 2025-26.

This is in stark contrast to rising debt levels in some of the advanced economies. India's public debt to GDP ratio at 81.3 % (in 2024) is reasonable<sup>4</sup>, with the world's top 10 economies other than Germany having higher public debt than India. The progressive fiscal consolidation in India has enhanced space for the private sector to raise resources for investment.

Moreover, government spending is better targeted. The quality of expenditure has improved. The share of central government's capital expenditure as a percentage of GDP has surged from 1.7 per cent in 2019-20 to 3.1 per cent in 2024-25. Including the capital grants in aid to the states, it has increased to 4.3 per cent in 2025-26<sup>5</sup>.

The Union government's borrowings this year are budgeted to be lower than the effective capital expenditure, signifying their use for productive purposes which have a higher multiplier effect. Various measures have been taken to improve outcomes of government expenditure. One such example is the Direct Benefit Transfer, which is estimated to have brought savings of about 40 billion USD (until March 2023)<sup>6</sup>.

Digitalisation of various government programmes like public distribution scheme with Aadhar as the backbone have also resulted in huge savings. Just in time flow of funds to State government has helped the Union government improve its cash flow management.

### **Thrust on infrastructure**

Infrastructure is important for economic development. Over the last several years, the country led by the central government has invested heavily in physical infrastructure. It is also incentivising capital expenditure by state governments, especially in urban development, power and tourism.

From highways to renewable energy grids to sea ports, airports and railways<sup>7</sup>, India is building the backbone to support sustainable and inclusive growth for decades to come. This is not only improving connectivity but also creating multiplier effects, stimulating demand across various sectors. This is also bringing down logistics cost for businesses considerably and improving productivity and competitiveness.

### **Renewed focus on manufacturing**

Manufacturing is key to inclusive development and employment. We are focused on a *Atmanirbhar Bharat*, that is, a self-reliant India. India's manufacturing sector is gaining momentum and emerging as a potent sector for investment, with support from policy measures such as the Production-Linked Incentive (PLI).

The PLI targets 14 diverse sectors<sup>8</sup>. This is showing results. Mobile phone exports have increased by almost 10x<sup>9</sup> from 2018-19 to 2023-24. Similarly, exports of solar cells and modules have jumped 20x<sup>10</sup> in the same period.

Proactive government policies also present unparalleled opportunities for investment in sunrise sectors such as space, semiconductors, renewable energy, electric vehicles (EVs) etc. India is positioning itself as a critical link in global supply chains, encouraging local sourcing and manufacturing. It is also becoming a global SaaS innovation hub, especially in generative AI.

### **Demographic dividend**

With one of the youngest populations having a median age of 28 years<sup>11</sup>, India is poised to harness the demographic dividend. To fully exploit the potential, Government has launched a number of programmes for skilling, entrepreneurship and apprenticeship. This will enhance productivity and growth.

Labour market conditions in India are showing positive trends<sup>12</sup>, particularly with the increasing participation of women in the workforce. The Labour Force Participation Rate (LFPR) has increased to 60.1% in 2023-24 from 57.9% in the previous year and 49.8 in 2017-18.

## **Innovation**

To take further advantage of the huge human resources, we need to move further up the value chain. It is encouraging to note that India is fast becoming a nation of job creators rather than job seekers. When I left college, getting a job in a MNC was the preferred choice. None took up the challenge of starting a venture of his own.

In recent years, however, a large number of engineering and management graduates are taking to entrepreneurship and start-ups. As a result of the entrepreneurship culture that this generation is embracing, we have about 150,000 recognised start-ups. We have a vibrant start-up ecosystem with government support coming in through programmes like Start Up India, Digital India and Atal Innovation Mission.

We are home to the third largest number of unicorns, some of which are in high tech areas like Artificial Intelligence, fintech, and renewable energy, to name a few. In the Global Innovation Index, India has risen from a rank of 81 in 2015 to 39 in 2024. It is first among lower middle-income countries.

## **Continued focus on ease of doing business and reforms**

The growth is steered by robust economic reforms which have strengthened the foundations for long-term economic prosperity. These reforms include the flexible inflation targeting framework (FIT), the insolvency and bankruptcy code, goods and services tax (GST), consolidation of public sector banks, rationalisation and reduction in corporate tax.

The Indian government has repealed about 1,500 obsolete laws. 180 provisions have been decriminalised and more are planned. These reforms along with conducive policy environment have improved efficiency<sup>13</sup>, productivity, and competitiveness across different sectors.

The government is committed to further reduce regulatory burden, as is evident from the budget announcement earlier this year to set up a high-level committee for regulatory reforms in all non-financial sectors. She highlighted the role of reforms as the fuel for growth.

The Union Budget aims to initiate transformative reforms across six domains – taxation, power sector, urban development, mining, financial sector and regulatory reforms. Moreover, an Investment Friendliness Index of States will be launched to further the spirit of competitive cooperative federalism. A comprehensive review of the Income Tax Act, 1961 to make it concise, lucid and easy, and thereby reduce disputes and litigations, is also underway.

The Reserve Bank too is committed to ensure that our regulations balance the objectives of stability and efficiency. For this purpose, the regulatory review authority (RRA) will further expand, deepen and expedite the process of reviewing and rationalising regulations.

### **Digitalisation**

India's digital transformation, recognised worldwide, has emerged as a significant enabler of ease of doing business and ease of living and an important driver of economic growth and innovation. Conducive government and regulatory policies, increasing digital penetration, and a young and aspiring demography have fostered this vibrant ecosystem.



The government has invested in a number of digital building blocks like the JAM trinity, UPI, GSTN, ONDC, Digilocker. Digitalisation is improving efficiency, raising productivity, enhancing formalisation and promoting inclusiveness in the economy. Take any domain of the government and one will find that digitalisation and e-governance have enhanced turnaround times, reduced costs and improved customer satisfaction levels.

Digitalisation in the department of revenue not only enhanced the tax buoyancy but also improved customer experience and processing of returns. Tax buoyancy for personal income tax in the last four years<sup>14</sup> was 2.1. On an average, it now takes less than 10 days to process income tax returns in India: down from 93 days in 2014. In contrast, in some countries, it still takes months to get their tax refunds.

