India in the Age of Organized Chaos

The BANI World, Two Great Crises

and

India's Unique Position to Lead

This study is prepared

By

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Methodology

The fieldwork for the assignment was conducted during December 2025 to February 2026 and the analysis performed shortly thereafter. An optimum mix of secondary, as well as primary research has been used to estimate the various Indian macroeconomic parameters to analyze historical trends and forecasted growth. For analyzing the impact of the US-Israel war with Iran, the fieldwork was conducted till 20 March and the analysis performed thereafter.

Secondary Research

To understand regional trends on this issue, our in-house research team conducted extensive secondary research. In analyzing macro parameters and estimating the size of various industry segments, we drew insights from international and regional databases such as the IMF, World Bank, WTO, UN, UNCTAD, UNESCO, BIST, Statistical Review of World Energy, alongside data from country-specific stock exchanges including the National Stock Exchange (NSE), New York Stock Exchange (NYSE), Qatar Stock Exchange (QSE), Frankfurt Stock Exchange (FSE), etc. have been leveraged. Multiple press releases including those from Al Jazeera, Gulf Business News, PIB, NDTV India, News 18 India (for the latest war updates), and others – were also studied. Furthermore, the team reviewed and analyzed reports and drew insights from the government bodies worldwide notably Ministry of Commerce, Ministry of External Affairs, Ministry of Statistics & Programme Implementation, the US Energy Information Administration, the Reserve Bank of India (RBI), the Petroleum Planning & Analysis Cell-the Ministry of Petroleum and Natural Gas (MoPNG, India), etc.

Primary Research

To authenticate the initial results arrived at from secondary research, industry experts and global geopolitical think tanks were consulted and their feedback was obtained. All of this resulted in a better understanding and appreciation of the dynamics of the Indian economy. These views were considered, coming from a sample and collated with secondary and primary research findings.

Caveat

Our analysis and projections are based on the market conditions, prevailing at the time of our fieldwork. We reserve the right to amend our projections, should any abnormal conditions, subsequently arise, in the market arena.

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1	ADNOC	Abu Dhabi National Oil Company	28	CDU	Crude Distillation Unit
2	AEPC	Apparel Export Promotion Council	29	CECA	Comprehensive Economic Cooperation Agreement
3	AI	Artificial Intelligence	30	CECPA	Comprehensive Economic Cooperation and Partnership Agreement
4	AIFTA	ASEAN-India Trade Area	31	CEOs	Chief Executive Officers
5	AIMs	Atal Innovation Missions	32	CEPA	Comprehensive Economic Partnership Agreement
6	AIP	Air-Independent Propulsion	33	CETA	Comprehensive Economic and Trade Agreement
7	AITIGA	ASEAN–India Trade in Goods Agreement	34	CGSE	Credit Guarantee Scheme for Exporters
8	AMCA	Advanced Medium Combat Aircraft	35	CII	Confederation of Indian Industry
9	APAC	Asia-Pacific Region	36	CNBC	Consumer News and Business Channel
10	APTA	Asia Pacific Trade Agreement	37	CoE	Center of Excellence
11	ASEAN	Association of Southeast Asian Nations	38	COVID-19	Corona Virus Disease-19
12	ASSOCHAM	Associated Chambers of Commerce and Industry of India	39	CPSEs	Central Public Sector Enterprises
13	B2B	Business to Business	40	CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
14	BAAINBw	Bundesamt für Ausrüstung, Informationstechnik und Nutzung der Bundeswehr	41	CRR	Cash Reserve Ratio
15	BANI	Brittle, Anxious, Nonlinear, Incomprehensible	42	DAX	*Deutscher Aktienindex* (German Stock Index)
16	BAPS	Bochasanwasi Akshar Purushottam Swaminarayan Sanstha	43	DFM	Dubai Financial Market
17	BEL	Bharat Electronics Ltd	44	DGFT	Directorate General of Foreign Trade
18	BFSI	Banking, Financial Services & Insurance	45	DLR	Deutsches Zentrum für Luft- und Raumfahrt (German Aerospace Center)
19	BIT	Bilateral Investment Treaty	46	DPIIT	The Department for Promotion of Industry and Internal Trade
20	BPD	Barrels Per Day	47	DPSUs	Defense Public Sector Undertakings
21	BRICS	Brazil, Russia, India, China, and South Africa	48	DTAA	Double Taxation Avoidance Agreement
22	BVR	Beyond Visual Range	49	EAM-level	External Affairs Minister-level
23	CAC 40	*Cotation Assistée en Continu 40* (Continuous Assisted Quotation)	50	ECTA	Economic Cooperation and Trade Agreement
24	CAD	Current Account Deficit	51	EEPC	*Engineering Export Promotion Council*
25	CBAM	Carbon Border Adjustment Mechanism	52	EFTA	European Free Trade Association
26	CBDCs	Central Bank Digital Currencies	53	EGX 30	Egyptian Exchange 30 Index
27	CDRI	Coalition for Disaster Resilient Infrastructure	54	EMA	European Medicines Agency

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55	EMZs	Export Manufacturing Zones	**82**	HPCL	Hindustan Petroleum Corporation Limited
56	EoDB	Ease of Doing Business	**83**	HSN	Harmonized System of Nomenclature
57	EPC	Export Promotions Council	**84**	IAEA	International Atomic Energy Agency
58	EPM	Export Promotion Mission	**85**	IAF	Indian Air Force
59	ESG	Environmental, Social, and Governance	**86**	IBEX35	*Índice Bursátil Español 35* (Spanish Stock Exchange Index)
60	ESOP	Employee Stock Ownership Plan	**87**	IDF	Israel Defense Forces
61	EU	European Union	**88**	IEA	International Energy Agency
62	EVs	Electric Vehicles	**89**	IEEPA	International Emergency Economic Powers Act
63	FDI	Foreign Direct Investment	**90**	IGSTC	Indo-German Science and Technology Centre
64	FEMA	Foreign Exchange Management Act	**91**	IIMs	Indian Institutes of Management
65	FICCI	Federation of Indian Chambers of Commerce and Industry	**92**	IIT	Indian Institute of Technology
66	FIEO	Federation of Indian Export Organizations	**93**	IMEC	India–Middle East–Europe Economic Corridor
67	FTAs	Free Trade Agreements	**94**	IMF	International Monetary Fund
68	FTP	Foreign Trade Policy	**95**	INS	Indian Naval Ship
69	FTSE 100	Financial Times Stock Exchange 100 Index	**96**	IoT	Internet of Things
70	FY	Financial Year	**97**	IPC	Índice de Precios y Cotizaciones
71	GATT	General Agreement on Tariffs and Trade	**98**	IPEF	Indo-Pacific Economic Framework
72	GCC	Gulf Cooperation Council	**99**	IRGC	Islamic Revolutionary Guard Corps
73	GDP	Gross Domestic Price	**100**	ISA	International Solar Alliance
74	GI	Geographical Indication	**101**	ISFTA	India–Sri Lanka Free Trade Agreement
75	GJEPC	Gem & Jewellery Export Promotion Council	**102**	ISRO	Indian Space Research Organisation
76	GM	Genetically Modified	**103**	IT	Information Technology
77	GSP	Generalized System of Preferences	**104**	ITC	Input Tax Credit
78	GST	Goods and Services Tax	**105**	JAYWAN	Joint Arab–India Payment Network
79	GTRI	Global Trade Research Initiative	**106**	JCPOA	Joint Comprehensive Plan of Action
80	GVCs	Global Value Chains	**107**	JSE	Johannesburg Stock Exchange All Share Index
81	HAL	Hindustan Aeronautics Ltd	**108**	KBSK	Kishi Bikash Shilpa Kendra

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109	KLCI	FTSE Bursa Malaysia Kuala Lumpur Composite Index	**136**	NSA	National Security Advisor
110	KOSPI	Korea Composite Stock Price Index	**137**	NSQF	National Skills Qualifications Framework
111	LAC	Line of Actual Control	**138**	NTPC	National Thermal Power Corporation
112	LDCs	Least Developed Countries	**139**	ODOP	One District One Product
113	LNG	Liquefied Natural Gas	**140**	ONDC	Open Network for Digital Commerce
114	LPG	Liquefied Petroleum Gas	**141**	ONGC	Oil and Natural Gas Corporation
115	MAGA	Make America Great Again	**142**	OPEC	Organization of the Petroleum Exporting Countries
116	MEA	Ministry of External Affairs	**143**	PATRIOT	Phased Array Tracking Radar for Intercept on Target
117	MENA	Middle East and North Africa	**144**	PCBAs	Printed Circuit Board Assemblies
118	MFN	Most Favored Nation	**145**	PCE	Personal Consumption Expenditures
119	MITRA	Mega Integrated Textile Region and Apparel	**146**	PFCE	Private Final Consumption Expenditure
120	MMF	Man-Made Fiber	**147**	PIOs	Persons of Indian Origin
121	MMT	Million Metric Tonnes	**148**	PLI	Production-Linked Incentive
122	MoU	Memoranda of Understanding	**149**	PMDA	*Pharmaceuticals and Medical Devices Agency*
123	MRAs	Mutual Recognition Agreements	**150**	PMGSY	Pradhan Mantri Gram Sadak Yojana
124	MRFA	Medium Multi-Role Fighter Aircraft	**151**	PPE	Personal Protective Equipment
125	MRO	Maintenance, Repair and Operations	**152**	PPP	Public-Private Partnerships
126	MRPL	Mangalore Refinery & Petrochemicals Ltd.	**153**	PTA	Preferential Trade
127	MSMEs	Micro, Small and Medium Enterprises	**154**	QE Index	Qatar Exchange Index
128	NAM	Non-Aligned Movement	**155**	QUAD	Quadrilateral Security Dialogue
129	NATO	North Atlantic Treaty Organization	**156**	R&D	Research and Development
130	NCGTC	National Credit Guarantee Trustee Company	**157**	RBI	Reserve Bank of India
131	NCI	Nelson Complexity Index	**158**	RIC	Russia-India-China
132	NCR	National Capital Region	**159**	ROGC	Refinery Off-Gas Cracker
133	NIPERs	National Institutes of Pharmaceutical Education and Research	**160**	S&P	Standard & Poor's
134	NLDCs	Non-Least Developed Contracting States	**161**	SAARC	South Asian Association for Regional Cooperation
135	NRIs	Non-Resident Indians	**162**	SAAW	Smart Anti-Airfield Weapon

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163	SAFTA	South Asian Free Trade Area	**187**	TReDS	Trade Receivables Discounting System
164	SBI	State Bank of India	**188**	TSX	Toronto Stock Exchange
165	SCO	Shanghai Cooperation Organization	**189**	UAE	United Arab Emirates
166	SEZs	Special Economic Zones	**190**	UAS	Unmanned Aircraft Systems
167	SIPRI	Stockholm International Peace Research Institute	**191**	UAV	Unmanned Aerial Vehicle
168	SKUs	Stock Keeping Units	**192**	UHT	Ultra-High Temperature
169	SMBs	Small and Medium Businesses	**193**	UK	United Kingdom
170	SMEs	Small and Medium Enterprises	**194**	UKMHRA	United Kingdom Medicines and Healthcare products Regulatory Agency
171	SMI	Swiss Market Index	**195**	UN	United Nation
172	SOF	Special Operations Forces	**196**	UNCLOS	United Nations Convention on the Law of the Sea
173	SPR	Strategic Petroleum Reserve	**197**	UNO	United Nations Organization
174	SPS	Sanitary and Phytosanitary	**198**	UNSC	United Nations Security Council
175	STOXX	Stock Index	**199**	UPI	Unified Payments Interface
176	SWIFT	Society for Worldwide Interbank Financial Telecommunication	**200**	US	United States
177	TA-125	Tel Aviv 125 Index	**201**	USFDA	United States Food and Drug Administration
178	TAIEX	Taiwan Capitalization Weighted Stock Index	**202**	USMCA	United States-Mexico-Canada Agreement
179	TASI	Tadawul All Share Index	**203**	USSR	Union of Soviet Socialist Republic
180	TBMs	Tunnel-Boring Machines	**204**	USTR	United States Trade Representative
181	TBT	Technical Barriers to Trade	**205**	UTs	Union Territories
182	TEPA	Trade and Economic Partnership Agreement	**206**	VLCC	Very Large Crude Carriers
183	THAAD	Terminal High Altitude Area Defense	**207**	VUCA	Volatile, Uncertain, Complex, Ambiguous
184	TKMS	ThyssenKrupp Marine Systems	**208**	WEF	World Economic Forum
185	TLP	Tariff Liberalization Program	**209**	WTI	West Texas Intermediate
186	ToR	Terms of Reference	**210**	WTO	World Trade Organization

Section 1

The World Has Changed. Has Our Strategy?

1. The World Has Changed. Has Our Strategy?

History does not announce its turning points in advance, least of all in the BANI world. It does not send formal notice when an old order is about to end, and a new one, still unnamed and unformed, begins to take its place. What it does is accumulate signals through events that sometimes individually may seem explicable within existing frameworks yet on most occasions may not, but collectively indicate something far more fundamental transition is in motion. The twelve months between early 2025 and March 2026 have delivered, in rapid succession, the kind of signals, which demand not incremental adjustment but wholesale strategic reimagination.

Two events, above all others, define this period. The first is the Trump Tariff offensive, the most sweeping, aggressive restructuring of global trade policy the world has ever witnessed, one that imposed 50% duties on Indian goods, shattered the architecture of rules-based multilateral trade, and forced every major economy in the world to rethink its relationship with the global system from first principles.

The second is the US-Israel-Iran War of February 2026, triggered by coordinated strikes on 28 February 2026 when US and Israel struck multiple sites across Iran, killing Iran's Supreme Leader Ali Hosseini Khamenei and numerous other top officials of the Islamic Revolutionary Guard Corps. Iran's quick retaliation by launching ballistic missiles and drones against Israel and Gulf states, punctuated by the effective closure of the Strait of Hormuz, the waterway through which about 20% of the world's energy imports pass, has only made matters worse. Together, these two crises have not merely disrupted markets and altered diplomatic alignments, they have reconfigured the fundamental structure of global power.

This study is a result of the research across two companion sections examining the Trump Tariff shock, and the Israel-US-Iran War beginning with a single, unambiguous argument: India is not a bystander to these events. It is the most important potential resolver. No other country in the globe today apart from India maintains simultaneously the strategic trust of Israel, a declared partnership with the United States, and the civilizational goodwill of Iran. Additionally, India's relationship with Arab GCC states puts India in the pole position to bring the war, which has engulfed multiple GCC countries indirectly to an end. No other country has demonstrated, as India has, the capacity to absorb multiple, simultaneous external shocks including a 50% tariff from its largest export partner, a blockade of its primary energy corridor, and yet emerge not weakened, but strategically repositioned. And no other country is looked to, by voices from Abu Dhabi to Tel Aviv to Washington to Tehran, as the statesman-nation whose leadership could, help pull the world back from the cliff.

A look at the numbers tells the entire story. Driven by the tariff war unleashed on the globe by the Trump Administration, India's exports to the US fell 28.5% between May and October 2025. More recently, Brent crude crossed US$ 100 per barrel within days of the Strait of Hormuz closure. Global stock markets have experienced significant volatility since the US-Israel-Iran war broke out. Global equity markets lost approximately US$ 11.5 trillion in market capitalization in the first month following the onset of the US-Israeli conflict with Iran on 28 February. The Bloomberg World Exchange Market Capitalization index fell from US$ 157.5 trillion to US$ 146 trillion. In the same period, investors in India have lost US$ 639 billion.

These incidents are not abstract policy concerns. These affect the price of fuel at our local gas stations, our food bills, the fate of a garment worker in Surat or Dhaka or Hanoi or Guangzhou, or the cost of medicines in American pharmacies. Every signal point in the same direction. The old rules no longer apply, and strategies built for a stable world are now dangerously in misalignment with the world as it actually is.

Let us consider what changed in twelve months. The WTO's dispute settlement mechanism was bypassed by the world's largest economy. A conflict shut down a waterway that carries one-fifth of global energy. The IMF's carefully crafted inflation forecasts became obsolete in a matter of weeks. The UN Security Council failed to produce a ceasefire resolution. These are not edge cases. They are proof that the institutional architecture built after World War II was designed for a world, which no longer exists.

India’s exposure is direct and specific. Approximately 80-85% of India’s LPG and nearly half of its crude oil flows through the Strait of Hormuz. The US absorbs roughly 18% of India’s total merchandise exports. Around nine million Indians live and work in the Arab Gulf states. These figures define vulnerability of an entirely different magnitude. These also define India’s leverage. A country this deeply woven into global supply chains, energy corridors, and diaspora networks is not an onlooker. It is a central node in a system under stress.

The tariff crisis did not arrive without warning. The United State’s dissatisfaction with bilateral trade deficits was public, documented, and escalating through 2024. Yet India’s export sector remained structurally dependent on a single market. Gems and jewellery, textiles, pharmaceuticals, machinery: each sector had quietly concentrated risk in a relationship that was never as stable as the headlines suggested. A strategy built on assumptions of continuity failed its first real stress test. The lesson is not to retreat from global trade. It is to build redundancy into every critical market relationship before the next shock hits.

The energy crisis demands the same clear-eyed accounting. India imports over 85% of its crude oil. Roughly 35 -40% of that now comes from Russia. The Strait of Hormuz closure exposed how thin the margin for error is. Emergency powers were invoked. Industrial gas use was restricted. Citizens were urged not to panic-buy LPG cylinders. That is not the posture of a country with adequate energy buffers. Strategic petroleum reserves, alternative supply routes, accelerated domestic renewable capacity are not aspirations. They are urgencies with deadlines attached.

What the period between early 2025 and March 2026 has shown, above all, is that speed matters. India concluded the India-UK Comprehensive Economic Trade Agreement in July 2025, the India-EFTA Trade and Economic Partnership Agreement in October 2025, resumed Canada trade talks by November 2025 and finalized the India-EU FTA by January 2026. These were not reactions to the tariff crisis. These were the right responses, executed with urgency. Similar strategy must now apply the same speed across every remaining vulnerability, be it energy diversification, or exports or defence self-reliance to financial resilience. The window for incremental adjustment is closed. The era of simultaneous, fast-moving action has begun.

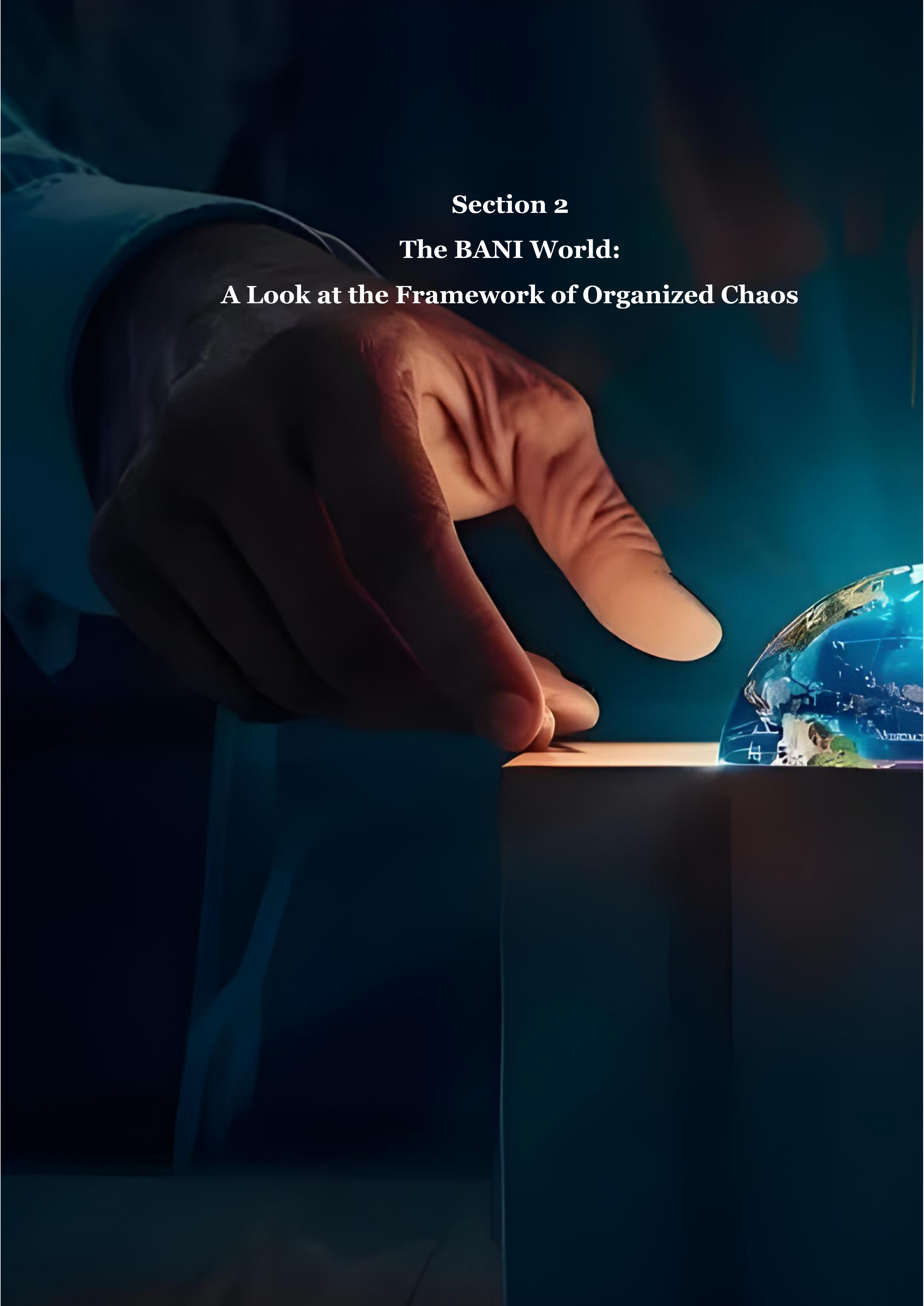
Two hard facts frame what follows in this report. First, India’s macroeconomic fundamentals still remain sound. The World Bank identifies India as a key driver of global growth even as the global economy slows to 2.6%. These are real strengths. These give India options, which most countries in comparable geopolitical positions do not have. Second, those strengths are not self-protecting. A 50% tariff on the largest export market, a blockade on the primary energy corridor, and an inflation shock running 2% above forecast are not manageable as background noise. They demand active, coordinated, forward-looking responses. The sections that follow in our study lay out precisely what those responses look like, sector by sector, relationship by relationship, decision by decision. This study should be read not only as an analysis of what happened, but as a guide to what must be done next.

Under the prevailing situation, this study is not one of self-aggrandizement. It is a strategic assessment of India's strengths and unique position. And it is the foundation on which this introduction and the policy architecture that follows is built.

Section 2

The BANI World:

A Look at the Framework of Organized Chaos



2. The BANI World: A Look at the Framework of Organized Chaos

While VUCA (Volatile, Uncertain, Complex, Ambiguous), a response to the inadequacy of the Cold War's binaries, served the post-Cold War era reasonably well through the first two decades of the 21st century, it has now been outpaced by events. What we face today is not merely volatility or uncertainty. What we face is the BANI condition: Brittle, Anxious, Nonlinear, Incomprehensible, one that acknowledges a qualitative change in the nature of disruption rather than merely a quantitative escalation of its frequency. In a BANI world, systems do not bend under pressure, rather they shatter. In simple terms countries, in this context, do not experience uncertainty as a manageable risk to be hedged. They experience anxiety as a structural condition that distorts decision-making at every level. Cause and effect do not follow proportionate, predictable paths. They cascade in nonlinear ways that confound even the best-resourced intelligence agencies. And, the complexity of interactions is not merely difficult to map; it becomes genuinely incomprehensible, exceeding the analytical capacity of any single institution or government.

Each of these four dimensions is richly illustrated by the events of 2025-2026. Understanding them is not an academic exercise. It is the prerequisite for designing strategy that is adequate to the actual world India must not only navigate, but lead as well.

B - Brittle: When Systems Do Not Bend, They Shatter

Brittleness, describes systems optimized for efficiency under normal conditions that prove catastrophically fragile when those conditions change. The global trading system, and the web of bilateral US alliances, which underpinned the post-war security order have revealed their brittleness in the past twelve months. Add to that growing list the energy supply network transiting the Strait of Hormuz, and the brittleness becomes more evident.

The trading system's brittleness was exposed with startling speed. For almost eight decades, the architecture of the GATT and then the WTO had constructed a multilateral rules-based order premised on the assumption that the world's most powerful economy would remain committed to the rules it had itself designed. That assumption got shattered when the United States of America, under President Trump's second term, imposed its 2 April 2025 'Liberation Day' tariffs and then escalated to a punishing 50% levy on Indian goods by August 2025, the brittle structure revealed itself.

Supply chains built over decades for an open trading environment found it extremely difficult to adapt overnight to tariff regimes. The previously viable trade routes and production models started becoming economically impossible all of a sudden. Section 3 of the study details the impact of Trump Tariff extensively as sectors from gems and jewellery to textiles and pharmaceuticals faced the prospect of losses of 80 to 95% of their US export revenues. Engineering goods exports, which had surged to cross US$ 100 billion and were expected to reach US$ 120 billion faced sudden, structural disruption. The brittleness was not in any single product category. It was in the entire architecture of a trading relationship that had assumed permanence.

The energy system's brittleness was exposed even more dramatically by the US-Israel war with Iran. The Strait of Hormuz, barely 21 nautical miles wide at its narrowest, carrying 20% of the world's oil and gas is perhaps the most brittle single point in the entire global energy architecture post this war. Iran's closure of the Strait, triggered by Operation Roaring Lion, the joint US-Israeli strikes that began on 28 February 2026, exposed this brittleness instantly. Within days, Brent crude crossed US$ 100 per barrel, a 45% surge from the US$ 65 - 70 pre-war baselines. The International Energy Agency released a record 400 million barrels from its strategic reserves, which failed to stabilize markets. For India, which sources approximately 80% of its liquefied petroleum gas (LPG) and nearly half of its crude oil and liquefied natural gas (LNG) through this waterway, the brittleness quickly started staring at its face. It was an immediate energy emergency, which forced the Indian government to invoke emergency powers, restrict industrial gas use, and urge citizens not to panic-buy LPG cylinders.

A - Anxious: When Uncertainty Becomes Structural

Anxiety, in the BANI framework, is not the transient discomfort of temporary uncertainty. It is the institutionalized, structural uncertainty that infects every level of decision-making, whether it is at the individual, corporate, or at the level of governments, and produces outcomes that are collectively self-defeating. When governments cannot plan on any reasonable horizon, they make decisions that are largely defensive that result in the creation of the very instability they fear.

The anxiety generated by the Trump tariff offensive was visible in every major economic indicator of 2025. Global stocks fell sharply and repeatedly on tariff announcements and reversals, as investors struggled to price an environment in which trade policy could be rewritten by executive order with days of notice. The Indian rupee, battered by both the tariff shock and capital outflows, emerged as Asia's worst-performing currencies in 2025 with a depreciation of about 5%, a manifestation, in exchange rate form, of the structural anxiety that the tariff war had created. Businesses that might otherwise have committed capital to new facilities, new supply chains, and new market strategies deferred those decisions indefinitely. The deferral itself became a drag on growth.

The anxiety rippled with particular severity through India's export manufacturing sector, spreading from the boardrooms all the way down to the factory floors. India's exports to the US crashed 28.5% between May and October 2025 as US tariffs escalated from 10% to 50%. The numbers tell a story of cascading dislocation: smartphone exports to the US crashed 36%, losing US$ 790 million; gems exports to the US collapsed 76%; chemical exports tumbled 38%; and the stalling of summer apparel negotiations put over US$ 2 billion worth of orders at risk, with US buyers rapidly switching to competitors from Bangladesh, Vietnam, and even China. The uncertainty cut both ways with companies not being able to plan for the US market under tariff pressure nor fully pivot to alternatives without clarity on whether a trade deal would eventually materialize. This dual paralysis of unable to stay, or unable to fully leave is the lived experience of BANI anxiety for the thousands of MSMEs that account for the largest share of India's export output and that, unlike larger corporates, possess neither the cash flow buffers nor the credit access to absorb prolonged shocks. The resulting disruption in employment and production stability across these industries have also been documented.

The anxiety generated by the Iran war was, if anything, more acute. When over 100 ships found themselves stranded in the Gulf; when shipping lines imposed war-risk surcharges of US$ 2,000 to US$ 3,000 or even more in some cases, per container; when air cargo capacity through Gulf hubs experienced massive disruption and capacity shortages; when airlines from India's own IndiGo and Air India to Australia's Qantas were announcing emergency fare hikes and longer rerouted flights because global jet fuel had surged by more than 80% to between US$ 200 and US$ 240, the anxiety was not abstract. It was experienced by every individual that had to travel, to the impact at the dinner table, or at the fuel pump, every logistical decision made by every exporting company in Asia was under severe scrutiny. The IMF's estimates of a stable 3.5% global inflation rate by the end of 2025, and 2026 outlook suggesting the global battle against inflation having been almost won, suddenly became obsolete within weeks. Post the start of the war, the risk of global inflation increasing by 2 percentage points remain in the realm of possibilities. The risk of stagflation with weak growth, high inflation, high rates of unemployment is suddenly starring at the globe.

What further amplified this anxiety beyond the immediate economic damage was the institutional dimension of the crisis, the visible inability of the world's post-war multilateral institutions to contain or even meaningfully respond to the escalation. The United Nations, the IMF, the WTO; organizations that were designed and built in the aftermath of the Second World War to manage exactly these kinds of crises found themselves in a state of flux. The Trump Tariff Policy had already demonstrated that the world's most powerful economy was willing to bypass WTO dispute settlement mechanisms entirely. The Iran war demonstrated that the UN Security Council, paralyzed by great-power vetoes, was equally incapable of producing a ceasefire resolution. When the foundational institutions of the international order cannot function in a crisis, structural anxiety does not merely persist, it deepens, because every actor in the system must now factor in not just the immediate shock, but the more frightening possibility that no institutional safety net will catch the next one. It is this compounding of simultaneous anxieties; economic, geopolitical, and institutional makes the BANI moment qualitatively more worrying than any single crisis considered in isolation.

N - Nonlinear: When Small Causes Produce Enormous Effects

Nonlinearity is perhaps the most intellectually challenging feature of the BANI world, because it defeats the planning assumptions of virtually every government institution built in the 20th century. Policies were designed based on the assumption that proportionate actions produce proportionate consequences. The world of 2025-2026 has demonstrated, repeatedly and emphatically, that this assumption no longer holds.

The nonlinearity of the tariff war is captured in depth, in Section 6 of the study. When the US imposed a 50% tariff on Indian goods partly as punishment for India's purchase of discounted Russian crude, the administration expected to alter India's energy procurement behavior. What it actually produced was something quite different: India's calculation that the savings from Russian crude imports exceeded the costs of the tariff exposure, which contributed approximately 2% of India's GDP in exports. The attempt to use trade policy to reshape energy policy produced nonlinearly, a reinforcement of the very behavior it was designed to discourage, while simultaneously accelerating India's diplomatic diversification completing the India-UK Comprehensive Economic and Trade Agreement in July 2025, the India-EFTA Trade and Economic Partnership Agreement in October 2025, and pursuing the India-EU Free Trade Agreement towards being operational.

The nonlinearity of India's energy calculus deserves deeper examination, because it reveals precisely how BANI-era decisions can produce outcomes that are the structural inverse of what their architects intended. Section 6 of the study documents that India's import of Russian crude had surged from less than 1% of total crude imports before the Ukraine war to nearly 40% by 2025. This was a structural transformation driven by discounts that at various points reached as low as US$ 30-35 per barrel below Brent crude benchmark pricing. The strategic implication is that by attempting to punish India economically for an energy policy it could not change without causing severe domestic inflation, the Trump tariff offensive inadvertently entrenched that very policy. India's Russian crude imports, now processed through refineries including the world's largest and the most complex refining facility, Reliance Industries' Jamnagar refinery, with a Nelson Complexity Index of 21.1, the highest of any refinery on Earth transformed cheaper Russian feedstock into high-value petroleum products exported globally, stabilizing international oil markets even as Washington sought to destabilize Moscow's revenues. The US, in its own Ambassador's words, was eventually compelled to acknowledge India's role in maintaining the stability of oil prices, resulting in the nonlinear outcome of a coercive policy that produced exactly the opposite of its intended effect.

The study has documented the nonlinearity of the Iran war with specificity in Section 4 of the study's geopolitical timeline. The sequence of events from the IAEA's June 2025 declaration through the assassination of Supreme Leader Ayatollah Ali Hosseini Khamenei and the regional escalation of the conflict to encompass fourteen nations, attacks on UAE's international financial centers, Hezbollah's re-entry on Lebanon's front, Iranian drone strikes on British military facilities in Cyprus, and the activation of NATO air defense systems in Türkiye; none of these was planned, predicted, or proportionate to the initial aims of Operation Roaring Lion. The nonlinear cascade was the war. The Petrodollar Game Matrix, modeling the US-Iran strategic interaction as a prisoner's dilemma, makes this point precisely. The (E,E) scenario - mutual escalation produces the worst collective outcome creating a lose-lose situation with the US facing de-dollarization and instability in the Middle East, while Iran suffers severe economic isolation. Yet, the structural logic of each actor's mistrust on abiding by some kind of a mutually accepted agreement makes this escalation a higher possibility than mutual cooperation, with individual incentives continue to keep driving both toward it. This explains why US-Iran relations continue to witness lack of rational actions resulting in irrational collective outcomes.

The nonlinear consequences of the US-Iran confrontation extended, with remarkable speed, far beyond the military theater, producing a geopolitical realignment that the war's architects had neither planned for nor modelled. As of December 2025, the BRICS group's accelerated push toward de-dollarization with the bloc launching ‘The Unit,’ a gold-anchored digital instrument described as an alternative to the US dollar domination drew direct energy from the perception, widely shared across the Global South, that the US was weaponizing both its military power and its financial system simultaneously. The analysis of this is sobering: every policy the US deployed to enforce compliance; tariffs, secondary sanctions, or Iran war further incentivized BRICS members to accelerate the architecture of an alternative economic order, such that the very tools of coercion designed to reinforce dollar supremacy were, nonlinearly, accelerating its erosion. India's own position within this dynamic was characteristically complex. As the BRICS 2026 chair, India was simultaneously managing the bloc's de-dollarization momentum and negotiating a trade framework with the US that required substantial economic concessions to Washington navigating both currents in the same vessel, without being capsized by either.

Nonlinearity means that escaping this trap is not a matter of more force or more sanctions. It requires a qualitatively different kind of intervention: a trusted third party that neither side can dismiss. This is where India has a role to play.

I - Incomprehensible: When Complexity Defeats Analysis

The final dimension of BANI, i.e., Incomprehensibility is the most humbling. It acknowledges that the interactions of the modern geopolitical system have become too complex, too fast-moving, and too nonlinear for any single actor to fully model, predict, or control. The world's most powerful governments, with the largest intelligence agencies and the most sophisticated analytical capabilities in human history, have consistently failed to anticipate the trajectories of the major crises of 2025-2026.

No intelligence assessment predicted that Trump's tariff war would push India to conclude FTAs with the UK, EFTA, and the EU in rapid succession while simultaneously deepening its energy partnership with Russia, its strategic dialogue with China, and its defense relationship with UAE all within the last twelve months. No military planning document anticipated that the Iran war would produce the simultaneous closure of the Strait of Hormuz, a Hezbollah re-entry on the Lebanese front, Iranian strikes on Emirati, Qatari and Bahraini infrastructure, and a succession crisis in Tehran. And no economic model predicted that global stock markets would fall by between 2% and 11% across all major indices within days of the war's outbreak, with the UAE’s DFM Index tanking 19%, India's Nifty50 declining 7%, South Korea’s KOSPI tanking 11% and Indonesia’s Jakarta Composite plunging 15% and European and US indices falling 4-8% within first two weeks of the war. Escalating US-Israel and Iran tensions, with attacks on energy infrastructure have resulted in surging oil prices creating a volatile situation, causing temporary trading halts in some Asian markets; triggering panic selling, particularly in import-dependent markets.

Incomprehensibility does not mean surrender. It means humility, and it has a specific strategic implication in a world that no single actor can fully understand, the actors who possess the widest range of trusted relationships across the full spectrum of potential interlocutors are disproportionately valuable. They can serve as nodes of communication, channels of de-escalation, and architects of frameworks that no single party could design alone. This is precisely the role for which India with its unique relationships across all parties to both the tariff war and the Iran war is now positioned. Understanding the BANI world is the beginning of claiming that role.

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Section 3

The Trump Tariff Offensive

3. The Trump Tariff Offensive

3.1. Liberation Day: When Trade Becomes War

President Donald Trump's tariff salvo has ignited the global economy into a fierce trade war, dismantling decades of established trade norms and replacing diplomatic negotiation with unilateral economic coercion. On 2 April 2025, President Donald Trump signed an executive order that he called Liberation Day, announcing sweeping reciprocal tariffs on virtually every trading partner of the United States, at rates not seen since the Smoot-Hawley Tariff Act of 1930 that had sparked huge global retaliation, resulting in international trade collapsing by 66% between 1929 and 1934 worsening the depression. For India, what followed in the months after the announcement in 2 April 2025 was the most severe bilateral trade crisis in the history of the India-US relationship. It resulted in a progressive escalation to 50% duties on Indian goods, with the threat formally introduced in US legislation in January 2026 of a further escalation to 500% tariffs on countries that continued trading with Russia under the "Sanctioning Russia Act of 2025". This section draws directly on that research to establish the full dimensions of the tariff shock and India's multidimensional response to it.

Trump expanded the offensive with a 10% global baseline tariff invoked under Section 122 of the Trade Act of 1974, a provision permitting temporary duties for up to 150 days without direct congressional approval. The administration further launched multiple Section 301 investigations targeting over a dozen nations – including China, the European Union (EU), Japan, Mexico, and India – citing concerns over excess industrial capacity, forced labor, and digital services taxes. The legal foundation for this expansive trade war suffered a significant blow on 20 February 2026, when the Supreme Court ruled 6-3 that President Trump had overstepped his authority by using the International Emergency Economic Powers Act (IEEPA) to impose broad-based tariffs without congressional authorization. Yet the ruling left intact the substantial tariffs imposed under Section 232 and Section 301, ensuring that the core of the trade war continued unabated. Trump responded with characteristic defiance, denouncing the justices who ruled against him as 'a disgrace to our nation' and vowing to pursue even more aggressive measures. The economic consequences have been swift and severe. The Yale Budget Lab estimated that the tariff regime raised the overall US price level by approximately 2.3%, costing the average household an estimated US$ 3,800 in lost purchasing power. The average effective US tariff rate climbed to 9.1% - the highest since 1946, excluding the peak of 2025, despite the Supreme Court's intervention. Research consistently shows that American importers and consumers bear the overwhelming burden of these duties, with approximately 96% of tariff costs passed through to domestic buyers rather than absorbed by foreign exporters. Beyond America's borders, the trade war has fractured traditional alliances, with Canada, Mexico, and European nations scrambling to respond to US tariffs while seeking to diversify their trading relationships away from American dependence.

The EU has called for policy stability even as it prepares countermeasures. Canadian officials have threatened retaliatory tariffs on electricity exports; and Mexico has found itself caught between its USMCA (The United States-Mexico-Canada Agreement) commitments and the reality of US trade hostility. India and China, among the primary targets of Trump's trade offensive, has deepened economic ties with Global South nations and accelerated efforts to build self-sufficient supply chains less vulnerable to American coercion. The multilateral trading system, anchored by the World Trade Organization (WTO), has been effectively sidelined, its dispute resolution mechanism paralyzed by US opposition to new judicial appointments. Businesses across the globe face unprecedented uncertainty, with supply chains disrupted, investment decisions postponed, and planning horizons shortened to months rather than years. What began as a series of targeted tariff announcements has escalated into a full-scale global trade war – one that has transformed international commerce from a pillar of cooperative stability into a weapon of economic warfare, with consequences that will reverberate across the global economy for years to come.

The Trade Order: How Did a Single Tariff Rewrote the Rules of Global Commerce

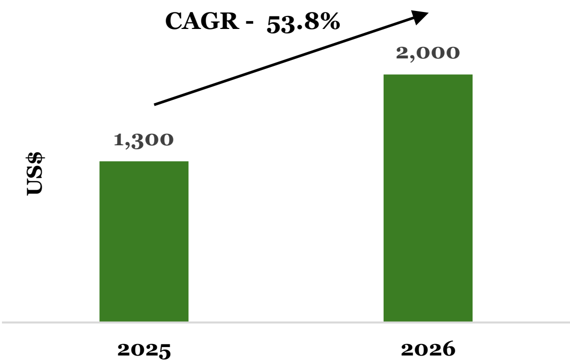
According to the Peterson Institute of International Economics, the US tariffs should not have been a total surprise. Donald Trump, the president of the United States of America, imposed tariffs on all nations, which trade with the United States. President Trump claims that this executive order, which imposes subjective, uneven tariffs on various nations and prohibits them from putting equivalent 'reciprocal tariffs' on US exports, is a component of his well-publicized MAGA (Make America Great Again) campaign.

US tariffs are averaging at a level in the range President Trump said during the campaign that he would impose if elected. The US tariff has returned to pre-World War II levels, averaging 17%. Only the United States is generally increasing its tariffs. The US tariffs frequently appear to be discriminatory, not just when contrasted to domestic product taxes but also between imported goods, foreign manufacturers, and nations. According to the chief US trade negotiator, President Trump's tariff policy approach serves as a model not only for the 13% of global commerce that the US accounts for, but also for the remaining 87%. This is a really intriguing idea. The world has prospered under a prior system, begun in 1948 and carried forward in 1995 by the World Trade Organization (WTO), a 166-member collective of large, medium, and small economies, that administers the world trading system.

With an average industrial tariff of less than 3%, the United States has considered the system to be insufficient and unbalanced under President Trump, and it has not been compensated for its years of trade leadership. Each nation would presumably re-negotiate its trade agreements with every other nation under the new regime, emulating the US. Each would give its negotiating partners nothing more in exchange as it would be addressing a perceived disparity in benefits. However, in order to bring about a new equilibrium in its trade relations, it would need to have the political or economic might to do so, since voluntary adjustment is rare. The replicability of this strategy will be determined in the future.

The aim is to create America as the world's largest producer market. But independent analysts, including at Goldman Sachs and S&P Global, have estimated that US consumers and businesses are shouldering much of the cost. Tariffs have increased the cost of imported goods, leading to reduced profit margins and higher prices for consumers, potentially reducing their purchasing power and slowing consumer demand. The internal production houses of the US are unable to replenish the imported goods at competitive prices. Hence, the MAGA (Make America Great Again) slogan has backfired. The 2025 US tariff program materially raised trade barriers, with measurable short- to medium-term costs including lower global growth, higher prices, disrupted supply chains, and increased economic uncertainty. According to the estimates of The Tax Foundation, the tariffs amount to an average tax increase of US$ 1,300 per household in 2025, constituting a 53.8% growth in 2026. The US is moving to blow up the global trading order it built, ushering in an uncertain new era.

Chart 1: Average Tax Increase by Each Household

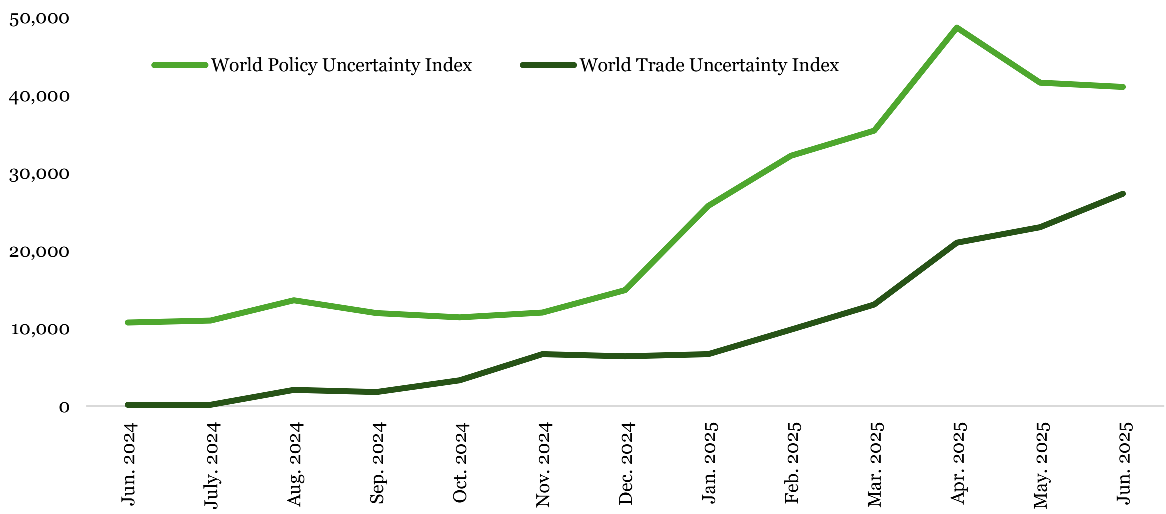


Source: The Tax Foundation, ECOFIN Research

The year 2025 represents the apex of this crisis, with both indices skyrocketing to unprecedented levels. This synchronization is deeply significant: it signals that the distinction between policy and trade uncertainty effectively collapsed under the weight of the Trump tariff offensive. The implementation of IEEPA-based emergency tariffs in March 2025, the 'Liberation Day' reciprocal duties in April, and the subsequent targeting of India with punitive tariffs in August created an environment where no meaningful separation existed between policy decisions and their immediate trade consequences.

What Chart 2 ultimately reveals is a structural transformation in the nature of global economic risk. Prior to this period, policy uncertainty was often dismissed as political noise with limited real-economy implications. The Trump tariff offensive fundamentally dissolved that firewall. As the two lines converged at historic highs – both exceeding – they tell the story of a trade order, which has been fundamentally rewritten, not through gradual evolution but through deliberate, high-stakes policy assault. For India, which navigated this period with targeted tariffs, strategic diplomacy, and successful market diversification, the chart underscores the magnitude of the challenge that was successfully managed – and the volatility that now defines the new normal in global commerce.

Chart 2: Global Economic Policy Uncertainty and Global Trade Policy Uncertainty Indexes (June 2024 – June 2025)



Source: UN Trade and Development (UNCTAD)

The trade war with the majority of US allies and its strategic adversaries was sparked by Trump's tariffs. When US baseline tariffs on Chinese imports hit 145% and Chinese tariffs on US goods reached 125% in retaliation, the trade war between China and the US intensified. The US lowered its duties on Chinese imports to 30% as part of a truce that ended on 9 November 2025, while China lowered its taxes on American goods to 10%. President Trump has singled out India to impose a 25% penalty on top of the current 25% tariff for buying Russian oil amid the ongoing conflict between Russia and Ukraine. Trump's levy has been deemed "unjustified and unreasonable" by India as customary supplies of Russian oil were shifted to Europe following the start of the Russia-Ukraine war in 2022. In order to improve the stability of the world's energy markets, the US actively promoted such imports from India at the time during the Biden regime. Eric Garcetti, a former US ambassador to India, attested to this.

When India was singled out for buying 39.9% of Russian oil in 2023 to meet its domestic needs and stabilize global oil prices, China bought 49% of it and the US and the EU continue to trade with Russia; the US administration's contradictory position was made clear. In a bilateral meeting in Alaska on 15 August 2025, Russian President Vladimir Putin confirmed that trade between Russia and the United States has increased by 20% since the Trump administration assumed power. In addition to igniting the trade war, this conflicting US position derided the country's strategic ties with its main allies.

Multilateral institutions such as the World Trade Organization (WTO) were never consulted when a flurry of tariffs was announced. The easy-to-understand reciprocal actions between nation-states and the rule-based international order have already been upended. The United States' bilateral relations with many nations are also in risk due to retaliatory tariffs and trade barriers, which are imposed without the consent of opposing counterparts. Simmering dissatisfaction is pushing these nations to seek a "New World Order", which would no longer be subject to the unilateral imposition of US decisions.

In response to punishing 50% tariffs imposed on his nation, Brazilian President Lula da Silva retorted by claiming that US President Trump was not chosen to be the world's ruler. By connecting the massive tariff threat against Brazil to what he called a "witch hunt" trial against Brazil's right-wing former president, Jair Bolsonaro, President Trump used tariffs as a punitive tool to implement a "carrot and stick" strategy to influence events in any nation in his favor. Brazilian President Lula da Silva spoke extensively with Chinese President Xi Jinping and Indian Prime Minister Narendra Modi about developing global geopolitics and fostering trade partnerships. Brazil has previously requested discussions from the WTO to help reduce the high tariffs that the United States has placed on the country. Similarly, Russian President Vladimir Putin and Indian Prime Minister Narendra Modi spoke over the phone about strengthening the already-existing "Special and Privileged Strategic Partnership" between Russia and India. Meanwhile, Russia-India-China (RIC) troika revival has been hinted at by Russian Foreign Minister Sergey Lavrov. The concept of trilateral collaboration emerged in the 1990s and was formalized in 2002. The RIC leaders last convened in 2019 in Osaka, Japan, on the fringes of the G-20 Summit. The big nations' reliance on the US will be lessened by the resurgence of RIC. In reaction to the USA's high-handedness, China and India are hinting at working together on trade and commerce.