The Reserve Bank is also promoting and nurturing digitalisation and innovation. The Unified Payments Interface (UPI) is one such example. Processing about 18 billion transactions in a month, it is setting global benchmarks in seamless, secure, real-time systems. UPI has demonstrated how public digital infrastructure can empower private sector innovation for promoting financial inclusion.

Our encouragement and support extend beyond the payment space to the broader fintech ecosystem through various initiatives including the regulatory sandbox. The Unified Lending Interface (ULI) which is currently in a pilot phase has the potential to transform the lending space. The ULI is expected to transform lending and access to finance just as UPI did to payments.

## Conclusion

To conclude, India continues to be an economy supported by stability – monetary, financial and political; policy consistency and certainty; congenial business environment; and strong macroeconomic fundamentals.

At a time when many advanced economies are facing economic headwinds and a deteriorating economic outlook, India continues to offer strong growth and stability making it a natural choice for investors seeking long-term value and opportunity.

Furthermore, our strong domestic demand<sup>15</sup> and relatively lower dependence on exports cushions the Indian economy from external spillovers.

India offers a policy ecosystem that is transparent, rule-based, and forward-looking – an ideal setting for long-term and productive investments. As the world's fastest-growing major economy, India is not just a destination for investment – it is a partner in prosperity. Together, we have the chance to shape the future – not only for India but for a better world. I invite you to be a part of this journey, to collaborate, innovate, and invest in India. ■

**Sanjay Malhotra is Governor of the Reserve Bank of India**

## Endnotes

1. FDI in the Defence sector has been increased to 74 per cent under the automatic route for companies seeking new industrial licenses. The Telecom sector now permits 100 per cent FDI through the automatic route. Similarly, the FDI cap in the Insurance sector was raised from 49 per cent to 74 per cent, and as announced in the Union Budget 2025, it will further rise to 100 per cent - with the condition that the entire premium is invested within India.
2. The gross non-performing assets (GNPA) of scheduled commercial banks (SCBs) declined to a 12-year low of 2.42 per cent and their capital to risk weighted assets (CRAR) at 16.5 per cent at the end of December 2024.
3. India's services exports recorded a growth of 13.1 per cent during 2024-25 (April-February), despite global economic order shrouded with heightened uncertainty, on the back of software and business exports. Global Capability Centres (GCC) have emerged a key driver of services exports over the last few years, with notable contribution to India's exports of software and business services. With more than 1,800 GCCs, the sector is expected to expand from \$64.6 billion in 2024 to \$110 billion by 2030.
4. It is projected to decline to 75.8 percent in 2030 (IMF World Economic Outlook, April 2025).
5. 4.3 per cent in 2025-26 (Budget Estimates).
6. <https://dbtbharat.gov.in/static-page-content/spagecont?id=18>
7. Infrastructure sector has received priority attention with National Infrastructure Pipeline (NIP), National Monetisation Pipeline (NMP) and PM Gati Shakti as the flagship programmes. The National Highway network expanded by 60 per cent to 1,46,145km in 2024. PM Gati Shakti is streamlining over ₹6.38 lakh crore worth of road projects for seamless logistics. Railways have launched 136 Vande Bharat trains and identified 1,337 stations for upgradation under the Amrit Bharat Station Scheme. Metro networks have grown from 248km to 1,011km across 20+ cities, while operational airports increased from 74 to 159. India's aviation sector has witnessed significant expansion with 545 routes operationalised under the Ude Desh ka Aam Nagrik (UDAN), aimed at improving air connectivity. With 158 operational Airports and the construction of 84 airports over the last decade, India's aviation network is rapidly evolving.
8. Mobile, pharmaceuticals, medical devices, automobile and its components, solar PV, electric vehicles, and advanced chemistry cell (ACC) batteries.

9. 1.6 billion USD in 2018-19 to 15.6 billion USD in 2023-24 and 18.3 billion USD in 2024-25 (Apr 2024 - Jan 2025).
10. From 0.1 billion USD in 2018-19 to 2 billion USD in 2023-24 (1 billion USD for the period April- January 2024-25).
11. Nearly 65 per cent of India's population is under the age of 35, with a median age of just 28 years, significantly lower than the other major emerging economies.
12. The unemployment rate has improved to 3.2 per cent during 2023-24 from 6% in 2017-18. LFPR for women increased to 41.7 per cent from 23.3 per cent over the same period. Formal employment has further strengthened as evidenced by the Employees' Provident Fund Organisation (EPFO) payrolls data - net payroll additions rose by 4.2 per cent in Q3:2024-25.
13. In the Global Competitiveness Index 2024, India ranks 39<sup>th</sup> among 67 economies, reflecting improved business efficiency.
14. Personal Income Tax Buoyancy: 2021-22: 2.29; 2022-23:1.42; 2023-24: 2.61; 2024-25: 1.94.
15. Domestic demand contributes about 90% to GDP whereas merchandise exports contribute about 12% of GDP which is much lower compared to some of our peers.

*This article is based on a keynote address at the US-India Economic Forum organised by the Confederation of Indian Industry (CII) and US India Strategic Partnership Forum (USISPF), Washington DC, April 25, 2025.*

# Indian tiger

The global order is in a precarious state, and there is a reconfiguration of the structures of globalisation. Tom Page addresses India's economic ascendancy, its innovation and influence in a realigning global order



## Introduction

The global order is in a precarious state, with the return of great power rivalry, the resurgence of protectionism, and the increase in economic interdependence creating a volatile ecosystem. The post-World War II multilateral framework, once a bedrock of global stability, appears frayed and out-of-date. The rules that have underpinned the global economy for over fifty years are fracturing.

Yet, this period of upheaval should not be viewed as collapse but rather as a realignment—a reconfiguration of the structures of globalisation itself. How will the global order look in the future? What are the trends to watch? What will be India's role in this realignment?

This article addresses these questions by focusing on technological innovation in the Indian economy—specifically in artificial intelligence (AI), financial technology (fintech), and trade finance—and examining India's evolving role in the global order, particularly its relations with the Global South, Africa, the United States, Europe, and China.

India, with a population exceeding 1.4 billion and a GDP projected to reach \$5 trillion by 2027, is emerging as a pivotal player in this new global landscape<sup>1</sup>. Its vibrant tech ecosystem, fuelled by government initiatives like Digital India and Make in India, is driving innovation at an unprecedented pace.

Meanwhile, India's strategic diplomacy, exemplified by initiatives like the India Think Tank Forum 2025, is redefining its influence, particularly in advocating for a resilient global order<sup>2</sup>. This article explores how India's technological advancements and geopolitical strategies are shaping its economic and global trajectory.



## The Indian economy: a foundation for global influence

India's economy is on a robust growth trajectory, with the National Council of Applied Economic Research estimating a GDP growth rate of 7.4% for 2022–2023<sup>3</sup>. By 2035, the National Association of Software and Service Companies (NASSCOM) projects that AI alone could contribute \$967 billion to India's economy, accelerating its path to becoming a \$5 trillion economy<sup>4</sup>. With over 2,000 startups in Bengaluru and IT exports exceeding \$50 billion annually, India's tech sector is a global powerhouse<sup>5</sup>. Government policies, including the IndiaAI Mission and Digital India, are fostering innovation, digital infrastructure, and financial inclusion, positioning India to capitalise on the global realignment.

*India's economic trajectory, powered by AI, fintech, and trade finance innovations, is reshaping its role in a realigning global order*

## Artificial Intelligence: powering India's economic future

India's AI market is projected to reach \$17 billion by 2027, growing at a compound annual growth rate (CAGR) of 18.2% from 2025 to 2034<sup>6</sup>. With 16% of the world's AI talent—second only to the United States—India is a hub for AI innovation<sup>7</sup>. The IndiaAI Mission, backed by ₹10,300 crore (\$1.2 billion), aims to bolster AI infrastructure by procuring 18,000 GPUs for startups and researchers<sup>8</sup>.

### Trends in AI innovation

- Cross-sectoral impact: AI is transforming healthcare, agriculture, education, and manufacturing. In healthcare, AI-driven diagnostics and telemedicine platforms are improving access in rural areas, reaching over 50 million users in 2024<sup>9</sup>. In agriculture, precision farming tools powered by AI are boosting yields by 15–20% in pilot projects<sup>10</sup>.
- Startup ecosystem: India has witnessed a 14-fold increase in AI startups since 2000, with Bengaluru filing over 400 AI patents annually<sup>11</sup>. Venture capital investments in AI startups reached \$1.5 billion in 2024, signalling strong global confidence<sup>12</sup>.
- Responsible AI: the government is emphasising ethical AI development, with frameworks to address bias, transparency, and data privacy, aligning with global standards set by organisations like UNESCO<sup>13</sup>.

### Case study: Srijan Centre for Generative AI

In 2024, IndiaAI and Meta launched the Srijan Centre for Generative AI at IIT Jodhpur, focusing on education, mobility, and healthcare applications<sup>14</sup>. The Centre promotes open-source AI models, fostering collaboration between academia and industry. The YuvAI Initiative, a parallel effort, aims to train 100,000 youth in AI skills by 2026, addressing the talent gap and reinforcing India's position as a responsible AI leader.

## Projections

By 2035, AI is expected to contribute \$15.7 trillion to India's economy, creating 400,000 jobs by 2025<sup>15</sup>. However, challenges such as talent shortages and US restrictions on advanced GPU exports could hinder progress. Scaling AI infrastructure and ensuring ethical governance will be critical to sustaining growth.

## Fintech: redefining financial inclusion

India's fintech market is projected to reach \$150 billion by 2025, driven by a 600 million-strong smartphone user base and the Unified Payments Interface (UPI), which processes over 500 million daily transactions valued at \$2.4 trillion in June 2023<sup>16</sup>. Fintech is the leading adopter of AI, with 18% of firms using AI for risk management and compliance, compared to a 9% cross-sector average<sup>17</sup>.

## Trends in fintech advancements

- **AI-Driven personalisation:** AI enhances customer experiences through chatbots, virtual assistants, and predictive analytics. Machine learning models improve credit scoring, enabling loans for 20 million underserved users in 2024<sup>18</sup>.
- **UPI's global reach:** UPI's success has inspired crossborder payment initiatives, with countries like Singapore and the UAE adopting similar systems. In 2024, UPI expanded to seven countries, facilitating \$10 billion in remittances annually<sup>19</sup>.
- **Regulatory support:** the Reserve Bank of India (RBI) promotes digital wallets, payment banks, and sandbox environments, fostering innovation while ensuring stability through measures like the Personal Data Protection Act<sup>20</sup>.

### Case study: Paytm's AI-powered lending

Paytm, a fintech giant, uses AI to assess loan eligibility for users without formal credit histories, analysing alternative data like mobile usage and transaction patterns<sup>21</sup>. By 2024, Paytm disbursed over 10 million micro-loans, empowering small businesses and rural entrepreneurs. This model has reduced loan default rates by 30% through AI-driven risk assessment, showcasing fintech's role in financial inclusion.

### Projections

The fintech sector is expected to grow at a CAGR of 23.9% from 2023 to 2027, with mobile wallets and Buy Now, Pay Later (BNPL) services leading the charge<sup>22</sup>. Partnerships between fintech firms, banks, and AI developers will drive innovation, but cybersecurity and regulatory compliance remain critical challenges.

### Trade finance: streamlining global commerce

Trade finance in India is undergoing a digital transformation, leveraging AI, blockchain, and fintech to enhance efficiency and support small and medium enterprises (SMEs). India's export market, valued at \$776 billion in 2023, is a key driver of economic growth<sup>23</sup>.

### Trends in trade finance

- Blockchain for transparency: blockchain platforms streamline letter-of-credit processes, reducing transaction times by up to 50%<sup>24</sup>. Cryptographic protocols enhance security, mitigating fraud risks for \$100 billion in annual transactions<sup>25</sup>.
- AI for risk management: AI algorithms detect fraudulent transactions and optimise supply chain financing, reducing risks for exporters and importers by 25% in pilot programmes<sup>26</sup>.