The Pendulum's Return: Why America's Tariff War Echoes the 1930's and Threatens the Global Economy

The United States last levied high tariffs on trading partners in the 1930s, which led to a roughly 66% drop in global trade between 1929 and 1934. This intensified the global economic great depression and led to the election of President Franklin D. Roosevelt, who signed the Reciprocal Commerce Agreements Act in 1934, lowering tariffs and liberalizing commerce with other countries. Donald Trump, on the other hand, promises to succeed this time and is certain that he would not retract his claims or actions. In a year or two, it will be clear whether President Trump succeeds or not, but the multipolar world's great countries will undoubtedly come together to form a new global order. The countries are looking inward as a result of the disruption in the global economy, which is accelerating the deglobalization process by strengthening support for both nationalism and protectionism. Similar to the US, India's Prime Minister Narendra Modi is pushing "Atmanirbhar Bharat" from much before by emphasizing the usage of domestically produced items and the "Make in India" strategy. Over half of the world is now reliant on Chinese manufactured goods since China has been prioritizing domestic manufacturing through industrial policy and supply-chain development for an extended period.

According to American economist, public policy expert, and Columbia University professor Jeffrey Sachs, tariffs are detrimental to the US economy. It is against international law. It's a collapse of the American political system. "We have a constitution. We don't have a one-person rule," alluding to the Congress's authority under US Constitutional Article I, Section 8. The world is already in a new restructuring mode, which the US may find difficult to accept (or be a part of) before the US Supreme Court renders its final decision on the legality (and constitutionality) of President Trump's tariffs. This is because the US has been putting its foot down before others for the past 100 years or so. As a result of Donald Trump's mercantilist strategy in this tariff war, the distinction between friends and enemies has currently evaporated, with the US allies perceived as suffering more than the country's designated enemies. Some economists, however, contend that the trade war is detrimental to everyone and will harm the US more than other large nations in terms of both geopolitics and the economy as a whole. Furthermore, there was no well-organized, predictable plan for tariffs because they were used to intimidate nation-states and demand that they follow US policy as if the world were unipolar, ignoring the fact that multipolarity had already taken hold of the world in 2010, following the Global Financial Crisis of 2008. Furthermore, the globe is no longer in the "Post World War II Era," when the USSR (Union of Soviet Socialist Republic) and the United States of America were the only two superpowers until its dissolution on 26 December 1991. Cold War was a defining feature of a bipolar world ruled by the US and the USSR. After the USSR collapsed and the Cold War ended, US dominance persisted for nearly two decades.

A small French military contingent arrived in Greenland's capital Nuuk in middle of January 2026, as several European states deploy small numbers in a so-called reconnaissance mission. The limited deployment, which also involves Germany, Sweden, Norway, Finland, the Netherlands and the UK, comes as President Donald Trump continued to press his claim to the Arctic island, which is a semi-autonomous part of Denmark. Unfortunately, these are all NATO allies. There is also a chance that conflict will break out between Asian countries or between the United States and Asian powers. This is turning out to be prophetic since the Trump administration is blaming China and India, two Asian superpowers, for purchasing Russian oil, which keeps Russia fighting Ukraine in eastern Europe while entirely absolving the European Union. Due to US involvement in Iran, Iraq, Syria, Israel, and other countries, the Middle East is already boiling. The United Nations Organization (UNO), the International Monetary Forum (IMF), and the World Trade Organization (WTO) are examples of post-World War II organizations, are currently in a state of flux, before it restructures itself, again for another 100 years to come.

3.2. The Tariff Escalation: Anatomy of a Trade Assault

The offensive represented an unprecedented assault on the established rules of global commerce, leveraging emergency powers in ways never before attempted in American history. The escalation unfolded with stunning speed and scope throughout 2025. On 1 February 2025, the American administration invoked the International Emergency Economic Powers Act (IEEPA) – a 1977 statute historically reserved for sanctions and asset freezes – to impose a 10% tariff on all Chinese imports and 25% tariffs on goods from Mexico and Canada, citing fentanyl trafficking and migration as national emergencies. Within weeks, the assault widened dramatically. Steel and aluminum tariffs rose to 50% in June, and on 2 April – dubbed 'Liberation Day' – administration announced sweeping reciprocal tariffs imposing a 10% baseline tax on imports from virtually all nations, with country-specific rates reaching as high as 41%.

India emerged as a uniquely targeted frontline in this trade war. What began as rhetorical branding – President Trump labeling India the 'tariff king' – escalated into targeted economic coercion. After initial reciprocal tariffs of 25% in April 2025, the administration imposed an additional punitive 25% duty on 6 August, citing India's continued purchases of discounted Russian crude oil. By 27 August, Indian goods faced a cumulative 50% tariff, placing India among the most heavily taxed nations in the US trade history – subject to duties higher even than China during the peak of the first-term trade war. The diplomatic whiplash was stark – just months earlier, following Prime Minister Modi's February 2025 White House visit, both nations had ambitiously pledged to double bilateral trade to US$ 500 billion by 2030. Instead, Indian exporters in textiles, apparel, jewelry, and leather saw profits evaporate as American customers demanded discounts or shifted orders to Vietnam and Bangladesh. The legal architecture of this assault began crumbling in mid-2025. On 29 May, the US Court of International Trade ruled that the president had exceeded his authority under IEEPA. A second federal court in Washington, D.C., reached the same conclusion days later. The administration appealed, keeping the tariffs in place through a temporary stay, but the legal writing was on the wall. On 20 February 2026, the US Supreme Court delivered a decisive 6-3 ruling in Learning Resources, Inc. v. Trump. Chief Justice John Roberts, writing for the majority, held that IEEPA's language permitting the president to 'regulate importation' did not constitute clear congressional authorization to impose tariffs – a power the Constitution explicitly vests in Congress. The Court emphasized that the Framers placed the taxing power solely with the legislative branch and that IEEPA had never in its nearly 50-year history been invoked to impose tariffs until this administration.

Yet the assault was not entirely repelled. The Supreme Court ruling left untouched tariffs imposed under other authorities. Section 301 tariffs on Chinese goods – accounting for to over US$ 370 billion in imports – remained fully intact. Section 232 national security tariffs continued at 50% on steel and aluminum, 25% on automobiles and parts, 50% on copper, and 10-25% on timber and lumber, with rolling inclusion processes actively expanding product coverage. For India, this meant the structural disadvantage of lost Generalized System of Preferences (GSP) benefits, first revoked in 2019, remained unaddressed, and the 50% steel and aluminum duties persisted. The anatomy of this trade assault reveals a strategy defined by legal improvisation, diplomatic coercion, and escalating retaliation. By weaponizing emergency powers intended for sanctions, targeting allies and adversaries alike, and treating trade agreements as revocable privileges, the Trump administration fundamentally disrupted the post-war liberal trading order. While the Supreme Court ultimately reasserted constitutional limits on executive power, the damage to institutional norms and trade stability may prove more durable than any single legal ruling can repair. For India, the episode underscored both the vulnerabilities of being targeted by the US trade policy and the imperative of diversifying markets and building domestic manufacturing and consumption capacity to withstand future shocks.

Table 1: Trump's Return to Office (20 January 2025), The Trade War 1.0 and 2.0 - A Complete Chronology

Date	Target Country/World	Category	Index
20 February 2026	World	Section 122	**White House announces new 10% tariff under Section 122** The White House issues a proclamation and a fact sheet indicating it is imposing a 10% temporary surcharge on imports as of 24 February 2026, for 150 days under Section 122 of the Trade Act of 1974. The announcement also includes a list of excluded products.
20 February 2026	World Canada Mexico China	Fentanyl and immigration, Trade Deficits	**The Supreme Court rules against Trump's IEEPA tariffs** The Supreme Court releases an opinion that states Trump's use of the International Emergency Economic Powers Act (IEEPA) on imports from Canada, Mexico, and China (to address fentanyl and border security) and from the world (to address trade deficits) "does not authorize the President to impose tariffs." The judgment in No. 24–1287 is vacated, and the case is remanded with instructions to dismiss for lack of jurisdiction.
6 February 2026	India	Trade Deficits, Russia sanctions, Deal	**US-India deal** The White House releases a joint statement, executive order, and fact sheet announcing a trade deal with India. US imports from India will be subject to an 18%% tariff under the trade deficits executive order of 2 April 2025; the additional 25% tariff imposed on 6 August2025, for India purchasing Russian oil is terminated as of 7 February.
29 January 2026	World	Cuba sanctions	**Tariffs on countries selling oil to Cuba** The White House issues an executive order and a fact sheet declaring a national emergency caused by the government of Cuba and, under the International Emergency Economic Powers Act (IEEPA), announcing the president may impose tariffs on countries found selling oil to Cuba, effective 30 January 2026.
21 January 2026	Denmark, Norway, Sweden, France Germany, UK, Netherlands, Finland	Greenland Framework	**Trump posts he has a "framework" for a future deal on Greenland** Only days after a post threatening a number of European countries with 10% import tariffs if they do not agree to negotiate "the Complete and Total purchase of Greenland," President Trump posts he has a "framework of a future deal".
14 January 2026	Mexico, Canada, China	Critical Minerals	**New negotiations for critical minerals agreements** The White House releases a memorandum outlining trade priorities for the administration, directing departments and agencies to complete studies by 1 April 2026.
31 December 2025	World	Lumber	**Tariff increase for lumber and lumber products delayed for one year** The White House issues a proclamation and fact sheet amending the tariff announcement of 29 September 2025, under Section 232 of the Trade Expansion Act of 1960 to delay for an additional year the increase in the duty rates for upholstered furniture, kitchen cabinets, and vanities that were scheduled to go into effect on 1 January 2026.
29 December 2025	World, Israel, Singapore, South Korea, EU	Lumber, Trucks, Trade deficits	**US makes technical adjustments to tariff schedule** The White House issues a proclamation making technical adjustments for various reasons to the tariff schedule, including tariffs under its free trade agreements with Israel, Singapore, South Korea, and the African Growth and Opportunity Act, as well as some of the tariffs imposed in 2025 under Section 232 of the Trade Expansion Act of 1962 and under the International Emergency Economic Powers Act (IEEPA).

Date	Target Country/World	Category	Index
10 November 2025	China	Cranes, Shipbuilding	**Suspending fees on Chinese ships, tariffs on Chinese cranes** The US Trade Representative issues a formal notice to suspend the fees on Chinese ships and tariffs on Chinese cranes imposed under Section 301 of the Trade Act of 1974 for one year.
17 October 2025	Worldwide Canada, Mexico	Trucks	**Tariffs on big trucks, buses, and parts** The White House releases a memorandum outlining trade priorities for the administration, directing departments and agencies to complete studies by 1 April, 2025.
16 October 2025	China	Cranes, Shipbuilding	**Fees on Chinese ships and tariffs on Chinese cranes** The US Trade Representative issues a notice to modify the fees on Chinese ships and tariffs on imports of Chinese cranes under Section 301 of the Trade Act of 1974.
29 September 2025	Worldwide EU, UK, Japan	Lumber	**Tariffs on lumber and lumber products** The White House issues a proclamation and fact sheet invoking Section 232 of the Trade Expansion Act of 1962 to impose import tariffs on timber, wood furniture, cabinets, and other wood products on 14 October 2025.
26 September 2025	Worldwide	Robotics	**Robotics and industrial machinery imports as a national security threat** The Commerce Department files a Federal Register notice indicating the secretary of commerce initiated an investigation on September 2 into whether imports of robotics and industrial machinery pose a threat to US national security under Section 232 of the Trade Expansion Act of 1962.
26 September 2025	Worldwide	Medical	**PPE and medical supply imports as a national security threat** The Commerce Department files a Federal Register notice indicating the secretary of commerce initiated an investigation on 2 September into whether imports of personal protective equipment (PPE), medical consumables, and medical equipment including devices pose a threat to US national security under Section 232 of the Trade Expansion Act of 1962.
9 September 2025	Worldwide	Wind Turbines	**Wind turbines and their parts and components as a national security threat** The Commerce Department files a Federal Register notice indicating the secretary of commerce initiated an investigation on August 13 into whether imports of wind turbines and their parts and components pose a threat to US national security under Section 232 of the Trade Expansion Act of 1962.
15 August 2025	Worldwide	Aluminum, Steel	**Steel and Aluminum tariffs expanded to aerosol cans and more** The Commerce Department announces it will extend Steel and Aluminum tariffs to 407 more "derivative" products, including empty aerosol cans and many packaged in aerosol cans, including aerosol whipped cream, aerosol Cheez Wiz, spray paint and caulk, and more, effective 18 August.
6 August 2025	India	Russia sanctions	**Tariffs on India for buying Russian oil** The White House issues an executive order and fact sheet imposing additional 25% tariffs on India for purchasing oil from Russia. The additional tariff starts on 27 August. This tariff does not apply to the same products excluded from the 2 April executive order (and amendments).
30 July 2025	Brazil	Brazil sanctions	**Brazil tariffs and a new national emergency** The White House issues an executive order and fact sheet declaring a new national emergency and invoking the International Emergency Economic Powers Act (IEEPA) to impose an additional 40% tariff on Brazil starting seven days after the date of this order. The US Department of Treasury also sanctions Brazilian Supreme Federal Court justice Alexandre de Moraes for "politicized prosecutions," including against former President Jair Bolsonaro.

Date	Target Country/World	Category	Index
30 July 2025	Worldwide	Copper	**Copper tariffs incorporation** The White House issues a proclamation imposing a 50% tariff on imports of copper under Section 232 of the Trade Expansion Act of 1962 effective 1 August 2025.
16 July 2025	Worldwide	Polysilicon	**Polysilicon imports as a national security threat** The Commerce Department files a Federal Register notice indicating the secretary of commerce initiated an investigation on 1 July into whether imports of polysilicon and its derivatives pose a threat to US national security under Section 232 of the Trade Expansion Act of 1962.
16 July 2025	Worldwide	Drones	**Drone imports as a national security threat** The Commerce Department files a Federal Register notice indicating the secretary of commerce initiated an investigation on 1 July into whether imports of unmanned aircraft systems (UAS) and their parts and components pose a threat to US national security under Section 232 of the Trade Expansion Act of 1962.
9 July 2025	Worldwide Brazil	Trade Deficits	**Trump announces new tariff rates for additional countries on Truth Social** President Trump posts a series of letters sent to countries updating the tariff rates that will be imposed on their exports to the US starting 1 August, per the 90-day extension announcement made 7 July. Countries include Algeria, Brunei, Iraq, Libya, Moldova, the Philippines, and Sri Lanka. Brazil also received a letter announcing a 50% tariff and indicating "The way that Brazil has treated former President Bolsonaro, a Highly Respected Leader throughout the World during his Term, including by the United States, is an international disgrace."
16 June 2025	Worldwide	Steel	**Steel tariffs expanded to appliances and more** The Commerce Department announces it will extend steel tariffs to more "derivative" products, including refrigerators, freezers, washers, dryers, dishwashers, stoves, and more, effective 23 June.
4 June 2025	Worldwide UK	Aluminum, Steel	**Higher steel and Aluminum tariffs go into effect** US tariff increases to 50% on imports of Steel, Aluminum, and derivative products announced on 3 June goes into effect. Exports from the United Kingdom are an exception, with a tariff rate that remains at 25%.
3 June 2025	Worldwide	Aluminum, Steel	**Higher Steel and Aluminum tariffs announced** The White House releases a memorandum outlining trade priorities for the administration, directing departments and agencies to complete studies by 1 April 2025.
13 May 2025	Worldwide	Aircraft	**Commercial aircraft, engines, and parts imports as a national security threat** The Commerce Department files a Federal Register notice indicating the secretary of commerce initiated an investigation on May 1 into whether imports of commercial aircraft, engines, and parts pose a threat to US national security under Section 232 of the Trade Expansion Act of 1962.
24 April 2025	Worldwide	Critical Minerals	**Unleashing America's offshore critical minerals and resources** The White House issues an executive order seeking to advance United States leadership in seabed mineral development.
23 April 2025	Worldwide	Trucks	**Truck imports as a national security threat** The Commerce Department files a Federal Register notice indicating the secretary of commerce initiated an investigation on 22 April into whether imports of medium- and heavy-duty trucks, parts, and derivative products pose a threat to US national security under Section 232 of the Trade Expansion Act of 1962.

Date	Target Country/World	Category	Index
17 April 2025	Worldwide	Seafood	**Restoring American seafood competitiveness** The White House issues an executive order indicating it will address unfair trade practices, eliminate unsafe imports, and level the "unfair" playing field that has benefited foreign fishing companies, including by asking USTR to consider a potential unfair trade investigation under Section 301 of the Trade Act of 1974.
15 April 2025	Worldwide	Critical Minerals	**Critical mineral and rare earth imports as a national security threat** The White House issues a fact sheet and executive order requesting the Department of Commerce investigate whether imports of critical minerals, rare earth elements, processed critical minerals, and derivative products pose a threat to US national security under Section 232 of the Trade Expansion Act of 1962.
14 April 2025	Worldwide	Semiconductors	**Semiconductor and Semiconductor manufacturing equipment imports as a national security threat** The Commerce Department files a Federal Register notice indicating the secretary of commerce initiated an investigation on April 1 into whether imports of semiconductors and semiconductor manufacturing equipment pose a threat to US national security under Section 232 of the Trade Expansion Act of 1962.
14 April 2025	Worldwide	Pharmaceuticals	**Pharmaceutical and Pharmaceutical ingredient imports as a national security threat** The Commerce Department files a Federal Register notice indicating the secretary of commerce initiated an investigation on April 1 into whether imports of pharmaceuticals and pharmaceutical ingredients pose a threat to US national security under Section 232 of the Trade Expansion Act of 1962.
9 April 2025	Worldwide	Cranes, Shipbuilding	**Restoring Maritime Dominance** The White House issues an executive order to revitalize and rebuild the domestic maritime industries and workforce to promote national security and economic prosperity. The executive order highlights potential measures such as fees on Chinese ships, tariffs on ship-to-shore cranes made in China, tariffs on other cargo-handling equipment, alignment of trade policies with partners and allies, and financial incentives for domestic shipbuilding.
9 April 2025	Worldwide	Trade Deficits	**Differential tariffs on nearly all countries go into effect** The US imposes an additional country-specific tariff, ranging from 1% to 74%, on imports from nearly all countries that have a goods trade surplus with the United States, as announced 2 April and amended on 8 April.
8 April 2025	China	Trade Deficits, Retaliation	**Additional 50% tariffs on China for retaliating** The White House amends the April 2 executive order to counter-retaliate by imposing an additional 50% tariff on imports from China because of China's 34% tariff retaliation announced April 4. This brings the total US tariff increase on imports from China associated with the original 2 April announcement to 84% (with sectoral carve-outs) in addition to the 20% (no sectoral carve-outs) of 4 February and 4 March. The executive order also amends the duty rates of the separate executive order of 2 April ending de minimis shipments from China effective 2 May.
5 April 2025	Worldwide	Trade Deficits	**Tariffs of 10% on nearly all countries go into effect** The US imposes 10% tariffs on imports from nearly all countries as announced April 2.
3 April 2025	Worldwide	Autos	**Tariffs on automobiles but not parts go into effect** The 25% tariffs on automobiles announced on March 26 and imposed under Section 232 of the Trade Expansion Act of 1962 go into effect. The tariffs on automobile parts are delayed to a future date not later than 3 May 2025.

Date	Target Country/World	Category	Index
2 April 2025	Worldwide	Trade Deficits	**Tariffs on nearly all countries for their trade surpluses** The White House issues an executive order and fact sheet declaring a national emergency and invoking the International Emergency Economic Powers Act (IEEPA) to impose a baseline 10% tariff starting 5 April 2025, on virtually all countries and then additional "reciprocal" tariffs starting 9 April 2025 on countries that contribute to large, persistent US trade deficits.
26 March 2025	Worldwide	Autos, Auto parts	**America First Trade Policy Memorandum** The White House issues a proclamation and fact sheet invoking Section 232 of the Trade Expansion Act of 1962 to impose 25% tariffs on automobiles and certain automobile parts, such as engines, transmissions, powertrain parts, and electrical components on 3 April 2025.
25 March 2025	Worldwide	Venezuela sanctions	**Secondary tariffs on third countries importing Venezuelan oil** The White House issues an executive order that extends earlier sanctions on Venezuela by indicating that, as of 2 April 2025, the exports to the United States from any third country found importing oil from Venezuela will be subject to a 25% US import tariff under the International Emergency Economic Powers Act (IEEPA).
12 March 2025	Worldwide	Aluminum, Steel	**Tariffs on Steel and Aluminum go into effect** US tariffs of 25% on imports of Steel, Aluminum, and derivative products announced on February 10 go into effect.
1 March 2025	Worldwide	Lumber	**Timber and Lumber imports as a national security threat** The White House issues an executive order requesting the Department of Commerce conduct an investigation into whether imports of timber and lumber pose a threat to US national security under Section 232 of the Trade Expansion Act of 1962. In a separate executive order, the White House direct the Department of Interior and Department of Agriculture to issue new regulatory guidance for expanded domestic Timber production.
25 February 2025	Worldwide	Copper	**Copper imports as a national security threat** The White House issues a fact sheet and executive order requesting the Department of Commerce conduct an investigation into whether imports of Copper pose a threat to US national security under Section 232 of the Trade Expansion Act of 1962.
10 February 2025	Worldwide	Aluminum, Steel	**Tariffs on Steel and Aluminum** Trump issues one proclamation imposing 25% import tariffs on Steel and a separate proclamation imposing 25% tariffs on Aluminum as of 12 March 2025, adjusting the Section 232 tariffs on those metals first imposed in March 2018.
4 February 2025	China	Fentanyl and immigration	**Tariffs on China go into effect, end of duty-free packages from China** The US imposes 10% tariffs on imports from China announced February 1. The US also ends de minimis treatment of low-value packages from China receiving zero tariffs.
1 February 2025	Canada Mexico	Fentanyl and immigration	**Tariffs on Canada, Mexico, and China** Trump issues executive orders and a fact sheet announcing tariffs on Canada, Mexico, and China coming 4 February. The orders would also end duty-free de minimis treatment of low-value packages from these countries.
20 January 2025	**America First Trade Policy Memorandum** The White House releases a memorandum outlining trade priorities for the administration, directing departments and agencies to complete studies by 1 April 2025.		

Source: Peterson Institute for International Economics (PIIE), News, ECOFIN Research

3.3. Impact of US Tariffs on India

3.3.1. USA's Imposition of 50% Tariffs on Imports from India

The United States imposed the 50% tariff on Indian goods in a two-stage escalation. The first stage, in April 2025, imposed a 25% reciprocal tariff on most Indian exports under the International Emergency Economic Powers Act, a unilateral instrument that bypassed the WTO's dispute settlement mechanisms and signaled Washington's abandonment of the multilateral rules it had itself constructed. The second stage, in August 2025, added a punitive additional 25% tariff brought on explicitly because of India's continued purchase of discounted Russian crude bringing total duties on goods as varied as garments, gems and jewelry, and chemicals to an effective 50%.

For pharmaceuticals, a sector where India is the acknowledged global leader, supplying 60% of global vaccine production and reaching 200 markets worldwide, the Trump administration threatened tariffs of 100 percent on patented drugs, a move that would have struck at the very sector that generates US$ 30.47 billion in Indian exports and has seen a 9.4% export surge in the current financial year. In January 2026, Congress introduced the 500% tariff bill targeting countries trading with Russia which, according to the Global Trade Research Initiative, would effectively halt India's US$ 120 billion in US exports entirely, causing a GDP contraction of 0.7 to 1.2% points in the first year.

Gems and jewelry exports amounting to US$ 20.75 billion in the first three quarters of FY2026, with 18.6% of India's total exports heading to the US faced with an effective 50% levy that immediately squeezed margins in this price-sensitive category, the percentage witnessed a close to 12% drop as in the last financial year. Textiles and apparel, representing US$ 9.68 billion export during the same period to the US accounting for 37% of India's total textile exports. India faced a competitive disadvantage against Bangladesh, Vietnam, and Mexico for reasons ranging from reduced tariff to proximity. Pharmaceuticals, a US$ 9.8 billion export basket to US, representing 40% of India's total pharma exports faced the most existential threat yet: potential 100% duties that would end India's role as the affordable-medicine provider to the American market. Machinery and electricals, the single largest category at US$ 22.60 billion and roughly 22% of total sector exports, faced a cost disadvantage that threatened long-term contracts and investment decisions.

The tariff escalation thus constitutes not just a commercial shock but a structural stress test for India's external economic strategy, exposing concentrated sectoral dependence on a single market and on the discretion of emergency trade instruments. From a policy standpoint, India started quickly accelerating market diversification and value-chain upgrading, and hard-wire tariff and sanctions risk into export promotion, industrial policy, and diplomatic engagement with the United States and key third-country partners.

3.3.2. Backdrop or Reasons for USA's Imposing Such High Tariffs on India

The 50% tariffs on India were imposed by the Donald Trump administration in August 2025 primarily due to a combination of geopolitical tensions and trade disputes, specifically India's continued purchase of Russian oil amidst the Russia-Ukraine war.

The Trump administration has outlined multiple justifications for imposing tariffs on India:

- **Russian Oil Purchases:** The primary and immediate reason cited by the Trump administration was India's continued import of discounted Russian crude oil. The US argued this was indirectly funding Russia's war effort in Ukraine, which the US sought to hinder through sanctions and diplomatic pressure. An unspecified penalty is to be imposed due to India's Defence and Energy imports from Russia. The USA in its proposed Russian Sanctions Act, 2025 aims to impose 500% duties on countries that buy oil or other petroleum products from Russia, indicating the severity of measures being considered.
- **Trade Deficit**: The US goods trade deficit with India was US$ 45.7 billion in 2024, representing a 5.4% increase from 2023. This growing imbalance has been a concern for the Trump administration, which views such deficits as evidence of unfair trading relationships.

- **India's Alleged Non-Monetary Trade Barriers:** The US considers India's agricultural subsidies and sanitary and phytosanitary (SPS) measures for food safety as constraints for US exports. The US sought greater access to Indian agricultural and dairy markets, an area where India resisted due to domestic political concerns about the livelihood of its farmers. Trade negotiations stalled over these issues. These measures, while defended by India as necessary for domestic food security and safety standards, are viewed by Washington as protectionist barriers, which limit American agricultural access to Indian markets.
- **India's Refusal to Import American Corn:** The US is displeased with India's refusal to import American corn primarily because it's mostly Genetically Modified (GM), which India's strict regulations prohibit for food/feed, while the US sees it as unfair trade blocking access to India's large market, especially as India boosts its own ethanol program, creating domestic demand and hurting US exporters' profits, leading to trade friction.
- **India's BRICS Membership:** The bloc is viewed by the USA as anti-dollar and a challenge to American economic hegemony. India's participation in BRICS initiatives, including discussions on alternative payment systems and trade mechanisms, has raised concerns in Washington about the long-term implications for dollar dominance in global trade.
- **Geopolitical Alignment/Strategic Autonomy:** The tariffs were viewed as a way to pressure India into aligning its foreign policy more closely with the US and G7 nations. India defended its position, stating that its energy policy is based on its own energy security needs for its 1.4 billion people and market factors, not political alignment.

This uncertainty of penalties whose scope and magnitude remain undefined appears to be designed to maximize pressure during bilateral negotiations.

3.3.3. US Tariff Chart on Imports from India

Table 2: Old and New Tariff Rate Imposed on Indian Goods by the US, 2025

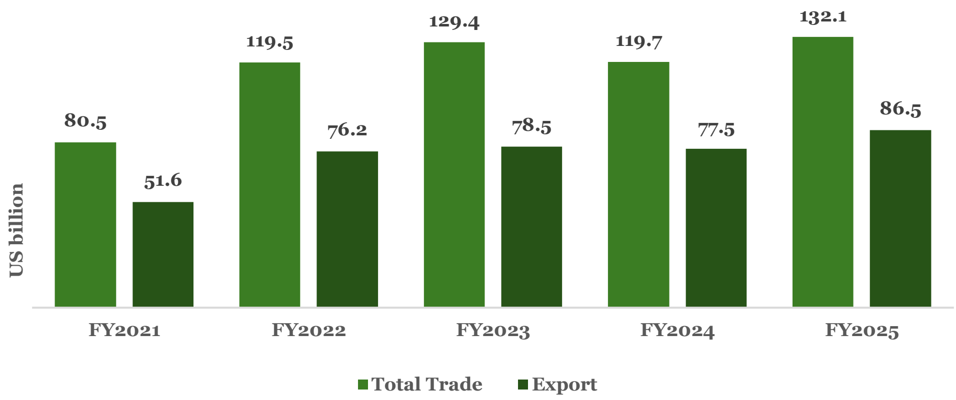
Sector	Old Tariff Rate	New Tariff Rate
Gems & Jewelry	~25%	+25% (stacked → effective +50% on many lines)
Textiles & Apparel	~25% standard (varied to 10-25%)	+25% (stacked → effective +50% on many lines)
Seafood / Marine Products	~33% (incl. anti-dumping & CVD)	+25% (effective +50% many lines)
Leather & Footwear	~25% (20.8-29.5% for footwear)	+25% (effective +50%)
Carpets / Home furnishings	~25% standard	+25% (effective +50%)
Furniture & Home furnishings	~25% standard	+25% (effective +50%)
Chemicals (specialty & organic)	~25% standard	+25% (effective +50%)
Machinery / Electricals	~25% standard	+25% (effective +50% on many lines)
Pharmaceuticals	----	100% tariffs on patented drugs
Automobiles & Auto Components	~25% standard	+25% (effective +50% on many CV/parts lines)
Plastics & Rubber	~25% standard	+25% (effective +50%)
Metals / Industrial metals	~25% (5–12.5% for industrial goods)	+25% (effective +50% except Sec.232 lines which have their own rates)
Paper & Paper Products	~25% standard	+25% (effective +50%)
Toys & Sporting Goods	~25% standard	+25% (effective +50%)
Ceramics & Glass	~25% standard	+25% (effective +50%)

Source: DataWeb, US Trade & Tariff Data, ECOFIN Research

3.3.4. Analysis of Impact of US Tariff on Each Indian Export Product Category

The US remained the top trading partner of India with a total trade of US$ 132.1 billion and export of US$ 86.5 billion in FY2025.

Chart 3: India's Trade with US – Historical Trend



Source: Ministry of Commerce, Union Government of India, ECOFIN Research

In FY2024 and FY2025, these following sectors showed an increase in export value and stronger dependence on the US market, driven by rising US demand, diversification away from China, and India's growing competitiveness in pharmaceuticals, chemicals, machinery, home furnishings, and footwear.

Table 3: Key Export Sectors of India

Sector	FY2024 Exports to US (US$ billion)	Share of Exports by India to US in FY2024	FY2025 Exports to US (US$ billion)	Share of Exports by India to US (FY2025)
Gems & Jewelry	9.94	11%	9.97	15%
Textiles & Apparel	7.50	37%	8.26	37%
Seafood / Marine Products	1.97	32%	2.04	32%
Leather & Footwear	0.40	16%	0.5	20%
Carpets / Home furnishings	1.09	58%	1.23	59%
Chemicals (specialty & organic)	12.90	21%	15.10	24%
Pharmaceuticals	8.10	37%	9.8	40%
Machinery / Electricals	17.20	50%	22.60	51%
Automobiles & Auto Components	2.70	13%	2.60	11%
Plastics & Rubber	2.35	20%	2.60	20%
Metals / Industrial Metals	3.60	15%	4.10	19%
Paper & Paper Products	0.40	13%	0.60	20%
Toys & Sporting Goods	0.20	38%	0.20	35%
Ceramics & Glass	0.27	7%	0.25	6%

Source: DataWeb, US Trade & Tariff Data, Ministry of Commerce, Union Government of India, ECOFIN Research

US tariff actions, broadly stepped-up product tariffs, targeted high duties on specific goods, and tighter trans-shipment or "substantial transformation" scrutiny will affect each listed sector.

Table 4: Tariff Impacting Key Exporting Sectors

Sector	FY2026 (Apr-Aug) Exports to the US (US$ Billion)	Impact
Gems & Jewelry	2.57	High-value, and price-sensitive category. Tariffs raise cost of Indian-origin finished jewelry for US buyers, squeezing profit margins and reducing volumes.
Textiles & Apparel	3.54	Increase landed cost and reduce price competitiveness vs Bangladesh, Vietnam and Mexico. We expect volume declines to the US, order cancellations, and margin compression for exporters who cannot absorb duties.
Seafood / Marine Products	0.86	Raise retail prices in the US, hurting price-sensitive segments such as shrimp and canned tuna.
Leather & Footwear	0.23	Erode competitiveness for basic/commodity footwear and components; branded whilst design-led products are more resilient. We expect loss of some low-end US business to cheaper producers.
Carpets / Home furnishings	0.49	Likely to reduce demand for handmade carpets and furnishings, indicating likely large short-term fall in orders. This will increase landed-cost sensitivity.
Chemicals (specialty & organic)	6.20	Increase in compliance costs and probable delay in shipments.
Pharmaceuticals	3.90	Tariffs on branded/patented drugs would directly hit high-value exports. Generics face risk if active ingredients are tariffed or if distribution margins compress. Tariffs can raise US drug prices, but high elasticity in generics means volumes could fall sharply.
Machinery / Electricals	11.40	Orders to shrink or divert to tariff favored nations as compared to India. Specialized engineering goods may be less affected.
Automobiles & Auto Components	1.10	Will raise costs for US imports of Indian parts; high-value or specialized components may be less price-elastic.
Plastics & Rubber	1.10	High landed cost. US Importers may shift to tariff favored nations as compared to India. Niche technical polymers are expected to get less impacted.
Metals / Industrial metals	1.80	Demand may fall for Indian goods in US as suppliers would face higher duties.
Paper & Paper Products	0.30	Increase costs for US purchasers and could reduce price-sensitive orders albeit specialty or sustainable paper products may retain buyers.
Toys & Sporting Goods	0.14	Orders may shift to low tariff nations.
Ceramics & Glass	0.27	Orders may shift to low tariff nations.

Source: Ministry of Commerce, Union Government of India, ECOFIN Research

Table 5: India's Exports to US, FY2025 and FY2026

Key Exported Commodities	FY2025 Exports (US$ Million)	FY2026 (Apr-Aug) Exports (US$ Million)
Cut and polished diamond and related jewelry item (HSN 7102)	9,974.95	2,576.01
Apparel — knit & woven; made-ups; home textiles (HSN 6103/62/63)	2,762.01	1,180.65
Shrimp / Prawns and other marine products (HSN 0306)	2,042.74	859.12
Footwear & leather goods (HSN 6403), not exceeding ₹ 2,500 per piece	461.23	226.88
Carpets & floor coverings (HSN 5701/5702/5703/5704/5705)	1,229.51	489.41
Furniture, bedding, mattresses (HSN 9404/9405/9406)	1,146.73	487.53
Ceramic / glassware, stoneware (HSN 6912)	250.19	112.27
Organic chemicals; many chemical products (HSN 28–38 lines)	1377.23	563.17
Machinery & mechanical appliances; electrical machinery (HSN 8407/8408/8409/8413/8507)	11,296.03	7,277.18
Auto parts & vehicle components (HSN 8701/8702/8703)	2,590.40	1,096.07
Pharmaceutical Products (HSN 3005/3006)	9,783.88	3,861.63
Plastics / rubber articles; rubber products (HSN 3926/4007/4016)	1,300.28	557.94
Metals — copper, iron & steel articles (HSN 7310/7323)	1,737.91	738.15
Toys, sports goods, games (HSN 9503/9504/9506/9507)	216.07	136.73
Ceramics, glassware & kitchenware (HSN 6911/6912)	250.19	112.27

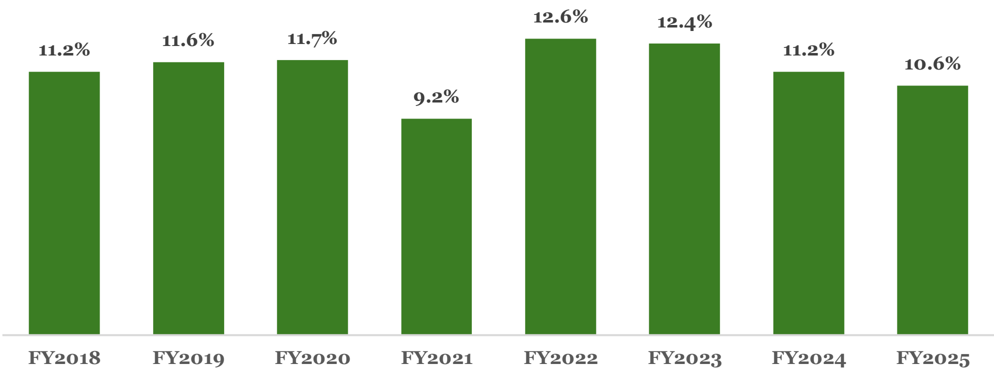
Source: Ministry of Commerce, Union Government of India, ECOFIN Research

3.3.5. Analysis of Impact of US Tariff on Each Product Category on Indian GDP

Key Takeaways – Indo-US Trade Snapshots

- US remains the top export market of India with Indian exports to the US shores accounting for more than 10% of Indian exports for past eight years (except FY2021).
- Bilateral goods trade between the two countries stood at around US$ 132.1 billion in FY2025 and India's sole exports to the US was around US$ 86.5 billion.
- The US recorded a trade deficit of approximately US$ 45.6 billion with India.
- India's major exports to the US include pharmaceuticals, precious stones and jewelry, chemicals, electrical machinery, and mechanical appliances.
- The US remains India's largest goods trading partner, accounting for nearly 11% of India's total trade.

Chart 4: India's Export to US as a Percent of Total Exports Trend



Source: Ministry of Commerce, Union Government of India, ECOFIN Research

The cumulative export of top commodities to US accounted for about 2% of India's GDP in FY 2025 compared to 29% for Vietnam or 11% for Thailand.

Here is a category-wise breakup of commodities export to the US and its share in India's GDP.

Table 6: Sector Exposure – Export to US Vis-à-vis Indian GDP

Sector	Share to India's GDP
Gems & Jewelry	0.24%
Textiles & Apparel	0.20%
Seafood / Marine Products	0.05%
Leather & Footwear	0.01%
Carpets / Home furnishings	0.03%
Chemicals (specialty & organic)	0.37%
Pharmaceuticals	0.24%
Machinery / Electricals	0.55%
Automobiles & Auto Components	0.06%
Plastics & Rubber	0.06%
Metals / Industrial metals	0.10%
Paper & Paper Products	0.01%
Toys & Sporting Goods	0.00%
Ceramics & Glass	0.01%

Source: Ministry of Commerce, Union Government of India, ECOFIN Research

3.3.6. Real-time Immediate Impact of US Tariffs on India's Export Segments

India's exports to the US crashed 28.5% from August to December in 2025 due to US tariffs escalating from 10% to 50%, severely impacting labor-intensive sectors, smartphones, and gems. However, India's smart pivot toward Asia, the EU, and the Middle East helped soften the blow, with sectors such as shrimps surging 60% to China and gems exports jumping 79% to the UAE. The government also rolled out a ₹ 450 billion support package for exporters to aid diversification and sustain growth.

Tariff Impact and Timeline

- US tariffs on Indian exports increased from 10% in April to 25% on 7 August, and then to 50% on 27 August 2025.
- India's exports to the US fell from US$ 8.83 billion in May to US$ 6.31 billion by October 2025.
- Labor-intensive sectors saw a 31.2% drop, losing US$ 1.5 billion in exports.
- Smartphones exports to the US crashed 36%, losing US$ 790 million.
- Gems exports to the US collapsed 76%.
- India faced steeper tariffs than competitors such as China (30%) and Japan (15%).

Erosion of Price Competitiveness

- The introduction of a 50% blanket tariff significantly weakened India's ability to compete on price in the US market. Most Indian exporters operate with narrow profit margins and therefore lacked the capacity to absorb such a substantial duty increase.
- As a result, the final retail price of Indian goods in the US climbed up sharply, making them far less attractive compared to competing products from countries with lower tariff exposure (USTR Reports, 2025).
- This loss of competitiveness was especially damaging for low-margin, labor-intensive sectors such as textiles, leather manufacturing, footwear, and certain categories of engineered goods. In these industries, US buyers face minimal switching costs, making supplier substitution both fast and economically rational.

India's Exports to the United States saw a sharp fall of 28.5% between May & October 2025

- According to the Global Trade Research Initiative (GTRI), shipments dropped from US$ 8.83 billion to US$ 6.31 billion during the period, coinciding with US duties rising from 10% in April to 25% in early August and then to 50% by late August. GTRI said the sudden escalation made Indian goods among the most heavily taxed in the US market. By comparison, China faced tariffs of about 30%, while Japan's stood near 15%.
- The think tank categorized exports into three segments. Tariff-exempt goods such as smartphones, pharmaceuticals and petroleum products accounted for 40.3% of October exports but still slipped 25.8%, falling from US$ 3.42 billion in May to US$ 2.54 billion.
- Uniform global tariff items — mainly iron, steel, aluminum, copper and auto parts — formed 7.6% of shipments and fell 23.8%, dropping from US$ 629 million to US$ 480 million.
- The steepest damage came in labor-intensive sectors such as gems and jewelry, solar panels, textiles, garments, chemicals and seafood, which alone faced the 50% rate. Exports in this group sank 31.2%, erasing nearly US$ 1.5 billion.

Adverse Impact on Indian Exporters and Production Clusters

The tariff escalation produced several immediate and cascading disruptions across India's export-oriented industries:

- **Cancellation or postponement of orders by US importers** who could no longer justify the higher landed cost of Indian goods.
- **Squeezed profit margins and intensifying working-capital pressures**, as exporters struggled to manage inventory, shipping commitments, and fluctuating currency values (RBI Export Sector Surveys, 2024–25).
- **Build-up of unsold stock in major export hubs in India** such as Tirupur, Surat, Kanpur, and Moradabad, resulting in higher warehousing and operational expenses.
- **Declining factory capacity utilization**, particularly in small and medium manufacturing units, due to reduced order flows.
- **The most severe burden fell on Micro, Small, and Medium Enterprises (MSMEs)**, which account for a large share of India's export output. MSMEs typically operate with limited cash flow buffers, constrained credit access, and high dependence on US buyers. As highlighted in reports by the Federation of Indian Export Organizations (FIEO) and the Reserve Bank of India, such external shocks may significantly disrupt employment and stability within these industries.

Shrimp and Marine Sector Success

- Marine exports grew 25% in September and 11% in October 2025 despite US tariffs.
- China increased orders by 60%, Japan by 37%, and Thailand by 70%.
- The EU approved 102 new Indian seafood processing units, totaling 502 units now cleared, enabling a 20-25% export boost potential to the EU.
- Shrimps accounted for US$ 4.88 billion and 65% of India's seafood exports in FY2025.

Gems and Jewelry Market Diversification

- US-bound gem exports dropped 76% in September 2025 year-on-year.
- Overall gem exports declined only 1.5% due to rapid market shift.
- UAE imports surged 79%, Hong Kong 11%, and Belgium 8%, helping absorb volume losses.
- Quick diversification prevented structural damage to the US$ 38 billion gems and jewelry industry.

Auto Components and Other Sectors

- US shipments of auto components declined 12%, but total auto exports rose 8% in September 2025.
- Germany, UAE, and Thailand became major alternative markets.
- The Indian government warned exporters against price cuts in new markets to maintain competitive positioning.
- Tariff-exempt sectors such as pharmaceuticals and petroleum still saw 25.8% decline, losing US$ 881 million.
- Chemical exports tumbled 38%, from US$ 537 million to US$ 333 million.

Government Support and Strategy

- The government announced a ₹ 450 billion assistance package, including ₹ 200 billion in credit guarantees.
- Budget schemes were activated to support exporters in diversification and new market exploration.
- 25 fishery units are being cleared for Russia as a new market opportunity.
- Trade talks with the US continue but no breakthrough has been reached yet.

Market Realities

- Leather footwear exports fell 10% due to a sharp decline in US orders.
- Competitors such as Indonesia (19% tariffs) and Ecuador (15%) are gaining market share compared to India's 50% tariffs.
- Ongoing EU Free Trade Agreement (FTA) negotiations would reduce the current 12% tariffs further.
- India exported US$ 1.1 billion in seafood to the EU in FY2024, with 20-25% room for growth.
- This trade war and tariff escalation have reshaped India's export landscape, highlighting the success of rapid diversification into Asia, the EU, and the Middle East to mitigate the adverse impact of US tariffs on key sectors in 2025.

India-US Deal Uncertainty Did Put Over US$ 2 billion Worth of Summer Apparel Orders at Risk

Negotiations between Indian apparel manufacturers and US importers have stalled for summer orders, worth around US$ 2 billion for Indian exporters, as said by The Indian Express. This comes amid uncertainty among domestic suppliers about the tariff rates that would apply once the India-US trade deal is concluded. The joint statement released by the two countries in February 2025 had said that a deal would be reached by fall. The absence of a trade deal would push the bulk summer orders to competitors such as Bangladesh, Vietnam and even China, which face lower tariffs compared to the highest tariffs of 50% imposed on India. Industry sources said that orders are already shifting to other countries, and missing the summer orders could have a long-term impact.

3.3.7. US Tariffs on India Might Had Global Repercussions

The tariff policy of the US President Donald Trump appears to have evolved from an economic plan to a tool of foreign diplomacy. However, the administration's choice to impose a 50% tax on India, a crucial US ally in the QUAD (Quadrilateral Security Dialogue) alongside the US, Australia, and Japan, may have had serious consequences for both international trade and global geopolitics. The United States' justification for the tariff increase seems to be primary political. The White House claimed that in violation of the sanctions put in place following the invasion of Ukraine in 2022, India had been making money by purchasing and reselling Russian oil. This has helped Russia to withstand the consequences of the sanctions and keep funding its conflict in Ukraine.

Undoubtedly, the US tariff policy and the statements, which followed from Washington and New Delhi have ruined a burgeoning bilateral relationship to the point where Prime Minister Narendra Modi had been declining to answer President Trump's calls. Donald Trump, the president of the United States, had decided not to travel to India for the Quad summit in 2025. From 31 August to 1 September 2025, Russian President Vladimir Putin and Indian Prime Minister Narendra Modi attended the Shanghai Cooperation Organization (SCO) summit in Tianjin, China. On the fringes of the summit, which was hailed as offering an alternative to the US-led hegemonic order, Modi met individually with both Xi and Putin. The three leaders were pictured together in friendly conversation.

It then seemed to be clear that India would continue to purchase Russian oil despite higher US tariffs. Conversely, Modi had reiterated India's resolve to acquire more Russian oil in addition to continuing to do so. This is not surprising as India's position on Russia, as a net importer of crude oil, is motivated by the practical economic necessity of containing inflation rather than any lofty geopolitical goals. India is mostly dependent on imports for energy, and its consumers, the vast majority of whom are vulnerable and impoverished, rely on steady and reasonable energy costs. No amount of pressure from the US or its G7 allies would change that simple economic reality.

BRICS Launched a Gold-Backed Currency

As of 8 December 2025, the BRICS alliance, a bloc of ten full members including Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Indonesia, Iran, and UAE, has launched "The Unit" aiming to hit the heart of Western monetary hegemony. The concept centers on a gold-anchored digital instrument designed to reroute trillions in trade away from the US dollar.

Beginning of End of US Dollar Supremacy?

The west faces a risk that if the tariff situation worsens and financial sanctions are imposed, Indian investment may shift from the US and G7 nations to China and Russia. Indian investors are heavily involved in the western automobile, pharmaceutical, IT, and telecom industries; these investments might be used elsewhere. However, there are increasing indications that the SCO and the emerging BRICS group of trading states are becoming more cohesive. The initial members of this group—Brazil, Russia, India, China, and South Africa—as well as more recent additions—Egypt, Ethiopia, Iran, Indonesia, and the UAE—make up this group. These growing economies are already working towards setting up technical mechanisms for mutual investments and trade settlements in their local currencies rather than the US dollar.

The US dollar's value had temporarily decreased as a result of the trade shocks caused by the US tariffs. These short-term trends conceal a larger long-term risk, even though these are not significant from the standpoint of previous trends. These risks do not percolate from trade transactions, which make up a very small portion of dollar transactions. The long-term dangers stem from the US dollar's possible diminished significance in activities related to foreign reserves, asset management, investments, and finance. Specifically, the US dollar's almost unique position as a reserve currency for the global south and BRICS countries is at risk.

The prosperity and security of the United States would be endangered by any policy that jeopardizes that standing. It is feared that any trade and financial policies, which push the US's major trading partners toward China and Russia will have that effect.

3.4. India's Strategic Response: Not a Petitioner, But as an Architect

3.4.1. India’s Response to Trump Tariffs – A Brief Summary

India's response to the tariff assault was neither capitulation nor confrontation. It was calibrated, multi-track, and grounded in the clear-eyed assessment that India's strategic value to the United States as, (i) the democratic anchor of the Indo-Pacific, (ii) the world's largest and fastest-growing major economy, and (iii) the technology partner and intelligence-sharing ally of the Quad far exceeded any particular administration's transactional impulses.

Indian National Security Advisor Ajit Doval's reported declaration that India was willing to navigate an entire US presidential cycle to secure equitable terms rather than accepting unfair deals under pressure was not a mere bluster. It was a statement of strategic reality through the “Wait Out” doctrine that India was prepared to endure strained trade ties for four years instead of accepting coercive or unjust terms of engagements. As documented in Section 6 of the study, every US dollar saved on Russian crude imports - sometimes US$ 20 to US$ 30 per barrel below market price generated more macro-economic value for India than the corresponding export revenue from the US market. The net savings from Russian crude, estimated at US$ 13 to US$ 27 billion annually since 2022, provided a structural economic buffer that made India's bargaining position far stronger than the tariff headlines suggested. The Indian rupee's depreciation, while painful, was a currency adjustment; the strategic relationship's fundamentals remained intact.

The multi-track diplomatic response was, in retrospect, a masterclass in BANI-era statecraft. While negotiations with Washington continued through back-channels, India simultaneously concluded the India-UK Comprehensive Economic Trade Agreement in July 2025, a landmark deal granting 99% of Indian exports duty-free access to the UK market and setting a target of doubling bilateral trade to US$112 - US$120 billion by 2030. It finalized the India-EFTA Trade and Economic Partnership Agreement in October 2025, reducing duties on Indian industrial goods across Iceland, Liechtenstein, Norway, and Switzerland. It resumed India-Canada CEPA negotiations after a two-year diplomatic freeze, with Modi and Carney's G20 sideline meeting in Johannesburg in November 2025 signaling normalization. And, it finalized the India-EU FTA, with External Affairs Minister S. Jaishankar describing Europe as a potential 'major pole in the global order' and a critical partner in India's drive toward multipolarity.

The Atmanirbhar Bharat doctrine - Prime Minister Modi's framework for self-reliant India was simultaneously operationalized as a strategic response to any form of vulnerability. The Production-Linked Incentive (PLI) scheme accelerated investment in electronics, electric vehicles, pharmaceuticals, and semiconductors, reducing India's dependence on any single export market. Engineering goods exports, rising 10.4% year-on-year in January 2026, and crossed US$ 100 billion during the period April 2025-January 2026 and is expected to reach US$ 120 billion by the end of FY2026, demonstrating the resilience of India's manufacturing sector even under tariff headwinds. Electronic goods exports surged 10.37% from US$ 3.79 billion in February 2025 to US$ 4.18 billion same time in 2026. Pharmaceutical exports continued their upward trajectory, reaching markets across 200 countries. Defence exports have risen more than 34 times over the past decade and is poised to reach a record US$ 3.4 billion by the end of April 2026. Israel and some European countries are leveraging India’s mass-production capabilities to address shortage owing to various global conflicts. India has set an aggressive target of reaching about US$ 5.9 in annual defence exports by 2029.

The India-UAE comprehensive relationship, documented in detail, later in the study, served as both a demonstration of India's trade diversification success and a model for the bilateral architecture India seeks with all major partners. The India-UAE CEPA which drove bilateral trade to US$ 100 billion in FY2025 has set a target of US$ 200 billion by 2032. This exemplifies the kind of deep institutional integration, which creates genuine economic interdependence beyond the transactional relationship. The HPCL-ADNOC ten-year LNG supply pact; the Joint Dholera Special Investment Region development; the RuPay-JAYWAN fintech integration serving 3.5 million Indian diaspora in the UAE - these are not trade agreements. They are the architecture of a civilizational economic partnership.

3.4.2. The "Tortoise" Strategy: Patience Over Provocation

With punitive US tariffs – which escalated from 25% to 50% in August 2025 – India deliberately avoided a tit-for-tat trade war. This restraint was a core component of what analysts have called a "tortoise strategy": a slow, steady, and tenacious approach that prioritized long-term structural gains over short-term retaliatory satisfaction. Instead of public escalation, New Delhi adopted a posture of strategic silence in the face of provocative statements from US officials, choosing to file a challenge with the World Trade Organization (WTO) to contain the dispute within a legal framework. This approach allowed India to preserve diplomatic capital and economic leverage, recognizing that a direct confrontation would be more damaging than the tariffs themselves.

3.4.3. India's Silent Tariff Counterstrike - 30% Tariff on US Pulses

India struck back at the United States, legal, lethal and quietly in October 2025. On 30 October 2025, India's Ministry of Finance issued a routine notification imposing a 30% import duty on yellow peas, 10% basic plus 20% agricultural cess effective from 1 November 2025. However, this was not only for US, for all the countries. The tariff applied globally, not targeted at the US, but it hit the American exporters hardest due to their heavy dependence on India's pulse market. The US pulse industry, particularly from North Dakota and Montana, lost its competitiveness overnight. Exports collapsed within weeks as Indian buyers turned to Russia, Myanmar and African suppliers. From Indian perspective, the 30% tariff on pulses import is designed to protect India's domestic farmers, stabilize weakening mandi prices, and reduce import dependence. It gives policymakers greater control over supply and inflation management, while encouraging local production.

3.4.4. WTO Engagement

India has utilized formal international channels, notifying the World Trade Organization (WTO) to reserve its right to impose reciprocal tariffs on American goods if necessary, providing diplomatic leverage without immediate escalation. India has challenged US at the WTO over the 50% tariff imposed on certain copper products by the Trump administration. India argued that the tariffs, claimed to be of security interests, are essentially a safeguard measure. "India considers that the measure, although claimed to be taken for security interests, are, in essence, a safeguard measure," it said in a communication to the Geneva-based global trade watchdog on 2 September 2025, arguing that the US did not notify to WTO its decision on the safeguard measure. A safeguard measure is a temporary levy to protect domestic industry from a sudden surge in imports. Typically, such an action has to be preceded by a probe. The US has cited emergency powers vested with the president to impose tariffs. Apart from reciprocal tariffs, Trump has imposed product-specific duties such as those on copper, iron and steel and aluminum products as well as automobiles and auto parts. India has sought consultations with the US at WTO in what could be a precursor to a formal dispute being initiated although Trump and his predecessors have made the dispute settlement mechanism useless.

In WTO disputes against the USA, India has frequently been joined by other nations, which share similar concerns regarding trade barriers, subsidies, and protectionist measures. While the specific group of supporting countries (often acting as "third parties") varies by case, several recurring allies have stood with India.

A. Key Strategic Allies in Disputes

When India challenged US measures - such as high import duties on steel and aluminum or domestic content requirements—the several countries have often joined or supported India's position:

- **China:** Frequently aligned with India against US trade enforcement and high import duties.
- **Russia:** Joined India in condemning US measures related to safeguards and import duties on metals.
- **European Union (EU):** Often acted as a third party in India-US disputes, supporting broader interpretations of GATT rules that favor fair competition.
- **Hong Kong:** Has supported India in objections against US safeguard measures.
- **Mexico & Thailand:** Have stood with India in cases regarding US domestic content requirements and renewable energy subsidies.

B. Notable Cases and Support Groups

- **Solar Sector & Renewable Energy:** India successfully challenged the US over subsidies and domestic content requirements in eight US states. This effort was supported by several nations concerned about similar US protectionism.
- **Steel and Aluminum (Section 232):** India joined a large coalition, including China, EU, Russia, Norway, and Switzerland, to challenge the high duties the US imposed on steel and aluminum imports.
- **The "G20" for Agriculture:** India often leads a coalition of developing nations (including Brazil, South Africa, and Indonesia) to oppose US and EU agricultural subsidies, which disadvantage farmers in the Global South.

3.4.5. India's Enhanced Diplomatic Reach to Various Countries

As Washington slapped punitive oil-linked tariffs on New Delhi, India's response is less about panic and more about positioning. Strategic autonomy and multi-alignment have been guiding principles for New Delhi, leaving the door open for a dialogue with Washington. India's strategy balances a firm public stance on national interest and sovereignty with cautious, behind-the-scenes diplomacy and long-term economic recalibration to navigate the current trade tensions.

Russia–India–China (RIC)

In recent months, Indian government has quietly upped its engagement in the Russia–India–China (RIC) troika in diplomatic conversations, Prime Minister Narendra Modi's meeting with the Chinese and Russian premiers in Tianjin during the SCO summit and Russin President Putin's visit to India early December. The message, say analysts, is clear: while India values its ties with Washington, it will not be strong-armed into abandoning its oil lifeline or its strategic autonomy. The re-engagement with the RIC framework is not about forming an anti-US bloc but about broadening India's diplomatic bandwidth. Diplomatic observers opine that these optics are deliberate. By visibly nurturing ties with its two largest continental neighbors, New Delhi was sending a message to Washington that its partnership is a choice, not a compulsion.

China

India resuming direct flights with China after a four-year freeze since the pandemic, the resumption of the Kailash Mansarovar Yatra, the reissuing of visas to Chinese nationals; all aimed at increased Sino Indo cooperation. This strategy was soon reciprocated by China. Chinese Minister of Foreign Affairs, Wang Yi's visit to New Delhi marked a turning point. Reopen border trade through Lipulekh, Shipki La, and Nathu La, and update air service agreements directly addressed Indian business and travel concerns. Additionally, Wang Yi's assurances on rare earths, fertilizers, and tunnel-boring machines (TBMs) reflected recognition of India's bottlenecks.

However, India's renewed outreach to China goes beyond US tariff pressures, driven instead by domestic economic strains — from supply chain dependencies to investor demands — which are pushing New Delhi to cautiously recalibrate its toughest bilateral relationship. Even before US tariffs, Indian policymakers were grappling with an expanding trade deficit with China, along with growing industrial dependencies. Imports from China reached an all-time high of US$ 113.45 billion in FY2025, with the trade deficit widening to US$ 99.2 billion. Over the past fifteen years, India's imports from China have grown 2.3 times faster than imports from all other countries combined, highlighting just how entrenched this asymmetry has become. Indian exporters have continued to press for greater access to Chinese markets in agriculture, pharmaceuticals, and IT services, though it remains to be seen how Beijing will respond to these demands. India is reportedly considering re-permitting Chinese investment after New Delhi imposed harsh restrictions following a border clash in 2020.

Russia

At the Russia-India annual bilateral summit in New Delhi on 5 December 2025, against a backdrop of intensifying Western pressure, punctuated by US tariff threats and the ongoing negotiations to end Russia's war in Ukraine, Russian President Putin and Indian Prime Minister Modi framed their relationship as a stabilizing force. While Prime Minister Narendra Modi hailed the two countries' relations as "steadfast like a pole star", President Vladimir Putin showered praise on his Indian counterpart for resisting "external pressure" and investing in the shared bond.

Analysts said the summit was more important as a show of political messaging. The summit provided a platform for the two countries to reach a slew of trade agreements spanning jobs, health, shipping and chemicals. Memorandums of understanding were exchanged between multiple ministers from each side, expanding trade and cooperation in various sectors, from energy to agriculture, shipping and pharmaceuticals. The deals, Prime Minister Modi said, would take "India-Russia economic partnership to new heights" under the India-Russia economic cooperation program until 2030. The countries have agreed on an ambitious trade target of US$ 100 billion.

"The biggest takeaway from the summit is the signaling that neither side has any intention to dilute this relationship, and is ready to withstand any external pressure," said Harsh Pant, a geopolitics analyst at New Delhi-based think tank, the Observer Research Foundation. Moreover, Pant said: "The attempt is to build the economic partnership, beyond oil and defence." And without that, he added, "the bilateral relationship is not responsive to today's realities". Robinder Sachdev, president of the Imagindia Institute, a New Delhi-based think tank, said that the summit holds "extreme importance for the greater willingness on the part of both Russia and India to turbocharge this relationship". "Both sides want to increase their engagement beyond just government-to-government deals, in oil and defence sectors, and boost people-to-people ties," said Sachdev. "That can be the biggest string in this bilateral relationship."

Japan

India and Japan launched a Dialogue on Economic Security during Prime Minister Modi's visit to Tokyo on 29 and 30 August 2025, advancing bilateral cooperation in building resilient supply chains and critical infrastructure for semiconductors, critical minerals, and clean energy. The US is the largest market for Indian pharmaceuticals and India is actively exploring diversifying those exports, despite the sector currently being exempt from tariffs.

EU (European Union)

American hostility towards India should not drive New Delhi to shift away from the West entirely. Europe provides a promising pathway—one that can help India balance its risks without rapidly escalating tensions with China or necessarily undermining its vision of multipolarity. European partners offer substantial investment capital, diversified supply chains, which reduce economic dependence on China and advanced defence technologies, which do not have the same geopolitical strings as American or Russian alternatives. It is for this reason that India is right to hope that Europe, like India, will evolve into "a major pole in the global order", in the words of Indian external affairs minister S. Jaishankar, serving both as an important partner and a potential counterbalancing force for its ties with both China and the US. India and the EU have finalized a Free Trade Agreement (FTA) in 27 January to boost trade in goods, services, and investment.

India signed a separate Trade and Economic Partnership Agreement (TEPA) with the European Free Trade Association (EFTA) states (Iceland, Liechtenstein, Norway, Switzerland) in October 2025, which entered into force in October 2025, reducing duties on industrial goods. In January 2026, the India-EU FTA was finalized, balancing broad economic goals with specific regulatory and market access challenges, as both partners aim for deeper integration.

UK (United Kingdom)

The India-UK Free Trade Agreement (FTA), also called the Comprehensive Economic and Trade Agreement (CETA), is a landmark deal signed in July 2025 to significantly boost bilateral trade, with the goal of doubling it to US$ 120 billion by 2030. The agreement grants 99% of Indian exports duty-free access to the UK and includes provisions for services, professional mobility, and opening up government procurement markets. It is a modern pact aimed at increasing economic integration, job creation, and strategic cooperation between the two nations. The negotiations were launched in January 2022 and finalized after fifteen rounds. The agreement was signed on 24 July 2025, and is expected to be enforced after legal approvals, anticipated in the coming months. The FTA builds upon the Enhanced Trade Partnership launched in 2021.

Canada

As India and Canada mend diplomatic ties, investment prospects soar. This renewed relationship could catalyze a surge in bilateral trade, enhance investor confidence, and create pathways for long-term economic stability in both nations. India and Canada have agreed to formally resume talks on an ambitious Comprehensive Economic Partnership Agreement (CEPA), as Prime Minister Narendra Modi and his Canadian counterpart, Mark Carney, met on the sidelines of the G20 Leaders' Summit in Johannesburg on 23 November 2025. The development underscores the continuing improvement in relations between the two countries. Following the Modi-Carney meeting, Canadian Foreign Minister Anita Anand stated that Canada and India will act swiftly on the trade deal, marking a shift in relations following two years of strained ties, according to news agency AP. Anand noted that Ottawa has a new foreign policy in response to US President Donald Trump's trade war and highlighted Carney's aim to double non-US trade within ten years. Easing diplomatic tensions improves investor confidence.

The cooling of tensions is a sign of political stability, which reduces the perceived risk for Canadian pension funds, banks, and corporations considering long-term investments in India. A revival in India-Canada economic and strategic engagements, especially through institutional investors, pension funds, and trade-focused agencies — can have a significant ripple effect across India's capital markets and investment ecosystem.

Jordan

India and Jordan relations are an important aspect of the formation of deep and trusted partnerships in West Asia. Indian Prime Minister Narendra Modi paid a full-fledged bilateral visit to Jordan in December, marking a significant milestone in India–Jordan relations. This was the Prime Minister's first standalone bilateral visit to Jordan and the first such visit by an Indian Prime Minister in 37 years. The visit coincided with the 75th anniversary of the establishment of diplomatic relations (1950-2025) between India and Jordan, underscoring the maturity and continuity of the bilateral partnership.

The signing of five Memoranda of Understanding (MoUs) and the articulation of a forward-looking agenda reflect the growing strategic, economic, and people-centric dimensions of India and Jordan relations. Economic engagement forms a central pillar of India and Jordan relations. India is Jordan's third-largest trading partner and bilateral trade in FY2025 reached US$ 2.875 billion with India's exports at US$ 1.465 billion. The two countries aim to expand bilateral trade to US$ 5 billion over the next five years. Indian exports primarily cereals, frozen meat, petroleum products and animal fodder to Jordan whilst it imports phosphate and potash fertilizers from Jordan. India and Jordan relations exemplify how consistent political engagement, economic complementarity, and shared security concerns can create a resilient bilateral partnership. Jordan's strategic location, reliability as a fertilizer supplier, and moderate regional outlook align well with India's expanding engagement in West Asia. The outcomes of Prime Minister Modi's 2025 visit have injected fresh momentum into the relationship, setting clear economic targets and expanding cooperation into future-oriented domains such as digital governance and renewable energy. As India pursues a balanced and diversified West Asia policy, Jordan remains a trusted partner anchored in trust, trade, and strategic convergence.

Global South

For decades, emerging economies in Asia, Africa, and Latin America were treated as junior partners in a Western-led system. Today, that system is cracking. US President's aggressive tariffs have paradoxically created an opening for the Global South to accelerate South-South cooperation, redraw trade maps, and challenge the dominance of Western institutions. India and Brazil, despite their differences, are finding common ground in resisting US economic coercion. Within BRICS, discussions of joint counter-tariff strategies are gaining momentum. The inclusion of Saudi Arabia, Egypt, and the UAE has added new weight to the bloc, turning it into a credible platform for collective resistance. At the same time, ASEAN nations are working to strengthen intra-regional trade, while South Asian platforms such as SAARC are being revisited with fresh urgency. India's positioning as one of the pivots of Global South is surely a long-term strategy to diminish Western hegemony including the US.

3.4.6. Domestic Focus and Sector Support

To counter 50% US tariffs, India focused on domestic resilience, and sector-specific support rather than retaliatory tariffs. The core approach leverages existing initiatives such as the "*Aatmanirbhar Bharat"* (Self-Reliant India) program and aims to boost internal consumption.

Domestic Focus

- **Domestic Resilience:** The Indian government is promoting domestic products and aiming to boost internal consumption to cushion against global demand shocks. This aligns with the *"Aatmanirbhar Bharat"* vision of building self-reliance and robust domestic supply chains.
- **Enhanced Domestic Incentive & Export Competitiveness Programs:** Schemes such as PLI, "Make in India", and export incentives strengthened key sectors (electronics, EVs, pharma), reducing vulnerability to external tariff shocks.
- **Accelerated Domestic Manufacturing to Replace Costly Imports:** Built capacity in supply-sensitive areas such as solar equipment, medical devices, and critical electronics—reducing tariff-related economic impact.
- **Technology Integration:** The government and industry are exploring the use of Artificial Intelligence (AI) to optimize supply chains, reduce costs, and enhance export competitiveness to offset the tariff disadvantage.

Sector Specific Support

The US tariffs primarily affect labor-intensive sectors such as textiles, gems and jewelry, leather, marine products, and auto components. The Indian government is providing targeted support to help these industries cope:

- **MSME Support:** The government has proposed measures such as interest subsidies, loan guarantees, and reduced certification fees for Micro, Small, and Medium Enterprises (MSMEs), which are disproportionately affected.
- **Export Promotion**: Export Promotion Councils (EPCs) are playing a central role in guiding exporters on using FTAs, meeting global sustainability standards, and identifying high-demand products in new markets. The proposed Export Promotion Mission (Budget 2025-26) will further enhance this long-term diversification strategy.
- **Exempted Sectors:** Certain sectors such as pharmaceuticals, semiconductors, energy products, and critical minerals remain exempted from the new US tariffs, which India is leveraging to maintain supply chain roles with the US.

3.4.7. India's Export Promotion Mission to Offset Tariff-Driven Export Stress

In response to the severe impact of elevated US tariffs on Indian exports, the government of India has rolled out a broad set of interventions designed to protect exporters, safeguard employment, and strengthen long-term export competitiveness.

Export Finance & Credit Support

- To provide immediate relief to exporters facing liquidity crunches, the government of India approved a major support package totaling ₹ 450 billion. This package includes a special guarantee and credit facility scheme for exporters.
- Under the newly introduced Credit Guarantee Scheme for Exporters (CGSE), banks and financial institutions can extend collateral-free working-capital loans to eligible exporters, with 100% guarantee coverage by the National Credit Guarantee Trustee Company (NCGTC).
- This facility is especially aimed at Micro, Small and Medium Enterprises (MSMEs), enabling them to maintain cash flows, manage raw materials and wage payments, and avoid shutdowns during periods of export demand shortfall.

Export Promotion Mission (EPM)

To provide a more structured and long-term support framework, the Indian government launched the Export Promotion Mission (EPM) — a six-year initiative spanning FY2026 through F2031. The mission was approved by the Union Cabinet with an outlay of ₹ 250.60 billion.

EPM aims to subsume previously fragmented export-support schemes into a unified, digitally administered framework. It consists of two complementary sub-schemes:

- **Niryat Protsahan – focused on financial assistance**: interest-subvention, export-factoring support, collateral guarantees, trade-credit access (including credit cards for e-commerce exporters), and credit-enhancement facilities to help exporters maintain liquidity and manage export cycles.
- **Niryat Disha – focuses on non-financial support**: compliance assistance, quality certification, export-ready packaging and branding, participation in international trade fairs, export warehousing and logistics support, inland-transport reimbursement, and trade-intelligence & capacity-building measures.

The EPM gives priority to sectors hardest hit by recent global tariff escalations, such as textiles, leather, gems & jewelry, engineering goods, and marine products. By combining financial help with structural and market-access support, EPM is designed to help exporters survive the immediate shock, diversify into new markets, and become more competitive globally.

Support for Incentives, Costs & Export-Readiness

Beyond immediate financial relief, India is also maintaining and strengthening export-incentive mechanisms to keep Indian exports internationally competitive. For instance, schemes, which reimburse embedded taxes and duties help reduce the cost burden for exporters. The government's continuous export-support framework aims to help firms compete effectively even under global trade pressure. Additionally, the new consolidated support under EPM helps exporters face non-tariff challenges (e.g. compliance, packaging, quality standards) that often accompany access to foreign markets, especially those with stringent regulations.

Focus on MSMEs and Labor-Intensive Sectors

Recognizing that labor-intensive and MSME-driven industries bear the brunt of export shocks, the government's strategy deliberately channels support toward these sectors. EPM and CGSE are structured to benefit first-time exporters, small units, and sectors such as textiles, leather, gems & jewelry, and marine products, which have limited financial cushion against sudden demand disruptions. By providing affordable credit, assurance of liquidity, and working-capital support, the government aims to help such enterprises survive the downturn, preserve jobs, and retain export capacity.

PM MITRA Parks

Setting up of seven PM Mega Integrated Textile Region and Apparel (MITRA) Parks are being planned with an estimated project cost of ₹ 130.4 billion. Investment MoUs exceeding ₹ 274.34 billion have been signed, and infrastructure works worth ₹ 25.91 billion are underway across seven states. These parks aim to boost India's textile competitiveness and global market position. The seven parks are at Virudhnagar (Tamil Nadu), Warangal (Telangana), Navsari (Gujarat), Kalaburagi (Karnataka), Dhar (Madhya Pradesh), Lucknow (Uttar Pradesh) and Amravati (Maharashtra).

Why the Strategy Matters – and What It Aims to Achieve

- **Liquidity & Stability for Exporters:** Credit guarantees and working-capital support ensure firms can manage production, raw-material purchases, wages, and overheads even when orders shrink or are delayed.
- **Cost-Competitiveness Despite Tariffs:** By combining export-promotion incentives, credit support, and compliance aid, exporters can offset part of the added cost burden introduced by tariffs.
- **Diversification of Markets & Products:** EPM's non-financial support helps Indian exporters explore new markets, meet export-quality standards, and diversify away from tariff-vulnerable destinations.
- **Focus on MSMEs and Labor-Intensive Sectors:** By targeting small exporters and sectors with thin margins, the policy seeks to safeguard employment, preserve industrial capacity, and avoid large-scale closures.
- **Long-term Export Ecosystem Strengthening:** Instead of ad-hoc support, the combination of financial, structural, and institutional reforms under EPM and related schemes aims to build a more resilient and globally competitive export base.

3.4.8. GST Rationalization

While strategic ties will certainly help, it is the internal reforms that hold the key, say experts. "While stronger strategic and trade ties with China and other partners will provide some cushion, India's foremost priority must be internal reforms to withstand the shock of Trump's tariffs," said Manoranjan Sharma, Chief Economist at Infomeric Valuation and Ratings. Sharma said expanding engagement through FTAs with the EU, UK, and EFTA, exploring membership under CPTPP, and boosting trade with Africa, ASEAN, the Middle East, and Brazil can certainly help diversify risk. Yet, the real game-changer lies in domestic policy reforms that strengthen economic fundamentals. For instance, GST reforms alone could significantly raise household disposable income, potentially lifting consumption by ₹ 1.98 trillion and thereby deepening the internal market. "A more vibrant domestic economy, less dependent on US exports, would reduce vulnerability to external shocks and bolster resilience. Complementary measures must include proactive trade diversification, targeted export promotion, supply-side strengthening in electronics and high-value sectors, smarter negotiations, and diplomatic leverage. Achieving this balance is challenging, but well within India's reach," said Sharma.

GST – The Backbone of India's Indirect Tax Framework

The Goods and Services Tax (GST), introduced on 1 July 2017, is India's most significant indirect tax reform since independence. By bringing together multiple central and state taxes into a single, unified system, GST created a common national market, reduced the cascading of taxes, simplified compliance, and improved transparency. Over eight years, GST has steadily evolved through rate rationalization and digitalization, becoming the backbone of India's indirect tax framework. Gross Goods and Services Tax (GST) collections touched US$ 242 billion (₹ 20.2 trillion) in FY2024, compared to US$ 219.01 billion (₹ 18.1 trillion) in the previous year.

Chart 5: India's GST Collection Trend

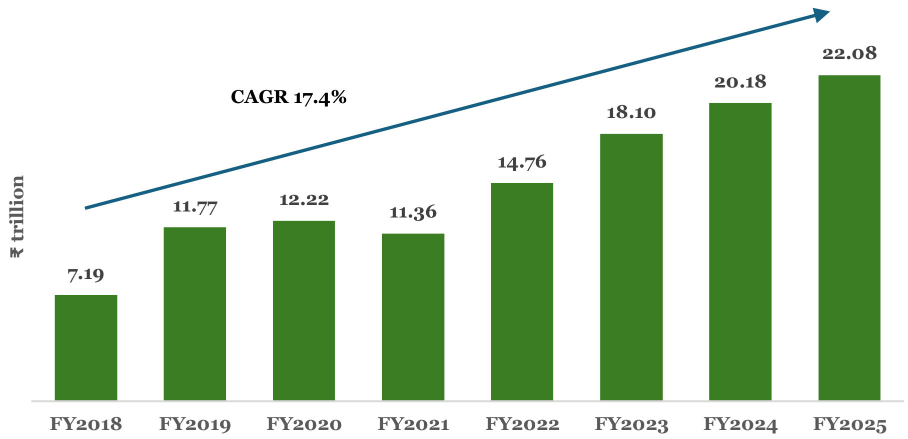
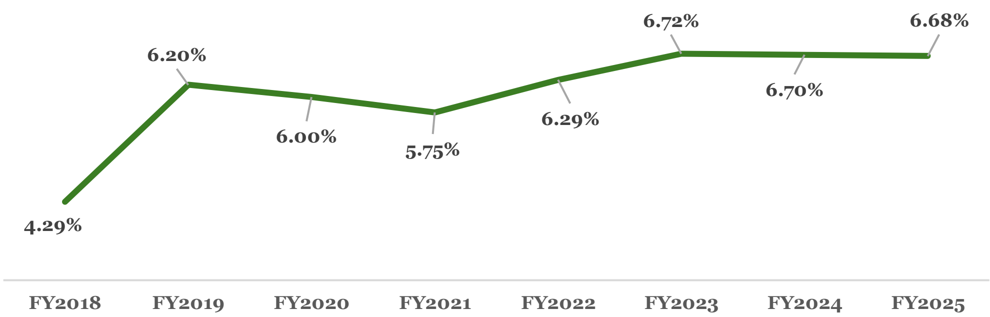


Chart 6: India GST Collection to GDP Ratio Trend



Source: GSTIN, Ministry of Statistics & Programme Implementation, Union Government of India, ECOFIN Research

We have made a comparative analysis about what will be sector wise India's export loss in the US market and then assess to what extent GST rationalization can offset this loss. Although, this decline in export income cannot be totally offset by the GST Reform in 2025, but by reducing the price of the key exported commodities, it can boost the domestic demand and consumption. As a result, the current GST rationalization can partially offer a competitive edge to the producers in the domestic market.

GST Reforms

India's Goods and Services Tax (GST) system has undergone significant "next-generation" reforms (GST 2.0), which primarily involve a major rate rationalization to a two-slab structure and simplified compliance measures, effective from 22 September 2025. The reforms aim to lower costs on everyday essentials and aspirational goods, while increasing taxes on luxury and sin items.

The 56th meeting of the Indian GST Council, chaired by Indian Finance Minister Nirmala Sitharaman had approved Next-Gen GST reforms, with focus on improving the lives of the common man and ensuring ease of doing business for all, including small traders and businessmen. In line with Prime Minister Modi's vision, the Indian GST Council has recommended a comprehensive reform package, which includes rate rationalization with a simplified two-slab structure (5% and 18%), sweeping rate reductions across sectors, with focus on common-man, labor-intensive Industries, farmers and agriculture, health, key drivers of the economy. These recommendations are based on consensus among all members of the GST Council to make GST simpler, fairer, and more growth-oriented. The revised rates and exemptions came into effect from 22 September 2025, ensuring timely relief for the common man, households, farmers, and businesses. Only exception will be specified goods namely, cigarettes, chewing tobacco products, for which the existing rates of GST and compensation cess will continue to apply and the new rates will be implemented at a later date to be notified, based on discharging of entire loan and interest liabilities on account of compensation cess.

Key Takeaways of Next-Generation GST Reforms:

- GST simplified to a two-slab structure (5% & 18%)
- GST reforms cut taxes on household essentials (soaps, toothpaste, Indian breads) to 5% or Nil boosting affordability life-saving drugs, medicines reduced from 12% to Nil or 5% making healthcare affordable
- Two-wheelers, small cars, TVs, ACs, cement cut from 28% to 18% bringing relief to middle-class
- Farm machinery, irrigation equipment cut from 12% to 5%, reducing farming costs
- Tobacco, pan masala, aerated drinks, and luxury goods taxed at 40%.

This reform aims to reduce the rates of essential and household commodities. It is also expected to offset the negative impact of US tariffs by stimulating domestic demand and cushioning the effect on India's economy. The lower GST rates on many goods increased consumer purchasing power by making it affordable to the consumers. According to India's Chief Economic Advisor, the new goods and services tax (GST) reforms will likely offset the impact of 50% tariffs imposed by the US on Indian exports. He estimated the overall effect on the economy at 0.2–0.3 percentage points in the current financial year ending March 2026.

Due to this reform, retailers experienced a blockbuster Diwali as GST rate cuts boosted consumption across various product categories including home furnishings, textiles, electronics and others. According to Crisil Ratings, an assessment of 40 organized apparel retailers — who together contribute about one-third of the sector's revenue — showed that the latest GST rationalization could add around 200 basis points to industry growth this financial year. That would keep the organized apparel retail sector steady at 13–14% growth for a second consecutive year. Online order volumes grew 24% year-on-year and gross merchandise value increased 23%. Furthermore, this festive season witnessed a significant surge in sales for automobiles and electronics, with companies reporting their fastest growth in over a decade.

We have tried to take a structured chart showing the decrease in GST rates post GST reforms in the key export commodities to the US market.

Table 7: India's GST Rates on Key Commodities Exported to USA

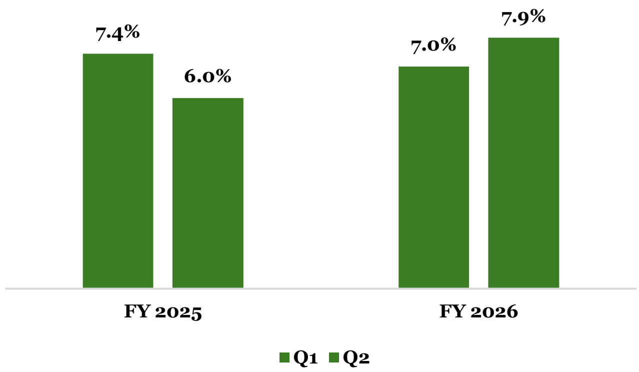
Key Exported Commodity	Old GST Rate	New GST Rate
Natural Cut and Polished Diamonds up to 25 cents (1/4 carats) imported under Diamond Imprest Authorization Scheme and related jewelry item (HSN 7102)	18%	0%
• Apparel — knit & woven; made-ups; home textiles (HSN 6103/62/63) • Apparel/Made-ups > ₹ 2,500 per piece • Quilted/cotton quilts and quilted products more than ₹ 2,500 per piece	12%	5%
	12%	18%
Shrimp / Prawns and other marine products (HSN 0306)	0%; 5% for frozen	0%; 5% for frozen
Footwear & leather goods (HSN 6403), not exceeding ₹ 2,500 per piece	12%	5%
Carpets & floor coverings (HSN 5701/5702/5703/5704/5705)	12%	5%
• Furniture, bedding, mattresses (HSN 9404/9405/9406), not exceeding ₹ 2,500 per piece • Exceeding ₹ 2,500 per piece	12%	5%
	12%	18%
Ceramic / glassware, stoneware (HSN 6912)	12%	5%
Organic chemicals; many chemical products (HSN 28–38 lines)	18%	5%
Machinery & mechanical appliances; electrical machinery (HSN 8407/8408/8409/8413/8507)	28%	18%
Auto parts & vehicle components (HSN 8701/8702/8703)	28%	18%
Pharmaceutical Products (HSN 3005/3006)	12%	5%
Plastics / rubber articles; rubber products (HSN 3926/4007/4016)	12%	5%
Metals — copper, iron & steel articles (HSN 7310/7323)	12%	5%
Paper, pulp, printed matter; stationery (HSN 4701-06)	12%	5%
Toys, sports goods, games (HSN 9503/9504/9506/9507)	12%	5%
Ceramics, glassware & kitchenware (HSN 6911/6912)	12%	5%
Ultra-High Temperature (UHT) milk and paneer, pre-packaged and labelled (HSN 0401/0406)	5%	0%
Milk and Milk Related Products (HSN 0402/0405/0406)	12%	5%
Various Food Items (HSN 15-20)	12%	5%
Home and Building Materials, Cement (HSN 2523)	28%	18%
Other Construction materials, Sand lime bricks (HSN 68)	12%	5%
Tractors (HSN 8701)	12%	5%
Harvesting or threshing machinery, including straw or fodder balers; grass or hay mowers; parts thereof (HSN 8433)	12%	5%

Source: GSTIN, Union Government of India, ECOFIN Research

India's Private Final Consumption Expenditure (PFCE) Soars Post GST Reforms

Announced in November 2025, the Indian Q2 GDP growth exceeded the estimated figures, recording a six-quarter high of 8.2% in Q2-FY2026 from 7.8% in Q1-FY2026. This was led by an acceleration in the Private Final Consumption Expenditure (PFCE) growth to 7.9% in Q2-FY2026 from 7.0% in Q1-FY2026, signaling a strong uptick in household consumption demand.

Chart 7: India's Private Final Consumption Expenditure (PFCE) Post GST Reforms



Source: Press Information Bureau, ECOFIN Research

How GST Rationalization Offset Economic Losses of India Due to 50% US Tariffs

The latest GST reforms counter the impact of US tariffs on Indian economy by boosting domestic consumption to offset a potential decline in exports. By stimulating internal demand, India aims to make its economy more resilient to external trade shocks and less vulnerable to global protectionism.

Key Ways GST Reforms Counter Tariffs

- **Boosting Domestic Demand:** The core strategy is to make a wide range of goods and services more affordable for Indian consumers, encouraging increased domestic spending. This creates a "domestic shield" against the "external squeeze" of tariffs.
- **Rate Rationalization:** The recent GST "2.0" reforms consolidated the previous four-tier tax structure into a simplified two-rate system (5% and 18%), with a 40% rate for sin/luxury goods. This has reduced prices on numerous items, including:
  - **Daily Essentials:** Many items such as packaged foods, soaps, and shampoos moved to the 5% slab
  - **Consumer Durables:** Electronics such as TVs and ACs saw tax cuts from 28% to 18%
  - **Automobiles:** GST on small cars and motorcycles dropped from 28% to 18%
  - **Insurance:** Life and health insurance premiums were made exempt from GST.
- **Supporting Key Sectors:** Lower input costs for agriculture, textiles, and construction are expected to boost these employment-intensive sectors, which are also among those heavily impacted by the US tariffs.
- **Attracting Investment & Improving Business Environment:** Simplifying the tax structure, enhancing compliance through automated processes, and providing faster input tax credit (ITC) refunds signal to foreign investors that India is a stable and reform-oriented market, even amidst global trade volatility.
- **Fiscal Stimulus:** The rate cuts, combined with existing monetary stimulus and income tax relief, are expected to add a significant boost to GDP growth, potentially offsetting the drag from export losses.

By reorienting the economy towards consumption-led growth, the Indian government is banking on the strength of its large domestic market to maintain its economic momentum.

Going Forward

The GST rationalization must also be seen as part of India's next investment cycle. Looking ahead, tax stability, PLI-linked industrialization, upcoming FTAs with major economies, and strategic connectivity initiatives will converge to position India as a global manufacturing and supply-chain hub. Rather than short-term relief, GST lays the foundation for sustained investment leadership.

The Next-Gen GST reforms are more than fiscal adjustments; these are a confidence dividend. By enlarging effective demand, driving scale efficiencies, reducing production costs, and enhancing predictability, these reinforce the determinants of FDI. For households, these expand affordability. For industries, these sharpen competitiveness. For investors, these provide stability and scale. Above all, the reforms reflect India's intent to match ambition with action. By lowering barriers and simplifying compliance, GST creates an environment of transparency and trust. For small businesses, it means new avenues to grow and compete globally; for global investors, it is a strong assurance that India offers not just rapid growth but reliable rules of the game.

As India's goods and services tax (GST) framework moves into 2026, experts say the regime has reached a stage where fine-tuning rather than fire-fighting will define the next phase of reform, with growing emphasis on selective restructuring, technology-driven enforcement and formalization-led revenue stability, instead of frequent rate changes. The emerging policy discussion is centered on whether a second wave of GST and Customs restructuring will be required to sustain consumption momentum and business confidence, particularly in areas such as inverted duty structures and MSME (Micro, Small, and Medium Enterprise) compliance. A second-stage reform push, experts say, would build on the rate rationalization undertaken in 2025 but operate within a more stable and predictable framework, aligning tax design with system maturity rather than a major structural overhaul.

The reform conversation is moving towards a balance between policy stability and targeted structural refinement. The emphasis is increasingly on a carefully calibrated second-stage restructuring where required — a direction, experts say, will determine how the tax regime shapes consumption, investment and compliance behavior in the year ahead. Tax practitioners say that the GST regime is entering a period where policy continuity and predictability are becoming more critical than slab revisions, allowing firms to plan pricing, investments and supply-chain strategies with greater confidence.

"Looking ahead to 2026, the GST regime is clearly entering a phase of consolidation and stability. The policy direction is expected to move away from frequent rate tinkering towards predictability and system maturity, with any further interventions being selective and evidence-based. Such stability is essential for businesses to plan pricing, investments, and supply chains with greater confidence and lower regulatory uncertainty," said Rajat Mohan, Senior Partner, AMRG & Associates.

3.5. Role of Free Trade Agreements (FTAs) in Shaping India's Foreign Trade Policy & Countering Trump Tariffs

3.5.1. India Revamped its Foreign Trade Policy (FTP) in 2023

Free Trade Agreement (FTA) is an agreement between the country(s) or regional blocks to reduce or eliminate trade barriers, though mutual negotiations with a view to enhancing trade. It can however be comprehensive to include goods, services, investment, intellectual property, competition, government procurement and other areas. On goods, the key areas covered are customs duties or tariffs, rules of origins, non-tariff measures such as technical barriers to trade (TBT), sanitary phytosanitary (SPS) measures, trade remedies etc. On services, the negotiations are on barriers to various modes of supply including domestic regulations.

Global trade is undergoing significant adjustment, driven by geopolitical realignments, evolving supply chains and changing economic priorities. Amidst all this, India has been steadily rising to the occasion, not only as a large domestic market but as a serious player in global trade. To address internal challenges and adapt to changes in the external environment, India has been implementing a series of broad policy changes, which are shaping the course of its economy for the coming decades. Trade reforms under the Make in India 2.0 initiative aim to strengthen 27 different sectors and position the country as a reliable global exporter. A primary focus of this effort is attracting long-term foreign investment and promoting the "Make in India" movement. The government of India is promoting regulatory reforms, offering targeted incentives and renewing free trade agreements (FTAs) to strengthen the country's stature as a prime destination for global investments, growth and stability.

India revamped its Foreign Trade Policy (FTP) in 2023 with an aim to increase its exports to US$ 2 trillion by 2030. A dynamic and open-ended policy, the FTP creates a framework that supports ease of doing business (EoDB), reduces procedural bottlenecks, facilitates digitalization in trade and boosts competitiveness of Indian firms. The goal is to build a flexible and responsive structure, which can be adjusted without waiting for fixed policy cycles. In line with this trade policy, the 2025 Union Budget introduced new measures shifting from a largely defensive trade posture to a more active, forward-looking approach to position India as a global production and sourcing base.

3.5.2. Free Trade Agreements Enhancing India's Strategic and Economic Interests

Increased Market Access for Indian Goods

FTAs significantly expand access to foreign markets by reducing tariffs and non-tariff barriers.

- For instance, the India-UAE CEPA ensures duty-free access to over 90% of India's exports, including textiles, gems, and pharmaceuticals.
- This preferential access is vital as it helps Indian industries gain competitiveness, especially in labor-intensive sectors.
- India's exports to the UAE grew 12% in the first year of the CEPA's implementation.

Enhanced Investment Opportunities

FTAs encourage foreign direct investment (FDI) by providing a stable and predictable environment for investors.

- The India-Australia Economic Cooperation and Trade Agreement (ECTA) offers substantial tariff eliminations on key sectors, bolstering investor confidence.
- By lowering trade barriers, India attracts increased FDI flows, vital for sectors such as technology, manufacturing, and infrastructure.
- As of 2024, FDI inflows from Australia have surged 25%, indicating the positive impact of the ECTA in enhancing investor confidence.

Improved Competitiveness of Indian Businesses

Trade liberalization under FTAs fosters competition, forcing Indian companies to innovate and improve efficiency.

- In sectors such as textiles, the India-ASEAN FTA has boosted Indian exports by reducing tariffs on key products like apparel.
- For example, India’s textile exports to ASEAN nations grew by 15% post-FTA, improving India's competitiveness in the region. This ensures sustained long-term growth for Indian industries.

Strengthened Services Sector

FTAs, especially with developed nations, offer better access for Indian services, including IT and healthcare.

- The India-UK FTA, for example, opens up easier access to the UK labor market for Indian professionals, particularly in IT and healthcare sectors.
- Such provisions will not only generate employment for Indian professionals abroad but also increase remittances.
- India's IT exports, which constitute nearly 25% of total services exports, are expected to see growth, with the UK accounting for 17% of this share post-FTA.

Agricultural and Rural Sector Benefits

FTAs with partner countries open new markets for Indian agricultural exports, improving rural income levels.

- The India-Mauritius CECPA has enhanced India’s agricultural exports by cutting tariffs on products such as sugar and tea.
- By promoting agriculture-focused trade, FTAs provide farmers with new opportunities for exports.

Technology and Knowledge Transfer

FTAs facilitate technology transfer, especially in sectors like manufacturing, green energy, and digital infrastructure.

- The India-Australia ECTA provides India access to advanced Australian technology in sectors such as renewable energy, which is crucial for India’s energy transition.
- The ECTA is also expected to reduce carbon emissions in India, boosting both environmental and economic sustainability.

Support for Small and Medium Enterprises (SMEs)

FTAs open up global markets to SMEs, offering them the opportunity to scale up their operations.

- The India-Singapore CECA has particularly helped Indian SMEs in sectors such as engineering and information technology gain market access to Singapore, which acts as a gateway to ASEAN.
- This access helps Indian SMEs grow by engaging in global value chains (GVCs), which provide a broader market for their products.

Regulatory Harmonization and Reduced Trade Barriers

FTAs help harmonize regulations across countries, making it easier for businesses to operate in partner markets.

- For instance, the India-EFTA TEPA, signed in 2024, facilitates easier movement of goods and services by aligning product standards and certifications across India and European countries.
- This regulatory alignment reduces the cost of compliance and trade disruptions.

3.5.3. India FTAs – Grouping, Type of Arrangement, Status

Table 8: India's Free Trade Agreements: Grouping, Type of Arrangement, Status

Country/Bloc	Agreement Type	Status and Key Updates	Participating Countries
Chile	CEPA	On 1 April 2025, India and Chile announced the launch of negotiations for a CEPA to enhance cooperation across trade, science and technology, critical minerals, health, agriculture, climate change, and cultural exchanges. Terms of Reference (ToR) signed on 9 May 2025.	India, Chile
New Zealand	FTA	Negotiations resumed on 16 March 2025, after a decade-long pause. Bilateral trade exceeded US$ 1 billion (April–January 2025).	India, New Zealand
United States	Trade Agreement	India and the US aim to double trade to US$ 500 billion by 2030. Trade deal expected within 6-8 months (as of February 2025).	India, USA
United Kingdom	FTA	Finalized on the 6 May 2025. The new trade agreement is projected to boost annual bilateral trade between India and the UK by £ 25.5 billion.	India, UK
European Union (EU)	FTA	Next round of negotiations scheduled for March 10-14, 2025, in Brussels.	India, 27 EU nations
Oman	CEPA	CEPA discussions advanced in January 2025. Talks officially began in November 2023.	India, Oman
European Free Trade Association (EFTA)	TEPA	Signed on 10 March; expected to take effect by late 2025.	India, Iceland, Liechtenstein, Norway, Switzerland
ASEAN	AITIGA (FTA Review)	Fifth Joint Committee meeting scheduled for February 2025 in Jakarta.	India, 10 ASEAN nations
Qatar	Potential FTA	India and Qatar exploring an FTA to double trade to US$ 28 billion within five years.	India, Qatar
Canada	CEPA	Negotiations re-launched in March 2022 but paused as of September 2023.	India, Canada
Gulf Cooperation Council (GCC)	FTA	Talks resumed in November 2022, with GCC planning formal discussions in 2025.	India, Saudi Arabia, UAE, Qatar, Kuwait, Oman, Bahrain
SAARC Nations	SAFTA (2006)	Reduces tariffs among SAARC nations.	India, Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan, Sri Lanka

Country/Bloc	Agreement Type	Status and Key Updates	Participating Countries
Sri Lanka	ISFTA (2000)	Promotes bilateral trade.	India, Sri Lanka
Nepal	Treaty of Trade	Provides duty-free access to primary products.	India, Nepal
Bhutan	Trade Agreement	Eliminates tariffs on multiple goods.	India, Bhutan
Thailand	FTA (2004)	Initiated under the Early Harvest Scheme.	India, Thailand
Singapore	CECA	Covers trade, services, and investment.	India, Singapore
Malaysia	CECA (2011)	Covers trade, services, and investments.	India, Malaysia
Japan	CEPA (2011)	Eliminates tariffs on most goods.	India, Japan
South Korea	CEPA	Reduces tariffs and promotes trade.	India, South Korea
ASEAN	FTA (2010, expanded 2014)	Covers goods and services.	India, ASEAN
Mauritius	CECPA (2021)	India's first trade agreement with an African nation.	India, Mauritius
UAE	CEPA (2022)	Boosts bilateral trade.	India, UAE
Australia	ECTA (2022)	Supports key sectors like agriculture and minerals.	India, Australia
UAE	BIT	Signed in February 2024, effective 31 August 2024, to protect foreign portfolio investments.	India, UAE
Uzbekistan	BIT	Signed in 2024 to enhance investment flows.	India, Uzbekistan
Bangladesh	BIT	Strengthens investment cooperation.	India, Bangladesh
Belarus	BIT	Aims to protect and promote mutual investments.	India, Belarus
Kyrgyzstan	BIT	In effect since 5 June 2025. Enhances economic collaboration through investment protection.	India, Kyrgyzstan
Thailand	BIT	Encourages investment and trade ties.	India, Thailand
Trinidad & Tobago	BIT	Promotes bilateral investments and economic cooperation.	India, Trinidad & Tobago
Switzerland & Liechtenstein	BIT (Planned)	Pushing for BIT after the India-EFTA TEPA agreement. Switzerland suspended the MFN clause in DTAA, leading to higher taxes for Swiss firms.	India, Switzerland, Liechtenstein
India	Duty-Free Tariff Preference Scheme	Covers 46 Least Developed Countries (LDCs).	India, 46 LDCs
United Kingdom	Developing Countries Trading Scheme	Covers 65 developing countries, including India.	India, UK, 64 others

Country/Bloc	Agreement Type	Status and Key Updates	Participating Countries
Armenia	GSP	Covers 153 countries, including India.	India, Armenia, 152 others
Australia	GSP	Covers 177 countries, including India.	India, Australia, 176 others
European Union (EU)	GSP	Covers 88 countries, including India.	India, EU, 87 others
Japan	GSP	Covers 130 countries, including India.	India, Japan, 129 others
Kazakhstan	GSP	Covers 153 countries, including India.	India, Kazakhstan, 152 others
Kyrgyz Republic	GSP	Covers 153 countries, including India.	India, Kyrgyz Republic, 152 others
New Zealand	GSP	Covers 140 countries, including India.	India, New Zealand, 139 others
Norway	GSP	Covers 122 countries, including India.	India, Norway, 121 others
Switzerland	GSP	Covers 123 countries, including India.	India, Switzerland, 122 others

Source: Ministry of Commerce & Industry, Union Government of India, India Briefing

3.5.4. Major Free Trade Agreements of India

India-UK FTA

After three years of negotiations, India and the United Kingdom finalized a landmark Free Trade Agreement (FTA) on 6 May 2025, which is set to increase bilateral trade by an estimated US$ 120 billion by 2030. The deal eliminates tariffs on 99% of Indian exports and 90% of UK exports, streamlining market access and reducing costs for businesses and consumers on both sides. It covers goods, services, and workforce mobility, including key provisions for service professionals and a social security exemption for short-term Indian workers in the UK.