- SME empowerment: fintech loans and AI-driven logistics platforms are enabling SMEs to compete globally, with SME exports growing 12% annually<sup>27</sup>.

### Case study: HSBC India's blockchain platform

HSBC India's blockchain-based trade finance platform, launched in 2023, digitises letter-of-credit processes, reducing paperwork and transaction times by 40%<sup>28</sup>. Integrated AI tools provide real-time risk assessment, benefiting SMEs in sectors like textiles and agriculture. This platform has facilitated \$500 million in SME exports since its inception, highlighting India's leadership in trade finance innovation.

### Projections

By 2030, AI and blockchain adoption in trade finance is projected to reduce transaction costs by 20–30%, boosting SME participation in global trade by 30%<sup>29</sup>. Regulatory frameworks must evolve to address cybersecurity and ethical challenges to sustain this growth.

### India's role in the global order

As the global order realigns amid great power rivalry and protectionism, India is emerging as a linchpin, balancing economic ambition with strategic diplomacy. The India Think Tank Forum 2025, hosted by the Observer Research Foundation, underscores India's commitment to shaping a resilient global order through inclusive governance, sustainable development, and technology-driven solutions<sup>30</sup>. India's relations with the Global South, Africa, the United States, Europe, and China reflect its multifaceted role.

### The Global South: a voice for equity

India positions itself as a leader of the Global South, advocating for equitable global economic structures. Through forums like the G20 and the Voice of Global South Summit, India champions debt relief, climate finance, and

technology transfers. In 2023, India's inclusion of the African Union in the G20 marked a significant step toward amplifying developing nations' voices<sup>31</sup>. India's Digital Public Infrastructure (DPI), including UPI and Aadhaar, is being shared with countries like Sri Lanka and Nigeria, fostering digital inclusion for over 100 million users across these nations<sup>32</sup>.

### Africa: a strategic partner

India's engagement with Africa is deepening, with trade reaching \$100 billion in 2023<sup>33</sup>. AI and fintech collaborations are central to this partnership. For instance, Indian fintech firm PayU is expanding digital payment solutions in Nigeria, processing \$5 billion in transactions annually<sup>34</sup>. AI startups are partnering with African universities to develop agritech solutions, increasing crop yields by 10% in pilot regions<sup>35</sup>. India's concessional loans and capacity-building programs, such as the India-Africa Forum Summit initiatives, strengthen economic ties.

### United States: a tech-driven alliance

The US-India relationship is anchored in technology and innovation. The Initiative on Critical and Emerging Technology (iCET), launched in 2022, fosters collaboration in AI, semiconductors, and quantum computing<sup>36</sup>. However, US restrictions on GPU exports pose challenges to India's AI ambitions, delaying compute capacity expansion by an estimated 18 months<sup>37</sup>.

Despite this, joint ventures like the Srijan Centre with Meta highlight the potential for co-innovation. Trade between the two nations reached \$120 billion in 2023, with tech services accounting for 40%<sup>38</sup>.

### Europe: a balancing act

India's ties with Europe are growing, particularly in fintech and green technology. The EU-India Trade and Technology Council, established in 2023, promotes AI and fintech collaborations, with \$2 billion in joint investments



by 2024<sup>39</sup>. Indian fintech firms like Razorpay are expanding into Europe, processing €1 billion in transactions annually<sup>40</sup>. European banks adopt India's blockchain solutions for trade finance, reducing costs by 15%<sup>41</sup>. However, protectionist policies in Europe, such as the Carbon Border Adjustment Mechanism, could impact Indian exports, necessitating strategic negotiations.

### China: competition and cooperation

India's relationship with China is complex, marked by competition in AI and fintech but also economic interdependence. China's dominance in AI hardware contrasts with India's software expertise, creating opportunities for collaboration but also tensions, particularly after recent border clashes.

India's ban on Chinese apps like TikTok has spurred domestic innovation, with homegrown platforms like ShareChat gaining 200 million users by 2024<sup>42</sup>. Trade with China, valued at \$115 billion in 2023, remains significant, but India is diversifying supply chains to reduce dependency, with 20% of imports shifted to Southeast Asia<sup>43</sup>.

### Challenges and opportunities

India's economic and geopolitical ascent faces several challenges:

- **Talent and Infrastructure:** despite a large AI talent pool, demand outstrips supply by 30%<sup>44</sup>. The NITI Aayog's AI for All program aims to train 1 million people by 2025, but infrastructure bottlenecks, including GPU shortages, persist<sup>45</sup>.
- **Ethical AI and cybersecurity:** bias in AI algorithms and cybersecurity risks in fintech and trade finance require robust governance frameworks. India's Personal Data Protection Act, enacted in 2023, addresses these concerns but needs stronger enforcement<sup>46</sup>.

- Geopolitical risks: protectionism and great power rivalry could disrupt India's export markets and tech collaborations, particularly with the US and China, with potential trade losses of \$10 billion annually<sup>47</sup>.

### Opportunities include:

- Global leadership in DPI: India's DPI model is a blueprint for the Global South, enhancing its soft power and influencing 500 million users globally by 2030<sup>48</sup>.
- SME growth: AI and fintech innovations are empowering SMEs, driving export-led growth with a projected \$200 billion increase by 2027<sup>49</sup>.
- Strategic alliances: deepening ties with the US, Europe, and Africa position India as a bridge between developed and developing worlds, fostering \$50 billion in tech investments by 2025<sup>50</sup>.

### Conclusion

India's economic trajectory, powered by AI, fintech, and trade finance innovations, is reshaping its role in a realigning global order. From the Srijan Centre's AI advancements to Paytm's inclusive lending and HSBC's blockchain platform, India is leveraging technology to drive growth and inclusion.

Geopolitically, India's leadership in the Global South, strategic partnerships with Africa and the West, and nuanced engagement with China underscore its rising influence, as highlighted by initiatives like the India Think Tank Forum 2025<sup>51</sup>.