The agreement also introduces phased tariff reductions on high-value UK exports such as whiskey, medical equipment, and automobiles, while excluding sensitive Indian sectors such as smartphones and certain industrial products. Aiming for full implementation within fifteen months, the FTA is positioned as a strategic step toward achieving a US$ 120 billion bilateral trade target by 2030, fostering economic growth, innovation, and job creation in both countries.

EFTA TEPA

India and the EFTA bloc, which includes Iceland, Liechtenstein, Norway, and Switzerland, signed a Trade and Economic Partnership Agreement (TEPA) on 10 March 2024. EFTA TEPA came into effect from 1 October 2025. The agreement is designed to strengthen trade and investment relations between the two sides and aims massive investment (US$ 100 billion), one million job creation in fifteen years, tariff cuts, and deeper cooperation in services (IT, pharma), intellectual property, and sustainable development, marking India's first FTA with these developed European countries. EFTA offers duty cuts on 92.2% of tariff lines (covering nearly all Indian exports), while India protects key sectors like dairy, soya, and agriculture.

EFTA TEPA expands market access for Indian services (IT, nursing, accounting) through digital delivery, mobility, and Mutual Recognition Agreements (MRAs) and facilitates trade in pharmaceuticals, IT, precision engineering, renewable energy, and R&D. Sustainability is a key feature of this agreement as it integrates commitments to environmental protection, social progress, and inclusive growth.

ASEAN-India Free Trade Area

The signing of the ASEAN-India Trade Area (AIFTA) paved the way for the creation of one of the world's largest free trade area markets, creating opportunities for over 1.9 billion people in ASEAN and India with a combined GDP of US$ 4.8 trillion. The agreement set off tariff liberalization on over 90% of products, including palm oil, pepper, black tea, and coffee.

Asia Pacific Trade Agreement

The Asia Pacific Trade Agreement (APTA), also known as the Bangkok Agreement, includes Bangladesh, India, Laos, China, Mongolia, South Korea, and Sri Lanka. APTA's key objective is to hasten economic development among the participating countries. The trade and investment liberalization measures covering merchandise goods and services aim to contribute to intra-regional trade and economic strengthening.

India-Japan Comprehensive Economic Partnership Agreement

The India-Japan Comprehensive Economic Partnership Agreement (CEPA) removes duties on almost 90% of products traded between the two countries. Sectors, which have benefited from the lower duties include textiles, pharmaceuticals, agricultural products, tea, petrochemical and chemical products, cement, and jewelry.

India-Republic of Korea Comprehensive Economic Partnership Agreement

South Korea reduced tariffs on seventeen Indian products, while India reduced import tariffs on eleven items. The agreement eases restrictions on foreign direct investments for both countries and will provide better access for the Indian service industry, such as IT, engineering, and finance, in South Korea.

India-Singapore Comprehensive Economic Partnership Agreement

The two countries have reduced or eliminated tariffs on several items. The trade agreement also eliminates tariff barriers, double taxation, duplicate processes, and regulations, and provides unhindered access and collaboration between the financial institutions of Singapore and India.

South Asian Free Trade Area

South Asian Free Trade Area (SAFTA) aims to reduce customs duties on all traded goods to zero. SAFTA categorized Bangladesh, Bhutan, Maldives, and Nepal as Least Developed Contracting States (LDCs) and India, Pakistan, and Sri Lanka as Non-Least Developed Contracting States (NLDCs).

The SAFTA Agreement provides for a phased tariff liberalization program (TLP) under which, in two years, NLDCS would bring down tariffs to 20%, while LDCS will bring them down to 30%. Non-LDCS will then bring down tariffs from 20% to 0-5% in five years (Sri Lanka six years), while LDCS will do so in eight years. NLDCs will reduce their tariffs for L.D.C. products to 0-5% in three years. This TLP would cover all tariff lines except those kept in the sensitive list (negative list) by the member states.

India-UAE Comprehensive Economic Partnership Agreement (CEPA)

The India-UAE CEPA is likely to benefit about US$ 26 billion worth of Indian products that are subjected to 5% import duty by the UAE. Overall UAE is offering elimination of duties on 97% of its tariff lines corresponding to 99% of imports from India. 90% of India's total exports to the UAE in value terms would become duty-free immediately upon entry into force of the CEPA. The UAE's immediate zero-duty market access offer to India covers all labor-intensive sectors such as gems and jewelry, textiles, leather, footwear, sports goods, plastics, furniture, agricultural and wood products, engineering products, pharmaceuticals, medical devices, and Automobiles. UAE can also become a hub for sourcing India's capital goods and intermediates for further value-added exports to other destinations in Africa and Europe.

For the first time in any Trade Agreement, a separate Annex on Pharmaceuticals has been incorporated to facilitate access to Indian pharmaceutical products, especially automatic registration and marketing authorization in 90 days for products approved by developed country regulators, namely the United States (USFDA), the United Kingdom (UKMHRA), the European Union (EMA), and Japan (PMDA).

India-Oman Comprehensive Economic Partnership Agreement (CEPA)

India and Oman signed the Comprehensive Economic Partnership Agreement (CEPA) on 18 December 2025 in Muscat, aiming to expand bilateral trade, investment and services cooperation. The CEPA was signed during Prime Minister Narendra Modi's four-day, three-nation visit, in the presence of Sultan Haitham bin Tarik. Indian Commerce and Industry Minister Piyush Goyal and Oman's Minister of Commerce, Industry and Investment Promotion Qais bin Mohammed Al Yousef signed the pact.

The agreement comes amid steadily expanding economic ties between the two nations. Bilateral trade stood at US$ 8.95 billion in FY2024 and rose to US$ 10.61 billion in FY2025. India's exports to Oman stood at US$ 4.1 billion in FY2025, led by naphtha (US$ 747.6 million) and petrol (US$ 561 million), along with calcined alumina (US$ 313 million), machinery (US$ 231 million), aircraft (US$ 165 million), rice (US$ 182 million), iron and steel articles (US$ 120 million), beauty and personal care products (US$ 128.6 million) and ceramic products (US$ 79.9 million). According to GTRI, India imported US$ 6.6 billion worth of goods from Oman in FY2025, dominated by crude oil (US$ 1.1 billion), liquefied natural gas (US$ 1.1 billion) and fertilizers (US$ 1.1 billion). Investment links remain strong with more than 6,000 India-Oman joint ventures operating in Oman. Cumulative outward direct investment from India to Oman stands at US$ 675 million, while FDI equity inflows from Oman into India between April 2000 and March 2025 total US$ 610.08 million.

Under the agreement, Oman has offered zero-duty access on 98.08% of its tariff lines, covering 99.38% of India's exports by value. This provides near-universal market access for Indian goods, particularly labor-intensive sectors such as textiles, leather, footwear, gems and jewelry, engineering products, plastics, furniture, agricultural products, pharmaceuticals, medical devices and automobiles. India, in turn, has offered tariff liberalization on 77.79% of its tariff lines, covering 94.81% of imports from Oman by value.

To safeguard domestic interests of domestic farmers and MSMEs, India has kept several sensitive products in the exclusion list, by not extending any duty concessions on products across several sectors. These include agricultural items such as dairy, as well as chocolates, gold, silver, jewelry, footwear, and sports goods, under the trade pact with Oman. Currently, over 80% of Indian goods enter Oman at an average tariff of around 5%, though duties range from zero to as high as 100% on certain products such as specific meats, alcohol and tobacco. The CEPA is expected to reduce these barriers and improve price competitiveness for Indian exporters.

Beyond goods, the agreement includes Oman's first-ever wide-ranging services commitments, covering 127 sub-sectors such as computer-related services, business and professional services, audio-visual services, research and development, education and health services. It also provides enhanced mobility for Indian professionals, including expanded entry and stay provisions for intra-corporate transferees, contractual service suppliers, business visitors and independent professionals, along with a commitment to allow 100% foreign direct investment by Indian companies in major services sectors.

India-Australia Comprehensive Economic Partnership Agreement (CEPA)

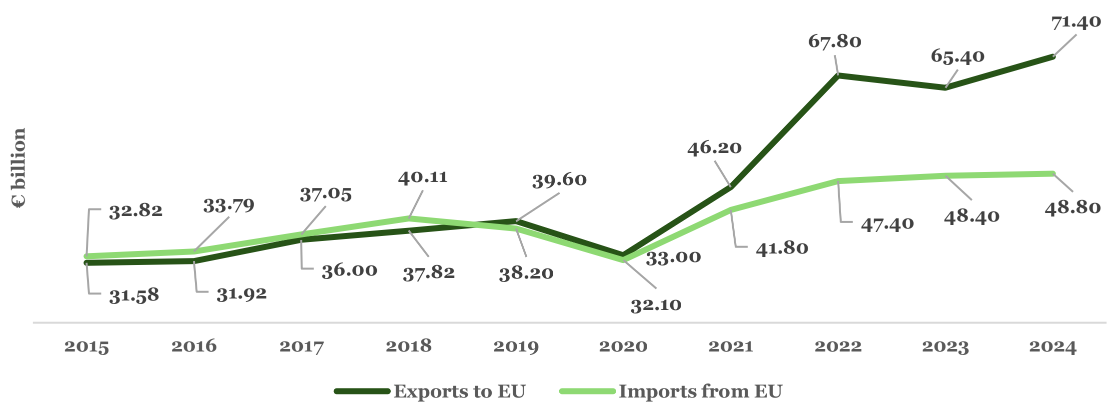
Australia's parliament ratified the India-Australia Economic Cooperation and Trade Agreement (ECTA) on November 2022. Under the India-Australia ECTA, duties on 100% tariff lines will be eliminated by Australia, covering 6,000 broad sectors. Meanwhile, India's tariffs on 90% of Australian goods exports, including meat, wool, cotton, seafood, nuts, and avocados, would be removed. Exporters, businesses, workers, and consumers in both markets are set to benefit from the trade liberalization, market opening, and freer movement of people.

Implementation of the trade agreement will create an estimated one million jobs as a boost in business is expected in several labor-intensive industries, including textiles and apparel, select agricultural and fish products, leather, footwear, furniture, sports goods, jewelry, machinery, electrical goods, and railway wagons. Australia will offer zero-duty access to India for almost 96.4% of exports by value. Presently, many of these products have a 4-5% customs duty imposed by Australia.

EU – India Trade Deal – Mother of All Deals

The European Union signed a free trade agreement with India on 27 January 2026. European Commission President Ursula Von Der Leyen said that the pact could become one of the most significant trade breakthroughs for both economies in recent years. Top EU leaders — including Von Der Leyen and European Council President António Costa — came to India on 25 January 2026 to seal the deal. The India–EU Free Trade Agreement is being hailed as the "Mother of all deals" for its potential to reshape bilateral trade and strategic ties.

Chart 8: EU-India Foreign Trade Trend in the Last Decade



Source: Eurostat

The principal figures in this diplomatic rendezvous were European Commission President Ursula von der Leyen and European Council President António Costa, representing the European Union (EU). On the Indian side, Prime Minister Narendra Modi co-chaired the 16th India-EU Summit, with the leaders also meeting President Draupadi Murmu. This marks the first joint invitation of top EU leadership as chief guests for India's Republic Day, underscoring a collective EU-India strategic partnership rather than individual member-state ties.

The visit, spanning January 25-27, 2026, included von der Leyen and Costa's participation as chief guests at India's 77th Republic Day Parade on 26 January 2026 in New Delhi, followed by the India-EU Summit on 27 January 2026. The agenda centered on trade, security, and clean energy transition, with significant progress expected on the long-pending India-EU Free Trade Agreement (FTA). Negotiations, revived in 2022 after a nine-year hiatus, are nearing completion, potentially leading to an announcement during the summit.

The FTA aims to eliminate tariffs on over 90% of traded goods, boost services, and facilitate investments between the 27-nation EU bloc and India, covering nearly 2 billion people and enhancing bilateral trade currently valued at US$ 136.53 billion in goods. The FTA had entered provisional application, and is expected to be fully ratified and enter into force by early 2027.

Key Components of the Deal

Tariff Reductions:

- **Cars:** India is expected to slash import duties on European cars (currently up to 110%) to roughly 40% immediately, with specific quotas.
- **Alcohol:** Significant cuts are expected on high tariffs for European wines and spirits (currently up to 150%).
- **Indian Exports:** Over 90% of traded goods will see tariffs eliminated, benefiting Indian textiles, chemicals, electronics, and pharmaceuticals.

Beyond Trade:

- **Security & Defence Partnership:** A new framework will be signed to expand cooperation in maritime security, cyber defence, and counter-terrorism.
- **Mobility:** An agreement to facilitate the movement of students, researchers, and highly skilled professionals between India and the EU.

Strategic Importance

- **Countering "America First":** The deal is viewed as a strategic hedge against unpredictable US tariff policies under President Donald Trump, which have recently included 50% tariffs on certain Indian goods.
- **Diversification from China:** For the EU, the pact is a critical step in "de-risking" and reducing supply chain dependence on China.
- **Remaining Challenges:** Negotiations continue on the EU's Carbon Border Adjustment Mechanism (CBAM), which India fears could act as a new barrier to its industrial exports.

Despite the EU's US$ 21.1 trillion economic size and US$ 5.4 trillion in external goods trade, India's share remains modest — around 2.9% of the EU's imports and 1.9% of its exports. Additionally, over 70% of India's exports to the EU go to just five member states. Bilateral goods trade between India and the EU has remained flat at around US$ 136.5 billion annually from FY2023 to FY2025. This stagnation persists even as the EU edged past the US to become India's largest bilateral goods trading partner in FY2025. The EU's suspension of export benefits for certain Indian products under the Generalized Scheme of Preferences (GSP) has added urgency to diversify and deepen trade engagement.

India could unlock US$ 10-11 billion in additional exports to the European Union by redirecting a portion of its heavily tariffed US-bound goods, according to a new report by Rubix Data Sciences. The India-EU FTA could enable a strategic shift in trade flows without needing fresh production capacity. India's top fifteen product categories exported to the US account for nearly US$ 45 billion, with US$ 21 billion concentrated in twelve segments that currently have limited penetration in the EU. Even if half of these flows are gradually reoriented toward the EU through tariff reductions, rules-of-origin alignment, and improved market access, the shift could reshape the stagnant India-EU trade relationship.

The timing was crucial amid US President Donald Trump's impending tariff hikes and global protectionism, allowing both sides to diversify supply chains and reduce reliance on China. The events unfold primarily in New Delhi, India, with the Republic Day Parade on Rajpath and the summit at a government venue like Hyderabad House. This choice reflected India's role as host, emphasizing its growing geopolitical clout in the Indo-Pacific region.

Preferential Trade (PTAs)

India's Preferential Trade Agreements seek to promote trade with other countries by lowering tariffs and providing access to new markets. This has helped ensure India's position as a more appealing business location for exporters and importers. Some strategic benefits of PTAs for India's development include improved technology transfer, increased integration, and alignment with national standards, among others. A PTA is a formal trade agreement between countries, which grants preferential access to specific products from participating countries by lowering tariffs and other trade restrictions.

India has signed six limited coverage Preferential Trade Agreements:

- SAARC Preferential Trading Agreement (SAPTA) – includes Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka.
- Asia-Pacific Trade Agreement (APTA) – previously known as the Bangkok Agreement, signed in 1975 with Bangladesh, China, South Korea, Laos, and Sri Lanka.
- India-MERCOSUR PTA – signed with Brazil, Argentina, Uruguay, and Paraguay in 2004; effective from June 2009.
- India-Afghanistan PTA – signed on March 2003.
- India-Chile PTA – strengthening economic ties with Latin America.

Double Tax Avoidance Agreements (DTAAs)

India has one of the largest networks of tax treaties for the avoidance of double taxation and prevention of tax evasion. India has established over 94 comprehensive DTAAs and eight limited DTAAs, compared with China's 110 and Vietnam's 80. The purpose of such tax treaties is to develop a fair and equitable system for the allocation of the right to tax several types of income between the 'source' and 'residence' countries.

Free Trade Agreements Shaping Indian Foreign Trade Policy

Free Trade Agreements have become a central pillar of India's foreign trade policy as the country seeks to expand market access, diversify exports, and strengthen global competitiveness. Currently, India possesses 22 FTAs that allow India to secure preferential tariff treatment, improve ease of doing business across borders, and position itself within global value chains. In September 2025, the European Commission announced a new strategic agenda to raise bilateral relations with India to a higher level and committed to finalize a Free Trade Agreement. This includes a range of areas from trade and technology to defence, security, connectivity and climate change.

3.6. The BANI Dimension: What the Tariff War Revealed

Analyzing through the BANI framework, the Trump tariff offensive reveals something more important than a bilateral trade dispute. It reveals the incomprehensibility of a world in which the principal architect of the rules-based order has decided to operate outside its own rules and the extraordinary opportunities are created for nations, which retain their credibility, their consistency, and their network of trusted relationships.

The Petrodollar Game Matrix analysis captures this dynamic with game-theoretic precision. The US-Iran escalation matrix reveals that mutual de-escalation (D, D) is the Pareto-optimal outcome, producing payoffs of (3,3) stable oil markets, reduced sanctions, resumed trade and investment. But the structural logic of unilateral advantage with each side preferring to escalate while the other de-escalates, drives both toward (E, E), payoffs of (-3, -4), -3 for the US with huge financial implications of a certain risk of getting into another 'forever war' that will drain trillions of dollars. The -4 for Iran represents an existential threat facing internal collapse, potential change of regime, annihilation of vital infrastructure reflecting that Iran has more to lose. However, the repercussion will be felt at a global level, with severe economic losses, oil shocks and geopolitical disruptions. The game-theoretic insight is that escaping this trap requires a third-party actor with the trust of both sides. It requires, in the language of game theory, a credible commitment mechanism. India is uniquely placed to provide that mechanism, but only if it has protected, not sacrificed, its relationships across all parties to all conflicts.

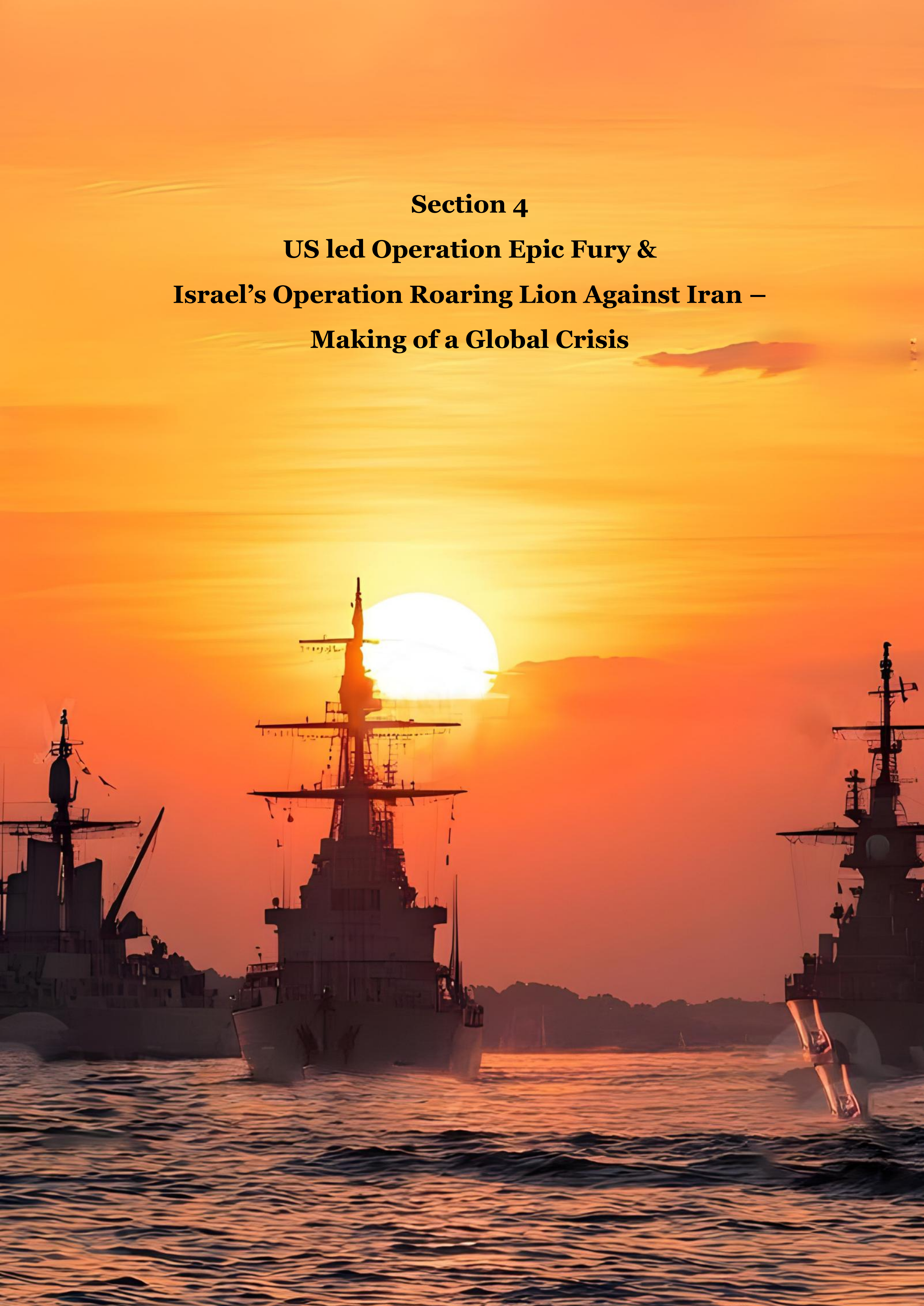
The trade war has also revealed a deeper truth that this study articulates with characteristic boldness, which is, modern power flows through networks as much as through size. India's position which is large enough to disrupt, independent enough to choose, and credible enough to attract gives it real cards to play. The 1.4 billion strong consumer market, the world's largest working-age population projected to be 1.04 billion by 2030, the demographic dividend that runs until 2056, the IT sector generating US$ 135 - US$ 155 billion in US sourced services, the pharmaceutical sector serving 200 global markets, are not diplomatic talking points. These are leverage. And leverage, deployed intelligently in a BANI world, is the currency of peace as much as of commerce.

3.7. Conclusion

To conclude this – we must say, India's strategic response marked a decisive departure from its historical posture of petitioning for exemptions and reacting defensively to unilateral American trade actions. Rather than approaching Washington DC with concessions in hand, New Delhi repositioned itself as an architect of its own economic destiny, constructing a diversified network of strategic partnerships that reduced its dependency on any single market. Through a patient and calculated strategy, India accelerated free trade agreements with the EU, UK, UAE, Jordan, and the EFTA (The European Free Trade Association) bloc, effectively building a 'belt of deals' that served as both a buffer against US pressure and a demonstration of India's alternative economic pathways. Simultaneously, India employed sophisticated geopolitical hedging – recalibrating its relationships with China and Russia – to signal that its strategic autonomy remained non-negotiable. When the final compromise with the United States was reached in February 2026, it was not a capitulation extracted from a vulnerable petitioner, but a negotiated settlement between two sovereign powers, with India securing a tariff structure more favorable than that of its regional competitors. During the tenure and onwards, India had fundamentally transformed its global identity with New Delhi no longer a supplicant seeking favor from Washington, but a confident architect shaping the contours of a multipolar world economy on its own terms.

Section 4

US led Operation Epic Fury & Israel’s Operation Roaring Lion Against Iran – Making of a Global Crisis



4. US led Operation Epic Fury & Israel's Operation Roaring Lion Against Iran – Making of a Global Crisis

4.1. Entire Middle East Engulfed in US- Israel and Iran War

On 28 February 2026, the United States and Israel attacked Iran after weeks of military buildup and threats from President Trump. The opening salvo of the 2026 offensive successfully targeted Iran's top leadership, killing Supreme Leader Ayatollah Ali Khamenei and several high-ranking military commanders. Tehran's Assembly of Experts appointed Ali Khamenei's son, Mojtaba Khamenei, to succeed him. US and Israeli officials claim that strikes have "functionally defeated" Iran's ballistic missile production capacity. Approximately 60% of Iran's operational launch capacity has reportedly been destroyed. US and Israeli forces have achieved near-complete air dominance over Iranian territory, allowing them to strike military and nuclear sites at will.

Despite losses, Iran has launched multiple waves of missile attacks (Operation True Promise IV) targeting Israeli cities, Tel Aviv and Haifa, as well as US military facilities in the Middle East. Iran launched more than 2,000 missile and drone attacks against multiple Arab nations. These strikes primarily targeted countries hosting US military assets, including the UAE, Saudi Arabia, Bahrain, Qatar, Kuwait, Oman, and Jordan. At least eleven countries have come under attack from Iran in retaliation for ongoing US and Israeli strikes, but no country, other than Israel, has been hit harder than the Emirates. UAE faced the brunt of the campaign with hundreds of projectiles hitting urban and industrial areas. Dubai and Abu Dhabi airports were hit hard with multiple drone strikes disrupting international flights and caused fires near fuel tanks. Civilian infrastructure such as hotels on the Palm Jumeirah, the Dubai International Financial Center, and an Amazon data center were also hit my Iranian missiles. Iran also targeted oil infrastructure and US bases in Kingdom of Saudi Arabia. The kingdom's largest refinery, Ras Tanura Refinery, halted operations after a drone attack on 2 March. The IRGC claimed a direct hit on Prince Sultan Air Base of Saudi Arabia hosting US forces. Missile debris also fell in the Saudi capital Riyadh's Diplomatic Quarter. Bahrain intercepted over 100 projectiles; fuel tanks in the Muharraq Governorate were set ablaze, and the US Navy's 5th Fleet headquarters was directly targeted. Qatar intercepted numerous missiles; all LNG export capacity was taken offline, causing a 50% spike in European gas prices. Jordan reported intercepting 79 missiles and drones during the second week of the conflict. Oman also sustained a drone strike on the commercial port of Duqm, resulting in two civilian fatalities

Israel has also stepped up its air strikes in Lebanon after Hezbollah fired rockets into Israel in support of Iran. More than 1,800 people have been killed so far, including eight US service members and at least 175 students who were killed by a reported US strike on an Iranian elementary school. While groups like the Houthis have expressed solidarity, their direct military intervention has been more limited compared to previous conflicts, possibly due to the collapse of the Assad regime in Syria and their own degraded capabilities. Trump has issued conflicting statements on US military objectives and the trajectory of the conflict. The attack quickly escalated into a regional war with widespread ramifications for critical supply chains and humanitarian aid. Iran's effective closure of the Strait of Hormuz has caused a global energy shock, prompting the International Energy Agency to release four hundred million barrels from its strategic reserve.

Reports indicate over 1,800 deaths globally since the 2026 phase began, including hundreds of civilians in Iran and Lebanon. Over 830,000 people have been displaced in Lebanon alone, with millions more affected by the conflict across the region.

While US and Israel frame the war as a preemptive necessity to prevent a nuclear-armed Iran, many nations, including most Arab and Muslim-majority states, have condemned the strikes as a violation of international law. India is exhibiting its neutrality and is balancing its strategic ties with Israel against its energy security needs and historical relations with Iran.

4.2. Deciphering the Reasons Behind US-Israel War with Iran

4.2.1. The Prima Facie and Core Reasons

Prima facie, the 2026 war between the United States, Israel, and Iran is the culmination of decades of proxy conflict and failed diplomatic negotiations, specifically centered on Iran's nuclear program and regional influence. Israel and the US, its closest ally, have been arch-foes of Iran since the Islamic revolution in 1979. The Iranian leadership has consistently called for Israel's elimination and denounced the US as its greatest enemy. The two countries have led Western opposition to Iran's nuclear programme, claiming Iran is seeking to develop a nuclear bomb, something Iran has vehemently denied. Israel and US attacked Iranian nuclear and military sites in June 2025 in a twelve-day war. Since then, they have claimed Iran has been trying to rebuild its nuclear programme and develop missiles capable of delivering nuclear weapons. Israel considers Iran a threat to its existence and wants the complete removal of Iran's nuclear and missile programme, as well as regime change. The US first openly talked in January 2026 about potentially attacking Iran when its security forces cracked down on protesters with deadly force. The primary or core reasons for the conflict are analyzed below:

Nuclear Weapons Proliferation

US and Israel state the primary goal is to "eliminate the Iranian nuclear program once and for all". Iran is not currently confirmed to possess a nuclear weapon, but it is reported to possess an advanced nuclear program with high-level enrichment capabilities. While officially maintaining a peaceful program, Iran has increased uranium enrichment up to 60%, placing it close to weapons-grade capability, particularly following the 2018 US withdrawal from the Joint Comprehensive Plan of Action (JCPOA) as reported by “Arms Control Association”.

US intelligence has indicated that Iran has not made the final decision to produce a weapon. However, the International Atomic Energy Agency (IAEA) has expressed concerns over undeclared nuclear activities and a lack of transparency, notes IAEA. Although the IAEA had previously found no evidence of a systematic weapons program, recent reports indicated Iran was stockpiling enough highly enriched uranium for multiple weapons. The UN Security Council has previously imposed sanctions due to Iran's failure to address International Atomic Energy Agency (IAEA) safeguards. Recent attacks and military tension (2025-2026) in the region have targeted Iranian nuclear sites and scientists, yet reports suggest Iran has retained significant amounts of enriched uranium in deep underground facilities, says the Arms Control Association.

High-ranking Iranian officials have publicly stated that while their program remains peaceful, a direct threat to the regime's existence or continued attacks on nuclear sites could force a reconsideration of Iran’s nuclear doctrine toward weaponization.

Dismantling Missile Capabilities of Iran

A major objective of the US led "Operation Epic Fury" and Israel's "Operation Roaring Lion" is to destroy Iran’s ballistic missile industry and its navy. The mission seeks to destroy Iran's offensive missile arsenal, its launchers, and the industrial base responsible for manufacturing them. US and Israeli forces aim to systematically dismantle Iran’s naval order of battle. Reports indicate that over twenty Iranian warships, including their most modern vessel, the IRIS Dena, and a top submarine have already been destroyed. A central goal is ensuring Iran never obtains a nuclear weapon by targeting remaining nuclear-linked infrastructure and material as analyzed by “The Diplomat”.

Regime Change in Iran

Both nations have openly signaled support for the Iranian people to "take over" their government. Over the new year, authorities launched a deadly crackdown on protesters following the sharp collapse of the nation’s currency. While reporting restrictions make the exact death toll impossible to know, reports from inside Iran suggest as many as 30,000 people were killed by their own security forces. US President Trump repeatedly threatened to attack Iran if authorities did not end the bloodshed and return to nuclear talks. Although it is ruled as a theocracy with only limited power delegated to its elected parliament, Iran is culturally and ethnically diverse. Under the Islamic Republic, reformist movements have been repeatedly throttled, and while there are a number of opposition parties with widespread support, their leaders are either in exile or under heavy state surveillance.

Neutralizing the "Axis of Resistance"

In the context of the ongoing 2026 conflict, neutralizing the "Axis of Resistance" refers to the strategic objective of dismantling Iran's regional network of military proxies and allies to end its "forward defense" strategy. This objective is a core component of the US-led Operation Epic Fury and Israel's Operation Roaring Lion, which aim to shift the confrontation from proxy wars directly toward the Iranian regime.

The "Axis" is a decentralized network that traditionally allowed Iran to project power while keeping its own territory free from conflict. The war aims to cut off Iranian support for proxy groups such as Hezbollah in Lebanon, the Houthis in Yemen, and Hamas in Gaza, which Israel views as an existential "ring of fire".

- **Hezbollah (Lebanon):** Iran's most powerful partner, which has seen its missile arsenals and leadership significantly degraded since 2024.
- **The Houthis (Yemen):** Targeted to prevent them from opening a "second front" and to secure international shipping routes.
- **Iraqi Militias:** Groups such as Kataib Hezbollah have faced heavy kinetic strikes, leading to temporary suspensions of their attacks on US assets.
- **Hamas & Palestinian Islamic Jihad:** Weakened significantly by the prolonged Gaza war and the loss of direct Iranian material support during the current conflict.

As of late March 2026, analysts suggest the "Axis of Resistance" is under unprecedented strain. The fall of the Assad regime in Syria in late 2024 had already severed a critical land bridge for Iranian supplies, and the current joint offensive has further isolated these groups from Tehran's financial and technical aid as analyzed by “Global Witness”.

The key goals of this neutralization are analyzed to be dismantling the proxy ecosystem, by using special operations forces (SOF) and cyber-kinetic strikes to target senior commanders and logistical hubs of Iran-aligned groups; reducing operational tempo by 60% in proxy command integrity and attack frequency within 90 days; and severing supply lines by destroying the infrastructure used by the Islamic Revolutionary Guard Corps (IRGC) to transfer drones and missiles to its partners as observed by “Atlantic Council”.

Preemptive Defense

US Secretary of State Marco Rubio stated that the US intervened to preempt an independent Israeli strike, which would have likely resulted in higher American casualties from Iranian retaliation. Based on 2026 reports, US and Israel justified strikes on Iran as a preemptive defense to eliminate imminent threats to their security, specifically targeting nuclear facilities and missile programs. Israel cited an existential need to prevent Iran from acquiring nuclear weapons, while the US claimed the actions were necessary to protect forces in the region, with Al Jazeera observing the actions were seen as necessary to prevent imminent attacks on US and allied interests.

Israeli Prime Minister Benjamin Netanyahu termed the, often called in reports as "Operation Shield of Judah" and "Operation Epic Fury," strikes a last-resort effort to prevent Iran from acquiring nuclear weapons. The actions were framed as a defense against Iranian missile and drone capabilities, aimed at preventing "higher casualties" and protecting regional allies. US and Israel’s strikes focused on destroying Iran’s ballistic missile arsenal and nuclear infrastructure, specifically sites at Fordow, Isfahan, and Natanz, as observed by Al Jazeera.

While Washington and Tel Aviv pursued this as a preventive measure for its safety, the actions were highly debated in the international community for their legality. International community is also unified in condemning Iran’s missile attacks on the Gulf Arab states.

4.2.2. Preserving Petro-dollar Dominance Against the Rising BRICS-led De-dollarization

BRICS Block Challenging Old World Order…

The BRICS bloc (Brazil, Russia, India, China, South Africa, and new members Egypt, Ethiopia, Iran, Indonesia and UAE is actively challenging the Western-dominated "old world order" by building alternative financial, economic, and geopolitical frameworks. The expansion into BRICS+ and the potential inclusion of "partner countries" signals a push toward a multipolar, Global South-focused, and de-dollarized global landscape.

The first month of 2026 has delivered a cascade of announcements from the BRICS bloc. While tensions flare in multiple regions and Western media was obsessed over President Trump and Greenland, a parallel story was unfolding with four remarkable institutional changes that may reshape international relations. First, India's official launch of its 2026 BRICS chairship, complete with new branding and a humanity-first agenda and a new identity. Second, the Reserve Bank of India's proposal for a unified digital currency network that bypasses the US dollar. Third, the Wheel for Peace 2026, naval exercises of South Africa, bringing together Chinese, Russian, South African and Iranian forces. Fourth, Russia's Zorki satellite network, a domestic alternative to Starlink with plans to extend service to BRICS partners. The expanded BRICS group is rolling out infrastructure, financial tools and strategic partnerships that signal a major shift in how global commerce and security operate. Each of these represents a building block in what proponents call a multiple order.

New BRICS Logo

On 13 January 2026, India formally unveiled its 2026 BRICS chairship. India’s External Affairs Minister Dr. S. Jaishankar introduced a new logo, theme and dedicated website. The logo features a lotus with petals and the colors of all member nations. The “Namaste” gesture sits at the center. India chose the theme Building for Resilience, Innovation, Cooperation and Sustainability that spells out BRICS, which is deliberate branding. This marks the 20th anniversary of the groupings’ formation. India is framing this milestone as a launchpad for the next two decades of global South leadership. Dr. Jaishankar outlined four priorities, strengthening institutions to handle global shocks, leveraging digital public infrastructure to reach underserved populations, fair energy transitions, respecting national circumstances and enhanced cooperation across security and trade.

India's Central Bank Proposed a Unified BRICS Digital Currency Payment System

BRICS nations are not starting a single new digital currency as proposed by RBI, but are exploring a proposal to link their individual Central Bank Digital Currencies (CBDCs) for more efficient cross-border payments. This initiative is a core part of their broader, long-term efforts to promote de-dollarization and reduce reliance on the US dollar in global trade.

Key Elements of RBI’s Proposal

- **No Single Currency:** The idea is not to create a common currency like the euro, which has been officially rejected by countries like India due to economic and geopolitical differences. Instead, the focus is on creating a system where existing or developing national digital currencies can work together (interoperability).
- **De-Dollarization Efforts:** The primary motivation is to bypass the traditional dollar-based global financial system (like SWIFT) and mitigate risks associated with US sanctions, transaction costs, and currency volatility.
- **CBDC Linkage:** The Reserve Bank of India (RBI) has proposed that this CBDC linkage be a key discussion point at the 2026 BRICS Summit, which India will host.
- **Progress and Platforms:** All core BRICS members (Brazil, Russia, India, China, South Africa) are running pilot projects for their own CBDCs. A separate, blockchain-based payment platform called BRICS Pay is also in development to streamline transactions in local currencies.
- **Gradual Shift:** While these efforts are significant, experts suggest a full-scale alternative to the US dollar's dominance is likely decades away. The current trend is a gradual diversification toward a multipolar financial ecosystem.

Restoring Petro-dollar & Disrupting BRICS Integration

While the official reasons for the US-Israel strikes on Iran focus on nuclear non-proliferation and regional security, many geopolitical analysts and economists argue that preserving petrodollar dominance against the rising BRICS-led de-dollarization is a critical structural motive. War on Iran is part of the US empire's larger attempt to re-impose its unipolar dominance on the global political and financial system, argues economist Michael Hudson. Washington wants to preserve dollar hegemony and the petrodollar, while disrupting BRICS and Eurasian integration with India, China and Russia.

Strategists suggest the US uses military action as a "geopolitical logic" to ensure oil remains priced in dollars. Iran's move to sell oil in Chinese yuan and its 2024 entry into BRICS, and India's Central Bank proposing a unified BRICS digital currency payment system, directly challenged this 50-year-old financial system. The war is viewed by some geo-political analysts as an attempt to destabilize a key BRICS hub and force members such as India and Brazil to choose between "multipolar solidarity" and their trade relationships with the West.

Paradoxically, while the war targets those moving away from the dollar, the conflict itself has temporarily strengthened the US dollar as investors flock to it as a "safe-haven" asset during global instability. The crisis, in fact, has given "renewed strategic urgency" to the BRICS alternative cross-border settlement infrastructure as a hedge against the weaponized dollar system.

In a stunning admission, US Treasury Secretary Scott Bessent said Washington engineered a dollar shortage to send the Iranian rial into freefall that culminated with protesters taking to the streets, as reported by Al Jazeera. In December and January, Iran was faced with one of the biggest antigovernment protests the country has seen since the Islamic revolution of 1979, prompted by the severe economic crisis. Protests over soaring prices in Iran began with shopkeepers in Tehran who shuttered their shops and began demonstrating on 28 December 2025, after the Iranian rial plunged to a record low against the US dollar in late December. The protests then spread to other provinces of Iran. Iran's Supreme Leader Ayatollah Ali Khamenei's government responded with force. More than 30,000 protesters, including at least 150 children, are thought to have been killed in a sweeping crackdown by the government on the protest movement.

As per noted economist, Michael Hudson, the current Iran war "is the culmination of the long strategy that America has had ever since World War II, to take complete control of the Near Eastern oil lands and make them proxies of the United States, under client rulers, such as Saudi Arabia and the king of Jordan. Iran represents a military threat to Russia's southern border, because if the United States could put a client regime in Iran, or break up Iran into ethnic groups who would be able to interfere with Russia's corridor of trade southwards, into access to the Indian Ocean, well, then you have boxed in Russia, you have boxed in China, and you have managed to isolate them. That is the current American foreign policy. If you can isolate countries that do not want to be part of the American international financial and trade system, then the belief is that they cannot exist by themselves; they are too small. But today, for the first time in modern history, you have the option of Eurasia, of Russia, China, Iran, and all of the neighboring countries in between. For the first time, they are large enough that they do not need trade and investment with the United States. In fact, while the United States and its NATO allies in Europe are shrinking — they are de-industrialized, neoliberal, post-industrial economies — most of the growth in world production, manufacturing, and trade has occurred in China, along with the control of the raw materials refining, such as rare earths, but also cobalt, even aluminum, and many other materials in China."

4.2.3. Summary of Reasons for the US-Israel War with Iran

Table 9: Summary of Strategic Objectives for the US-Israel Strike on Iran

Motive Category	Key Goal
Financial	Preserve petrodollar hegemony and halt the momentum of a BRICS alternative currency
Military	Destroy nuclear enrichment sites and ballistic missile capabilities
Political	Achieve regime change or "replacement" with a government less hostile to Western interests
Regional	Break the "ring of fire" surrounding Israel by cutting off proxy support

Source: Al Jazeera, Global Diplomat, Atlantic Council, Arms Control Association, The Diplomat, BBC, CNN, ECOFIN Research

4.3. The Geopolitical Dimension of the Iran War and the Role of Arab Nations

The geopolitical landscape of the Middle East, a region long defined by a delicate and often volatile balance of power, underwent a fundamental and likely irreversible transformation on 28 February 2026. What began as a lightning joint military operation by the United States and Israel has rapidly devolved into a multi-front regional conflict that has effectively dismantled the central authority of the Islamic Republic of Iran. As of early March 2026, the region is navigating the immediate aftermath of a "functional decapitation" of the Iranian state, a large-scale retaliatory campaign against the Gulf Cooperation Council (GCC) monarchies, and an internal domestic uprising that has pushed the Iranian economy and social fabric to the point of collapse. The US-Israel war with Iran has fundamentally transformed the geopolitical landscape of the Middle East, moving from a period of cautious de-escalation to intense kinetic confrontation. The conflict has shattered regional diplomatic efforts, forced MENA Arab nations into a precarious balancing act, and created a structural, multi-theater war that directly impacts global oil and gas markets.

4.3.1. The Geopolitical Dimension of the US-Israel and Iran War

- **Decapitation Strategy:** The war began with "Operation Epic Fury" (US) and "Operation Roaring Lion" (Israel), targeting top-tier Iranian leadership, including the Supreme Leader Ali Khamenei, aimed at causing "functional decapitation" of the Iranian state.
- **Regional Contagion:** Iran retaliated by targeting GCC neighbors and US facilities, expanding the conflict to involve nations previously trying to avoid direct involvement.
- **Strait of Hormuz Closure:** Iran has used its asymmetric capabilities, including missile/drone strikes and potential mining, to disrupt the Strait of Hormuz, halting roughly 20% of global oil shipments and causing a major supply disruption.
- **New Regional Order:** The post-1979 regional order has shattered, with possibilities ranging from Iran becoming a fragmented "Balkanized" state to a "Garrison State" run by the IRGC.

4.3.2. The Role of Arab Nations (GCC and Neighbors)

Arab nations, particularly Saudi Arabia and the UAE, have been caught in the crossfire of this confrontation, facing direct hits and severe economic disruption despite trying to maintain neutrality initially, as opined by “Frontline”. Iran has targeted Gulf states because they host US military bases, leading to Iranian attacks on infrastructure in the UAE, Saudi Arabia, Qatar, Kuwait, Bahrain, Oman and Jordan.

UAE Faced Economic Disruption

No country, other than Israel, has been hit harder by Iran than the United Arab Emirates. The amount of firepower being sent to the Emirates is significantly higher than that of its Gulf neighbors and almost as much as Israel, which has faced more than 1,000 missiles and drones in the last two weeks from Iran. Strikes on neighboring Qatar, Saudi Arabia and Bahrain all remain in the hundreds. Iran wanted to inflict maximum regional and global pain, testing a state that has positioned itself as the Gulf’s safest bridge between East and West — and the future of the region. UAE faced the most concentrated volume of fire, with reports of over 500 drones and 150 ballistic missiles directed at its territory. The most developed nation in the GCC peninsula’s infrastructure was badly hit with a drone swarm caused material damage to a terminal at Dubai International Airport, forcing a temporary suspension of commercial aviation. Airports in both Dubai and Abu Dhabi, residential buildings, hotels in both Emirates, Dubai’s International Financial Center, Jebel Ali Port and the US consulate in Dubai have all been targeted, despite the Iranian government telling CNBC its attacks on Gulf neighbors are limited to US bases in the region. The Emirati government also confirmed three civilian deaths and dozens of injuries. Questions have been raised about the attractiveness of the region as a location for Big Tech investments after Iran targeted an Amazon data center in the country, disrupting cloud services. The strikes have also caused a significant spike in maritime insurance premiums, threatening UAE's status as a stable global trade hub.

UAE air defenses have successfully intercepted incoming missiles and drones launched from Iran. The UAE foreign ministry condemned the attacks, labelling them a "flagrant violation of national sovereignty and international law". Officials stated the nation is fully prepared to act with "absolute resolve to protect its citizens, residents, and visitors," emphasizing that it will not tolerate compromises to national security. UAE officials are prioritizing regional stability beyond just a ceasefire, focusing on addressing the Iranian nuclear, missile, and drone threats. The UAE has joined international condemnations of Iran, including statements with other Gulf countries to defend their sovereignty. The UAE has maintained that it will not allow its territory or airspace to be used in any attacks against Iran, while reserving its right to collective self-defense. UAE has adopted a "wartime footing" and are re-evaluating its diplomatic relations with Tehran, with the UAE withdrawing diplomats and cracking down on IRGC-linked networks.

Saudi Arabia – Defending the Eastern Province

Saudi Arabia's integrated air defense systems, including PATRIOT and THAAD batteries, repelled the majority of incoming salvos. However, several drones and missiles targeted oil stabilization plants in the Eastern Province. While major production remained intact, the Kingdom has officially moved to a wartime footing, condemning the "unprovoked aggression" against its sovereignty. Iran crossed a major line with its attacks on civilian and energy infrastructure, which are clear violations of Saudi sovereignty. The Saudi Ministry of Foreign Affairs issued its most comprehensive statement on the war on 9 March. That statement, angry but measured, condemned Iranian attacks against the kingdom and other GCC members, and affirmed Saudi Arabia's "full right to take all necessary measures to safeguard its security, sovereignty, and the safety of its citizens and residents, and to deter aggression." It complained that Iranian attacks continued despite the Iranian president's assurances that they would stop unless Iran is attacked from Saudi territory. And the statement warned that further Iranian attacks would have "significant implications for bilateral relations both now and in the future.", as reported by Al Jazeera.