As the global order evolves, India's blend of technological prowess and diplomatic agility positions it to not only navigate but also shape the future of globalisation. By addressing challenges like talent shortages and ethical concerns, India can cement its place as a global economic and geopolitical powerhouse by 2035. ■

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# India's imperative for thought leadership in a fractured world

Harsh V Pant and Vivek Mishra present a review of  
the India Think Tank Forum 2025, convened by the  
Observer Research Foundation

**N**ot until now has the world experienced such rapid succession of events whose geopolitical consequences are as far and wide. As we write this, the global order continues to be in a precarious state, with two active wars dragging on for years now and potential hotspots in different parts of the world suffering greater uncertainty.

In many ways, the world is coming full circle, with the return of great-power rivalry, the resurgence of protectionism, and the weaponisation of economic interdependence creating a volatile ecosystem wherein the very foundations of the post-War multilateral framework are being shaken to their core. What we need today is resolute and sustained thought leadership. It is against this backdrop that Observer Research Foundation convened the 7<sup>th</sup> India Think Tank Forum 2025 in February this year, under the theme, 'Shaping a Resilient Global Order'.

This compendium builds on the Forum and has two aims: to bridge the regional and linguistic divide by bringing together the voices of India's vast think tank community, and to provide a coherent pitch to the world on ideas that matter to India's growth and foreign policy. The compendium carries thematically diverse essays inspired by the panel discussions during the Forum.

We invited 20 speakers from across the 10 panel discussions conducted over two days of the Forum to reflect on three trends on which think tanks should focus on, and three issues that emerged from the panel discussion in which they spoke. The essays carry perspectives from think tank leaders, scholars, former diplomats, and analysts, all of whom engage with issues of India's foreign policy and evolving geopolitics, the country's development story, and its growing normative role in the international system.

It is our hope that this collection of essays captures the essence of the Forum, at the heart of which lay the question: how can India—and indeed the Global South—constructively participate in the reimagining of global governance,

security, and cooperation, without succumbing to the consequences of an international system that is fraying at the seams?

*How can India—and indeed the Global South—constructively participate in the reimagining of global governance, security, and cooperation, without succumbing to the consequences of an international system that is fraying at the seams?*

The Forum opened with a Curtain Raiser Plenary that trained the spotlight on the multiple crises confronting the global community. Three key vectors emerged: the intensifying United States-China rivalry and its implications for alliances and trade; the systemic disruption from prolonged conflicts in Ukraine, West Asia, and other vulnerable theatres; and the strategic uncertainties for India, South Asia, and the broader Global South as a result of such fragmented reality.

Setting the tone for the entire event, the curtain-raiser explored how interests can be safeguarded against the backdrop of the need for the Global South, especially countries like India, to balance economic growth and security amidst shifting alliances, economic pressures, and regional instability. As the old order comes under strain, new actors like India are poised to usher alternative norms and priorities in the global discourse.

The first thematic panel on 'Global Conflict, Stability, and Human Development' focused on internal conflicts and fragile states, emphasising how the crisis of global governance often begins within national boundaries. The persistence of ethnonationalist and religious conflicts, particularly in the Global South, signals both a failure of governance and a gap in peacebuilding frameworks.

The discussion recognised India's contributions to peacekeeping and highlighted the growing need to reform peacebuilding mechanisms to be more inclusive—particularly in advancing women's agency in conflict resolution. India's historical contributions to UN peacekeeping, with New Delhi playing an important role in stabilising conflicts, were a relevant element in the examination of India's strengths.

The panel raised important questions in the context of augmenting India's role in the domain through a proactive, strategic approach that incorporates development assistance, civil society participation, and sustainable reconciliation mechanisms.

The panel on 'Geeoeconomics and the Future of Growth' was devoted to the current geeoeconomic turmoil, especially in an era where economic priorities often trump traditional diplomacy. The speakers analysed how trade, technology, and finance intersect with power, especially in the context of the return to the US presidency of Donald Trump, signalling an inflection point for global trade policy.

At a time when efforts to usher a normalisation of protectionism and transactional diplomacy may be forging ahead, India, the panel argued, must pursue deeper regional economic linkages while protecting itself against volatile externalities. India's engagement with trade frameworks like the IPEF, RCEP, or Quad, was cited as a component of a strategy that seeks to balance pragmatism and ambition.

The vulnerabilities facing global supply chains are expected to enforce trade diversification, where countries are likely to shape frameworks to mitigate geeoeconomic risks and build institutional resilience.

The panel that followed discussed 'Critical and Emerging Technologies' from the perspectives of power, access, and equity. Technology has become a fundamental driver of modern life, with states increasingly leveraging critical and emerging technologies like Artificial Intelligence (AI), quantum computing, and blockchain to enhance statecraft and promote development.

The ability to innovate and effectively utilise these technologies has become a crucial factor in determining national power and global influence. The panel unpacked how the monopolisation of tech ecosystems by a few advanced economies could exacerbate the digital divide and erode democratic accountability.

In this context, what are India's strategic choices in this space—from its advocacy of ethical AI to its calls for an inclusive digital governance regime? Finally, the panel delved into how the Global South can challenge



technological gatekeeping by advancing collaborative, open-access innovation models and building domestic capacity in critical technologies.

Building upon the preceding session, the panel, 'Digital Transformation: Unlocking Potential for Development', examined the role of digital technologies in accelerating inclusive development and the question of unequal access to these innovative tools.

India's model of Digital Public Infrastructure (DPI) was held up as a blueprint for the Global South—a means to catapult legacy systems and deliver efficient, transparent services to the people. How India's DPI experience—particularly in fintech, health tech, and data governance—can be adapted by other developing countries was at the centre of discussions.

Additionally, central to this transformation is the need to promote gender inclusivity, secure digital rights, and ensure that technological advancement is embedded within sustainable development frameworks. Finally, panellists weighed in on the importance of building resilient data ecosystems, with the state as an enabler rather than a monopoliser of digital capital.

Perhaps very few challenges are as urgent as the global energy transition, which is transforming the geopolitical and economic landscape and with it carries massive implications for developing nations. The transition from hydrocarbons to renewables has introduced new complexities, including securing critical minerals and navigating the evolving alliances between energy-exporting and -importing nations.