Attack on Qatar Caused Global Energy Market Crisis

Qatar, which has historically acted as a diplomatic bridge, saw its territory violated several times by Irani missiles and drones, specifically targeting its massive energy infrastructure and the Al Udeid Air Base, which houses US forces. Iranian missiles caused "extensive damage" and large fires at Qatar's Ras Laffan Industrial City, the world's largest liquefied natural gas (LNG) production site. Qatari air defenses reportedly thwarted several Iranian attempts to strike Hamad International Airport in Doha. While no deaths have been reported in Qatar specifically from these March strikes, at least 16 people have been injured by falling shrapnel and debris. Qatar Energy was forced to cease all-natural gas production and declare force majeure on long-term contracts. The strikes knocked out approximately 17% of Qatar's LNG export capacity, which analysts estimate could take 3 to 5 years to repair, as reported by CNBC. These attacks triggered a sharp spike in global natural gas and oil prices.

Following the 18 March strike on Ras Laffan, Qatar ordered Iran's military and security attachés and their staff to leave the country within 24 hours. Qatari Emir Tamim bin Hamad Al Thani suspended all diplomatic mediation efforts between Iran and Western powers. Qatar's Ministry of Foreign Affairs condemned the attacks as a "blatant violation of sovereignty" and "unacceptable". Qatar has since joined its neighbors in calling for an immediate cessation of hostilities while asserting its right to defend its borders, as reported by Al Jazeera.

Bahrain – The 5th Fleet and Civil Toll

Bahrain is facing ongoing missile and drone attacks from Iran, which began on 28 February 2026, as part of a wider regional conflict. As the host of the US Navy's 5th Fleet in its capital Manama, Bahrain was a primary target for Iranian ballistic missiles. As reported by Al Jazeera, Bahrain International Airport was struck by a drone on 1 March, causing material damage; a water desalination plant was damaged in a drone attack on 8 March, threatening the country's freshwater supply. There were attacks on business and civilian facilities with more than two dozen Civilians injured. Bahrain's air defenses, including Patriot missile systems, have been highly active. The Bahrain Defense Force claimed to have intercepted and destroyed more than 100 missiles and 200 drones since the conflict began. Authorities continue to urge residents to seek shelter when sirens are activated, hardening the Bahraini public's stance against Tehran.

Kuwait – On the Crossroads

Kuwait has been targeted by multiple Iranian missile and drone strikes as part of a broader regional conflict involving Iran, the United States, and Israel. A pre-dawn drone strike hit a fuel storage tank at the airport, sparking a major fire. Air raid sirens sounded as Kuwaiti air defenses responded to hostile drones and missiles. Mina Al-Ahmadi Oil Refinery, the country's largest refinery was hit twice by Iranian drones, causing fires and forcing a reduction in oil production due to damage to critical infrastructure. A drone strike on 1 March killed six US service members and wounded dozens more. Ali Al Salem Air Base, which houses Italian and Canadian forces, was struck on multiple occasions (28 February and 15 March), damaging an Italian MQ-9 Reaper drone and two Eurofighter Typhoons. Debris from intercepted drones knocked out six power lines, causing temporary blackouts. Early in March, an Irani strike set the main social security building in Kuwait City on fire. The Emir of Kuwait, Mishal Al-Ahmad Al-Jaber Al-Sabah, has condemned these "unprovoked attacks," noting that Kuwait has not allowed its land or airspace to be used for military action against Iran. Despite these interceptions, the strikes have caused at least one civilian death and dozens of injuries.

Oman – Infrastructure Damage

Beginning 1 March 2026, Iran launched drone strikes and targeted vessels in Oman, including the Port of Salalah, Port of Duqm, and tankers, causing casualties and targeting areas used by the US military. Attacks targeted fuel storage at the Port of Salalah, industrial zones in Sohar, and oil tankers near Muscat and the Port of Khasab. These attacks resulted in multiple fatalities and injuries, including the death of an Indian captain on a targeted tanker. These strikes are part of a broader conflict involving Iran against nations housing US military installations. Despite being a neutral mediator, Oman's sovereignty was violated, with some analysts considering this an attempt by Iran to punish Oman for its proximity to US interests. Iranian officials initially denied intention and suggested "false flag" possibilities, despite reports showing drones originating from Iran, as reported by Al Jazeera.

Jordan – Caught in the Crossfire

Jordan has frequently been caught in the crossfire of Iranian missile and drone attacks. Iran has specifically targeted the Muwaffaq Salti Air Base in Jordan, which houses US forces. Satellite imagery from March 2026 showed debris surrounding a blackened THAAD radar system at the base following these strikes. While most Iranian strikes target Israel or US military assets, Jordan's geographic position and its role in intercepting these threats have led to direct impacts on its territory. The Jordanian Armed Forces reported intercepting 222 out of 240 missiles and drones launched by Iran over a three-week period. On a single day in February 2026, they shot down 49 unmanned aerial vehicles and ballistic missiles. Despite high interception rates, 18 projectiles got through, and there have been over 400 reported debris incidents. Falling shrapnel has hit residential areas in cities like Amman and Irbid, causing property damage and dozens of minor injuries. Iranian-linked militias, such as Kataib Hezbollah in Iraq, have also claimed drone attacks on vital targets within Jordan.

Jordan maintains that it will not allow its territory or airspace to be used as a battlefield by any party. It frames its military actions as defensive measures to protect its own citizens from falling objects. Jordan has summoned Iranian diplomats to demand an immediate halt to these violations of its sovereignty. While publicly asserting neutrality, Jordan continues to cooperate with Western allies and Israel to manage the "Shiite Crescent" of Iranian influence in the region. Authorities in Jordan have urged residents to stay indoors during active alerts and avoid touching any suspicious debris, as reported by “The Washington Institute”.

Arab Nations’ Right to Self Defense

Arab and Islamic ministers held a summit in Riyadh to demand a ceasefire, **citing the right to self-defense under UN Article 51 and calling for an end to Iran's support for proxy groups**. Some Arab states are balancing their security dependence on the US with a desire to avoid being labeled as US proxies, as observed by Al Jazeera.

4.4. Disruption of Global Supply Chain

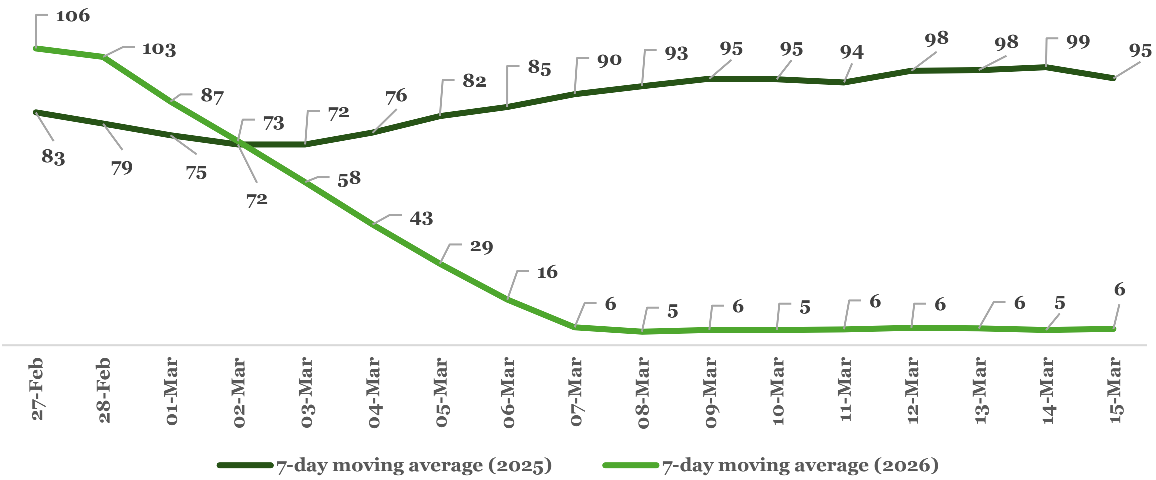
The US-Israel war with Iran has rippled through global transport networks, intensifying pressures on freight markets already fragile from pandemic hangovers, regional tensions, and constrained capacity. The effective closure of the Strait of Hormuz, a chokepoint through which around 20–21 million barrels of oil daily and significant volumes of LNG and other goods transit, has been the central catalyst of this upheaval.

One of the most critical factors is the Strait of Hormuz, a narrow shipping route between Iran and Oman. It is one of the world's most important maritime chokepoints, with around a quarter of global crude oil shipments passing through it daily. If conflict restricts traffic through this route, global energy supply can be affected almost immediately. Military escalation in the region has already led to disruptions in oil and natural gas shipments, contributing to rising energy prices.

Blockage of Strait of Hormuz - One of the World's Busiest Routes for Energy Shipments

Iranian attacks on several vessels passing through the Strait of Hormuz have also dramatically reduced traffic in the narrow channel. Iran also attacked fuel tankers in Iraqi waters. This West Asia war crippled Hormuz shipping with ship traffic declining significantly, far below last year's trend for the same period. Iran's de facto closure of this chokepoint has disrupted approximately 20% of global oil supplies and 25% of seaborne oil trade.

Chart 9: Ship Arrivals in Hormuz Strait (First Two Weeks of the Iran War)



Source: IMF, Macromicro, NDTV, ECOFIN Research

Surge in Transportation Costs due to Disruption in Routes

From ocean to air and inland freight, costs are climbing, and capacity is tightening.

- **Fuel Price Shock:** Brent crude has spiked well above US$ 100 per barrel after the conflict intensified, squeezing carrier margins and triggering immediate fuel surcharges across truck, rail, and ocean services — a cost that rapidly passes through to shippers.
- **Ocean Freight Volatility:** The risks associated with transiting the Gulf and Hormuz have pushed carriers to avoid main Gulf traffic lanes or impose war-risk surcharges. Some major lines are rerouting vessels via the Cape of Good Hope, adding 10–14 days to transit times and shrinking effective capacity.
- **Container Rates and Tanker Freight Indices have jumped** sharply as traffic, particularly through the Gulf, plummets, and insurers raise premiums for vessels entering conflict zones.
- **Airfreight Tightening:** As ocean timelines become unpredictable, time-sensitive goods (electronics, pharmaceuticals, and automotive parts) are migrating to airfreight, tightening belly space and driving rates higher on key Asia–Europe and Asia–North America corridors.

In China, logistics players report e-commerce cargo stranded in the Middle East, and firms moving transshipment hubs to places such as Doha in attempts to evade route disruptions are still facing delays and broader cost escalation.

Supply Chains Under Pressure

The combined effect of rising freight costs, longer routes, and constrained capacity is dragging directly into supply chains across sectors:

- **Inventory and Distribution Stress:** Goods delayed or stranded in the Middle East from consumer parcels to factory inputs are raising concerns about stockouts and revenue erosion, with some firms across the world warning that freight costs could rise more than 30% in extreme scenarios.
- **Manufacturing Headwinds:** Rising transport costs and fuel-linked input cost inflation threaten production margins in goods-export hubs such as Guangdong, a major export-oriented manufacturing region.
- **Commodity Chains Strained:** Beyond freight, supply chains for aluminum, fertilizer, chemicals, and plastics are feeling shockwaves as suppliers reroute export flows and face raw material shortages. Aluminum smelting capacity in the Gulf is being cut, forcing export route reconfigurations, while global fertilizer flows through Hormuz Strait have been hit, contributing to surging prices and food security risks.
- **Rising Insurance Cost:** Another major impact is the increase in shipping costs due to higher insurance premiums. Maritime insurers have begun raising or withdrawing war-risk coverage for vessels operating in the region. This leads to increased operating costs for shipping companies, higher freight rates and cost increased are passed down to the supply chain. Ultimately, these costs are absorbed by businesses and consumers alike.

Frighteningly for logistics planners, many of these disruptions resemble structural shifts rather than short-lived blips. The global freight market was already operating with limited spare capacity — ocean overcapacity had weighed on carrier earnings, while ageing aircraft fleets and limited deliveries constrained air capacity. New geopolitical risk has injected a demand-side shock into a cost environment that was already under strain.

Strategic Freight Decisions and Route Diversification

Companies globally are responding with tactical and strategic adjustments due to this supply chain disruption through:

- **Route Diversification:** There is a surge in interest in alternative corridors from Central Asia through Turkmenistan and Azerbaijan, through Türkiye to Europe, as firms globally are seeking to reduce dependence on Middle Eastern transits.
- **Inventory Strategy:** Shippers are increasing safety stock for critical SKUs and auditing fuel surcharge mechanisms. Others are exploring sea-air hybrid solutions, balancing cost against reliability.
- **Shipping Industry Contingency:** Major carriers are issuing emergency freight surcharge notices, suspending bookings through at-risk corridors, and recalibrating service coverages to absorb risk premiums and reduce exposure.

These moves underscore an emerging view among logistics leaders: the disruptions may force longer-term shifts in how global freight networks are designed and where critical inventory and production capacity are sited.

Building More Resilient Supply Chains

Prolonged instability may force organizations to rethink their supply chain strategies. Many businesses are already exploring ways to improve resilience, including diversifying supplier bases, increasing inventory buffers, nearshoring or reshoring production and strengthening risk management strategies. The Iran conflict highlights how vulnerable global supply chains can be to geopolitical disruption, and why resilience planning is becoming a priority. In conclusion, the Iran war could have a major impact on global supply chains by disrupting energy markets, delaying shipping routes, increasing transportation costs, and restricting access to key raw materials. Because modern supply chains are highly interconnected, even regional conflicts can create ripple effects that influence global trade and the price of everyday goods.

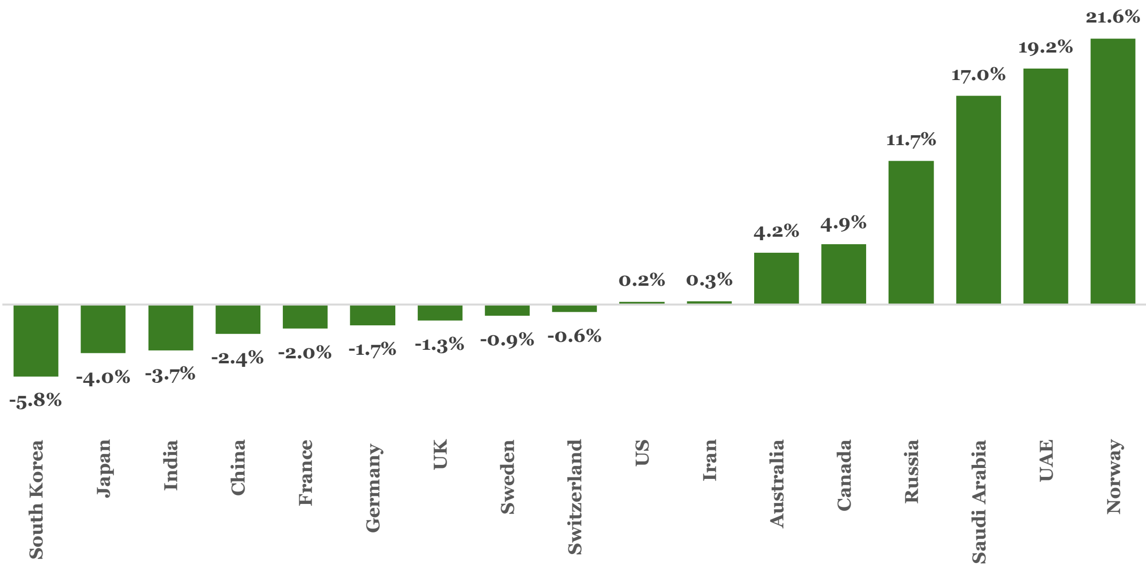
4.5. The Global Economic Shockwave: Multi-dimensional Damage

Beyond the battlefield, the Iran war is exposing fragile economic chokepoints from energy routes to fertilizers and industrial gases, raising concerns among economists that supply disruptions could shape global prices and trade long after the conflict ends. The key risks surround disruptions to the supply of goods that economies in the region send to the rest of the world. Crises such as this have a habit of revealing chokepoints that were previously hidden. For example, Qatar produces around 40% of the world's helium, which is used in the production of semiconductors. The region is also a significant producer of ammonia and nitrogen, which are key ingredients in many synthetic fertilizer products. The real transmission channel, though, is energy.

Around a quarter of global seaborne oil passes through the Strait of Hormuz, along with roughly one-fifth of liquefied natural gas (LNG) shipments. Any disruption to transit through this narrow chokepoint has immediate consequences for global energy markets. Unsurprisingly, oil and gas prices have jumped since the conflict's start as shipments through the Strait have collapsed. In economic terms, the mechanism through which such shocks operate is straightforward. Higher energy prices alter what economists call a country's terms of trade – the price of its exports relative to its imports. When energy prices rise, income is transferred from energy-importing countries to energy exporters.

The economic consequences of that transfer depend on three factors: whether a country is a net importer or exporter of energy; how large and persistent the price rise proves to be; and how governments, households and businesses respond to the shift in income. The obvious winners are large net energy exporters outside the Gulf whose ability to sell abroad is unaffected. Countries such as Norway, Russia and Canada stand to benefit the most from higher energy prices.

Chart 10: Net Energy Trade as a Percent of GDP



Source: IMF, Capital Economics, Chatham House, ECOFIN Research

The US–Israeli military strikes on Iran that began on 28 February 2026, have triggered a significant global economic shock, primarily through the disruption of energy markets and critical shipping routes. While the full extent depends on the conflict's duration, several immediate impacts have already emerged.

The Iran War Threatens Investments in AI

The Iran war is threatening to have an unimaginable effect in the last three years: paralyzing the boom in artificial intelligence (AI) investments, which from American big tech companies alone reaches US$ 1.5 trillion. The reason is the blockade of the Strait of Hormuz, which is disrupting much more than the transport of about 20% of the world's oil and natural gas consumption. With the war between the United States and Israel against Iran entering its fourth week, Taiwan and South Korea – the global center of semiconductor production – have sounded the alarm, warning of the impact on the entire production process involving these high-tech products. This is because the chip supply chain spans 70 countries and relies on the import of energy and chemicals from the Middle East, which uses the Strait of Hormuz as the starting point for the flow of parts, raw materials, and products related to the chain.

4.6. Impact of Israel-Iran War – Energy Market Volatility

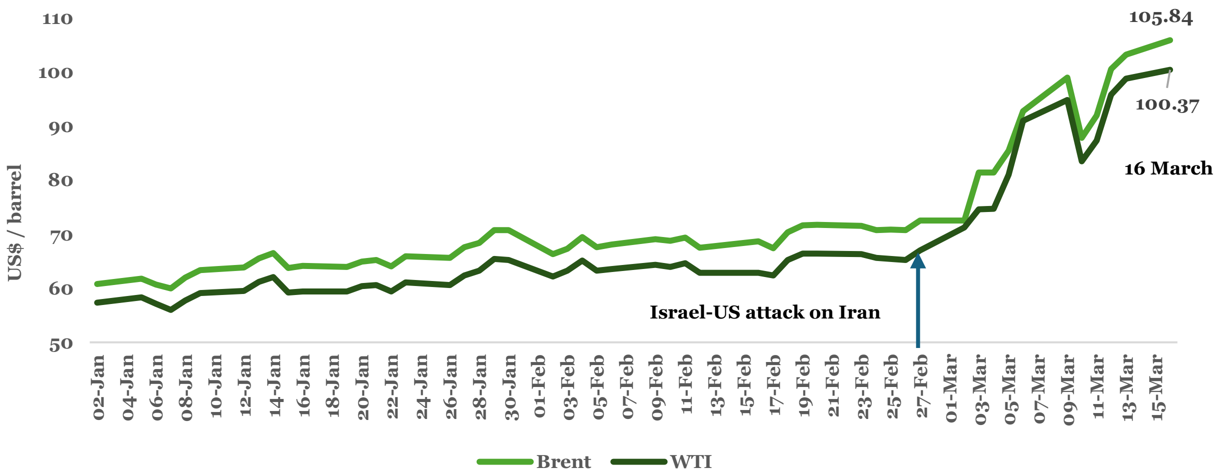
Middle East remains the heart of oil production as its major economies were dependent upon oil production a decade ago. Till date, this region remains crucial for global energy security. The Middle East includes five of the top ten oil-producing countries and is responsible for producing about 26% of world production. Saudi Arabia is the world's largest oil producer and accounts for roughly 15% of global output. Total Energies, one of the leading energy companies globally produces about 34% of its output from this region, constituting about 348,000 bpd.

The continuous attacks on the GCC nations can pose a severe risk of disruption. For instance, an alleged Iranian drone attack on Saudi Aramco's Ras Tanura oil refinery created a sudden shock in the global energy market. Though it was intercepted and the situation went under control. Similarly, such attacks have happened in several refineries across GCC countries including UAE, Qatar and Bahrain. These disruptions have posed energy risk, creating panic in the global oil market. This phenomenon has led to speculative buying and price spikes.

Spike in Crude Oil Prices

Since the beginning of the war till 16 march, Brent Crude surged 46% whilst WTI rose by a massive 50%.

Chart 11: Soaring Crude Oil Prices in the First Two Weeks of the Israel-Iran War



Source: LSEG Datastream, Al Zazeera, ECOFIN Research

In just two weeks of the unfortunate war, Brent Crude price per barrel climbed 46% from US$ 72.48 on 27 February to US$ 105.84 on 16 March whilst WTI price soared nearly 50% from US$ 67.02 on 27 February to US$ 100.37 on 16 March. Prices of refined products from petrol and gas oil to jet kerosene and fuel oil have also seen significant increases, and that trend is expected to continue if energy flows through the Strait of Hormuz remain largely shut, said Muyu Xu, a senior crude oil analyst at Kpler. A prolonged conflict exceeding three months is projected by Capital Economics to potentially drive oil prices toward $150 per barrel, risking a global recession.

Gasolene / Petrol & Diesel Prices Surge Globally

Higher crude prices resulted in Gasolene / Petrol and Diesel prices surge globally albeit not uniformly. Between 23 February to 16 March 2026, Australia, US and Singapore are the worst hit whilst Brazil was the least hit. India, surprisingly, did not see any rise in the petrol or diesel prices.

Chart 12: Hike in Gasolene / Petrol Prices

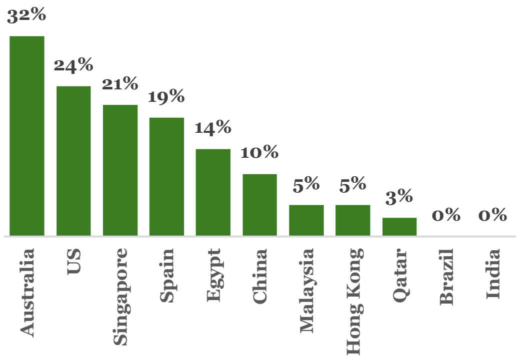
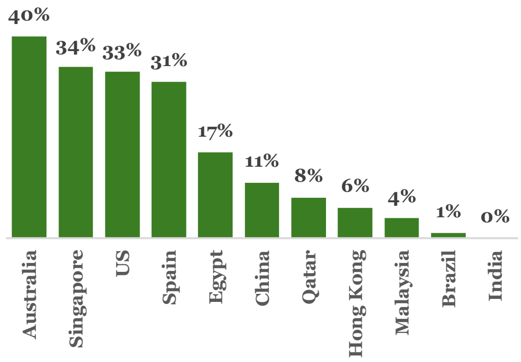


Chart 13: Hike in Diesel Prices

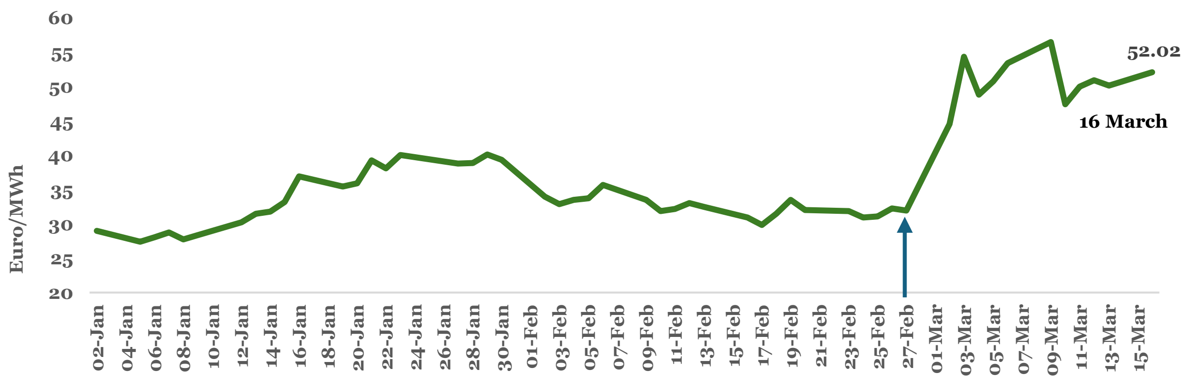


Source: Global Petrol Prices, NDTV, ECOFIN Research

Soaring Natural Gas Prices

Natural gas prices in the EU have risen by more than 30% since the start of the war on 28 February, spiking after Israel's attack on Iran's critical South Pars gas field and subsequent Iranian attack on Qatar's Ras Laffan. Qatar Energy, providing 20% of global LNG, suspended production following Iranian drone attacks on its facilities.

Chart 14: Soaring Natural Gas Prices in Europe in the First Two Weeks of the Israel-Iran War (TTF Futures)



Source: LSEG Datastream, Al Zazeera, ECOFIN Research

Rise in Electricity Prices in Europe

Electricity prices in Eastern Europe and Italy have climbed faster than other parts of the continent so far in 2026, suggesting that Europe's most gas-dependent economies have been among the hardest hit so far from the ongoing US-Israeli war with Iran. Average wholesale electricity prices in Hungary, Italy and Romania so far in 2026 have all climbed by more 10% from last year's average levels, data from energy data portal electricitymaps shows. A key driver of the rising electricity costs is the high dependence on natural gas for power generation in Italy and several Eastern European nations, which rank among the most gas-intensive energy systems in the continent.

Rise in LPG Prices

One of the major impacts of the supply chain disruption that has already reached millions of homes, especially in India, is the rise in LPG prices. Import-dependent nations are paying much higher rates, while producer economies have some relief. As on 16 March, Greece recorded the highest price at US$ 223.40 per oil barrel equivalent, followed by Israel at US$ 202.60 and UK at US$ 192.30. On the other side, countries with their own production reported much lower prices. Russia recorded the LPG prices at US$ 61.70 and Saudi Arabia at US$ 46.20.

Chart 15: Rise in Electricity Prices in Europe

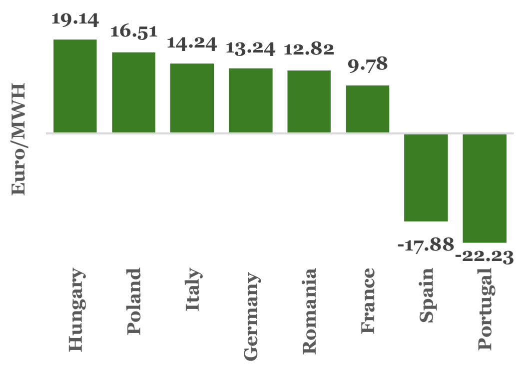
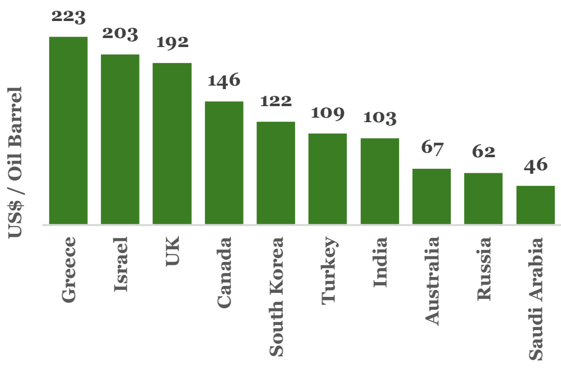


Chart 16: LPG Prices Globally



Source: Electricitymaps.com, Global Petrol Prices, NDTV, ECOFIN Research, Prices as on 16 March 2026

Steps taken by OPEC+ and IEA to Manage Global Crude Supply

In response to the US–Israeli military strikes on Iran and the subsequent disruption of Gulf oil flows, OPEC+ has taken several strategic steps to manage global supply. On 1 March, the core "V8" members of OPEC+ (including Saudi Arabia, Russia and UAE) agreed to raise oil output by 206,000 barrels per day (bpd) starting in April. This decision ended a three-month pause in production increases that had been in place since January. The hike was slightly larger than the previously anticipated 137,000 bpd, though analysts note it represents less than 0.2% of global supply. Leading up to the strikes, Saudi Arabia proactively increased its production and exports by approximately 500,000 to 782,000 bpd as part of a contingency plan to stabilize markets. Despite the agreed-upon hike, experts warn that the group's actual ability to impact prices is limited due to a lack of spare production capacity outside of Saudi Arabia and the UAE.

The International Energy Agency (IEA) reports that even with increased production targets, Gulf producers have been forced to shutter nearly 10 million bpd of total output because the de facto closure of the Strait of Hormuz prevents the oil from reaching international buyers. To further cushion the shock, IEA member nations (including the US, Japan, and Germany) recently agreed to a historic release of 400 million barrels from emergency reserves.

4.7. Global Inflationary Pressure & Fear of a Recession

The US-Israel war with Iran is fueling global inflation by creating a significant energy supply shock, with oil prices surging due to tensions in the Strait of Hormuz. Analysts warn of potential stagflation as high energy costs, supply disruptions, and increased shipping costs drive up consumer prices while slowing economic growth worldwide, impacting regions from the UK to the Global South, as aptly noted by Al Jazeera and "The Guardian". The prospect of a drawn-out war is causing mounting economic problems. Oil prices have soared above $100 a barrel, European gas prices have doubled, volatility stalks financial markets, and consumers worldwide are bracing for a surge in living costs. Central banks, including the US Federal Reserve, Bank of England and European Central Bank, warn the war could have a material impact on inflation and dent global growth. US, Euro Zone, UK and Japan PMIs all suffer; inflation expectations rise, and business activity is dampened across the world. While some analysts and economists are talking of stagflation, others opine that it is too early to judge, as observed by Reuters.

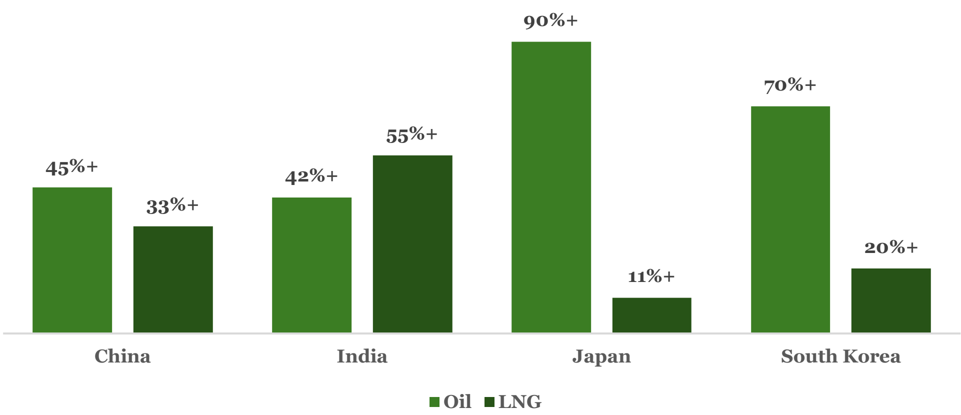
Euro Zone Badly Hit…

Among the 21 economies that share the euro currency, private sector growth all but stalled this month as companies signaled an increase in delivery times and expectations of rising costs that they in turn would be trying to pass on. S&P Global said its flash euro zone composite Purchasing Managers' Index fell to a 10-month low of 50.5 in March, below expectations, from 51.9 in February. A reading above 50 indicates expansion in the private sector. Measures for both input and output prices in euro area manufacturing showed much sharper moves. Within the national readouts, business confidence dropped markedly among French firms while German private sector growth slowed to a 3-month low. Chris Williamson, chief business economist at S&P Global Market Intelligence, said the euro area numbers were "ringing stagflation alarm bells", referring to the risk of a painful combination of stagnation amid rising prices. Already strained by previous energy shocks, Europe faces renewed inflation risks, with forecasts suggesting eurozone growth could slow to 0.5% if the conflict persists.

Asia's Dependency on Middle East Energy Proving Costly…

The impact can be felt everywhere, but in Asia – where nearly every country is highly dependent on Middle Eastern oil – the war has caused outright energy panic, with governments scrambling to respond and having few short-term answers. After all, Asia is the most exposed region to the effects of the war on oil prices, since it is the region that relies most heavily on oil and gas shipped through the Strait of Hormuz. The level of consumer panic, in particular, is so great in some Asian states that it could soon lead to not only major economic shocks but even violence over limited energy supplies. China is the world's biggest oil importer – it imports significant amounts of oil from Iran as well as Venezuela, which is no longer an option for Beijing – and other major Asian economies like Japan, Singapore, Taiwan, South Korea, India, and Thailand are almost completely dependent on foreign oil. In 2024 alone, 84% of the oil and 83% of the liquified natural gas (LNG) shipped through the Strait was bound for Asia.

Chart 17: Major Asian Economy's Energy Import from Middle East



Source: World Bank, Petroleum Planning & Analysis Cell (India), ECOFIN Research

US – S&P Global Warns of Stagflation Alarm Bells…

The ongoing conflict with Iran has triggered a significant "energy shock" that is now feeding into broader US inflation. While inflation was relatively stable at 2.4% in February prior to the war, it has since surged due to disruptions in global oil supplies, particularly the closure of the Strait of Hormuz, as noted by BBC. The average cost of a gallon of fuel jumped past US$ 3.50 by mid-March, a 17% increase since the start of hostilities. Some analysts forecast prices could reach US$ 4.20 if the conflict persists. Personal Consumption Expenditures (PCE) inflation is projected to surge to 3.7% by April 2026, up from 2.5% in February. Crude prices briefly eclipsed US$ 100 a barrel in March, with "tail risk" scenarios suggesting potential spikes to US$ 150 or even US$ 200 if supply remains choked.

S&P Global and other analysts have warned of "stagflation alarm bells," as higher energy costs coincide with weaker business sentiment and slower private sector growth. The Federal Reserve held interest rates steady at 3.5–3.75% in March. While there is pressure to cut rates to support growth, stubborn inflation, currently well above the 2% target, has made officials hesitant to act. Beyond fuel, rising costs for fertilizers and transport are expected to eventually push up food prices, though the immediate impact on global food supplies remains buffered for now. Real wage growth is under threat; a sustained energy price spike could eliminate all real wage growth for 2026, significantly dragging down US consumption. S&P Global survey shows decline in private-sector employment. US business activity slowed to an 11-month low in March as the war in the Middle East raised prices for energy products and other inputs, a survey showed, reinforcing fears of an acceleration in inflation in the months ahead. The survey from S&P Global also showed a deterioration in sentiment that contributed to the first decline in private-sector employment in just over a year. The findings at face value would suggest persistent labor market weakness, though timely data like weekly claims for unemployment benefits have remained consistent with stable conditions.

Global South Bearing the Brunt of Iran War…

The Iran war has triggered a severe "cost-push" inflation shock across the Global South. The primary drivers are the closure of the Strait of Hormuz and the disruption of critical energy and agricultural supply chains. As a major energy importer, the Global South is facing immediate inflationary pressure from skyrocketing oil prices, which eclipsed US$ 100 – US$ 120 per barrel, as noted by Northeastern Global News. Domestic gasoline and diesel prices have jumped significantly. In Nigeria, petrol prices rose nearly 50% (up to 1,330 naira per liter), while Vietnam saw a similar 50% spike. Governments are forced to hike prices to manage fiscal deficits. For instance, Egypt raised fuel and cooking gas prices by 15–22% in March 2026. Countries such as Pakistan, Sri Lanka, and the Philippines are among the most exposed due to high dependence on Middle Eastern fuel, as observed by Times Magazine.

The conflict has created a secondary wave of inflation by driving up the cost of food production and logistics, as observed by Al Jazeera. High energy costs have made fertilizers, many of which are sourced from the Gulf, expensive and scarce, threatening future crop yields. Shipping, insurance, and freight rates have surged. Over 400,000 metric tonnes of Indian basmati rice were recently held up at ports due to these costs. In Pakistan, the upcoming wheat harvest faces record-high input costs (diesel for tractors and transport), which is expected to transmit directly into food inflation for low-income households, as noted by Bruegel.

To Conclude…

The outbreak of conflict with Iran has created a precarious economic paradox defined by stagflationary pressures. The immediate shock to energy markets has reignited global inflationary pressures, reversed recent disinflationary trends and forced central banks into a difficult position where they must choose between continuing to fight rising prices or pivoting to support faltering growth. This uncertainty has severely eroded business and consumer confidence, accelerating the fear of a recession as supply chains fracture and the cost of capital remains prohibitive. Consequently, the global economy faces the grim prospect of slowing demand colliding with rising input costs, leaving policymakers with few tools to avert a potential downturn.

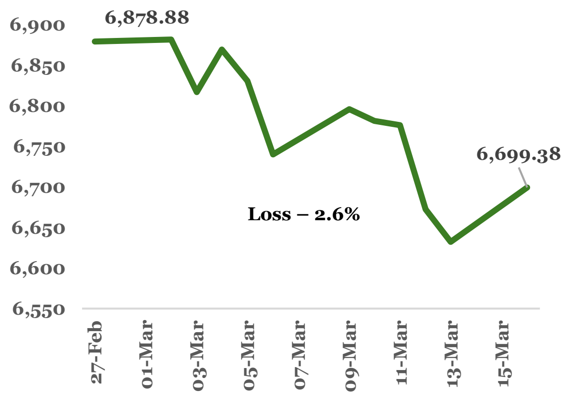
4.8. Global Stock Markets' Meltdown

The US-Israel war with Iran has significantly increased global market volatility, driving up energy prices and causing substantial, though fluctuating, sell-offs in global equities. Key impacts include sharp declines in Asian and European markets, rising oil prices due to threats in the Strait of Hormuz, and inflationary pressures prompting fears of higher, sustained interest rates. Our analysis is restricted to the first two weeks of the conflict till 16 March 2026.

North American Markets saw Modest to High Losses…

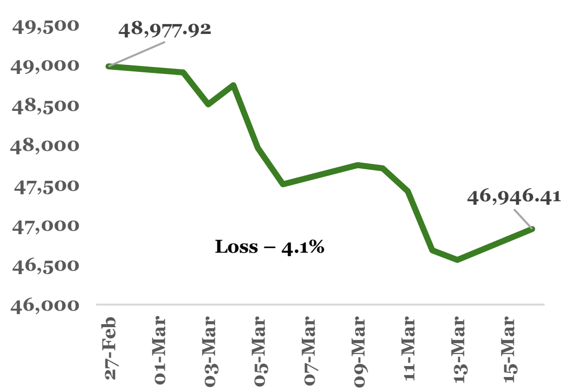
The Iran conflict has caused volatility in North American stock markets, characterized by initial sell-offs, sector rotation into defense/energy, and rising inflation concerns. Markets fluctuated on developments regarding the Strait of Hormuz and diplomatic efforts. Key impacts include a surging US dollar, potential rate hike pauses by the Fed, and lowered GDP growth forecasts, as analyzed by Goldman Sach. The North American equity markets paired losses in the first two weeks of the Iran conflict with Dow Jones shedding 4.3% whilst losses of S&P 500 and Nasdaq were modest at 2.6% and 1.3% respectively. Canadian equity market's losses were sharper with the Canadian Index TSX Composite contracting by 4.3%.

Chart 18: S&P 500 (US)



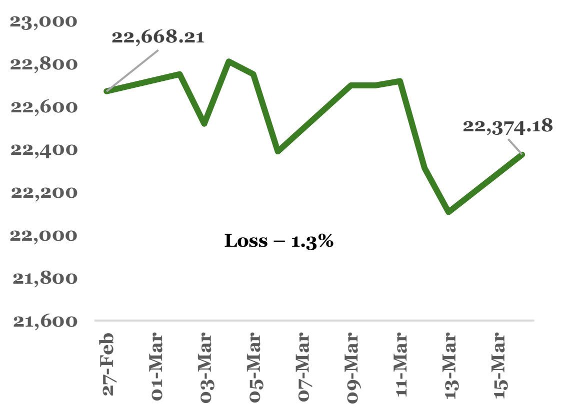
Source: New York Stock Exchange (NYSE)

Chart 19: Dow Jones Index (US)



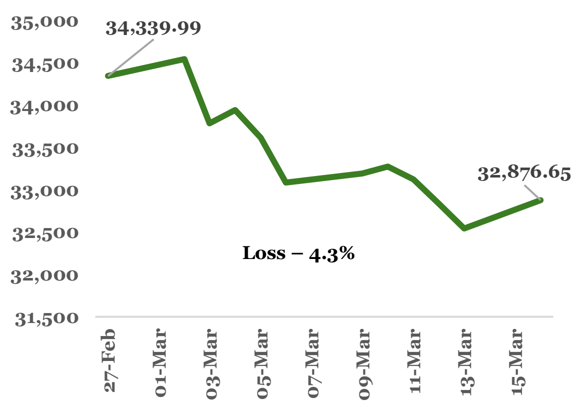
Source: New York Stock Exchange (NYSE)

Chart 20: Nasdaq Composite (US)



Source: Nasdaq Stock Exchange

Chart 21: TSX Composite (Canada)

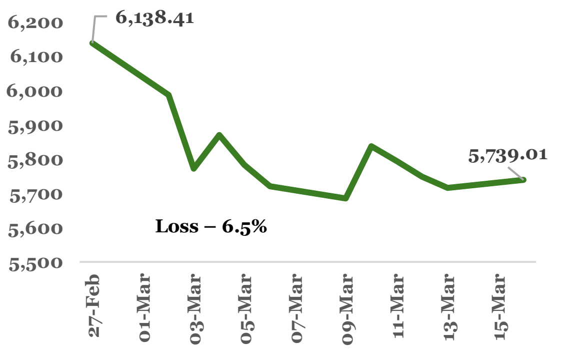


Source: Toronto Stock Exchange

European Equities Suffered Substantial Losses…

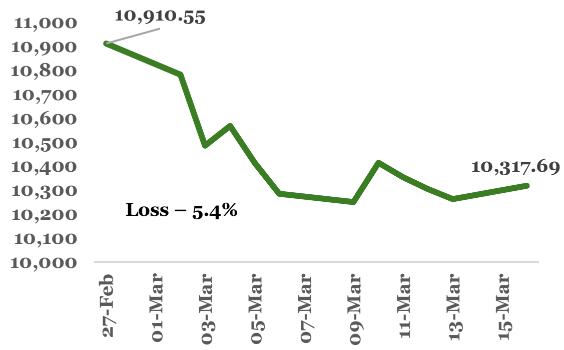
The 2026 Iran war has caused significant volatility in European stock markets, with the STOXX Europe 600 index falling approximately 6%+ in during first two weeks of the war. Major indices, including the FTSE 100, DAX, CAC 40, SMI and IBEX35 dropped heavily as investors reacted to rising energy prices and geopolitical instability, while defense and oil stocks saw gains.

Chart 22: Euro Stoxx 50



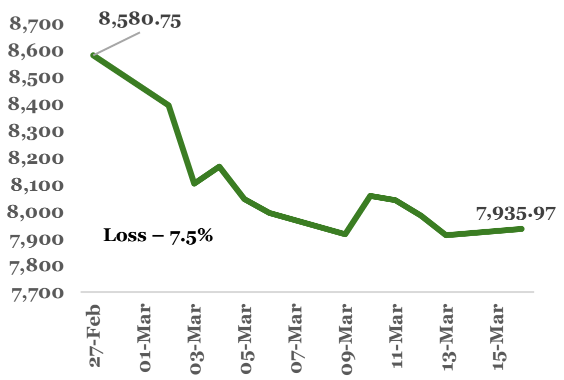
Source: Euronext

Chart 23: FTSE 100 (UK)



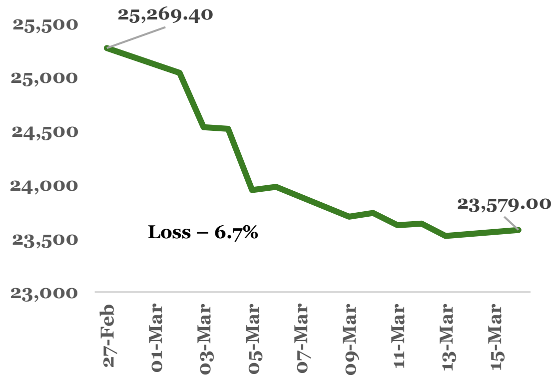
Source: London Stock Exchange

Chart 24: CAC 40 (France)



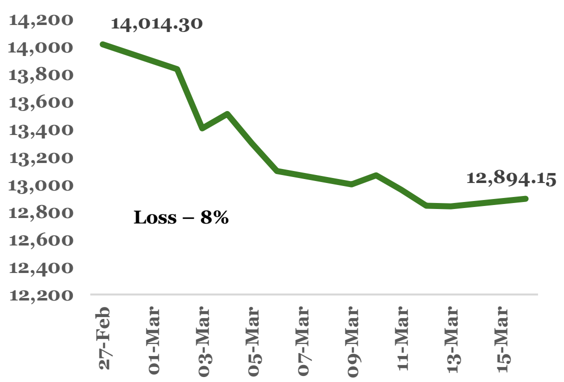
Source: Euronext Paris

Chart 25: DAX (Germany)



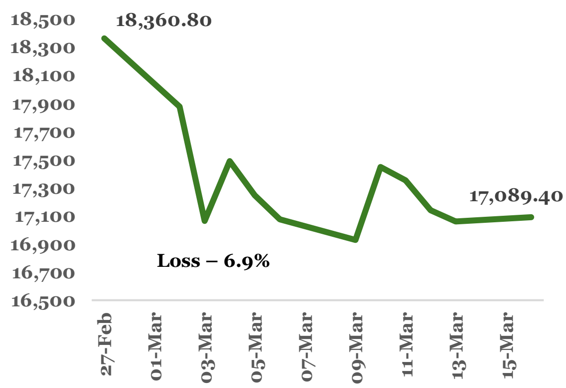
Source: Frankfurt Stock Exchange

Chart 26: SMI (Switzerland)



Source: SIX Swiss Exchange

Chart 27: IBEX35 (Spain)

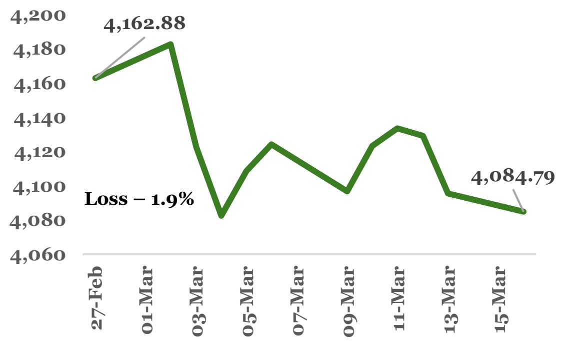


Source: Bolsa de Madrid/Madrid Stock Exchange

APAC Equities Tanked Heavily…

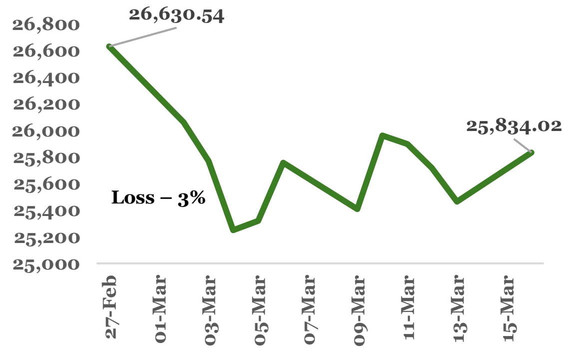
The Iran conflict has triggered significant volatility in APAC stock markets, driven by fears of oil supply disruptions, surging energy prices, and massive foreign capital outflows. Major equity indices in Indonesia, South Korea, India, Taiwan, Japan and Australia plunged as investors adopted a risk-off stance due to the high reliance on Middle Eastern energy imports. Chinese markets suffered modest losses.