As the world increasingly embraces renewable energy, India has emerged as a leader in global energy transition, exemplified by its role in initiatives such as the International Solar Alliance (ISA). The panel, 'Climate and Energy



Security in a Globalised World', explored the complex dynamics between global ambition and local feasibility. India's leadership was noted as both symbolic and substantive.

Interventions on these topics dwelled on how India can sustain and expand its leadership by advocating equitable financing mechanisms, forming innovative partnerships, and ensuring climate justice in global energy architectures.

Barriers to sustainable development are widening gradually. Indeed, the multiple challenges of energy transition, climate financing gaps, biodiversity loss, flailing multilateral agencies, inequity, and misgovernance have laid bare the vulnerabilities of the Global South.

In this sense, India's role as a prominent partner for developing countries cannot be ignored. The panel, 'India and the Global South: Championing Equitable Development', assessed India's recent activism in shaping the agenda—looking at a range of activities from the Voice of the Global South Summit to New Delhi's support for inclusive trade and financial mechanisms.

As multilateral institutions falter, there is growing appetite for India to act as an enabler and norm entrepreneur. The focus on India's development partnerships in sectors such as healthcare, infrastructure, and education formed critical interventions. Questions about how India can scale up South-South cooperation through knowledge sharing, capacity building, and technical diplomacy framed the discussions. Attention was paid to India's vaccine diplomacy and DPI exports as templates of low-cost, high-impact interventions for development.

The emergence of the Indo-Pacific as a strategic theatre based on a democratic rules-based order has altered the global geopolitical landscape. While China's heft in the region has posed a formidable security challenge for like-minded countries that continue to advocate for a free and open Indo-Pacific, its aggressive naval advances in the

Indo-Pacific are impinging on the regional maritime security environment, necessitating efforts to foster stability in the regional order.

The session, 'The Indo-Pacific Nexus: Geopolitics, Security and Cooperation', reaffirmed the position of the region as a geopolitical nerve centre of geopolitics, trade and security, emphasising regional security architectures, minilateralism, and the role of the Quad.

Amidst the spectrum of convergences and divergences in the region, reflections on India's strategic tightrope walk—maintaining autonomy while deepening regional engagement and preserving openness without succumbing to bloc politics—remained at the centre stage of the discussions.

The United Nations-led multilateral framework is facing a credibility crisis. Multilateral institutions have struggled to address critical challenges such as inter-state conflicts, climate change, pandemics, and debt crises. This failure is exacerbated by the lack of representation for emerging economies in key institutions like the UN Security Council, as well as the crisis within the World Trade Organization, which has been unable to establish a more equitable global trading system for the Global South.

As the global governance structure falters amidst shifting geopolitical realities, India has championed the concept of 'reformed multilateralism', aiming to reshape institutions to be more effective, inclusive, and responsive to global needs. Amidst this churn, the discussions underscored India's call for 'reformed multilateralism' and its components of equity, responsiveness to crises, and institutional agility.

Finally, the discussions explored the role that think tanks play in societies by generating ideas, shaping policy debates, and offering solutions to critical challenges. In today's digital age, with the constant influx of information,

it is equally important to effectively disseminate and present these ideas to a wider audience. The ability to communicate solutions in a clear and engaging manner is a pillar of the endeavour to influence policy and decision-making.

However, think tanks also face formidable challenges, particularly in securing sustainable funding while preserving intellectual integrity and independence. Balancing financial support with the freedom to produce unbiased research remains a key challenge for these organisations, as they strive to maintain their credibility and effectiveness in addressing global and national issues.

The India Think Tank Forum 2025 offered a unique opportunity to bring together voices across regions, gender, and thematic priorities from think tanks across India. The Forum proved useful not just for discussing the pressing ideas of our time but for assessing the challenges from our collective as well as individual vantage points.

As we aim to make the compendium an annual publication, it is our hope that this present volume provides a valuable direction for a roadmap for India's thought leadership in an increasingly contested world. ■

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*This article is based on the introduction to the [ORF India Think Tank Forum 2025](#).*

# Will India benefit from the US-China tariff war?

With the tariff showdown the US is veering the world into recession. The tariff confrontation between the world's two largest economies is wreaking havoc on the global economy, and India can take advantage of the situation, argues Sarosh Bana



**W**ith his tariff showdown of 2 April 2025, US President Donald Trump is knowingly inciting China into a new Cold War and veering the world into recession. JP Morgan raised its forecast from 40 to 60 per cent that the global economy will enter a recession by end 2025.

Trump's unfettered move will also shatter the American Dream, hurting Americans more than any other country. His punitive taxes on all imports will escalate costs for domestic businesses, inflating prices for US consumers, and consequently edging his country into a sustained economic decline and eventual recession.

If American importers opt to absorb the tariff costs, their profitability will decline, coercing them to downsize operations and lay off workers. If they pass on the tariff costs to consumers, which is more likely, consumer demand will collapse, hitting manufacturing and again throwing workers out of jobs.

The US dollar has also been sliding against other major currencies, which is a clear signal that investors may be starting to shun what has long been the safest haven in global financial markets.

On 9 April, Trump suddenly announced the pausing of reciprocal tariffs for 90 days to give his administration time to work out trade deals with 75 countries, which he said had reached out to the White House to offer concessions. He later acknowledged that the pause was also driven by volatility in the stock and bond markets.

But he singled out China, not only excluding it from the 90-day concession but also upping his absurd 145 per cent tariff on Chinese imports to an incredible 245 per cent, as retaliation against Beijing's retaliation in hiking tariffs on all US goods from 34 per cent to 84 per cent to 125 per cent, starting 12 April.



## China's response

China termed the Trump administration's actions a 'joke', stressing that they no longer considered them worth matching. Trump has tried to soften the impact by exempting US\$100 billion worth of tech imports, but tensions prevail as Washington contemplates a national security probe on electronics.