Chart 28: Shanghai Composite (China)



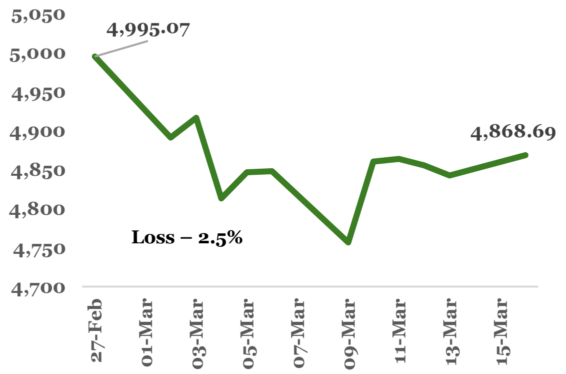
Source: Shanghai Stock Exchange

Chart 29: Hang Seng (Hong Kong)



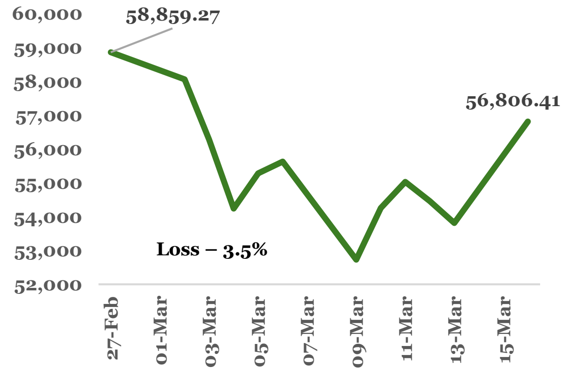
Source: Hong Kong Stock Exchange

Chart 30: Straits Time (Singapore)



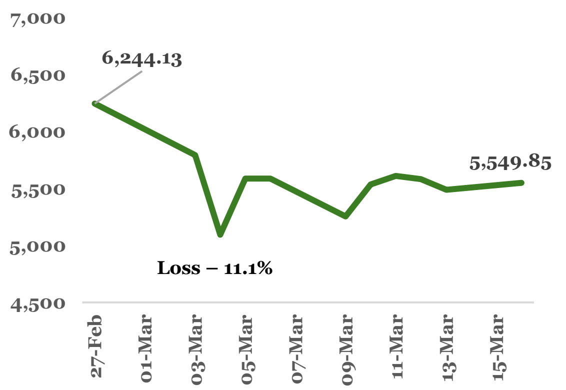
Source: Singapore Exchange

Chart 31: Nikkei (Japan)



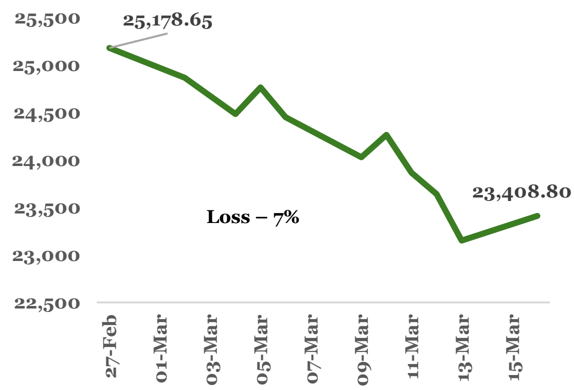
Source: Tokyo Stock Exchange

Chart 32: KOSPI (South Korea)



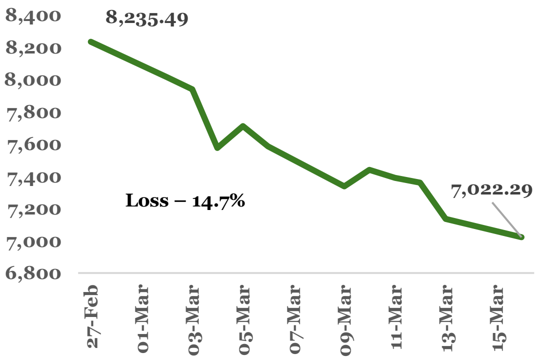
Source: Korea Stock Exchange

Chart 33: NIFTY 50 (India)



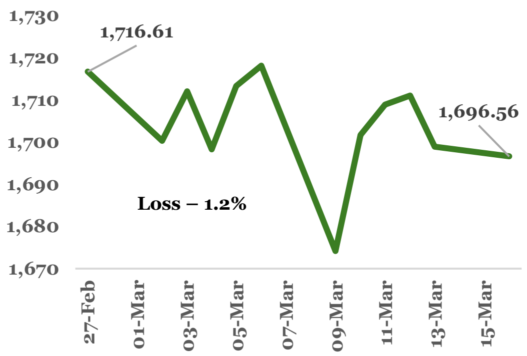
Source: National Stock Exchange of India

Chart 34: Jakarta Composite (Indonesia)



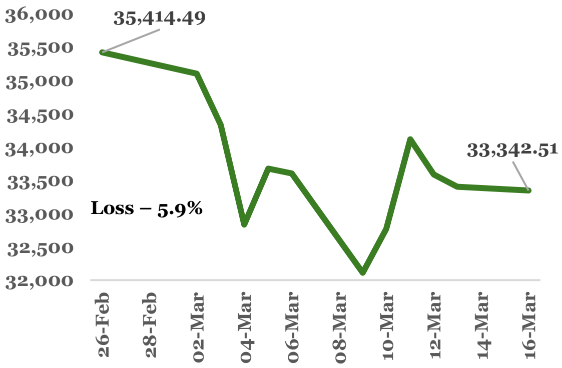
Source: Indonesia Stock Exchange

Chart 35: KLCI (Malaysia)



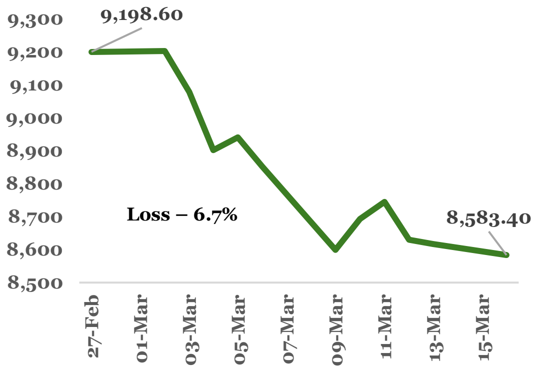
Source: Bursa Malaysia

Chart 36: TAIEX (Taiwan)



Source: Taiwan Stock Exchange

Chart 37: S&P/ASX 200 (Australia)

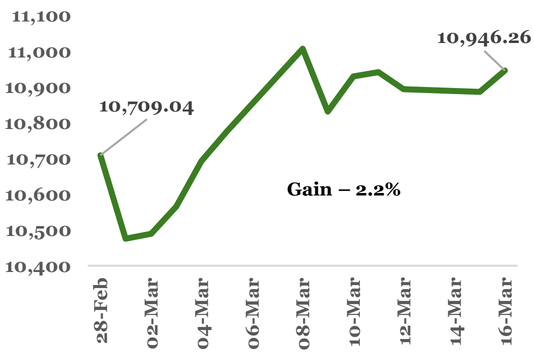


Source: Australian Securities Exchange

Volatile Middle East Markets with UAE Suffering Blood Bath…

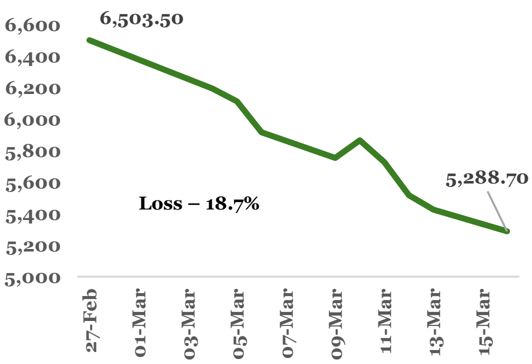
The Iran war has triggered significant volatility, causing sharp declines in Middle East stock markets, such as the Emirate's DFM plunging 18.7% and Qatar stock market losing its market capitalization by more than 6%. Other Arab markets faced decline whilst Tadawul All Share Index enjoyed a modest gain and surprisingly Kuwaiti Index posting a robust gain of 9.5% after the first two weeks of the war. The Israeli market closed nearly flat.

Chart 38: TASI (Saudi Arabia)



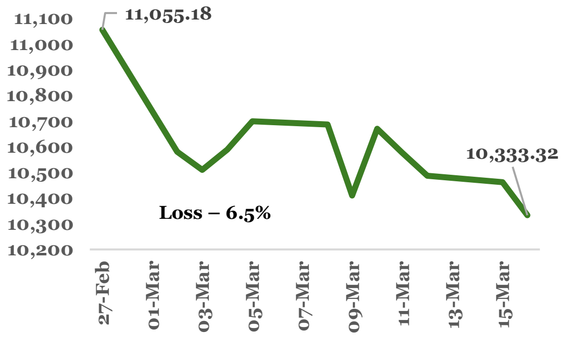
Source: Tadawul Stock Exchange

Chart 39: DFM (UAE)



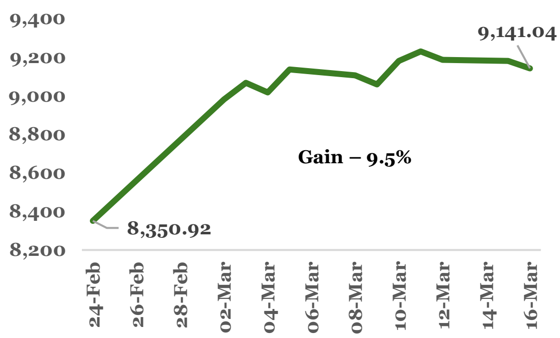
Source: Dubai Financial Market

Chart 40: QE Index (Qatar)



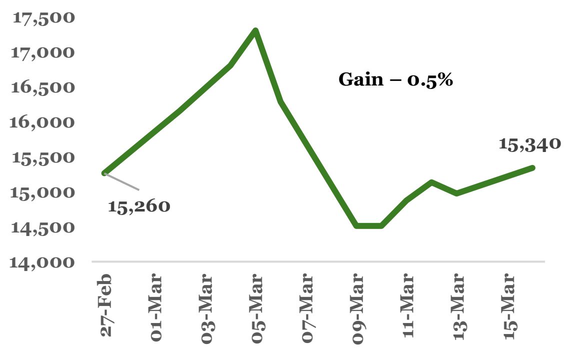
Source: Qatar Stock Exchange

Chart 41: Premier Market Index (Kuwait)



Source: Boursa Kuwait

Chart 42: TA-125 (Israel)

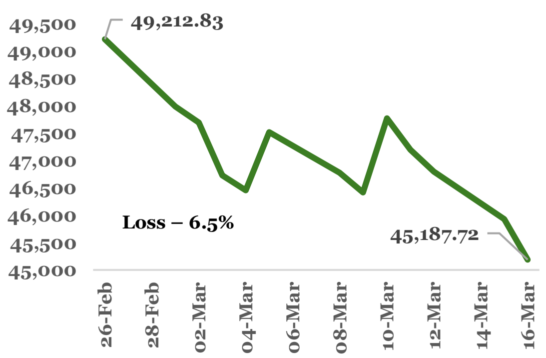


Source: Tel Aviv Stock Exchange

African Markets Followed Southward Trend

The African equity markets followed the broad global trend and lost heavily on account of higher energy prices triggering an inflation and apprehension of a broad inflationary trend as well as food scarcity in some countries.

Chart 43: EGX 30 (Egypt)



Source: The Egyptian Exchange

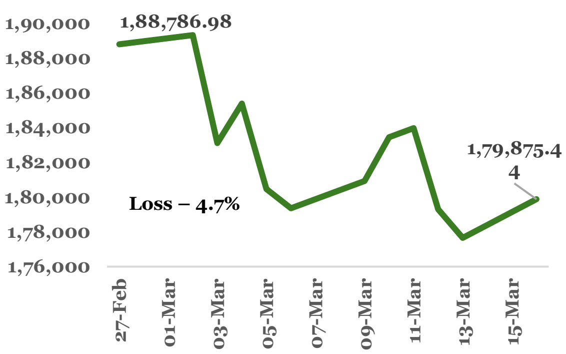
Chart 44: JSE All Share Index (South Africa)

Source: Johannesburg Stock Exchange

Latin America Lost Market Capitalizations…

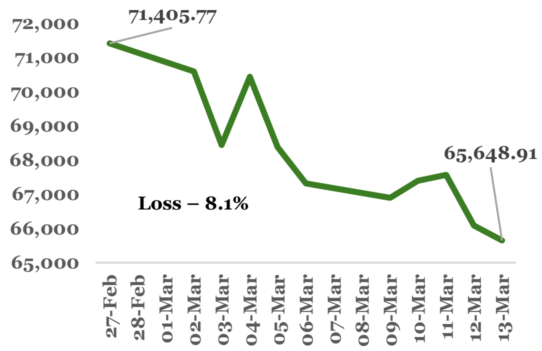
The Iran war has caused volatile, mixed, and generally negative pressure on Latin American equity markets, driven by rising oil prices, increased freight costs, and heightened investor risk aversion. While major economies such as Brazil Mexico have faced significant losses, sector-specific impacts are varied, with energy exporters benefiting, while inflationary pressures and currency devaluation present major challenges across the region.

Chart 45: Ibovespa (Brazil)



Source: Sao Paulo Stock Exchange

Chart 46: IPC (Mexico)



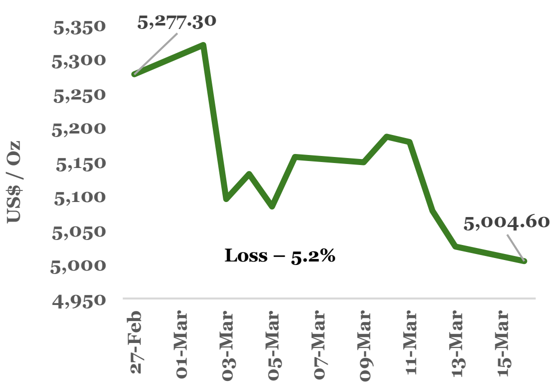
Source: Bolsa Mexicana de Valores

4.9. Surprisingly Precious Metal Prices Moved Southwards

During this war, gold price did not show an upward trend due to the stronger dollar and treasury yields. Additionally, gold had already surged in 2025 and early 2026, indicating much of the geopolitical risk was already priced in, leaving investors to take profits rather than buying more. The conflict-related spike in oil prices sparked worries about higher inflation, which would compel the US Federal Reserve to maintain high interest rates and impede the growth of gold. Despite geopolitical tensions, gold and silver prices have been falling, ending a long-term rally. Gold prices dropped by over 5% during the first two weeks of the war whilst silver prices plunged by more than 15% during the same period, reversing safe-haven gains, according to Upstox reports.

While the immediate reaction has been a drop, some analysts suggest that long-term volatility and inflation risks could see safe-haven demand return if the conflict escalates further, as analyzed by SBI Research.

Chart 47: Gold Price Movement



Source: London Metal Exchange (LME)

Chart 48: Silver Price Movement

Source: COMEX

4.10. Adverse Impact on Tourism and Aviation

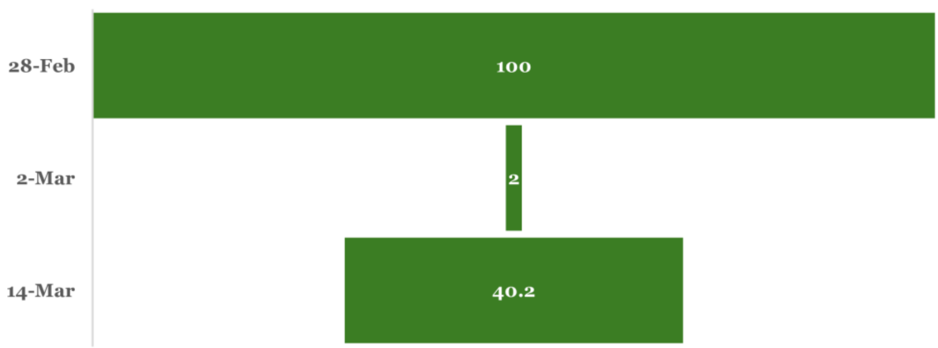
The Iran war has created sector imbalance that had severely hit aviation, tourism and hospitality sector. Middle East, especially cities including Dubai, Abu Dhabi, Riyadh, Makkah, and Madinah attract significant tourists each year. In 2025, the market share of the GCC countries in global tourism stood at 5.2% and share of international tourism revenues was at 7.2%. The Iran conflict has created unsafe situations for tourists to travel in this region. Countries such as Saudi Arabia, UAE, Qatar and Oman, dependent on international tourism witnessed reduced inflows, affecting hotels, restaurants, and local hospitality employment.

The aviation sector is the worst hit due to the ongoing US-Israel war with Iran. Due to airspace restrictions over conflict areas, flights must take longer routes, which raises operating expenses and fuel consumption. This lowers profitability, which frequently results in increased ticket costs or fewer flights. The war has not only sent oil prices surging but has also upended global travel, pushing airline ticket costs on some routes sky-high. For instance, Australia's Qantas Airways, Scandinavia's SAS, Air New Zealand and India's two biggest carriers, IndiGo and Air India, have all announced airfare hikes, blaming an abrupt spike in the cost of fuel on the war. During the pre-conflict situation, the average daily flight index of leading airlines in the Middle East was about 100 or above, which fell to 60 and lower during the war.

According to New Zealand's flag carrier, prior to the strikes on Iran, the price of jet fuel was between US$ 85 and US$ 90 per barrel and during the third week of the war, it is between US$ 150 and US$ 200. While airlines based in the Middle East account for only 9.5% of global capacity, they play an outsized role they have developed into a major hub for long-haul travel between Europe and Asia. Several Asian and European airlines, including Lufthansa and Ryanair, have oil hedging in place, securing a part of their fuel supplies at fixed prices. Due to airspace restrictions in the Middle East region, aircraft from Asia and Australia to the US and Europe have also been taking longer routes to avoid the Gulf. As a result, the cost of airline tickets has increased.

The Iran conflict has severely crippled Middle Eastern tourism and aviation, costing an estimated US$ 600 million daily in lost visitor spending. Key hubs such as Dubai and Doha are operating at reduced capacity, causing global flight cancellations and rerouting. Air travel is experiencing significant disruption similar to the pandemic, while regional arrivals may drop by 27%. Major airlines have canceled or rerouted flights, with 91% of Qatar Airways and 75% of Etihad flights cancelled at the peak of initial fighting. Critical airspace over the Gulf is closed, forcing longer routes between Europe and Asia, resulting in higher fuel consumption and rising operating costs. Airlines are passing increased operating costs to passengers, resulting in higher airfares, as observed by Al Jazeera.

Chart 49: Average Daily Flight Index, 2026

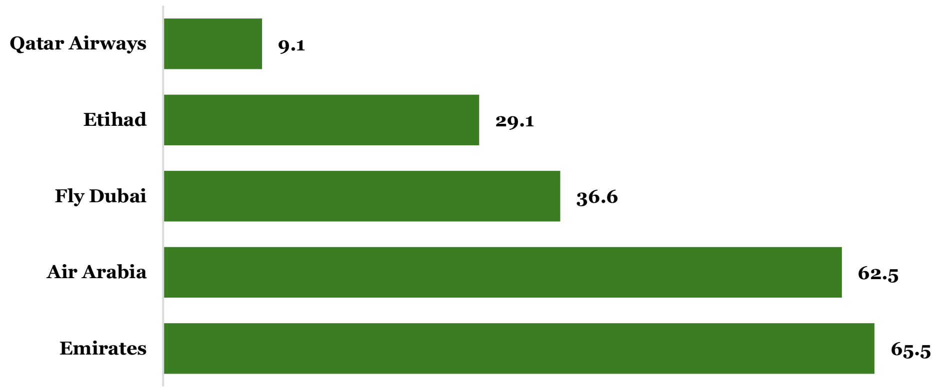


Source: FlightRadar, ECOFIN Research

The Middle East faces a potential loss of 38 million visitors in 2026, reversing a projected 13% growth in tourist arrivals. The tourism sector is to lose at least US$ 600 million per day in the region. The Middle east tourism industry is facing significant economic strain, affecting jobs in hotels, tour operations, and related sectors. While the GCC states face large absolute losses, the steepest relative declines in tourism are projected for Iran (49%) and Israel (57%), as noted by Caspian Post.

Asian economies are among the worst affected by tensions in the Strait of Hormuz, with countries including India, China, Japan and others across southeast Asia heavily reliant on imported oil that passes through the narrow waterway. Now, some popular tourist destinations in Asia such as Sri Lanka and Thailand are enacting measures to limit fuel consumption in their nations. Countries heavily dependent on Middle Eastern flights for tourism, such as India, are experiencing significant impacts.

Chart 50: Average Flight Index During Third Week of the Iran War by Airlines



Source: FlightRadar, ECOFIN Research

As travelers look for safer, more affordable alternatives, Southern European and select North African destinations could capture redirected demand.

4.11. India's Acute Exposure: Energy, Diaspora, and Dollars

The escalating conflict involving the US-Israel and Iran presents a multi-dimensional challenge for India. While energy security is the immediate concern, the crisis threatens India's vast diaspora, its vital remittances, and the broader stability of its economy. India's deep integration with the Gulf region means that the effects of this war are not just geopolitical but directly impact millions of households and the country's fiscal health. The Indian government has responded to the US-Israel and Iran war's impacts on energy, diaspora, and dollars with a mix of stockpiling, diversification, and diplomatic efforts. These steps aim to cushion these short-term shocks while building long-term resilience.

A Perfect Storm for the Indian Economy and How the Country is Healing Through Strategy, Diplomacy, and Resilience

The US-Israeli military campaign against Iran, which began on 28 February 2026, has unleashed what global media and economists describe as a ‘perfect storm’ for India's economy. Only weeks before the conflict erupted, India's economic prospects appeared in spotlights – the country was among the fastest-growing major economies globally, had surpassed Japan to become the world's fourth-largest economy, according to IMF. In a world beset by risks ranging from the Ukraine war to US tariff policies, India's skilled labor force, fiscal discipline, and strong currency reserves had made it a relatively safe bet for investors. However, this favorable position rested on an underappreciated foundation – India’s deep and multifaceted ties to the Arab countries of the Persian Gulf. Today, that advantage has transformed into a critical vulnerability.

Indian Prime Minister Narendra Modi has acknowledged in Parliament that the conflict 'has created a severe energy crisis across the world', affecting India's trade routes and disrupting the supply of crude oil and LNG. **Though he warned of serious consequences if the situation persists, but assured that India has sufficient strategic reserves and is actively engaged in diplomacy to secure its supplies.**

This analysis examines India's acute exposure across three interconnected dimensions – Energy, Diaspora, and Dollars – and pinpoint the comprehensive measures the Indian government has undertaken to mitigate the crisis.

4.11.1. Energy Security – The Achilles' Heel

The Scale of Dependence…

India's energy vulnerability stems from its profound dependence on the Middle East and, more specifically, on the Strait of Hormuz. The strait accounts for over 40% of the country's crude oil imports, over 55% of its LNG imports, and a whopping 90% of its LPG imports flow through the strait, making the chokepoint critical for India's energy imports. For decades, since the 1970's energy crisis, India has relied on this maritime passage for its energy security. Iran has threatened to target vessels linked to it enemies, creating a perilous environment for maritime traffic – the disruption has triggered a cascade of consequences that are already being felt across the Indian economy.

Strategic Move: The Official Diplomatic Stance…

At the heart of India's diplomatic effort has been direct engagement with Iranian leadership. Prime Minister Modi spoke with Iranian President Masoud Pezeshkian on 12 March 2026 discussing the 'serious situation in the region', and exploring ways to secure the passage of Indian ships through the Strait of Hormuz. During this conversation, Modi emphasized that 'India's primary priority remains the safety of Indian citizens and ensuring the smooth flow of goods and energy'. External Affairs Minister Dr. S. Jaishankar also maintained contact with his Iranian counterpart. Speaking to Parliament, Dr. Jaishankar acknowledged that while attempts were made to reach out to the Iranian side, establishing contact had been difficult at certain moments. Alongside, India's diplomatic outreach extended beyond Tehran. Ministry of External Affairs (MEA) spokesperson Randhir Jaiswal confirmed that New Delhi remained in regular contact with the GCC countries, as well as with the United States and Israel, to communicate India's priorities – particularly regarding its energy security and people's safety. Tehran authorized Indian-flagged LPG tankers to pass under Operation Sankalp with direct warship escorts being allowed for these Indian tankers.

India Booked around 60 million barrels of Russin Crude for April…

India has purchased around 60 million barrels of Russian crude oil for delivery in April as supply chains face strain due to disruptions caused by the ongoing conflict in West Asia, according to a Bloomberg report. The purchases are aimed at easing concerns over crude availability as shipping flows through the Strait of Hormuz remain constrained. According to the report, the cargoes were booked at premiums ranging between US$ 5 and US$ 15 per barrel above Brent, reflecting tighter supply conditions and strong demand for accessible barrels. The volume is roughly in line with India's purchases for March but represents more than double the quantity bought in February, data intelligence firm Kpler indicated, as cited by the report. The report noted that the buying activity was facilitated after a US waiver to take delivery of Russian oil cargoes that had already been loaded onto vessels before 5 March, helping offset shortages triggered by the effective closure of the Strait of Hormuz.

Refiners Return to Russian Market after Months of Reduced Buying…

Bloomberg reported that Indian refiners, including Mangalore Refinery & Petrochemicals Ltd. (MRPL) and Hindustan Mittal Energy Ltd., have resumed buying Russian crude after largely staying away from such purchases since December amid pressure from the US. India had shifted toward supplies from Saudi Arabia and Iraq in recent months. However, much of those cargoes became stuck in the Persian Gulf following the outbreak of hostilities in the region, tightening supply availability and prompting refiners to revisit Russian sourcing options, the report said. The report further cited people familiar with the matter as saying that officials in New Delhi expect the US waiver to remain in place as long as disruptions to shipping through Hormuz persist.

Iran Allowing China, Russia and Indian Ships to Pass Through Strait of Hormuz...

"We have permitted certain countries that we consider friendly to pass through (Strait of Hormuz). We allowed China, Russia, India, Iraq, and Pakistan to transit", Iranian foreign minister Araghchi said, according to Iranian State TV. At the same time, the Iranian foreign minister made it clear that ships linked to Iran's adversaries will not be allowed to transit through the strategic waterway. "We are in a state of war. The region is a war zone, and there is no reason to allow the ships of our enemies and their allies to pass through. But it remains open to others," he said.

Tanker Arrivals Continue Amid Market Volatility...

A report in the third week of March highlighted ongoing energy shipments reaching Indian ports despite volatility in global markets.

India's Response to Energy Crisis die to the Israel-US and Iran Conflict

PM Narendra Modi chairs meeting with Chief Ministers to review preparedness in light of emerging situation in West Asia crisis

Prime Minister Narendra Modi chaired a meeting with Chief Ministers and Lieutenant Governors of States on 28 March 2026 to review preparedness in light of the emerging situation arising out of recent developments in West Asia and its potential impact on India, via video conferencing, as reported by Press Information Bureau. Prime Minister expressed his appreciation for the valuable suggestions shared by all Chief Ministers, noting that these inputs would be instrumental in effectively managing the evolving situation. He emphasized the need for vigilance, preparedness, and coordinated action to address the challenges ahead.

Referring to the ongoing situation in West Asia, Prime Minister said India has prior experience in dealing with similar global disruption. He recalled the collective response during the Covid-19 pandemic, when the center and states worked together as "Team India" to mitigate the impact on supply chains, trade, and daily life. He underscored that the same spirit of cooperation and coordination remains India's greatest strength in navigating the present circumstances.

Prime Minister highlighted that the situation remains dynamic, necessitating continuous monitoring and adaptive strategies. He said that an Inter-Ministerial Group has been operational since 3 March, reviewing the situation on a daily basis and taking timely decisions. He stressed that the Government's priorities are to maintain economic and trade stability, ensure energy security, safeguard the interests of citizens, and strengthen industry and supply chains. Emphasizing the critical role of states, Prime Minister noted that effective implementation of decisions takes place at the state level. He called for constant communication and coordination between the center and states, along with timely sharing of information and joint decision-making, so that responses are swift and well-aligned.

Prime Minister urged states to ensure the smooth functioning of supply chains and to take strict measures against hoarding and profiteering. He highlighted the importance of activating control rooms at state and district levels and maintaining administrative alertness to prevent disruptions. He also stressed the need for advance planning in the agriculture sector, particularly in monitoring fertilizer storage and distribution, so that farmers do not face difficulties during the upcoming Kharif season.

Prime Minister cautioned against the spread of misinformation and rumors, stating that timely dissemination of accurate and credible information is essential to prevent panic. He also advised vigilance against online frauds and fake agents. PM called for special attention in border and coastal states to address any emerging challenges related to shipping, essential supplies, and maritime operations. He underscored the importance of maintaining public confidence, noting that assurance regarding the availability of essential commodities would help prevent unnecessary panic among citizens. He further suggested that states with citizens in West Asia should activate helplines, appoint nodal officers, and establish district-level support systems to assist affected families and ensure timely flow of information.

Prime Minister stated that efforts undertaken in recent years to strengthen India's economic and supply systems are proving beneficial in the current context. He called for continued engagement with industry and MSMEs to address their concerns and ensure stability in production and employment. He also emphasized the need for robust coordination mechanisms at all levels, including regular reviews at the level of Chief Secretaries and continuous monitoring at the district level, to enable quick response to evolving situations.

Prime Minister called for a parallel focus on immediate response and long-term preparedness. He urged states to accelerate efforts in promoting alternative energy sources such as biofuels, solar energy, GOBARdhan initiative, electric mobility, as well as expanding piped natural gas connections. He also highlighted the importance of enhancing domestic exploration of oil and natural gas, with active cooperation from states.

Prime Minister reiterated that addressing the challenge is a shared responsibility and expressed confidence that, working together as "Team India," the nation will successfully overcome the situation. During the meeting, Defence Minister Rajnath Singh highlighted that the government has been working actively under the leadership of Prime Minister to tackle this crisis and taking positive steps such as ensuring timely availability of LPG and reducing the excise duties on petrol and diesel. He further highlighted the need for collective action from all states, UTs and the center to tackle the ongoing situation. Cabinet Secretary Shri T V Somanathan gave a presentation on the current situation and enumerated steps and recommendations for States to tackle the situation.

Chief Ministers appreciated the steps taken by the central government under the leadership of Prime Minister to tackle the situation. They also praised the diplomatic outreach of Prime Minister to different countries amidst this crisis to ensure the well-being of Indian citizens abroad.

Chief Ministers across states expressed confidence that the situation remains stable, with adequate availability of petrol, diesel, and LPG, and continuous monitoring mechanisms in place to ensure uninterrupted supply of essential commodities. They widely welcomed the decision to reduce excise duty on fuel, noting that it will provide significant relief to citizens amid global uncertainties. Chief Ministers also welcomed the decision to increase commercial LPG allocation to states and union territories to 70% of pre-crisis levels, up from 50%. They reaffirmed commitment to work in close coordination with the Center to effectively manage the evolving situation and safeguard the interests of citizens.

4.11.2. Diaspora – Millions of Lives in the Crosshairs

The conflict places the safety and livelihoods of approximately 9 million Indian nationals living and working across the Gulf region in direct jeopardy – represents among the largest expatriate population from any other regions in the world, and their concentration in the Gulf makes them uniquely vulnerable to the ongoing hostilities. Approximately 40% of India's total remittances originate from the Middle East. The UAE alone contributes nearly 20% of India's total inward remittances, maintaining its position as the second-largest source after the US. To deal with the crisis – the Indian government has activated a comprehensive framework to protect its citizens abroad.

The Ministry of External Affairs has established a dedicated 24x7 control room and helpline to respond to queries and emergencies, maintaining constant communication with state governments and the Indian diaspora. Regular advisories are being issued to keep citizens informed about travel, safety measures, and regional developments. The government is providing assistance across multiple areas, including visa facilitation, logistics, and evacuation planning. As of third week of March 2026, around 2,199 flights have operated between the UAE and India, carrying over 400,000 passengers, according to a government press release. This massive airlift operation demonstrates the scale of government coordination required to manage the crisis. Evacuation efforts are also underway through alternative routes, including via Jordan and Saudi Arabia. The government has also confirmed that it is in touch with the families of Indian nationals who have been affected, including one who died, whose mortal remains were brought back to India.

4.11.3. Dollars – Trade, Finance, and Strategic Balance

Beyond energy and remittances, the conflict threatens India's broader trade relationships and financial stability. The Gulf region is not merely a source of energy and labor demand but also acts as a crucial export market for Indian goods. India's annual non-oil exports to the Gulf region accounting for approximately US$ 48 billion and are directly dependent on the Strait of Hormuz for transmission. The most immediate and visible impact has been on the Indian rupee, which has become one of Asia's worst-performing currencies in year of 2026. The currency weakened by over 2.5% against the dollar since the start of the US-Israel and Iran war, breaching record lows with alarming frequency. By late of March 2026, the US$/₹ pair crossed the 93-rupee mark for the first time in the history, reflecting the intense pressure on the domestic currency.

To address this, the Reserve Bank of India has mounted a significant defense mechanism to curve the threat. Since the start of the US-Israel and Iran war, the RBI has deployed more than US$ 20 billion from its foreign exchange reserves to manage the currency's decline, with net forward selling of dollars growing to over US$ 100 billion. The Reserve Bank of India has undertaken record government bond purchases, including ₹ 1 trillion (approximately US$ 10.7 billion) in March 2026, aimed at increasing bank liquidity and supporting the fixed-income market. Alongside, the Indian central bank's strategy focuses on ensuring an 'orderly descent' of the rupee rather than defending a specific exchange rate level, using its foreign exchange reserves to manage volatility rather than prevent adjustment.

4.11.4. To Conclude

India's strategic ambitions in the region, such as the development of Iran's Chabahar port, have been jeopardized. The project, meant to be a gateway to Central Asia bypassing Pakistan, now faces an uncertain future due to the conflict and US sanctions, with its operations continuing only under a temporary waiver. However, a crucial element of India's response to this crisis extends beyond managing these exposures – it involves actively looking to stop the war itself. By leveraging its diplomatic relationships, its BRICS chairmanship, and its credibility as a neutral actor, India is positioning itself to aid and end a conflict that threatens not only its own interests but also to the global stability. This approach reflects a broader ambition – to demonstrate that India is not just a rising power but as a responsible global leader capable of shaping the course of international events and healing the divisions of a polarized world.

Section 5

India –

Beacon of Hope, Harbinger of Peace

5. India - Beacon of Hope, Harbinger of Peace

5.1. Indian Civilizational Foundation – *"Vasudhaiva Kutumbakam"*: From Ancient Philosophy to a Framework for Global Unity in the 21st Century

In the quiet wisdom of ancient India, long before the world was divided by borders, ideologies, and identities, there emerged a profound truth—one that saw humanity not as fragments of competing interests, but as threads of a single, shared existence. This truth, immortalized in the "Maha Upanishad", the treatises to India's holy texts and world's oldest written books, the "Vedas", found expression in the timeless phrase ***"Vasudhaiva Kutumbakam (the world is one family)"***. In an era marked by geopolitical fragmentation, economic disparity, and ecological distress, the world finds itself at a critical inflection point. It is a philosophy that does not merely speak to the mind, but resonates deeply with the human spirit. It imagines a world where compassion travels beyond boundaries, where empathy replaces estrangement, and where the joys and sorrows of one are felt by all. In its essence, it is both intimate and infinite—binding the individual to the collective, and the local to the universal.

In Chapter 6 of the Maha Upanishad, there's a powerful verse that resonates deeply within Indian society. It speaks of the unity of humanity and the importance of embracing all as part of one's own family. This verse, engraved at the entrance hall of the Parliament of India, reminds us that the world is not divided into strangers and relatives as perceived by narrow minds. Instead, it emphasizes that the entire world is one big family.

अयं निजः परो वेति गणना लघुचेतसाम्। (Ayam Nijah Paro Veti Ganana Laghucetasam) उदारचरितानां तु वसुधैव कुटुम्बकम् ॥ (Udaracaritanam Tu Vasudhaiva Kutumbakam)

Today, as the modern world stands at the crossroads of unprecedented connectivity and deepening divides, this ancient ideal acquires a renewed sense of urgency and relevance. It calls upon humanity to rediscover a forgotten kinship—to look beyond differences and recognize a shared destiny. In a time when walls are being built, both visible and invisible, Vasudhaiva Kutumbakam offers a vision of bridges—enduring, inclusive, and transformative. More than a philosophical doctrine, it is a gentle yet powerful reminder that beneath the complexities of nations and narratives, we remain, at our core, a single human family—interconnected, interdependent, and inseparable.

5.1.1. Philosophical Foundations: Ethical Universalism Rooted in Indian Thought

At its core, *Vasudhaiva Kutumbakam* reflects the essence of India's civilizational ethos, an unwavering belief in unity amidst diversity. Unlike exclusivist frameworks that prioritize national or cultural superiority, this philosophy embraces ethical universalism, recognizing all living beings as part of a shared cosmic existence. It challenges the dichotomy of "us versus them," replacing it with a vision of collective identity and mutual coexistence. This principle is deeply aligned with the broader Indian philosophical tradition, which emphasizes interconnectedness, compassion, and equilibrium. It is not merely a cultural expression but a normative framework that calls for responsible action, empathy, and sustainable living. In this sense, *Vasudhaiva Kutumbakam* anticipates many of the values that underpin modern discourses on global governance and human rights.

5.1.2. Relevance in the Contemporary Global Order

The 21st century is defined by unprecedented levels of interdependence. Globalization has integrated economies, societies, and technologies, creating a tightly woven fabric of shared opportunities and risks. However, this interconnectedness has also exposed vulnerabilities—pandemics, financial crises, and climate change that transcend borders and demand collective responses. In this context, *Vasudhaiva Kutumbakam* gains renewed significance. It provides a philosophical anchor for addressing global challenges through cooperation rather than competition. Climate change, for instance, cannot be mitigated through isolated national efforts; it necessitates a unified global response grounded in shared responsibility. Similarly, public health crises such as pandemics highlight the need for equitable access to resources, knowledge, and technology. The philosophy thus aligns seamlessly with contemporary frameworks such as sustainable development and global governance, offering a moral compass to guide international collaboration in an increasingly complex world.

As we navigate the complexities of the 21st century, reinterpreting *Vasudhaiva Kutumbakam* becomes imperative. While its ideals remain relevant, adapting them to contemporary challenges requires political, economic, and military prowess. India, along with other nations, must strive to not only set global norms but also possess the capacity to enforce them effectively.

Embracing *Vasudhaiva Kutumbakam* in Cultural Discourse: During a speech at the World Culture Festival organized by Art of Living, Prime Minister Narendra Modi emphasized the richness of Indian culture, highlighting its profound values. He portrayed Indian heritage as a journey from the ancient philosophical concept of *"Aham Brahmasmi"* to the inclusive ethos encapsulated in *Vasudhaiva Kutumbakam*, signifying a shift towards a global perspective.

Integration in Educational Endeavors: The 7th International Earth Science Olympiad held in Mysore, India, in 2013, prominently featured the phrase "*Vasudhaiva Kutumbakam*" in its logo. Designed by R. Shankar and Shwetha B. Shetty of Mangalore University, the logo symbolized the interconnectedness of Earth's subsystems, advocating for their integration into school curricula to foster holistic understanding.

G20 Presidency Theme and Logo Controversy: India's G20 Presidency from December 2022 to November 2023 adopted the theme ***Vasudhaiva Kutumbakam* or One Earth-One Family-One Future**, reflected in its official logo. Selected from over 2400 submissions through a nationwide contest, the logo aimed to promote global unity and cooperation. However, controversy arose when China objected, citing Sanskrit's non-inclusion among the United Nations' official languages. As a result, the phrase was omitted from most official G20 documents, showcasing the complexities of global diplomacy and linguistic diversity.

5.1.3. A Guiding Principle for Governance and Diplomacy

India has historically maintained a posture of strategic restraint, refraining from initiating aggression and prioritizing peace, stability, and mutual respect in its engagements with other nations. In recent years, the relevance of *Vasudhaiva Kutumbakam* has extended beyond philosophical discourse into the realm of policy and diplomacy. Its adoption as a central theme during India's leadership of the G20 underscores its applicability as a guiding principle for global governance. Within diplomatic contexts, this philosophy reinforces the importance of multilateralism, dialogue, and consensus-building. It advocates for a shift from transactional diplomacy to transformational partnerships—where nations collaborate not merely for strategic gain but for collective progress. India's emphasis on inclusive growth, digital public infrastructure, and climate action reflects an attempt to operationalize this philosophy on the global stage. Moreover, *Vasudhaiva Kutumbakam* enhances the role of soft power in international relations. By projecting values of inclusivity and cooperation, it positions nations as responsible global actors committed to shared prosperity and peace.

5.1.3.1. *Vasudhaiva Kutumbakam* in Action: India's Humanitarian Diplomacy in a Fragmented World

In a century defined by crises that transcend borders—pandemics, conflicts, natural disasters, and economic disruptions—the true measure of global leadership lies not merely in power, but in compassion and responsibility. The ancient Indian philosophy of *Vasudhaiva Kutumbakam* offers a timeless framework for such leadership. It envisions a world where nations rise above transactional interests to act as members of a shared global family. India's contemporary global engagement provides a compelling illustration of this philosophy in action. Through humanitarian assistance, disaster response, and development partnerships, India has consistently demonstrated that its foreign policy is guided not only by strategic interests but also by a deep-rooted commitment to collective well-being. Across diverse geographies—from Latin America to West Asia, Eastern Europe to its immediate neighborhood—India's actions reflect a quiet yet powerful embodiment of *Vasudhaiva Kutumbakam*.

5.1.3.2. Vaccine Diplomacy: Extending Care Beyond Borders

During the unprecedented global health crisis of COVID-19, India emerged as a vital pillar of support for the international community. Under its "Vaccine Maitri" initiative, India supplied vaccines and essential medical support to numerous countries, including Brazil. At a time when vaccine nationalism threatened equitable access, India prioritized global health solidarity by ensuring that developing and vulnerable nations were not left behind. This outreach was not merely a logistical exercise but a moral commitment—an assertion that in a global pandemic, no nation is safe until all are safe. By extending life-saving support across continents, India reinforced the principle that humanity's shared challenges demand shared solutions.

5.1.3.3. Humanitarian Response to Natural Disasters: Türkiye Earthquake Aid

India's rapid response to the devastating earthquakes in Türkiye stands as another testament to its humanitarian ethos. Through large-scale rescue and relief operations, India deployed specialized teams, medical personnel, and critical supplies to assist in search-and-rescue efforts and provide immediate relief to affected populations. Such interventions underscore India's readiness to act decisively in times of crisis, irrespective of geography or political alignment. The emphasis is not on strategic gain, but on alleviating human suffering—reflecting the very spirit of *Vasudhaiva Kutumbakam*.

5.1.3.4. Humanitarian Assistance Amid Conflict: Israel–Hamas and Palestine

In conflict-ridden regions such as Gaza Strip, where the humanitarian situation remains precarious due to the ongoing Israel–Hamas conflict, India has maintained a balanced and principled approach. While navigating complex geopolitical realities, it has consistently extended humanitarian aid to Palestinian civilians, including medical supplies and essential relief materials. This dual approach—strategic engagement with stakeholders alongside humanitarian outreach—demonstrates India's ability to uphold human values even in highly sensitive environments. It reinforces the idea that compassion must remain central, even amidst conflict.

5.1.3.5. Support to Ukraine: Upholding Humanitarian Priorities in War

The ongoing crisis in Ukraine has presented yet another test of global solidarity. India has contributed humanitarian assistance, including medicines and relief supplies, while also facilitating evacuation efforts for affected populations. By focusing on humanitarian priorities rather than political alignment, India has maintained a stance that prioritizes human life and dignity. This approach reflects a nuanced understanding of global responsibility—where assistance is guided by need rather than ideology.

5.1.3.6. Afghanistan: Sustained Support in Times of Instability

India's engagement with Afghanistan exemplifies long-term commitment to humanitarian and developmental assistance. Even amidst political uncertainty following the Taliban's return to power, India has continued to supply food aid, medicines, and essential support to the Afghan people. Prior to these developments, India played a significant role in building critical infrastructure in Afghanistan—ranging from roads and dams to healthcare and education facilities. These initiatives were not driven by short-term gains but by a vision of enabling stability, development, and self-reliance. This continuity of support—before and after regime changes—highlights India's people-centric approach, where assistance is directed towards citizens rather than contingent on political conditions.

5.1.3.7. Neighborhood First: Strengthening Regional Solidarity

India's commitment to *Vasudhaiva Kutumbakam* is most evident in its immediate neighborhood. Through its **Neighborhood First policy**, India has consistently supported countries across the Indian subcontinent and the Maldives. From infrastructure development and economic assistance to disaster relief and capacity building, India's regional engagement is characterized by responsiveness and reliability. Whether it is extending financial aid, supplying essential commodities, or assisting in times of natural disasters, India has positioned itself as a dependable partner. This approach not only strengthens regional stability but also fosters a sense of shared destiny—where progress is collective and interdependent.

5.1.3.8. A Distinctive Approach: Humanitarianism Without Expectation

What distinguishes India's global engagement is the absence of conditionality or expectation. Unlike transactional models of aid, which often seek strategic or economic returns, India's humanitarian initiatives are rooted in goodwill and mutual respect. This principle of giving without expecting reflects a deeper philosophical orientation. It reinforces trust, enhances credibility, and builds enduring partnerships. More importantly, it redefines the nature of international relations—from competition to cooperation, from self-interest to shared responsibility.

5.1.4. Economic and Business Implications: Towards Inclusive and Sustainable Growth

Beyond governance, *Vasudhaiva Kutumbakam* holds significant implications for the global economic landscape. In an era where economic systems are increasingly scrutinized for their social and environmental impact, this philosophy offers a pathway towards more equitable and sustainable models of growth.

The modern business environment is witnessing a paradigm shift from profit-centric approaches to purpose-driven strategies. Concepts such as Environmental, Social, and Governance (ESG) frameworks, stakeholder capitalism, and responsible supply chains resonate strongly with the ethos of *Vasudhaiva Kutumbakam*. They emphasize that businesses are not isolated entities but integral components of a broader societal ecosystem. By fostering a sense of shared responsibility, this philosophy encourages organizations to prioritize long-term value creation over short-term gains. It advocates for inclusive growth that benefits not just shareholders, but employees, communities, and future generations. In doing so, it redefines the role of business as a catalyst for global well-being.

5.1.5. Social and Cultural Dimensions: Embracing Diversity in a Connected World

At a societal level, *Vasudhaiva Kutumbakam* offers a powerful framework for navigating the complexities of cultural diversity and social integration. In an increasingly globalized world, migration, digital connectivity, and cross-cultural interactions have blurred traditional boundaries, creating both opportunities and challenges. This philosophy promotes a spirit of inclusivity, mutual respect, and cultural exchange. It encourages societies to celebrate diversity rather than perceive it as a source of division. By fostering a sense of global citizenship, it empowers individuals to engage constructively with different cultures, perspectives, and identities. Furthermore, *Vasudhaiva Kutumbakam* addresses pressing social issues such as inequality, discrimination, and exclusion. It calls for systems and policies that ensure dignity, equity, and opportunity for all, thereby strengthening the social fabric of a globalized world.

5.1.6. India Leading Global South

The concept of Global North and Global South (or North–South divide in a global context) is used to describe a grouping of countries along the lines of socio-economic and political characteristics. The Global South is a term generally used to identify countries in the regions of Latin America, Africa, Asia and Oceania. Most of humanity resides in the Global South. Several countries in the Global South are characterized by low-income, dense population, poor infrastructure, often political or cultural marginalization, and are on one side of the divide. On the other side is the Global North (comprising the United States, United Kingdom, Canada, West Europe, Israel, Hong Kong, Macau, Japan, South Korea, Singapore, Taiwan, Australia, New Zealand and few others depending on context). Countries, which are developed, are considered as Global North countries, while those developing are considered as Global South countries.

India, for the first time ever, held a summit meeting of those countries that comprise the Global South. The Voice of Global South Summit, held virtually, was aimed at giving voice to the unheard, thereby leveraging India's role as the G20 president till 2023. It was held under the theme — Unity of Voice, Unity of Purpose — and attracted over 120 countries. Needless to say, the summit was truly grandiose, with 29 Latin American and Caribbean countries, 47 African countries, 31 Asian countries, eleven Oceanian countries, and seven European countries in participation. India's objective with the Voice of the Global South Summit was to create a shared platform to deliberate on such concerns, interests, and priorities that affect the developing countries as well as to exchange ideas and solutions, and most importantly, to unite in voice and purpose in tackling the aspects of shared concerns and priorities.

India taking the leadership of the Global South has several diplomatic dimensions. It broadened India's role in addressing the many challenges currently facing the international community. There is no doubt that the countries of the Global South raise their voice in the UN General Assembly and in the various international conferences organized under UN auspices. The Global South features many regional organizations, be it the African Union, ASEAN, Mercosur, the Caribbean Community, etc., where regional issues and concerns and their linkages with larger global developments are addressed. It is, therefore, not as if the voice of the Global South is not heard. It is in the specific context of G20 that India has taken the lead to reflect the broad concerns of the developing countries in the discussions on economic and financial issues, as well as larger developmental ones, in this more restricted and focused group of the world's leading twenty economies, created in the first place to address more purposefully pressing emerging issues of global economic growth and financial stability. Kishi Bikash Shilpa Kendra (KBSK), a local authority, as per the statue of the Indian government and implementing agency of India's "National 20-Point Programme" is internationalizing its "*Housing for Everyone*" program to "*Housing for Everyone in Global South*" with its first destination being the West African country Burkina Faso, aptly following India's civilizational value of *Vasudhaiva Kutumbakam*.

5.1.7. Critical Perspectives: Idealism versus Practicality

While the vision of *Vasudhaiva Kutumbakam* is compelling, its practical implementation is not without challenges. The contemporary global order is often shaped by competing national interests, power asymmetries, and geopolitical rivalries. Rising protectionism and ideological polarization can hinder efforts to foster genuine global unity. Critics may argue that the philosophy is overly idealistic, lacking the pragmatism required to navigate real-world complexities. However, it is precisely in such challenging contexts that its relevance becomes most pronounced. Rather than viewing it as an absolute solution, *Vasudhaiva Kutumbakam* can be understood as a guiding framework—one that informs decision-making and encourages incremental progress towards a more cooperative world. Its true strength lies not in eliminating conflict, but in providing a moral and strategic direction for managing it constructively.

5.1.8. The significance of *"Vasudhaiva Kutumbakam"* today

A. **Embracing Universal Brotherhood:** The phrase "*Vasudhaiva Kutumbakam*" epitomizes the concept of universal brotherhood, highlighting the interconnectedness of humanity. It emphasizes that regardless of our differences in nationality, ethnicity, or faith, we are all part of a larger global family. This principle fosters empathy and compassion towards all individuals.

B. **Advocating Peace and Harmony:** Central to this concept is the promotion of peace, harmony, and unity. By recognizing our shared humanity, it encourages collaborative efforts among individuals, communities, and nations to resolve conflicts peacefully and build a more harmonious world.

C. **Rooted in Cultural and Spiritual Heritage:** Deeply rooted in ancient Indian philosophy and spirituality, "*Vasudhaiva Kutumbakam*" reflects India's rich cultural heritage. It embodies the tradition of tolerance, understanding, and respect for all living beings that has been upheld for centuries.

D. **Emphasizing Global Responsibility:** The notion of a global family entails shared responsibility for the well-being of the planet and its inhabitants. It urges individuals and nations alike to take action in addressing pressing global issues such as poverty, climate change, and inequality.

E. **Guiding International Relations:** In the realm of international relations, this phrase serves as a guiding principle for diplomacy and cooperation among nations. It underscores the importance of peaceful coexistence and mutual understanding in fostering positive relationships on a global scale.

F. **Relevance in the Modern World:** In today's interconnected world, where globalization facilitates interactions among diverse cultures, "*Vasudhaiva Kutumbakam*" remains pertinent. It encourages dialogue, respect, and appreciation for the diversity that enriches our global community.

G. **Upholding Ethical Values:** At its core, this phrase encapsulates ethical values such as empathy, kindness, and inclusivity. It serves as a moral compass for individuals and societies, guiding them to treat others with dignity and respect.

H. **Championing Human Rights and Social Justice:** Aligned with principles of human rights and social justice, *"Vasudhaiva Kutumbakam"* advocates for equal rights and opportunities for all individuals, irrespective of their background. It underscores the importance of fairness and equality in building a just society.

5.1.9. Conclusion

In the 21st century, amidst the complexities of global interconnectedness and diverse perspectives, the concept of "*Vasudhaiva Kutumbakam*" offers a profound yet aspirational vision of unity and cooperation. As India embraces new perspectives and shifts its policies to navigate the evolving global landscape, this ancient philosophy serves as a guiding light. While its inclusion in cultural discourse and educational endeavors underscores its relevance and potential for fostering understanding and inclusivity, challenges such as linguistic diversity and diplomatic sensitivities require careful navigation. As India seeks to carve out its place on the world stage, it must balance the promotion of universal values with pragmatic considerations, acknowledging both the idealism and the realities of global affairs. In this pursuit, the concept of *Vasudhaiva Kutumbakam* continues to evolve, offering a timeless reminder of humanity's interconnectedness and the shared responsibility to shape a more harmonious and equitable world.

5.2. India and Israel: The Depth of a Strategic Friendship

The genesis of India's relationship with Israel is a journey from civilizational roots and early 20^{th} century ideological hesitation to a modern "Special Strategic Partnership." Though India officially recognized Israel in 1950, full diplomatic relations were only established in 1992. In an increasingly volatile West Asian region marked by shifting alliances and persistent conflict, India–Israel relations have emerged as a pillar of strategic stability. What began as a cautious engagement has evolved into a deep, de-hyphenated partnership spanning defence, technology, agriculture and innovation. Shared security challenges and complementary capabilities have pushed ties from transactional arms trade to joint development and co-production. Today, the relationship reflects India's pragmatic diplomacy, balancing regional sensitivities while pursuing strategic autonomy and national interest. The relationship focuses on defense, high-tech, agriculture, and intelligence sharing, highlighted by India's "de-hyphenation" policy (treating Israel independently of Palestine) and strong personal rapport between leadership. The Indian Prime Minister's recent historic state visit to Israel, just before the onset of Israel-US war with Iran, the bilateral relationship was elevated to a "Special Strategic Partnership for Peace, Innovation & Prosperity." In this section, we are analyzing the genesis and the various facets of the Indo Israel deep-rooted relationship.

5.2.1. India and Israel – Ancient and Civilizational Roots

The ancient and civilizational roots of the India-Israel relationship are anchored in three millennia of maritime trade, biblical accounts, and a unique history of peaceful Jewish migration to India.

Earliest Archaeological Evidence (~1700 BCE)

Recent scientific studies of dental calculus from remains at Tel Megiddo (ancient Israel) have provided physical proof of trade with South Asia as early as the Bronze Age. Archaeologists found traces of turmeric, soybean, and banana—all native to South Asia—in the remains of individuals living in the Levant over 3,700 years ago, which points to trade between India and the Israeli region during ancient times. Complex, long-distance trade networks connected the Indus Saraswati and the Mediterranean civilizations well before the advent of formal written records.

Biblical Records of Trade (10^{th} Century BCE)

The Hebrew Bible (Old Testament) contains specific references to exotic goods imported during the reign of King Solomon (c. 970–931 BCE) that are believed to have originated in India. Solomon's "Ships of Tarshish" returned every three years with gold, silver, ivory, apes, and peacocks. Scholars note that the Hebrew words for some of these items closely resemble Sanskrit or Tamil terms such as Apes (Hebrew *koph* is linked to Sanskrit *kapi*) and Peacocks (Hebrew *tukkiyim* is believed to be derived from the Tamil word *tokei*), etc. Historical traditions suggest that teak wood and ivory from India's Malabar Coast were used in the construction of the First Temple in Jerusalem.

Jewish Migration and Sheltering in India

India is one of the few nations where Jewish communities thrived for over 2,000 years without experiencing anti-Semitism. The earliest Jewish group in India, they claim to have arrived as traders during King Solomon's time or after the destruction of the Second Temple in 70 CE. In approximately 379 CE (or 1000 CE by some counts), the Hindu King Bhaskara Ravi Varma granted a royal decree engraved on copper plates (Sâsanam) to the Jewish leader Joseph Rabban. This granted the community perpetual land rights and the status of a "principality" in Anjuvannam, Kerala. Bene Israel (Maharashtra) community traces its origin to seven couples who survived a shipwreck off the Konkan Coast around 175 BCE while fleeing persecution in Judea.

Shared Civilizational Parallelisms

Both nations view themselves as "civilizational states"—ancient societies that survived foreign domination while preserving their core identities. Scholars highlight etymological and mythical similarities, such as the parallel between the names *Brahma/Saraswati* and *Abraham/Sarah*, as well as the flood legends of *Matsya Avatar* and *Noah's Ark*. Also, the Jewish Star of David (Hexagram) shares a visual identity with the ancient Indian *Shatkona*, a sacred symbol used in Hindu and Buddhist yantras for millennia.

5.2.2. Historical & Strategic Evolution of the Indo Israel Relationship

Phase 1: Independence & Ideological Hesitation (1947–1950)

India voted against the UN Partition Plan for Palestine in 1947, favoring a single federated state to avoid another religion-based partition similar to its own. However, on 17 September 1950, Indian Prime Minister Jawaharlal Nehru officially recognized Israel, calling it a "fact," though he refrained from full diplomatic ties to avoid offending Arab nations and to protect India's energy interests.

Phase 2: Early Years (1950-1992)

India officially recognized Israel in 1950 but established full diplomatic relations only in 1992, largely due to Cold War alignments and India's strong traditional support for the Palestinian cause. India was part of the Non-Aligned Movement (NAM) while keeping a close relationship with the Soviet bloc and by proximity to the Arab world, while Israel was an ally of the United States and NATO. Despite the lack of formal ties, Israel provided critical, discreet military assistance during India’s war with China in 1965, and in 1971 War with Pakistan.

Phase 3: Prudent Rapprochement (1992–2014)

The end of the Cold War and the 1991 Madrid Peace Process provided India the "geopolitical cover" to normalize ties with Israel. The key drivers for this are collapse of the Soviet Union (India’s primary arms supplier), economic liberalization, and the rise of cross-border terrorism. Full diplomatic relations between the two nations were established under the then Indian Prime Minister Narasimha Rao in 1992. Israel provided emergency supplies of laser-guided munitions and UAVs to India in 1999 during the Pakistan offensive against it, when others hesitated, building deep institutional trust. The relationship was often described as a "closet affair", robust in defense and intelligence but low-key in public diplomacy. Technological seeds of the cooperation was also planted during this phase with the initiation of the Indo-Israel Agricultural Project (IIAP) and cooperation in space (e.g., RISAT-2 launch).

Phase 4: The Era of De-hyphenation & Strategic Depth (2014–2023)

The relationship "came out of the closet" and moved toward a public, ideological, and strategic embrace in 2014. The key drivers for this development are "de-hyphenation" (treating Israel and Palestine as independent bilateral tracks), shared concerns over radical extremism, and India’s Atmanirbhar Bharat (Self-Reliant India) mission. The Indo Israel ties were elevated to a Strategic Partnership in 2017. For this bilateral relationship, technological fusion became a backbone with creation of the I4F (Industrial R&D and Innovation Fund) to co-develop futuristic tech. India joined Israel, the UAE, and the USA in a "West Asian Quad," (I2U2 Grouping) in 2021 focusing on food security and clean energy.

Phase 5: The Special Strategic Partnership (2024–Present)

As of early 2026, the Indo Israel relationship has entered a "Special" category, characterized by integration into regional security and high-tech supply chains. In June 2025, India abstained from the UN General Assembly resolution calling for an immediate, unconditional, and permanent ceasefire in Gaza, citing a lack of negotiation and an imbalanced text. This decision reflects India's nuanced approach, balancing its humanitarian aid to Gaza with strong economic and strategic ties to Israel. In February 2026, the relationship was upgraded to a "Special Strategic Partnership for Peace, Innovation, and Prosperity." Bilateral Investment Agreement was welcomed between the nations and Free Trade Agreement negotiations were formally advanced. The two countries launched a new initiative on Critical and Emerging Technologies covering AI, semiconductors, quantum computing, biotechnology and cyber systems. India and Israel agreed to establish the India–Israel Academic Cooperation Forum to deepen institutional linkages. An MoU between Nalanda University and Hebrew University of Jerusalem will promote joint research and academic exchanges. The two strategic partners also decided to establish an India–Israel Cyber Centre of Excellence in India.

5.2.3. India and Israel – Defense & Strategic Partnership

Israel serves as a bedrock for India's defense self-reliance by providing "no-strings-attached" technology and critical systems during crises, especially as India shifts toward indigenous manufacturing. India is one of the largest importers of Israeli defence technology, including missiles, drones, and their radar systems. Sharing the serious yet common concern over terrorism, both the partner nations are strengthening the structure of defense cooperation. stronger. With joint development initiatives like Barak-8 missile for strengthening India's air defence, which was co-developed by India's DRDO and Isreal Aerospace Industries reflect a transition from a traditional buyer-seller relationship to one of technological collaboration and co-production. Israel supports India's military modernization with advanced technology and equipment such as Heron UAVs, Tavor rifles, and SPICE-2000 systems.

As on 2026, Isreal and India share similar strategic interest, which looks forward to partnership for peace, innovation and prosperity, stronger defence cooperation in army, navy and air force, through co-production, joint research and development and AI integrated system. India imported approximately 34% of Israel's total arms between 2020-2024, which is around US$ 20.5 billion according to the SIPRI. In FY2025, India's purchase of nuclear reactors, boilers, machinery and mechanical appliances (HSN code 84) from Israel witnessed around 39% growth, as compared to FY2024.

Table 10: Major Israeli Defense Equipment Purchased by India

Missiles	Derby Beyond Visual Range Air to Air Missile (BVRAAM) Harop loitering munition Python-5 BVRAAM SPICE-2000 guided bombs Popeye-1 Air to Surface Missile (ASM) Griffin guided bombs Spike anti-tank guided missiles Popeye II (Crystal Maze) ASM SkyStriker loitering munition
Unmanned Aerial Vehicles	Heron Searcher MkII Harop
Sensors and Radars	EL/M-2075 Phalcon airborne early warning radar system EL/M-2248 MF-STAR multi-function radar EL/M-2084 multi-mission radar systems EL/M-2238 naval radar system EL/M-2052 airborne AESA fire control radar Litening electro-optical infrared sensor system
Air Defence Systems	Spyder medium-range Surface to Air Missile (SAM) system Barak SAM system
Small arms	Negev NG-7 light machine guns

Source: Vajiram & Ravi, Institute for IAS Examination

Chart 51: India's Export of Nuclear Reactors, Boilers, Machinery (HSN 84) to Israel

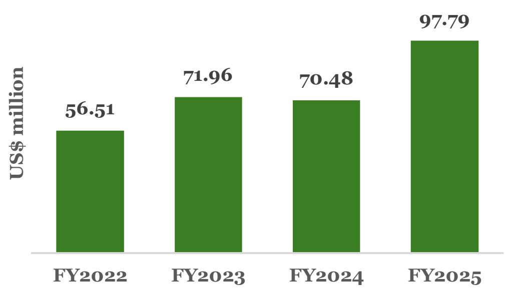
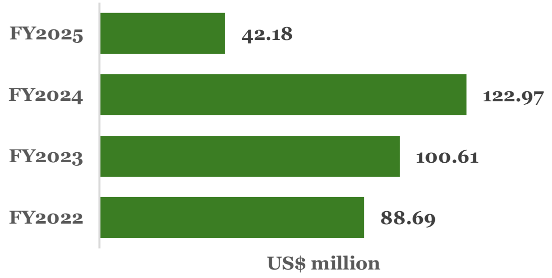


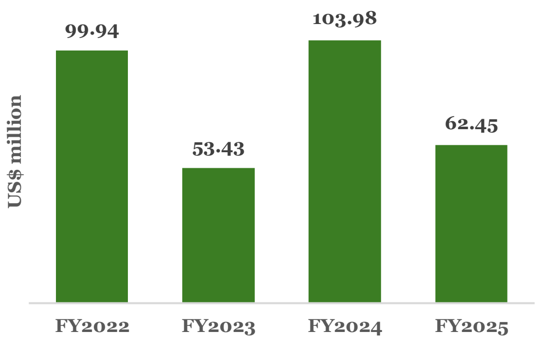
Chart 52: India's Export of Arms and Ammunition (HSN 93) to Isarel



Source: Ministry of Commerce, Union Government of India, ECOFIN Research

Defense and security cooperation is a major pillar of the alliance. While Israel enjoys a stable and important market, India is one of the biggest importers of Israeli defense equipment, including drones, missiles, and surveillance systems. Collaboration on counterterrorism and intelligence sharing is one of the cornerstones of the relationship.

Chart 53: India's Import of Arms and Ammunition to Isarel



Source: Ministry of Commerce, Union Government of India, ECOFIN Research

5.2.4. India and Israel - Counter-Terrorism & Security Cooperation

Both the nations face real threats emanating from terrorism—India deals with it on its Western borders and Israel lives with it in its neighborhood. This kind of shared vulnerability has led to strong intelligence tie ups, joint counter-terrorism training, and advanced surveillance systems between two countries, which offer succor in these rough landscapes. Both the governments stick with to "zero tolerance to terrorism" approach, and this unity builds their relationship with a sense of trust that goes beyond typical diplomacy. The relationship between the two nations, hence, evolved as a strong, strategic partnership focused on countering terrorism, intelligence sharing, and defense collaboration. Since 1992, this relationship has grown into a "special strategic partnership," with Israel supplying advanced weaponry, surveillance technology, and drones to assist India in fighting cross-border terrorism. Their collaboration emphasizes shared threats from militant groups and involves technology transfer, including joint manufacturing of defence equipment under the "Make in India" initiative.

Key aspects of India-Israel counter-terrorism cooperation are as discussed below:

- **Institutional Mechanisms:** A Joint Working Group (JWG) on Counter-Terrorism facilitates regular dialogue, focusing on threats like terrorism financing, radicalization, and the misuse of technology and drones.
- **Intelligence & Expertise:** Cooperation is built on sharing intelligence on terrorist groups and sharing best practices in homeland security.
- **Defense Procurement:** Israel is a major defense supplier, providing high-end technologies crucial to India's military, particularly since the 1999 Kargil War.
- **Mutual Support:** Both nations see themselves as victims of cross-border or state-sponsored terrorism and often show solidarity in international forums.
- **Capacity Building:** The two nations hold joint training exercises and workshops focusing on border management and special forces training.

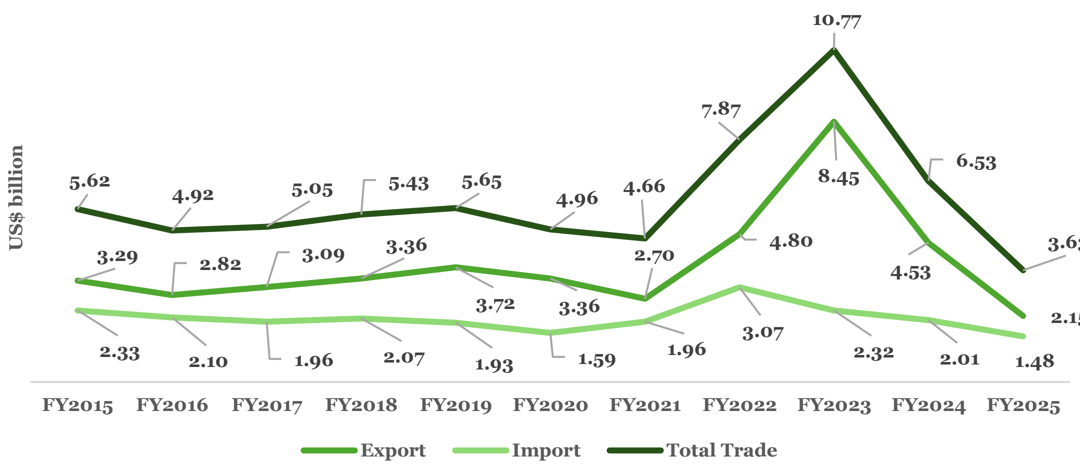
This pragmatic partnership is driven by shared national security challenges rather than ideological alignment, and it has remained strong even during the ongoing conflicts in the Middle East.

5.2.5. India and Israel – Trade & Economic Relations

India and Israel share a strong, strategic economic partnership, with bilateral trade reaching around US$ 3.75 billion in FY2025, spanning defense, agriculture, technology, and diamonds. India is Israel's second-largest trading partner in Asia, acting as a key importer of defense technology (34% of Israel's arms exports) and exporter of diamonds, chemicals, and refined petroleum. Starting with a US$ 200 million bi-lateral trade in 1992, India, currently is one of the top Asian trading partners of Israel. The two countries trade everything from diamonds and chemicals to technology and agricultural goods to machinery and equipment. India is Israel's largest client for military equipment, with major deals in drones, missiles, and radar systems. Cooperation is rapidly expanding into artificial intelligence, cybersecurity, semiconductors, and space exploration. The trade volume between India and Israel may not be as large as India's trade with the US or Arab world, but what matters most is the quality and tech content and strategic measures of these exchanges.

India and Israel share a strategic and diplomatic relationship, driven by trade cooperation and geopolitical alignment. India's trade relations with Israel have grown steadily over the years, evolving from modest exchanges into a diversified economic partnership focused on technology, innovation, and high-value goods. In February 2026, India and Israel successfully concluded the first round of negotiations for a Comprehensive Free Trade Agreement (FTA). This agreement aims to boost bilateral trade beyond the current total trade.

Chart 54: India's Trade with Israel



Source: Ministry of Commerce, Union Government of India, ECOFIN Research

In FY2025, key exported commodities to Israel witnessed around 30-40% y-o-y growth. Some of the key exported commodities from India to Israel are listed below.

Table 11: Key Commodities India Exports to Israel

Commodities	Export Value in FY2025 (US$ million)	Growth Rate (%)
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts.	261.67	40.9%
Cereals	103.63	63.53%
Nuclear reactors, boilers, machinery and mechanical appliance	97.79	38.7%
Textile Articles	91.33	39%
Plastic Articles	89.34	20.1%

Source: Ministry of Commerce, Union Government of India, ECOFIN Research

Indian Investment in Israel

Cumulative ODI from India during April 2000 to April 2025 was US$ 443 million. Indian companies are marking their presence in Israel through mergers and acquisitions and by opening branch offices. TCS, State Bank of India, Sun Pharma, Infosys, Tech Mahindra and Wipro Infrastructure Engineering, Lohia Group, Adani Group are some major Indian companies which have operations or made acquisitions/investments in Israel. In 2022, a consortium led by India's Adani Ports and Special Economic Zone Ltd (APSEZ) acquired the rights to operate the Haifa Port Company Ltd from the Government of Israel with an overall investment of US$ 1.18 billion. Indian blue chips are also making a mark in the Israeli innovation ecosystem. Tata Group, Wipro, Sun Pharma, Reliance Industries, L&T Technology services, Samvardhana Motherson, Ola Electric, Amber group are some of the major Indian firms that have made notable investments in Israeli startups directly or indirectly through venture capital firms or academic institutions.

Israeli Investment in India

During April 2000 – March 2024, Israel's direct FDI into India was US$ 334.2 million. There are over 300 investments from Israel in India mainly in the high-tech domain, agriculture and water. These investments are varied in nature - manufacturing plants; R&D centers; subsidiaries, joint ventures and technology partnerships with Make in India etc. There is a growing preference for Israeli companies in sectors such as renewable energy, water technologies, homeland security, aerospace, defence, health and real estate in addition to traditional areas such as agriculture, cyber, chemicals, etc. Teva Pharmaceuticals, Ecoppia, Naa'n Dan Jain, Aqwise, Polemix, Eli Hajaj, Rivulis, Alumayer, Plasson, Huliot, Metzerplas, Avgol, IDE, Netafim, ADAMA, Mellanox, Dan Hotels, Watergen, Rivulis, Delta Galil, Tadiran Telecom etc. are among the leading Israeli companies, which have notable investments in India. Israeli defence companies are increasingly looking to Make-in-India through collaborations and acquisitions.

5.2.6. India and Israel Cooperation – Agriculture & Water Management

India and Israel maintain a strong strategic partnership focused on agriculture and water management, transitioning from G2G knowledge transfer to B2B collaboration. Key pillars include Indo-Israel Centers of Excellence (CoE) for farming, precision agriculture and water technology. Israel's expertise in precision agriculture and water conservation (drip irrigation, desalination, and waste-water treatment) is being implemented across India. The two countries are collaborating on the India-Israel Innovation Centre for Agriculture (IIICA). Hubs such as Centers of Excellence (CoE) are established across various Indian states, focusing on improving crop yields, horticulture, and post-harvest technologies by applying Israeli technology to Indian conditions. Israel also provides vital expertise in wastewater recycling and precision irrigation to bolster India's water management. Agri-tech focus between the two countries includes digital crop monitoring, satellite-based irrigation, and greenhouse technologies.

5.2.7. India and Israel – Tech and Innovation Relationship

India and Israel have upgraded their relationship to a "Special Strategic Partnership for Peace, Innovation, and Prosperity," with technology as a core pillar. Key collaborations focus on AI, semiconductors, quantum computing, cybersecurity, and space, supported by the US$ 40 million India-Israel Industrial R&D and Technological Innovation Fund (I4F). The "India-Israel Innovation Bridge" fosters collaboration between startup ecosystems, focusing on agriculture, water, and digital health. The two nations are collaborating on artificial intelligence (AI), critical minerals, semiconductors, and quantum technologies, with quantum research ventures, such as with Quantum Machines, leading to advancements like the Israeli Quantum Computing Centre (IQCC) and AI-driven tools like AISAP and Tech Scout being tested. The India-Israel Academic Cooperation Forum (I2I Forum) is established to promote research exchange and cooperation between universities, including an MoU between Nalanda University and Hebrew University of Jerusalem. In Defense and Space sectors, cooperation involves joint development in space technology through ISRO and the Israel Space Agency, along with advanced defense technologies such as missiles, drones, and the Iron Dome system. In the space of Cybersecurity & AI, a memorandum of understanding (MoU) on artificial intelligence (AI) and the establishment of an India-Israel Cyber Centre of Excellence in India (will serve as a hub for cybersecurity) was signed to focus on cyber-policy, digital resilience, and AI-integrated security.

This partnership is characterized by increasing joint investments and a "knowledge-driven" approach, targeting both economic growth and technological superiority.

5.2.8. Indian Diaspora in Israel

In 2025, the Indian population in Israel was about 0.1 million that translates up to 1% of Israel’s population. Among this 0.1 million, only 20 thousand is non-resident Indians (NRIs). The Indian population in Israel is largely composed of Indian-origin Jews whilst some are migrant workers, especially in the sectors of caregiving and IT. By serving as a cultural bridge and promoting interpersonal ties between the two nations, the Indian diaspora significantly contributes to the improvement of India-Israel relations.

5.2.9. Indo Israel Relationship – In a Nutshell

The relationship operates on a foundation of trust forged through decades of uninterrupted cooperation, characterized by India’s ability to balance its ties with Iran and the Arab Gulf states alongside a deepening embrace of Israel. A balancing act that reflects New Delhi’s growing strategic autonomy. Milestones such as the 2017 elevation to a formal strategic partnership and the creation of the I2U2 framework (India, Israel, UAE, USA) with the United States and the UAE have institutionalized this friendship, moving it beyond defense transactions into co-development, technology transfers, and joint infrastructure initiatives. Today, the India-Israel relationship stands as a model of strategic convergence – two civilizations that understand the weight of asymmetric threats, the value of technological sovereignty, and the imperative of building alliances not on convenience but on the bedrock of shared interests and enduring trust.

5.3. India and the United States: Partnership Beyond the Tariff

To view, India and the United States relationship through the singular prism of tariffs and trade disputes is to mistake the surface froth for the deep current beneath. When India achieved independence in 1947, the United States was among the first nations to recognize the new republic. President Harry Truman extended formal diplomatic recognition on 15 August 1947 – even before the formal transfer of power was complete, yet this auspicious beginning soon gave way to decades of mutual suspicion.

The Cold War Dividend (1947–1965)

India's first Prime Minister, Jawaharlal Nehru, articulated a vision of non-alignment that positioned India as a moral counterweight to the bipolar Cold War order. To Washington, this looked less like principled independence and more like a tilt toward the Soviet Union. In 1954, the United States' decision to arm Pakistan through the Southeast Asia Treaty Organization (SEATO) cemented Indian distrust. When China and India went to war in 1962, the United States provided emergency military aid – but the underlying structural divide remained.

Pragmatic Beginnings (1966-1971)

When Indira Gandhi first assumed prime minister's office in 1966, she visited the US just two months later at the invitation of President Lyndon B. Johnson. This visit helped India secure food and development aid, with President Johnson promising three million tons of food and US$ 9 million in assistance. However, Gandhi resented the United States policy of using food aid as leverage to force policy concessions from India. A key point of divergence during this period was India's refusal to sign the Nuclear Non-Proliferation Treaty (NPT). Gandhi resolutely opposed the treaty, viewing it as discriminatory against non-nuclear states.

The 1971 Bangladesh War and the Strained Relations Continues (1971 and beyond)

The nadir came in 1971. As India intervened in the Bangladesh Liberation War, President Richard Nixon and his National Security Adviser Henry Kissinger tilted decisively toward Pakistan, dispatching the USS Enterprise to the Bay of Bengal in a show of force. India responded by signing a 20-year Treaty of Peace, Friendship and Cooperation with the Soviet Union. For the remainder of the Cold War, India and the United States found themselves on opposite sides of most major geopolitical issues. The 1974 Pokhran nuclear test further strained ties. The United States reacted negatively, especially given ongoing NPT negotiations (Treaty on the Non-Proliferation of Nuclear Weapons) and the economic aid India had received. However, the United States concluded that the test did not violate any existing agreement and proceeded with a shipment of enriched uranium for the Tarapur reactor in June 1974. A visit by Henry Kissinger to India in October 1974 helped bridge the gap somewhat, though the imposition of Emergency in 1975 again created friction.

Repairing the Relationship (1980 and beyond)

After returning to power in 1980, Indira Gandhi actively worked to rebuild ties with Washington. She met President Ronald Reagan for the first time at the North-South Summit in Cancún in 1981, which focused on global poverty. Her 1982 visit to the United States at Reagan's invitation was markedly successful. Rajiv Gandhi became Prime Minister immediately after his mother's assassination in October 1984 and served until December 1989. His premiership marked a warming of ties with the United States. He visited Washington in 1985 and addressed the US Congress in 1987 – the first Indian Prime Minister to do so. After the 1985 technology agreement, Rajiv Gandhi declared that the US relationship marked the 'beginning of a substantive partnership' with America. This reflected a fundamental shift in Indian thinking – from viewing the US with Cold War suspicion to seeing it as a vital partner in India's development.

The Nuclear Tests and the Reset (1998-2000)

The end of the Cold War removed the structural impediment to closer ties, but old habits die hard. When India conducted a series of nuclear tests in May 1998, the United States imposed sweeping sanctions. President Bill Clinton invoked the Glenn Amendment, cutting off almost all economic and military assistance. Yet paradoxically, the nuclear tests also created the conditions for a fundamental reset. Both nations recognized that the old framework of estrangement was obsolete. The subsequent two years saw intense, behind-the-scenes diplomacy. When President Clinton made a historic five-day visit to India in March 2000 - the first presidential visit in 22 years – he addressed the Indian Parliament and spoke of a 'new relationship'. The sanctions were lifted, and the foundation for the 21st century partnership was laid.

The Nuclear Deal and Strategic Breakthrough (2000–Present)

If Clinton's visit opened the door, the George W. Bush administration walked through it. The US-India Civil Nuclear Agreement, finalized in 2008 after three years of intense negotiation, was the defining moment of the transformed relationship. Despite the post-9/11 tilt toward Pakistan, President Bush remained personally committed to strengthening ties with India. President Barack Obama inherited a transformed relationship from his predecessor and worked to elevate it further, though his tenure also saw moments of friction. In September 2013, Prime Minister Manmohan Singh met President Obama for their third bilateral summit, where they declared that the partnership was 'stronger today than at any point in their 67-year history'. President Donald Trump's first term was characterized by grand public spectacles and personal rapport with Prime Minister Narendra Modi, alongside underlying trade tensions. In September 2019, Modi hosted Trump at the 'Howdy Modi' event in Houston, Texas, drawing over 50,000 Indian-Americans.

With the high-profile camaraderie, the strategic underpinnings of the relationship remained strong. The Trump administration finalized the Basic Exchange and Cooperation Agreement (BECA) in 2020, the fourth foundational agreement between the two militaries, enabling geospatial intelligence sharing. Joe Biden's presidency focused on deepening the institutional foundations of the India-US relationship, emphasizing strategic convergence on China and technology cooperation. The Biden administration largely gave India a pass on its continued purchase of Russian oil and refusal to join Western sanctions, viewing India as an essential partner in countering China. The Initiative on Critical and Emerging Technologies (iCET) was launched in 2023 to deepen cooperation in AI, quantum computing, semiconductors, and telecommunications. India and the United States' 'Partnership Beyond the Tariff' spotlights the multifaceted strategic collaboration that has advanced despite trade tensions, recently exemplified by the 2025 COMPACT Initiative (Catalyzing Opportunities for Military Partnership, Accelerated Commerce & Technology), and subsequent 2026 interim trade frameworks under President Trump and Prime Minister Modi. This partnership emphasizes defense, technology, supply chains, and energy security over pure tariff negotiations, with bilateral trade targets expected to hit US$ 500 billion by 2030 anchored by 'Mission 500'. Despite tensions, engagement continues at the highest levels. On 24 March 2026, Modi and Trump spoke by phone to discuss the West Asia situation following US-Israel strikes on Iran. Following the call, Trump praised Modi as a leader 'who gets things done', and stated 'Our amazing relationship with India will be even stronger going forward'.

Over the past two decades, India and the United States have built a partnership that spans defense interoperability, critical technology collaboration, maritime security, and people-to-people ties – a relationship now widely regarded by both capitals as indispensable to the stability of the Indo-Pacific. Defense cooperation has reached unprecedented depths, formalized through foundational agreements like LEMOA (Logistics Exchange Memorandum of Agreement - 2016), COMCASA (Communications Compatibility and Security Agreement - 2018), and BECA (Basic Exchange and Cooperation Agreement - 2020) – enabling militaries to share logistics, secure communications, and conduct joint exercises across all domains.

Geopolitically, the Quadrilateral Security Dialogue (Quad) with Japan and Australia has institutionalized a shared vision for a free and open Indo-Pacific, offering a framework for maritime security, infrastructure investment, and vaccine diplomacy that operates independently of bilateral trade disputes. Even on the economic front, the narrative is evolving: bilateral goods and services trade now exceed US$ 200 billion, supply chain diversification away from China has created new complementarities, and the resolution of longstanding WTO disputes in 2023 reflected a mutual recognition that economic engagement must align with strategic imperatives. Perhaps the most enduring foundation, however, lies in the human dimension – over four million Indian-Americans constitute one of the most educated, prosperous, and politically engaged diaspora communities in the United States, ensuring that the bilateral relationship is anchored not merely in transactional state interests but in familial, professional, and cultural bonds that transcend any administration or tariff cycle. The India-US partnership has demonstrated a resilience that proves its depth – tariffs may come and go, but the foundational alignment of interests – democratic values, shared security concerns, and mutual strategic necessity that has transformed this relationship from a hesitant post-Cold War engagement into what both sides now openly describe as one of the most consequential bilateral partnerships of the 21st century.

5.3.1. The Strategic Context – Why This Partnership Matters

The Indo-Pacific Imperative

The India-US partnership has gained urgency from the geopolitical realities of the Indo-Pacific region. Both nations share concerns about China's growing military capabilities, its assertive territorial claims in the South China Sea, and its efforts to reshape the regional order. While neither India nor the United States frames its partnership as being against any other nation, the strategic logic of the relationship is increasingly defined by shared interests in maintaining a free, open, and rules-based Indo-Pacific. India's geographic position is strategically critical. With its coastline along the Indian Ocean, its land border with China, and its proximity to critical sea lanes, India serves as a linchpin of Indo-Pacific security architecture. The United States, for its part, provides capabilities and presence that complement India's strengths. The Quadrilateral Security Dialogue (Quad) bringing together the United States, India, Japan, and Australia – has evolved from an informal grouping into a substantive mechanism for coordinating maritime security, infrastructure investment, and technology cooperation.

The Democratic Advantage

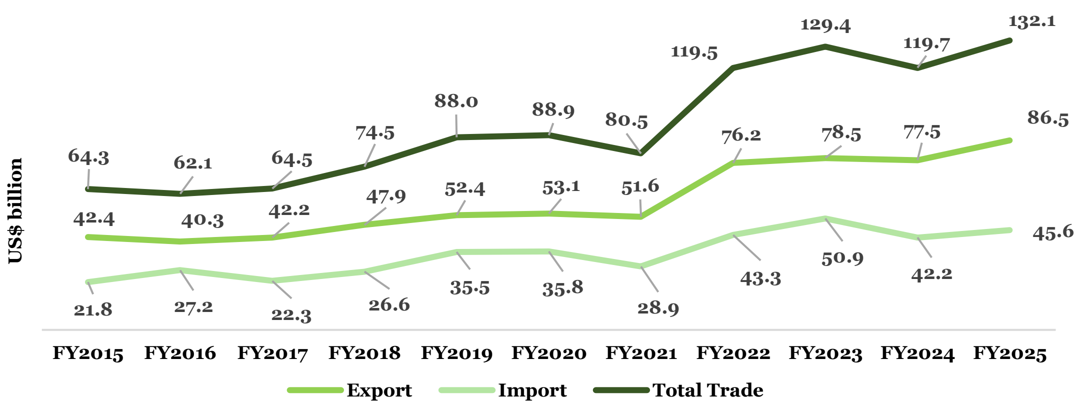
Both nations emphasize their democratic identity as a source of strength in their partnership. The world's oldest democracy and the world's largest democracy share institutions, values, and approaches to governance that facilitate cooperation. The regular exchange of legislators, judges, military officers, and civil servants creates networks of trust that enable coordination even when governments change. This democratic dimension has taken on renewed significance as democratic governance faces challenges globally. India and the United States each have an interest in demonstrating that democratic systems can deliver economic growth, technological innovation, and security for their citizens. Their partnership serves as a model for democratic cooperation in an era of great power competition.

5.3.2. Beyond the Tarif – The Pillars of the Partnership

Trade

India-US bilateral trade hit over US$ 132 billion in FY2025, underscoring a robust and mutually beneficial partnership where the US accounts for 17-18% of India's total exports. Under the 'Mission 500' initiative announced by both nations, they are targeting US$ 500 billion in annual trade by 2030 – including energy products, aircraft, semiconductors, cooking coal, and more. In return, the US has agreed to reduce tariffs on Indian products, providing India a competitive advantage over rivals like China, Vietnam, and Bangladesh, while a comprehensive bilateral trade agreement is nearing completion. Additionally, the US remains a top foreign investor in India, with cumulative FDI exceeding US$ 58.5 billion in 2024, primarily directed toward technology, healthcare, and infrastructure sectors. Many US businesses have expanded their operations in India, viewing it as a vital market, while numerous Indian companies are making substantial investments in the United States. According to CII (Confederation of Indian Industry) report published in May 2023, 163 Indian businesses invested over US$ 40 billion in the US, directly generating more than 425,000 jobs.

Chart 55: India's Trade with the United States



Source: Ministry of Commerce, Union Government of India, ECOFIN Research

Table 12: India's Key Commodity Exports to US

Commodity	Export in FY2025 (US$ billion)	Growth Rate (%)
Electrical machinery and equipment and part	15.90	43.48%
Natural or cultured pearls, precious or semiprecious stones	9.97	0.27%
Pharmaceutical products	9.78	21.1%
Nuclear reactors, boilers, machinery	6.69	8.53%
Mineral fuels, mineral oils and products	4.21	-27.9%

Source: Ministry of Commerce, Union Government of India, ECOFIN Research

Indian Diaspora (People-to-People Link)

One of the most important pillars of India-US ties is the significant Indian diaspora in the United States, one of the largest, most educated, and highest-earning immigrant groups with approximately 4.5 to 5.41 million members, including NRIs and persons of Indian origin. In FY2024, remittances from the US accounted for the highest share at around 27.7%, while Indian Americans excel in academia, technology, healthcare, finance, and entrepreneurship – often holding senior management roles in major global corporations and dominating sectors like Silicon Valley's tech ecosystem. They also form one of the largest cohorts of international students at US universities, and their influence extends increasingly into politics and culture, where leaders of Indian descent shape public policy and events such as Diwali celebrations, yoga, and Indian cuisine foster deeper community understanding and sustain the bilateral relationship.

Table 13: Notable Indian-Origin Figures Shaping the United States in 2025

Name	Position	Significance
Satya Nadella	CEO, Microsoft	Transformed Microsoft into an AI and cloud leader
Sundar Pichai	CEO, Alphabet/Google	Oversees Google's vast ecosystem including AI and autonomous systems
Arvind Krishna	Chairman & CEO, IBM	Led IBM's transition to hybrid cloud and AI
Shantanu Narayen	Chairman & CEO, Adobe	Led Adobe's pivot to subscription-based software
Ajay Banga	President, World Bank Group	Former Mastercard CEO; guides global development and climate initiatives
Jayshree Ullal	President & CEO, Arista Networks	Pioneer in cloud networking technologies
Nikesh Arora	CEO, Palo Alto Networks	Highest-paid tech CEO; leads cybersecurity innovation
Kamala Harris	Vice President (until Jan 2025)	First woman and Indian-origin VP in US history
Raja Krishnamoorthi	Congressman (D-IL)	Leading voice on technology and national security policy
Ro Khanna	Congressman (D-CA)	Progressive voice representing Silicon Valley

Source: Ministry of Commerce, Union Government of India, ECOFIN Research

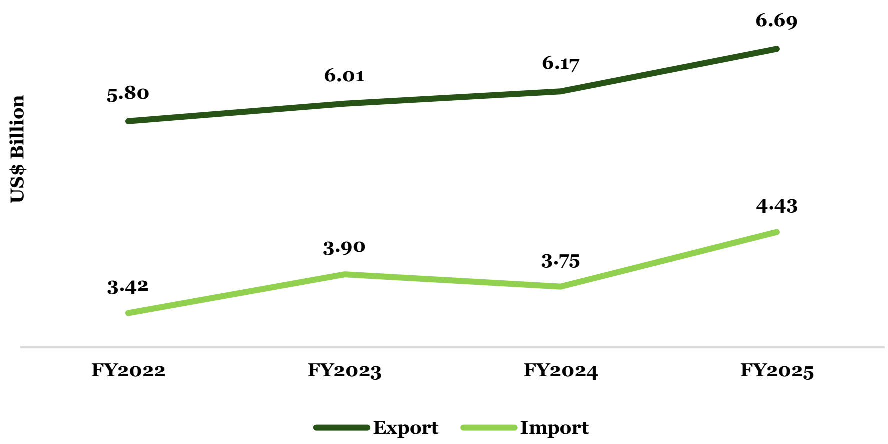
Cross-Border Trade & Supply Chains

Despite occasional frictions, such as the Trump administration's steep tariffs imposed in late 2025 over India's continued purchases of Russian oil and air defense systems – the two nations have sustained dialogue and overcome impasses. Immigration policies remain a periodic point of contention, yet their robust collaboration in defense, technology, and trade ensures the partnership's enduring stability.

Defence Support & Cooperation

The United States has designated India as a 'Major Defense Partner' and elevated it to Strategic Trade Authorization-1 (STA-1) status. The two nations have inked all key foundational agreements – LEMOA, COMCASA, BECA, and GSOMIA, enabling military interoperability, while major US origins planes/helicopters now integral to Indian defence forces include C-130J and C-17 transport aircraft, Apache and Chinook helicopters, P-8I maritime patrol aircraft, and MQ-9B Reaper drones. Regular joint exercises such as Malabar, Yudh Abhyas, and Cope India enhance coordination, bolstered by INDUS-X initiatives where defense startups collaborate on autonomous systems, AI platforms, and underwater sensors. In early 2025, a new 10-year Major Defense Partnership framework was unveiled, paving the way for co-production of GE F-414 jet engines, Stryker armored vehicles, and Javelin anti-tank missiles, with FY2025 US aircraft and spacecraft exports to India reaching around US$ 1.6 billion. In FY2025, imports of nuclear reactors, boilers, and machinery from the US grew by 8.5% year-over-year, underscoring the deepening defense equipment ties.

Chart 56: India's Export and Import of Nuclear Reactors, Boilers, Machinery (HSN 84) with US



Source: Ministry of Commerce, Union Government of India, ECOFIN Research

India and the United States strengthen military coordination through joint cooperation that emphasizes counterterrorism strategies, intelligence sharing, and cybersecurity. They have signed key pacts, including the non-binding Security of Supply Arrangement (SOSA) and a Memorandum of Agreement on Assignment of Liaison Officers, to enhance real-time coordination and operational efficiency between their armed forces.

Key Agreements:

- **LEMOA (2016):** This was followed by the Logistics Exchange Memorandum of Agreement (LEMOA), which established the framework for reciprocal logistical support between the two militaries.
- **COMCASA (2018):** The Communications Compatibility and Security Agreement (COMCASA) enhanced secure military communications and access to advanced defense technologies.
- **BECA (2020):** BECA (Basic Exchange and Cooperation Agreement) facilitates sharing of geospatial intelligence.

Counterterrorism Collaboration

India and US maintain a robust and dynamic counterterrorism partnership, driven by shared concerns over global and regional security threats. To counter terrorism, violent extremism, and transnational criminal networks, the two nations collaborate closely through operational coordination and established dialogue frameworks. Iintelligence sharing is a fundamental component of this collaboration and is essential to:

- Following and keeping an eye on terrorist networks and the sources of their funding
- Preventing potential assaults and cross-border threats
- Improving the sharing of information in real time about new security threats.

India-US Cooperation in the QUAD

The Quadrilateral Security Dialogue (Quad), which comprising India, US, Japan, and Australia is a strategic diplomatic partnership primarily addresses regional security, economic and technological issues sharing a common interest in order to maintain a free and open Indo-Pacific region. Various Quad Initiatives taken that are as follows:

- Maritime Initiative for Training in the Indo-Pacific (MAITRI): this initiative taken up for securing and monitoring water areas and enforcement of laws and deterring unlawful behavior.
- QUAD fellowship: this initiative was taken up for pursuing a doctorate in STEM courses, fostering the new generation of scientist and innovators and providing them sponsorship.
- QUAD Cancer Moonshot: this initiative taken up for improving health infrastructure, expansion of Research and prevention of cancer and its treatment as per the report of the Ministry of External Affairs, Government of India.
- Quad Vaccine Partnership: to scale up the manufacturing and supply vaccine partnership.
- Covid-19 Global Action Plan: this plan was to enhance the coordination in recovery efforts and strengthen health systems during the Covid pandemic.
- Quad Vaccine Experts Group: this was created for cooperation in vaccine strategy and handling and distribution of this vaccine safely.
- Quad Senior Cyber Group: for adoption and implementation of shared cyber security standards across Indo-Pacific region.
- Cooperation in the space sector: a joint partnership for cooperation and sharing satellite data helping in regular observation of climate patterns and predict disaster risk from above.
- Quad Climate Working group: this group specially focused on adaptation to climate change and to build capacity in Indo-Pacific.
- Critical and emerging technologies: this joint effort to set global standards and secure supply chains for the “tech of tomorrow” and cooperation in critical technologies essential for digital economies globally

Unlike the Asian NATO, India remains the only QUAD member, who is not in a formal military treaty with the US prioritizing strategic autonomy.

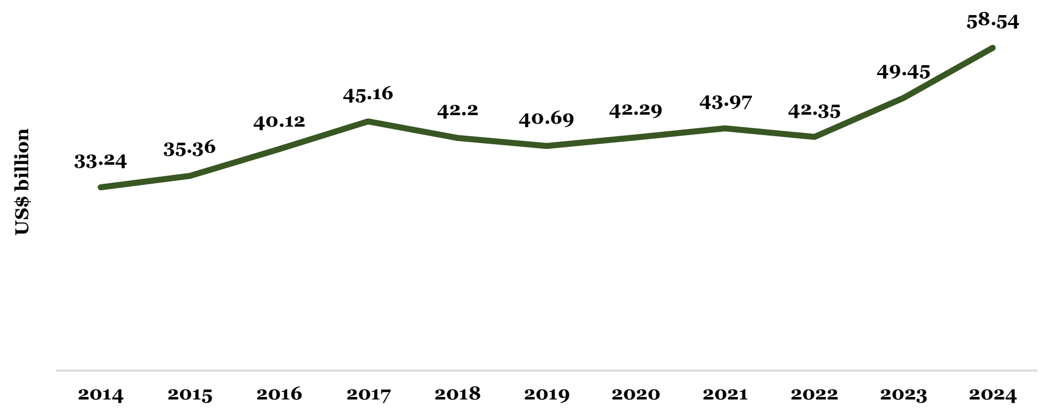
Technology Cooperation

Under the Initiative on Critical and Emerging Technologies (iCET), India and the US have advanced to the TRUST framework (Transforming the Relationship Utilizing Strategic Technology), prioritizing AI, semiconductors, quantum computing, space, biotech, and beyond. The US supports India's ambition to emerge as a semiconductor hub, exemplified by landmark joint space efforts like the NASA-ISRO NISAR satellite, which maps Earth's surface changes every twelve days using synthetic aperture radar. Alongside, in February 2025, the United States and India announced an expanded partnership in space innovation, focusing on joint research, commercial collaboration, and startup engagement. This initiative aims to strengthen bilateral cooperation in space technology and exploration.

Investment Scenarios with US

The United States ranks as a leading investor in India, accounting for roughly 11% of total equity FDI inflows in FY2024–25, with investments concentrated in computer software and hardware, services, and manufacturing. Services led as the top FDI recipient that year at 19% of inflows, followed by computer software/hardware (16%) and trading (8%), while FDI into services surged 40.77% to US$ 9.35 billion from US$ 6.64 billion the prior year.