*Narendra Modi walks a tight rope. Nevertheless, he is positioning India to capitalise on any advantage coming out of the tariff war so as to emerge as a net beneficiary*

Chinese President Xi Jinping is expected to do all he can to counter Trump's excesses. Indeed, the 2022 US National Security Strategy cites China as the *"only competitor with both the intent to reshape the international order and, increasingly, the economic, diplomatic, military, and technological power to do it."*

China has halted exports of six rare earths, cutting off the US and other countries from these minerals vital for the tech, auto, aerospace, defence, and manufacturing industries. It has also ordered Chinese airlines not to take further deliveries of the Seattle-based Boeing Company's aircraft. China is Boeing's largest customer and is in line to receive deliveries of 9,000 airplanes – 20 per cent of Boeing's production – over the next two decades.

It is a fact, though, that the US suffers a massive trade deficit with China that exceeded US\$295.4 billion last year; its exports were worth US\$143.5 billion to China in comparison with US\$438.9 billion worth of imports from China.

The US' overall trade deficit in goods and services was US\$918.4 billion in 2024, a 17 per cent increase from 2023, even as China's overall trade surplus surged to a record US\$992.2 billion in 2024, its exports climbing 5.4 per cent. This helped tide over the sluggish growth at home as it gradually recovered from a crisis in its property market and the persisting effects of the COVID-19 pandemic.

### **Trump's use of tariffs denounced**

However, a brutal slugfest was certainly not expected of the world's largest economy, which the US clearly is, with its 2024 GDP of just under US\$29 trillion far outshining the US\$18.6 trillion GDP of China, the world's second-largest economy. A calibrated approach to trade rectification would have been more acceptable, even welcomed, by the international community. It would have expected Trump to seek mutually compatible trade agreements with countries and blocs, rather than wield a sledgehammer to structure an economic order pandering to his whims.

Banking giant, UBS, expects China's exports to the US to drop by two-thirds in the coming quarters, with overall Chinese exports declining 10 per cent in US dollar terms in 2025, factoring in weaker American and global economic growth. In a report on April 15, the bank also downgraded China's GDP growth forecast to 3.4 per cent in 2025, assuming current tariff hikes will remain, and that China rolls out additional stimulus.

On 14 April, legal advocacy group The Liberty Justice Center, urged the US Court of International Trade to block the President's sweeping tariffs, contending that he exceeded his authority. Arguing that only Congress can set tax rates, including tariffs, Center counsel Jeffrey Schwab said, *"No one person should wield such power."* White House spokesman Harrison Fields defended the tariffs, calling them essential to US interests.

### **China's counter moves**

President Xi has embarked on a diplomatic outreach to contain the United States' influence. When he recently hosted Spanish Prime Minister Pedro Sánchez in Beijing, he urged the European Union to embrace a *"fair international trade environment and jointly resist unilateral and intimidating practices."* He added that *"China and Europe should fulfil their international responsibilities... and jointly resist unilateral bullying practices."*

Xi also reached out to Southeast Asian countries, warning that a *"trade and tariff war will produce no winner, and protectionism will lead nowhere."* He visited Vietnam, Cambodia and Malaysia in a bid to *"resolutely safeguard the multilateral trading system, stable global industrial and supply chains, and open and cooperative international environment."* The three countries have been imposed tariffs of 46, 49 and 24 per cent respectively by the US, although they have been similarly suspended for 90 days.

Xi presented China as a reliable partner, unlike the US, and said his country is ready to fight a trade war if Washington continues to act *"recklessly."*

In a rare gesture, Beijing also sought to galvanise New Delhi to “stand together”. In a post on X, Chinese Embassy spokesperson Yu Jing said: *“China-India economic and trade relationship is based on complementarity and mutual benefit. Facing the US abuse of tariffs, which deprives countries, especially Global South countries, of their right to development, the two largest developing countries should stand together to overcome the difficulties.”*

Her post followed a congratulatory message by the Chinese President himself on 1 April to his Indian counterpart, President Droupadi Murmu, on the 75<sup>th</sup> anniversary of the establishment of China-India diplomatic relations, that India and China should work together, as two major neighbouring countries that are home to one-third of the world’s population. *“A stable, predictable and friendly bilateral relationship will benefit both countries and the world”,* he added.

India did not respond to this statement, though External Affairs Minister S Jaishankar said the bilateral relationship was moving in a *“positive direction.”*

### **India-US trade talks**

Prime Minister Narendra Modi walks a tight rope. Nevertheless, he is positioning India to capitalise on any advantage coming out of the tariff war so as to emerge as a net beneficiary.

Even as Finance Minister Nirmala Sitharaman was pacing through her conciliatory five-day visit to the US to engage with officials on another round of talks on a Bilateral Trade Agreement (BTA), the first phase of which she hopes will be finalised by ‘autumn’ (September-October), Modi was hosting US Vice President JD Vance as he started his four-day visit to India.

India enjoyed a trade surplus of US\$36.8 billion over the United States in 2023-24, with US\$77.5 billion of exports in the two-way trade worth US\$118.2 billion. New Delhi is now anticipated to bend backwards in complying with Trump's call to narrow the US' trade deficit.

Even as the two governments announced the finalisation of the Terms of Reference for negotiations on the BTA, Vance took off from when Trump cornered Modi during their 13 February meeting at the White House. He was quick to affirm that America wanted greater access to Indian markets, and urged India to buy more oil, gas and defence hardware from the US, and to lower non-tariff barriers for US businesses.

US Trade Representative Jamieson Greer also issued a statement in Washington welcoming 'India's constructive engagement' but declared: *"There is a serious lack of reciprocity in the trade relationship with India. These ongoing talks will help achieve balance and reciprocity by opening new markets for American goods and addressing unfair practices that harm American workers."* ■

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# Supporting digital payments



Digital payments empower economic growth. Sanjay Malhotra discusses the payment ecosystem and argues for a balance between innovation and risk mitigation to ensure resilient digital payments

## Background and benefits

Payments are the lifeblood of commerce, enabling the flow of goods and services in an economy. They connect people, empower individuals and businesses, and drive economic growth. Quick, secure and reliable payments at affordable prices are the bedrock for a vibrant economy. Payments through digital modes support economic growth.

They also deepen financial inclusion by overcoming barriers like high transaction costs and geographical limitations<sup>1</sup>. In effect, digital payments are not just convenient but are also a powerful tool for economic empowerment and growth.

## Convenience: bouquet of products

Over the years, the Reserve Bank has supported various digital payment products. This has enhanced choice and convenience to the customers. We started with ECS (electronic clearing service). We then introduced NEFT, RTGS, IMPS, NACH (this is for e-mandates, it has replaced ECS), AePS, UPI, NETC, etc. We have introduced many new features on UPI and expanded its scope to cater to different needs of customers.

These include UPI123Pay, UPI Lite, linking RuPay credit cards to UPI, processing payment mandates with single-block-and-multiple-debits, enabling credit lines for UPI, linking PPIs with UPI, etc. UPI with its multiple features, allows us to transfer money, pay bills, and make purchases with a simple click, tap or scan. We will continue to proactively support the development of the payment ecosystem.

## Safety and security

While promoting digital payment systems and innovations around them, we have been mindful of the needs of safety and security in payments. We have thus put in place various measures for this purpose:

- Multi-factor authentication; security controls for internet and mobile payments apps and card payments; card tokenisation (to prevent storage of card details in merchants' systems), etc. are intended to make our payments ecosystem robust.
- We have enabled customers to have control over creating and terminating e- mandates for recurring transactions.

*We are just beginning to unlock the true potential of digital payments. I am confident that we will continue to work with renewed vigour to ensure that India remains at the forefront of digital payments globally*

Enhancing safety and security of payments ecosystem is a work in progress. The recently released drafts on *Framework on Alternative Authentication Mechanisms for Digital Payment Transactions*, and on *Additional Factor of Authentication (AFA) for cross-border Card Not Present (CNP) transactions* are steps in this direction.

### **Payment systems – way forward**

Apart from the RBI, the government and other important stakeholders such as the banks and payment system operators have also taken a number of initiatives to encourage the adoption of digital payments. While these efforts have produced results, as visible in the huge growth of digital payments, there is still a lot more to be done. Going forward, we will work on three broad areas.

### **Soft touch regulations to continue promoting innovation**

First, we will continue to encourage innovation in payments, as also generally, while being mindful of risks and taking appropriate measures to mitigate them. We will promote innovation to facilitate payment systems that are fast, safe, secure, accessible and resilient. We have adopted a soft-touch approach to regulating the payments ecosystem and fintechs.

Through these regulations, the Reserve Bank attempts to balance these divergent set of expectations. Our approach has been to put in place regulatory guardrails within which all stakeholders are free to operate. We will continue to encourage innovation while promoting safety and security through soft-touch regulations.

### **Promote awareness generation**

Second, though much progress has been made in the development, spread and adoption of digital payments, there is a lot of scope to further deepen and expand digital payments in the country. In January 2025, more than 20 billion payments worth almost 250 trillion rupees were made in India through digital modes.



Digital payments have become the preferred mode of payment for many of us. However, surveys have shown that nearly 40% of our adult population still do not use digital payments. One of the main reasons for this is the lack of awareness or familiarity with using digital payments.

To create awareness of digital payments, the *Digital Payments Awareness Week* is being observed in March every year. As part of this endeavour, the *Har Payment Digital* mission was launched in 2023. The mission seeks to promote digital payments by enhancing awareness of digital payments among all citizens and making available the necessary infrastructure and solutions for people to make payments digitally.

The objectives of *Har Payment Digital* can be achieved only with the active participation of all stakeholders. Geographies and population segments, lagging behind in usage and awareness of digital payments need to be identified and suitable steps taken to expand awareness and improve usage.

We are now in the 3<sup>rd</sup> year of this mission. The theme for this year is 'India Pays Digitally'. This year too, we will continue our awareness activities. By showcasing how digital payments have become a ubiquitous part of our lives, we will encourage those who haven't adopted digital payments yet, to do so.

The Regional Offices of RBI too conduct Awareness Programs, called *eBAAT*, across the country covering various strata of society. We have been conducting these programs since 2012. In the last 8 years, more than 1,800 such programs have been conducted. During this year, the content and method of delivery of *eBAAT* will be reviewed, and a pilot will be conducted (in a large state) with the objective to reach a very large number of people in the most efficient way.

I urge the banks, payment system operators and other stake holders to contribute in their own innovative ways to take forward the mission of *Har Payment Digital*.

### **More efficient crossborder payments**

Third, while in domestic payments, the success of UPI has propelled India to a leadership position with a share of 48.5 per cent in global real-time payments by volume<sup>2</sup>, we will endeavour to make crossborder payments more efficient. This assumes priority as India is the largest receiver of personal remittances globally.

As per a World Bank<sup>3</sup> report, it has been estimated that in 2024, India received remittances totalling approximately 130 billion USD. We need to address the challenges of high cost, slow speed, and insufficient access and transparency in crossborder payments.

We will continue to expand the reach of UPI bilaterally by linking UPI with fast payment systems of other countries. We will also explore the possibility of linking payment systems other than UPI for facilitating efficient crossborder payments. We will continue our engagement in a multilateral project called Project Nexus, to enable instant crossborder retail payments<sup>4</sup>.

I am happy to note that this year marks the 20<sup>th</sup> year of the establishment of the Department of Payment and Settlement Systems (DPSS). The work carried out by this department in association with all stakeholders has established India as a pioneer in digital payments. The revolution in India's payment systems is, however, far from over.



We are just beginning to unlock the true potential of digital payments. I am confident that we will continue to work with renewed vigour to ensure that India remains at the forefront of digital payments globally. ■

**Sanjay Malhotra is Governor of the Reserve Bank of India**

## Endnotes

1. World Bank, *Digital Financial Services*, April 2020.
2. ACI Worldwide, 2024
3. <https://blogs.worldbank.org/en/peoplemove/in-2024--remittance-flows-to-low--and-middle-income-countries-ar>
4. Nexus, conceptualised by the Innovation Hub of the Bank for International Settlements (BIS), aims to connect the Fast Payment Systems of four ASEAN countries (Malaysia, Philippines, Singapore, and Thailand); and India, who would be the founding members and first mover countries of this platform.

*This article is based on a speech delivered at the inauguration of Digital Payments Awareness Week 2025, held at the Reserve Bank of India, Mumbai, 10 March 2025.*