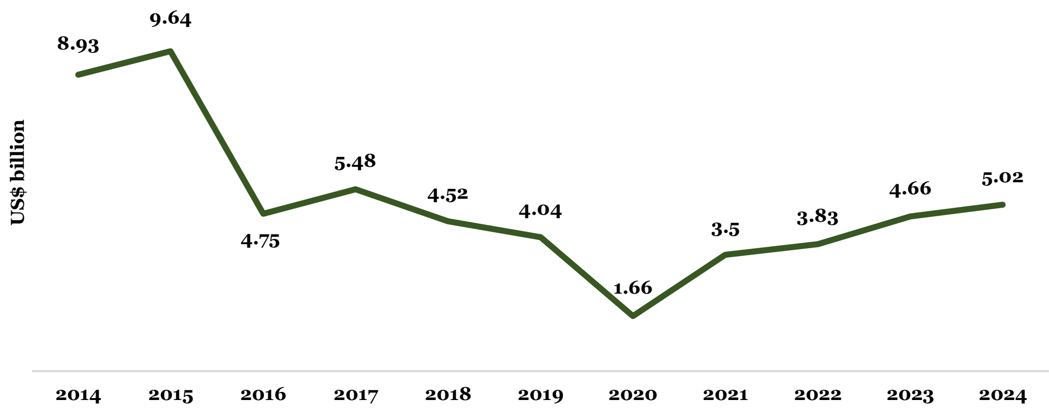
Chart 57: US Investment in India



Source: Statista, ECOFIN Research

Similarly, Indian companies have significantly increased their investment in the US, exhibiting a 7.7% growth. Presence of several Indian firms such as Tata Group, Infosys and Wipro are creating jobs in the US market. The growth of Indian investment in the US market creates two-way investment flow reflects deep economic integration and a mature strategic partnership.

Chart 58: Indian Investment in US



Source: Statista, ECOFIN Research

5.3.3. To Conclude…

A Partnership for the 21st Century

The India-US relationship has traveled an extraordinary arc over the past 75 years. From Cold War estrangement to a hesitant reconciliation in the 1990s, from the breakthrough of the nuclear deal to the comprehensive partnership of today, the relationship has consistently defied expectations of what is possible. What makes this partnership distinctive is its multidimensional character. It is simultaneously a security alliance (without the formal treaty structure), an economic partnership (with trade flows that continue to grow), a technology collaboration (with the potential to shape global innovation), and a human connection (sustained by millions of families with ties to both nations).

The resolution of the recent tariff dispute, memorialized in the February 2026 interim agreement, serves as a useful metaphor for the relationship as a whole. Tariffs and trade will always be part of the conversation between any two large economies. But for India and the United States, the conversation now encompasses so much more – the future of the Indo-Pacific, the trajectory of critical technologies, the stability of the global order, and the shared aspiration to demonstrate that democratic governance can meet the challenges of the 21st century. In this sense, the partnership has truly moved 'beyond the tariff'- not because trade no longer matters, but because the stakes of the relationship have become so much larger than any single economic metric. For both nations, the partnership with each other has become essential to their visions of their own futures and to the kind of world they seek to build.

5.4. India and Iran: Seventy-five Years of Civilizational Trust

India and Iran share a millennia-long history of interactions. The contemporary relationship draws upon the strength of these historical and civilizational ties, and continues to grow further marked by high-level exchanges, commercial cooperation and cultural ties. India-Iran relation is indeed defined by deep historical, cultural, and strategic ties, anchored by cooperation on energy, the Chabahar Port, and regional connectivity. While India pursues strong ties for access to Central Asia and energy security, the relation of India with Iran faces challenges from US sanctions and shifting geopolitical alignments in West Asia.

The two countries shared a border till 1947, and share several common features in their language, culture, and traditions. Both South Asia and the Persian Gulf have strong commercial, energy, cultural and people-to-people links. Independent India and Iran established diplomatic links on 15 March 1950. The Shah visited India in February/March 1956 and Indian Prime Minister Jawaharlal Nehru visited Iran in September 1959. The Iranian Revolution in 1979 introduced a new phase of engagement between India and Iran marked by the exchange of high-level visits. The "Tehran Declaration" signed during former Prime Minister Atal Bihari Vajpayee's visit to Iran affirmed the shared vision of the two countries for an "equitable, pluralistic and cooperative international order".

The two countries have in place several bilateral consultative mechanisms at various levels whose meetings take place regularly. In addition, the Institute of Defence Studies and Analyses (IDSA) (now Manohar Parrikar Institute for Defence Studies and Analyses) of India and the Institute of Political and International Studies (IPIS) of Iran hold the regular round tables to exchange views and ideas on bilateral and multilateral issues. Iran frequently objected to Pakistan's attempts to draft anti-India resolutions at international organizations such as the OIC (Organization of Islamic Republic) and the Human Rights Commission. India welcomed Iran's inclusion as an observer state in the SAARC regional organization and also Iran's entry in the BRICS block.

5.4.1. The Ancient Civilizational Connection between India and Iran

The connection between ancient India and Persia is less like a meeting of two different worlds and more like a long-running conversation between cousins. From the shared roots of the Indo-Iranians to the refined aesthetics of the Mughal courts, these two civilizations have mirrored and molded one another for millennia.

A Shared Ancestry

The bond between these two ancient civilizations begins with the Vedas and the Avesta. The linguistic and spiritual echoes between Sanskrit and Old Persian are so profound that entire verses can be translated almost word-for-word. While Indians revered the *Devas* and Persians the *Ahuras*, they shared the same sacred fire, the same ritualistic "Soma" (or *Haoma*), and a fundamental belief in *Rta* (or *Asha*)—the cosmic order of the universe.

Spiritual and Mythological Overlap

The religious structures of early Vedic India and ancient Iran were remarkably similar before a theological "schism" occurred. Both cultures worshipped common deities, including Mitra (Mithra), Varuna, Indra, and Vayu. A fascinating reversal occurred over time. In India, *Devas* were cosmic positive forces and *Asuras* were cosmic positive forces. In Iran, under the influence of Zoroaster, *Ahuras* (Asuras) became the cosmic positive forces, while *Daevas* (Devas) were denounced as demonic. Both cultures shared a central focus on fire rituals (*Yajna* in Sanskrit, *Yasna* in Avestan) and the use of a sacred cord during initiation ceremonies—the *Upanayana* in Hinduism and the *Navjote* in Zoroastrianism.

Early Trade and Imperial Ties

Trade between the Indus Valley Civilization and ancient Iran (specifically the Elamite region) dates back over 4,000 years. Harappan seals have been found at Iranian sites like Susa, and India imported silver and lapis lazuli from Persian regions. Ivory was imported from India. As empires rose, the Achaemenids under Darius the Great extended their reach into the Indus Valley, turning the Gandhara, Punjab and Sindh into Persian satrapies. This was not just a military occupation; it was a cultural transfusion. The majestic stone pillars of Ashoka and the sprawling palace architecture of Pataliputra carry the distinct DNA of Persepolis, showcasing a shared love for monumental grandeur and symbolic art. This period introduced the Kharoshti script (derived from Aramaic) and influenced the administrative styles of later Indian empires like the Mauryans.

The Sacred Knot: Matrimonial Alliances

Political stability and cultural fusion were often sealed through marriage. These "royal knots" bridged the Hindu Kush and transformed the bloodlines of both regions. Though Seleucus Nicator was a Hellenistic successor, his empire was deeply Persianized. The marriage of Chandragupta Maurya to Seleucus's daughter (often identified as Helena) is one of the earliest recorded unions between an Indian sovereign and a Western/Iranian power. The Mughal-Safavid era saw the most intense blending. Humayun, after seeking refuge in the Safavid court, returned to India with a deep love for Persian culture. His son, Akbar, and later Jahangir, continued this tradition. Perhaps, the most famous "Irani" connection was Nur Jahan (born Mehr-un-Nissa), wide of Mughal emperor Jahangir. As the daughter of a Persian noble, she became the de facto ruler of the Mughal Empire, embedding Persian poetry, garden design, and administrative savvy into the heart of Indian governance. Mumtaz Mahal, the queen for whom the Taj Mahal was built by Mughal emperor Shah Jahan was also of Persian descent (the niece of Nur Jahan). The very symbol of Indian identity—the Taj—is, in its soul, a masterpiece of Indo-Persian synthesis.

5.4.2. The India and Iran Strategic Partnership

Signed on 25 January 2003, by Indian PM Atal Bihari Vajpayee and Iranian President Mohammad Khatami, the New Delhi Declaration established a "strategic partnership" aimed at regional stability, enhanced energy security, and cooperation on the North-South Transport Corridor (INSTC). It solidified India-Iran ties following the 2001 Tehran Declaration. Prime Minister Manmohan Singh attended the 16th Non-Aligned Movement Summit in Tehran in 2012. In 2016, Prime Minister Narendra Modi visited Iran and released a joint statement titled "Civilizational connect, contemporary context," reaffirming the depth of bilateral ties. Agreements during Iranian President Hassan Rouhani's Visit: During Iranian President Hassan Rouhani's visit to India in February 2018, both sides signed nine agreements covering several sectors. These included avoidance of double taxation, easing visa norms, cooperation in traditional medicine, and an extradition treaty. The countries also concluded a lease agreement related to Phase-1 of Shahid Beheshti Port at Chabahar.

For India, the location of Iran is strategic and crucial due to its geographical positioning between the Persian Gulf and the Caspian Sea. Iran is important to India as it provides an alternate route of connectivity to Afghanistan and Central Asian countries, in the wake of hindrances by Pakistan in using land routes. Iran has one of the largest deposits of crude oil and natural gas in the world, which India can tap to meet its energy needs. On the other hand, for Iran, the strategic location of India is crucial as it aids its "Asia-oriented" foreign policy. India is the second-largest populous country and a major economy with a huge demographic dividend. It gives Iran access to the 4th largest economy to invest in and enhance trade relations with.

5.4.3. Indo Iran Oil Trade Dynamics and Energy Cooperation

Before international sanctions intensified, Iran was among India's largest energy suppliers. In 2018-19 India imported crude oil worth about US$ 12.11 billion from Iran. Earlier, during April-June 2018, India was the second largest buyer of Iranian crude after China. Iran was also the second largest crude supplier to India during that period. Indian companies expressed willingness to invest nearly US$ 20 billion in Iran's oil, gas, petrochemical, and fertilizer sectors. India has also explored the possibility of establishing petrochemical plants and fertilizer units in the Chabahar Special Economic Zone to strengthen long term energy collaboration. The Farzad-B gas field in the Persian Gulf was discovered by an Indian consortium led by ONGC Videsh Limited in 2008. Negotiations have continued over its development, and discussions were pursued by Indian officials during visits to Iran. The gas reserves in Farzad-B are believed to be significantly larger than many gas reserves discovered within India.

Nearly 40% of India's crude imports and half its gas imports transit the Strait of Hormuz, making the stability of Iran-related sea lanes a direct energy security concern. Ongoing talks between the two governments on energy security and shipping route safety reflect New Delhi's recognition that its energy future is inextricably linked to developments in the Persian Gulf.

After engaging in negotiations for several years, the Indian Government finally joined the Turkmenistan, Afghanistan, Pakistan, and India (TAPI) gas pipeline over the Iran–Pakistan–India pipeline (IPI) and the Myanmar–Bangladesh–India pipeline (MBI).

5.4.4. Chabahar – One of the Cornerstones of Indo Iran Strategic Cooperation

The Chabahar Port, located on Iran's southeastern coast in the Sistan-Baluchistan province, stands as a cornerstone of India-Iran strategic cooperation, acting as a vital maritime gateway that connects India to Afghanistan and Central Asia while bypassing Pakistan. As of early 2026, the project remains a high-stakes endeavor for New Delhi, navigating complex geopolitical challenges, including US sanctions and competition from Chinese investments in the region.

The primary significance is providing direct access to Afghanistan and Central Asia, mitigating reliance on land routes through Pakistan. Located only 72 km from the Chinese-backed Gwadar port in Pakistan, Chabahar serves as a strategic counterweight, enabling India to monitor and check Chinese influence in the Indian Ocean region. Chabahar is a crucial node in the 7,200-km multi-mode International North-South Transport Corridor (INSTC), connecting India to Russia and Europe, promising to reduce transport times and costs by 30-40% compared to the Suez Canal route. The port has been instrumental in delivering humanitarian aid food grains (wheat) and medical aid to Afghanistan.

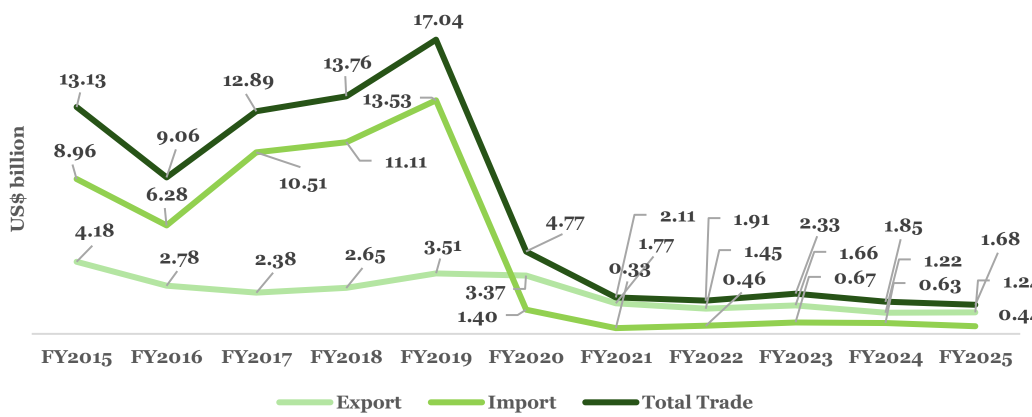
In May 2024, India Ports Global Limited (IPGL) signed a long-term contract to operate the Shahid Beheshti Terminal for 10 years. India has fulfilled its commitment of contributing US$ 120 million for procurement of port equipment and offered a credit window of US$ 250 million for infrastructure development. Since 2018, IPGL has handled hundreds of vessels and millions of tonnes of cargo. Plans are underway to expand capacity fivefold by mid-2026. A key component is the construction of a US$ 1.6 billion railway network from Chabahar to Zahedan to link with the Iranian rail network. This rail corridor is intended to connect the port with Iran's inland transport network and improve access toward Central Asia and Afghanistan.

The biggest challenge in India operating Chabahar is navigating US sanctions against Iran. While India has secured a conditional sanctions waiver valid until 26 April 2026, the future of this exemption remains uncertain, leading to a "wait and watch" approach in the 2026 Indian budget, which saw no new funding allocated. Iran's 25-year strategic partnership agreement with China (US$ 400 billion) risks influencing the dynamics of Chabahar, with Iran previously showing openness to including China and Pakistan in the project. Ongoing turmoil in the West Asia region and Taliban-ruled Afghanistan complicates the operating environment. Despite these challenges, the long-term contract signed in 2024 indicates a robust commitment from both New Delhi and Tehran to sustain the project as a pillar of their bilateral strategic partnership.

5.4.5. India Iran Economic Relations

India-Iran economic and commercial ties have traditionally been buoyed by the Indian import of Iranian crude oil. India's exports to Iran include petroleum products, rice, machinery & instruments, manufacturers of metals, primary and semi-finished iron & steel, drugs/pharmaceuticals & fine chemicals, processed minerals, manmade yarn & fabrics, tea, organic /inorganic /agrochemicals, rubber manufactured products, etc.

Chart 59: India's Trade with Iran



Source: Ministry of Commerce, Union Government of India, ECOFIN Research

Iran and India are significant trading partners. In recent years, India has emerged as one of Iran's top five trading partners.

Table 14: Key Exports of India to Iran (FY2025)

Commodities	Export Value in FY2025 (US$ million)	Growth Rate (%)
Cereals	757.52	9.8
Coffee, tea, mate and spices.	70.00	30.0
Nuclear reactors, boilers, machinery	28.45	-5.6
Pharmaceutical products	28.29	116.5
Essential oils and resinoids	25.71	86.2

Source: Ministry of Commerce, Union Government of India, ECOFIN Research

Currency Settlement Mechanism

To address payment challenges arising from international sanctions, the India's central bank, Reserve Bank of India and Iran's central bank, Bank Markazi introduced a currency swap arrangement allowing India to pay for Iranian oil using the Indian rupee. This mechanism reduced reliance on US dollar transactions and helped India preserve foreign exchange reserves while maintaining trade flows.

India and Iran have set up several projects. Both countries have set up joint ventures such as the Madras Fertilizer Company and the Chennai Refinery. Indian companies such as ESSAR, OVL, etc. have a presence in Iran. India is also a member of the International North-South Corridor project. The two countries have finalized a Bilateral Investment Promotion & Protection Agreement (BIPPA) and a Double Taxation Avoidance Agreement (DTAA).

5.4.6. Challenges in India Iran Relations

The US sanctions (CAATSA) led to the stoppage of oil imports from Iran in 2019. This was after the revocation of the Iran nuclear deal. The act hurt India's energy security. India's close relations with Israel and Iran's ties with China are also bones of contention in the bilateral relations. The geopolitical stand of Iran in Yemen against Saudi Arabia and UAE, who are close partners of India, also tends to cause discomfort in the relations. Iran's tough statement on the Indian government's abrogation of Article 370 of the Indian Constitution giving special status to Kashmir is another cause of tension. Iran's previous regime had on a couple of occasions made statements instigating the Muslims of Kashmir against the governance which was reprimanded by India severely.

5.4.7. Restructuring India Iran Relations

Afghanistan is a common ground where the countries can forge a common and effective policy of engagement. Iran never withdrew its consulate from Kabul after the Taliban took the governance and now since India has opened up communication with the regime, the relations of Iran with the Taliban can be helpful for India as well. India has had good and cordial relations with the Arab Gulf nations. The Gulf states and Iran have a history of sour relations, but the recent diplomatic talks between Iran and a few Gulf countries like UAE and Qatar opened up the scene for India to have a deeper and wider reach in West Asia. The International North-South Transport Corridor (INSTC), an ambitious project launched at the start of this century, aims to connect India, Iran, Afghanistan, Russia, Central Asia, and Europe through multi-modal transport, reducing the transit time of goods drastically. Although, some parts of it have been operationalized, again, due to sanctions on Iran, its full potential has not been realized. India and Iran could well play a major part in giving INSTC the required boost to reap the benefits of resultant trade.

Recently, the Foreign Minister of Iran visited India for the first time since the new government was formed in 2021. The visit was in alignment with the "Asia-oriented" foreign policy of the new Iranian government. India Iran relations have a lot to achieve in the energy sector and other areas of convergence should be explored to strengthen the bilateral ties.

5.5. India’s Relation with Arab GCC Countries: Standing on the Pillars of People, Prosperity & Progress

India’s relationship with the Arab Gulf Cooperation Council (GCC) countries is most commonly defined as an "extended neighborhood" partnership. This term reflects the geographical proximity across the Arabian Sea and the deep-seated historical, cultural, and economic interdependencies between the two regions. "Link West" Policy is the primary foreign policy framework introduced by the Indian government to proactively engage with its western neighbors, focusing heavily on the GCC. India's relationship with the GCC is a cornerstone of its foreign policy, spanning energy security, economic investment, and deep people-to-people ties. The GCC serves as India's largest trading partner bloc, providing over 60% of India's crude oil needs and acting as the home to around nine million Indians, contributing highest remittances to India, as compared to Indian remittances from any other country. India and the Arb region have a civilizational link with roots in ancient maritime trade and shared cultural history that predates modern political boundaries.

India maintains formal "Strategic Partnerships" with individual GCC members, specifically the Kingdom of Saudi Arabia, the UAE, and Oman. These represent a shift from purely transactional ties to deeper cooperation in defense, security, and long-term investment.

5.5.1. India and Arab Region – A Civilizational Link

The relations between India and the Arab world can be dated back to antiquity and the time bears witness to inter-cultural dialogues and exchanges between these two age-old civilizations. Historically, The Old Testament bears ample evidence for maritime mercantile relations between India and the Arab world during Solomon’s period. And this is also a historical fact that for more than 2,500 years, the lands of West Asia and North Africa, stretching from Egypt to Iraq had traded regularly with Indus Valley civilization. India was a fulcrum of world trade and a meeting point of western and eastern trade routes. These two civilizations have been in constant contact through their people exchanging their goods, ideas, and cultures.

Ancient Trade & Commerce

The roots of Indo-Arab relations extend far beyond the Islamic era. It embedded deeply within the socio-economic and cultural contours of the pre-Islamic world. From as early as 3000 BC, India and the Arab region were closely connected through maritime and overland trade networks. It had not only shaped economic interdependence but also nurtured civilizational cross-pollination. Ports such as Bharuch and Muziris on the western coast of India were pivotal nodes in this transoceanic commercial lattice. It also promoted the flow of spices, textiles, semi-precious stones, and medicinal products to Arabian ports like Gerrha, Qana and Hadhramaut. Archaeological discovery of Indus valley ceramics at sites like Dahwa (Oman) and Dilmun (Bahrain) underscores the tangible testimony to the uninterrupted interaction across the Arabian Sea. These findings reinforce the idea that the Indian Ocean was not merely a maritime highway but a medium of intercultural dialogue, where trade catalyzed artistic, technological, and ritualistic transmissions between ancient societies.

Knowledge Transfer & Cultural Fusion

These two civilizations have been in constant contact through their people exchanging their goods, ideas, and cultures. The cultural contacts were not confined to the linguistic interactions only, but to a wide variety of activities ranging from menu to the naming of individuals and clans. Even, it is believed that the Arabs have contributed to the naming of this region, Hindustan. The name to the religion “Hinduism” is partly considered an Arab contribution. The Abbasid Caliphate period (750 A.D. onwards) marked a peak in intellectual exchanges. The Arab world acted as a bridge for Indian knowledge—especially mathematics (the concept of zero) and medicine—to the western world during this period. Arab scholars and caliphs, particularly in Baghdad, translated Indian works on mathematics, medicine, astronomy, and literature (e.g., *Sindhind* and *Kalilah wa-Dimnah*). The Indian system of numerals, which the Arabs adopted and later introduced to the western world, originated from this scientific exchange. Sages and monks from India traveled to the Arab world, exchanging knowledge about Hinduism and Buddhism with regional philosophies. Significant linguistic and cultural influences are seen in the development of Urdu, with many Arabic and Persian words enriching Indian languages, alongside shared culinary traditions and artistic styles.

Historical Ties & Diplomacy

Diplomatic exchanges date back to ancient times, with consistent trade links being the foundation of the relationship rather than conquest. Historical accounts mention Indian kings sending gifts to Arab rulers, fostering amicable relations even before the 7^{th} century. The Nabataean Kingdom, for instance, had strong links with India in the 3rd century BCE.

5.5.2. India and GCC – A Natural Partnership

India and GCC enduring relationship, has evolved into a "natural partnership," characterized by mutual respect and increasing collaboration across sectors. The partnership between India and the Gulf Cooperation Council (GCC)—comprising Saudi Arabia, the UAE, Qatar, Kuwait, Oman, and Bahrain—has evolved from a traditional buyer-seller relationship into a comprehensive, strategic, and "natural" partnership rooted in economic, energy, and people-to-people ties. The relationship between India and the Arab world is strategically significant, multifaceted, and deeply rooted. It is shaped by centuries of historical contact, strong economic interdependence, cultural linkages, and evolving geopolitical interests. In the Arab World, especially the GCC remains one of the most strategic partners of India, facilitating trade and investment. The relationship between India and the Arab world is strategically significant, multifaceted, and deeply rooted. It is shaped by centuries of historical contact, strong economic interdependence, cultural linkages, and evolving geopolitical interests.

The UAE-India CEPA kicked off in 2022, aiming for US$ 100 billion in non-oil trade by 2030. India also signed a CEPA with Oman and is negotiating a wider GCC FTA. Arab wealth funds have invested over US$ 30 billion since 2022, mostly from the UAE and Saudi Arabia, going into infrastructure, energy, tech, and startups. Saudi Arabia's Crown Prince Muhammad Bin Salman came to India in 2023, and both sides launched a working group to target US$ 100 billion Saudi investment in India, including in India's massive Ratnagiri refinery. As of FY2025, the GCC is India's largest trading partner bloc, accounting for 15.4% of its global trade. In FY2025, Indian export to the GCC region in FY2025 stood at around US$ 56.8 million.

5.5.3. Energy Security

The Gulf Cooperation Council (GCC) is foundational to India's energy security, supplying over 65% of its crude oil and 70% of natural gas imports, fostering a stable, long-term energy partnership. As of 2026, enhanced diplomatic ties and an impending free trade agreement (FTA) ensure reliable fuel supplies, diversify energy sources, and accelerate investments in renewable energy and green hydrogen.

Energy security is significant not only for industrial growth but also for power and transportation sectors that are critical for the functioning and growth of the economy. The Gulf countries have been among India's top petroleum suppliers since the 1980s and have remained the most dependable suppliers despite the fluctuations in the international market and supply chains. The strengthening of bilateral political and strategic ties, especially since the 2010s, has played a crucial role in making the GCC a dependable partner for India. The bilateral ties, especially with UAE, Saudi Arabia, and Qatar, have helped India overcome challenges due to sanctions on major global oil and gas suppliers such as Iran & Venezuela, the impact of regional conflicts during and after the Arab Spring (2010-12), and the global COVID-19 pandemic. For the GCC suppliers, India has been a stable and large market for crude oil and natural gas as it is one of the biggest global consumers. This has made India an attractive destination for GCC investments in the energy sector, with mega Gulf energy corporations such as Saudi Aramco and Emirati ADNOC committing big long-term investments.

In recent years, with concerns about carbon emissions and volatility in the international oil and gas market, India has deliberately tried diversifying its energy consumption sources and petroleum imports, with Russia, US, Australia, and Nigeria emerging as important sources. However, the Gulf region has remained critical to India's energy security due to its geographical proximity to India and the established buyer-seller networks. Capacity and commitment of the Gulf states, such as Saudi Arabia, the UAE and Qatar, to supply oil and gas at special prices work in their favor. This is important given the volatility in the international market.

In a nutshell, the key aspects of GCC-India energy security can be identified as follows:

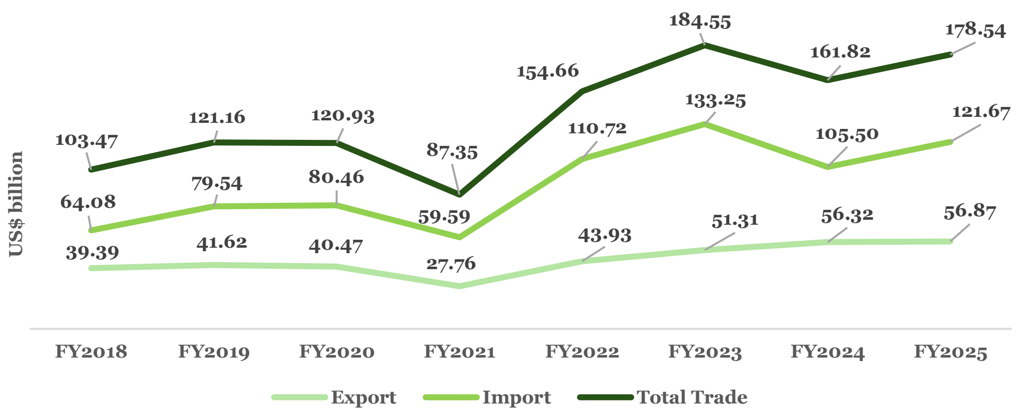
- **Primary Supplier:** The GCC serves as the cornerstone of India's energy needs, with major suppliers including Saudi Arabia, UAE, Iraq, and Qatar (natural gas).
- **Strategic Stability:** Amid West Asian volatility, India uses diplomatic engagement with GCC members to secure critical sea lanes (Strait of Hormuz) and maintain stable oil and gas supplies.
- **Energy Transition Cooperation:** Beyond hydrocarbons, India and the GCC are collaborating on renewable energy projects, particularly green hydrogen, to future-proof energy supplies.

5.5.4. India-GCC Economic & Trade Ties

Trade

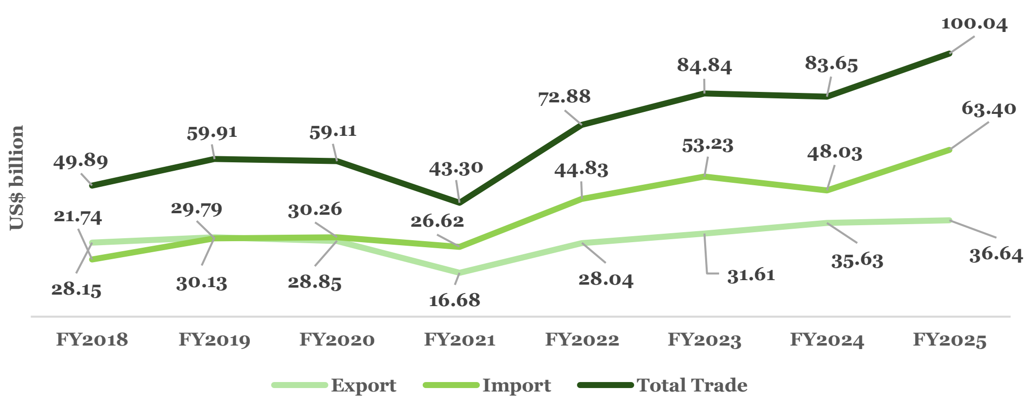
India-GCC economic ties are robust and expanding, with bilateral trade reaching US$ 178.54 billion in FY2025, forming 15.42% of India's total global trade. UAE is India's largest trading partner in the GCC region, followed by Saudi Arabia, Qatar, Kuwait, Oman and Bahrain. India imports largely oil, gas, and petrochemicals from the GCC, while exporting engineering goods, rice, textiles, machinery, and gems and jewelry. India and the Gulf Cooperation Council (GCC)—comprising Saudi Arabia, UAE, Qatar, Kuwait, Oman, and Bahrain—formally launched negotiations for a comprehensive Free Trade Agreement (FTA) in February 2026, aiming to strengthen trade relations with their largest trading partner bloc. India already has separate, key agreements with the UAE (CEPA in 2022) and Oman (CEPA in 2025).

Chart 60: India's Trade with GCC



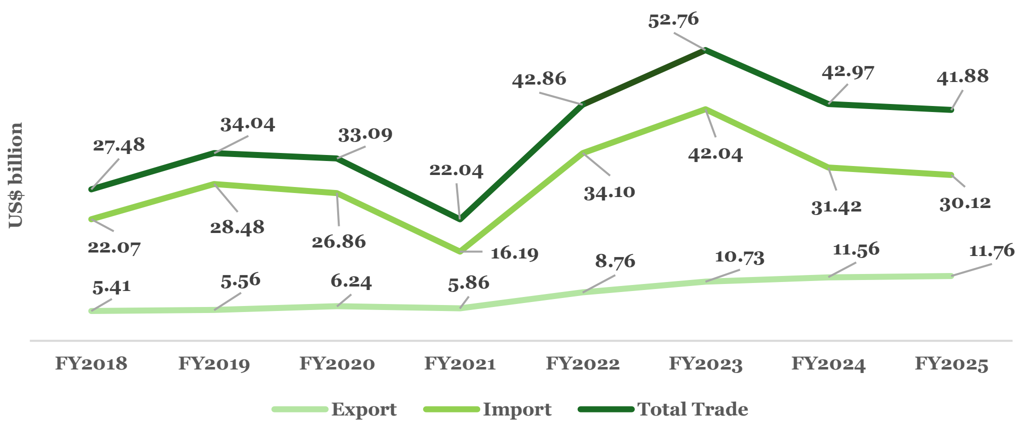
Source: Ministry of Commerce, Union Government of India, ECOFIN Research

Chart 61: India's Trade with UAE



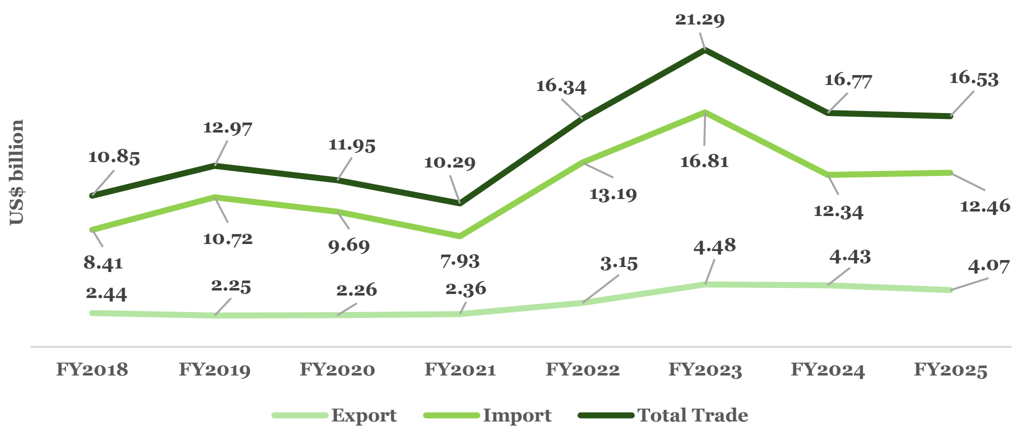
Source: Ministry of Commerce, Union Government of India, ECOFIN Research

Chart 62: India's Trade with Saudi Arabia



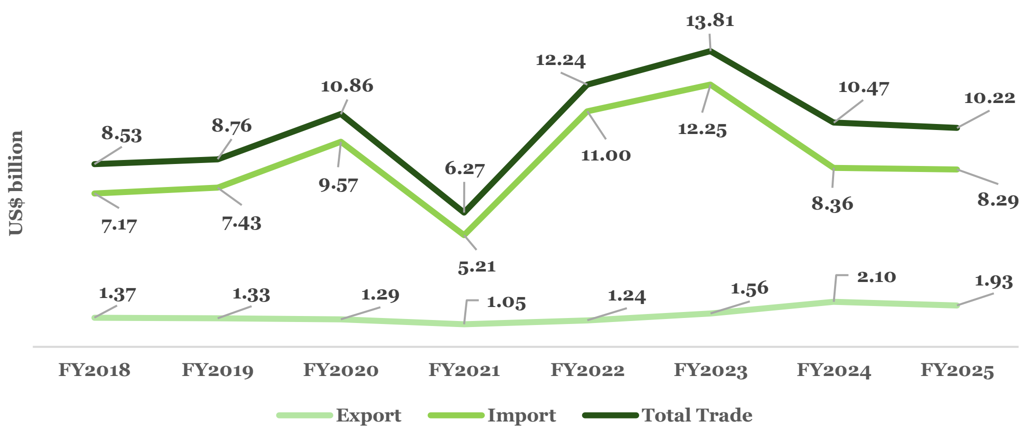
Source: Ministry of Commerce, Union Government of India, ECOFIN Research

Chart 63: India's Trade with Qatar



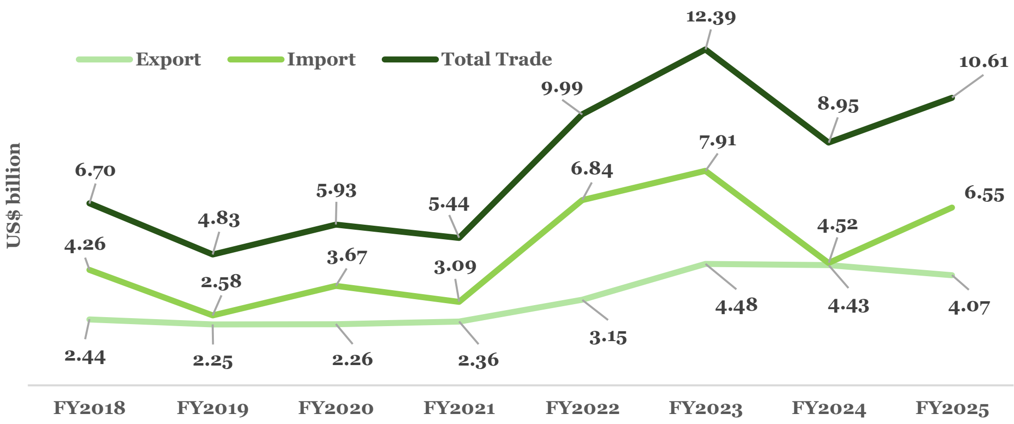
Source: Ministry of Commerce, Union Government of India, ECOFIN Research

Chart 64: India's Trade with Kuwait



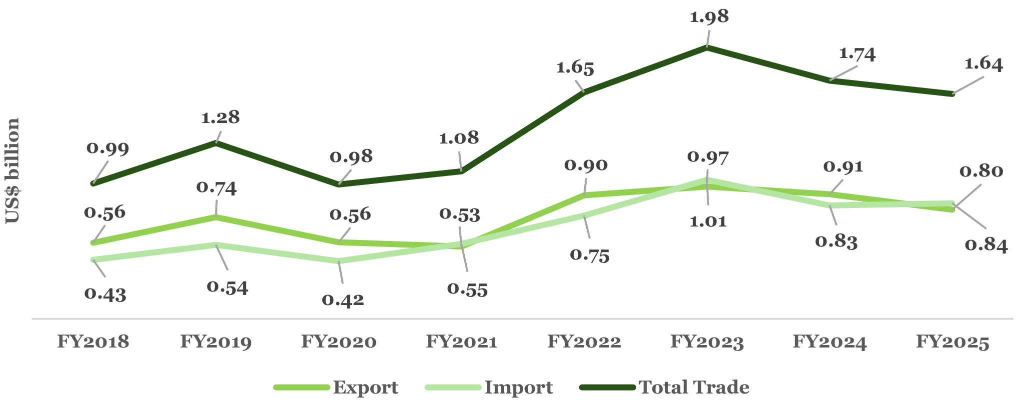
Source: Ministry of Commerce, Union Government of India, ECOFIN Research

Chart 65: India's Trade with Oman



Source: Ministry of Commerce, Union Government of India, ECOFIN Research

Chart 66: India's Trade with Bahrain



Source: Ministry of Commerce, Union Government of India, ECOFIN Research

In a nutshell, Key aspects of India-GCC trade relations include:

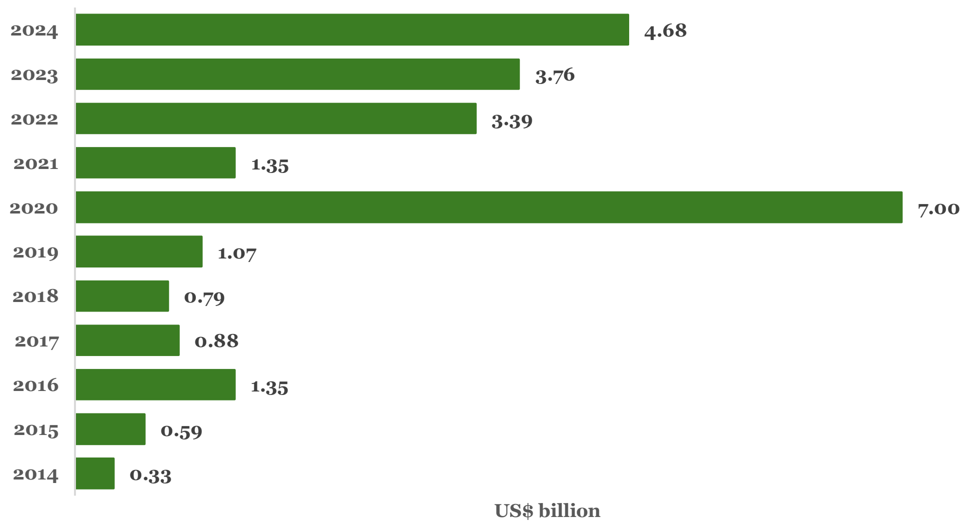
- **Framework Agreement:** A broad Framework Agreement on Economic Cooperation has existed between India and the GCC since 2004, which served as the foundation for current talks.
- **India-GCC FTA (In Progress):** Negotiations were officially launched on February 24, 2026, following the signing of a Joint Statement and Terms of Reference (ToR) to boost trade in energy, petrochemicals, and services.
- **India-UAE Comprehensive Economic Partnership Agreement (CEPA):** Implemented in May 2022, this pact significantly reduced duties and broadened trade between the two parties.
- **India-Oman Comprehensive Economic Partnership Agreement (CEPA):** Signed in December 2025, strengthening bilateral trade and investment.
- **Trade Volume & Focus:** India's trade with the GCC reached over US$ 178.54 billion in FY2025, making it a vital partner. Key trade involves Indian exports of engineering goods, textiles, and gems, alongside critical imports of crude oil, LNG, and fertilizers.

GCC-India Investments

Arab investment in India is surging, driven primarily by Saudi Arabia and the UAE, with a projected US$ 100 billion in potential commitments from Saudi Arabia alone. Investments span energy, technology, infrastructure, and startups, with major contributions from the Saudi PIF and UAE entities diversifying from traditional oil ties into digital, retail, and agricultural sectors.

In 2024, UAE contributed about 95% of total GCC FDI to India, amounting to US$ 4.6 billion. UAE's position as a global financial hub, especially cities including Dubai and Abu Dhabi, which host major international banks, investment funds, and multinational corporations, makes it an attractive investor of India. Additionally, the strong Indian diaspora contributes through remittances and facilitates business partnerships, entrepreneurship, and investor confidence.

Chart 67: India's FDI Inflow from GCC



Source: DPIIT, ECOFIN Research

United Arab Emirates

The UAE has emerged as a premier investor in India, with over US$ 22 billion invested since 2000, accelerating rapidly under the 2022 Comprehensive Economic Partnership Agreement (CEPA). Key UAE investments focus on Indian infrastructure, renewable energy, AI, and fintech, with a long-term commitment to projects in GIFT City and Dholera. India-UAE bilateral trade reached US$ 100 billion in FY2025, targeting US$ 200 billion by 2032.

Key sectors for UAE Investment in India are infrastructure and real estate, energy transition, technology and AI, manufacturing and industrial corridors and financial services. UAE has committed to invest a substantial portion of a long-term US$ 75 billion target into Indian infrastructure, including renewable energy projects and logistics. Major India-UAE collaborations include LNG supply agreements (e.g., ADNOC and HPCL) and joint development of green hydrogen, green ammonia, and Small Modular Reactors (SMRs). UAE investors also focus on digital innovation, AI development, and fintech, with Abu Dhabi Investment Office supporting startups. Emirati institutional funds also showed significant interest in the Dholera Special Investment Region in Gujarat for projects such as greenfield airports, smart townships, and industrial parks. First Abu Dhabi Bank and DP World are expanding operations within Gujarat's GIFT City to facilitate financial flows. The India-UAE CEPA (2022) and "The 2024 Bilateral Investment Treaty" strengthened investment protection, enhancing trust for investors. India's GIFT City is being utilized by UAE entities as a crucial, tax-friendly entry point for investment into the Indian market. New agreements between the two countries also focus on civil nuclear cooperation and deepening the green hydrogen value chain.

Saudi Arabia Investment

Saudi investments in India have seen massive growth, growing 60-fold over the past decade. The Public Investment Fund (PIF), the Saudi sovereign fund has made significant investments, including US$ 1.5 billion in Reliance Jio Platforms and US$ 1.3 billion in Reliance Retail Ventures Limited. Saudi Arabia has reaffirmed a commitment to invest up to US$ 100 billion in India, with around US$ 10 billion already invested in technology and small companies. Investments focus is on technology, startups (e.g., Delhivery, Ola, Paytm), infrastructure, and agriculture. Major players include Aramco, SABIC (which has a large technology center in Bengaluru), ZAMIL, and SALIC.

India and Saudi Arabia governments had recently held high-level meetings to expedite investment in energy, manufacturing, and technology. India-Saudi Startup Bridge is launched to facilitate collaboration, with Saudi investors playing a role in India's startup ecosystem. The India Saudi partnership is diversifying beyond oil, with a growing focus on AI, space exploration, and fintech.

Qatar, Kuwait, Oman and Bahrain

Qatar, Kuwait, Oman and Bahrain are significantly strengthening economic ties with India, with key investment focus on infrastructure, energy including green energy, logistics and technology.

Qatar has committed to a massive US$ 10 billion investment in India, aimed at sectors including infrastructure, technology, food security, and energy. The Qatar Investment Authority (QIA) already holds roughly US$ 1.5 billion in FDI in India. Future Qatari investments in India are targeted at ports, shipbuilding, renewable energy, smart cities, artificial intelligence, robotics, and hospitality. Both nations aim to double their annual bilateral trade from US$ 16.5 billion in FY2025 to US$ 28 billion by FY2030, according to Moneycontrol.

Investments from the Kuwait Investment Authority (KIA) in India have already exceeded US$ 10 billion, reports The New Indian Express. Kuwait is a key provider of energy to India, acting as its sixth-largest crude oil supplier. Both nations are enhancing cooperation in defense and exploring joint opportunities in renewable energy through the International Solar Alliance, notes The New Indian Express.

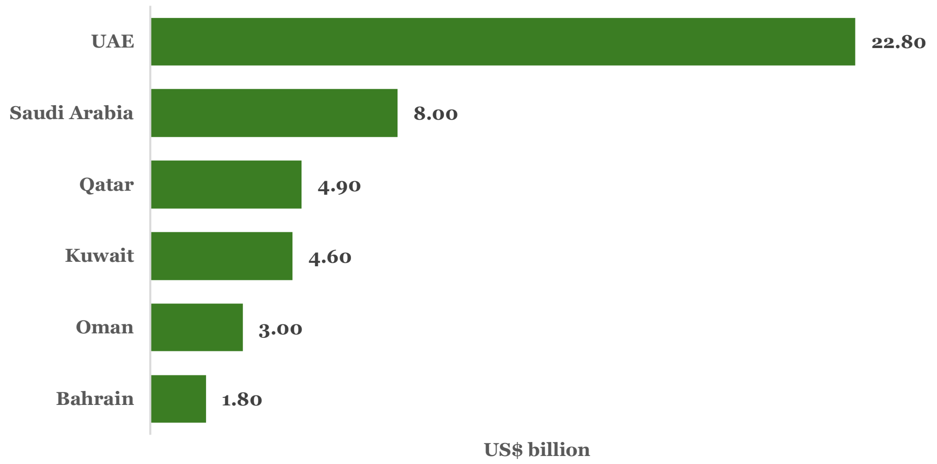
Oman and India are strategic partners in manufacturing, special economic zones, and infrastructure sectors. Indian investments in Oman have more than tripled since 2020 to roughly US$ 5 billion, focusing on green ammonia, green steel, and logistics. In December 2025, India and Oman signed a Comprehensive Economic Partnership Agreement (CEPA) to streamline bilateral trade and investments.

Bahraini investment in India is growing, characterized by a total cumulative FDI inflow of approximately US$ 185 million, focusing on sectors such as real estate, IT, and engineering. Key Bahraini investments are led by Investcorp, which has invested over US$ 500 million in Indian companies across healthcare, social infrastructure, and logistics, including companies like FreshtoHome and Xpressbees.

5.5.5. Indian Diaspora & Remittances

The diaspora is India's strongest soft-power asset. The GCC region has a strong Indian diaspora, significantly contributing to local economies and send large remittances back to India. The region is the home of around nine million Indian nationals and overseas. India received a record US$ 135.46 billion in remittances in FY2025, marking a 14% increase from FY2024. The GCC region, particularly the UAE and Saudi Arabia, remains a significant source of these remittances. The diaspora acts as a bridge of cultural and economic ties between India and the Gulf and strengthens bilateral diplomacy and people-to-people connections and encourages trade, tourism, and investment flows. There is an increasing demand for Indian skilled professionals in healthcare and technology sectors in Saudi Arabia, UAE and other GCC countries. The Indian government actively works on initiatives for safer migration and enhanced welfare support.

Chart 68: India Remittances from GCC Countries FY2024



Source: Reserve Bank of India, ECOFIN Research

Indian businessmen play a pivotal role in the GCC economy, with over 100 top leaders holding a collective net worth of US$ 26.4 billion. Retail magnate Yusuff Ali (LuLu Group) is a top leader, while Rizwan Sajan (Danube Group) and Ravi Pillai (RP Group) are key figures in retail and construction. Other prominent figures include Micky Jagtiani (Landmark Group) and Mohan Valrani (Al Shirawi Group). The Indian diaspora in the Gulf is a strategic resource to India. It enhances cultural and diplomatic links in addition to making economic contributions through remittances. continued reforms and bilateral cooperation seek to enhance the security and well-being of Indian workers in the area, despite continued obstacles.

Table 15: High Net Worth Non-resident Indians in UAE

Individuals	Company	Net worth (US$ billion)	Company Headquarter
Micky Jagtiani	Landmark Group	2.65	Dubai
BR Shetty	New Medical Centre (NMC) Group of companies	1.90	Abu-Dhabi
Yusuff Ali	EMKE Group including the Lulu chain of hypermarkets	2.20	Abu Dhabi
Ravi Pillai	RP Group	1.85	Dubai
Sunny Varkey	GEMS Education	1.60	Dubai
Vidya Chhabria	Jumbo Group	1.40	Dubai
Tony Jashanmal	Jashanmal Group	1.20	Dubai

Source: Press Releases and ECOFIN Research

5.5.6. Strategic & Defense Cooperation

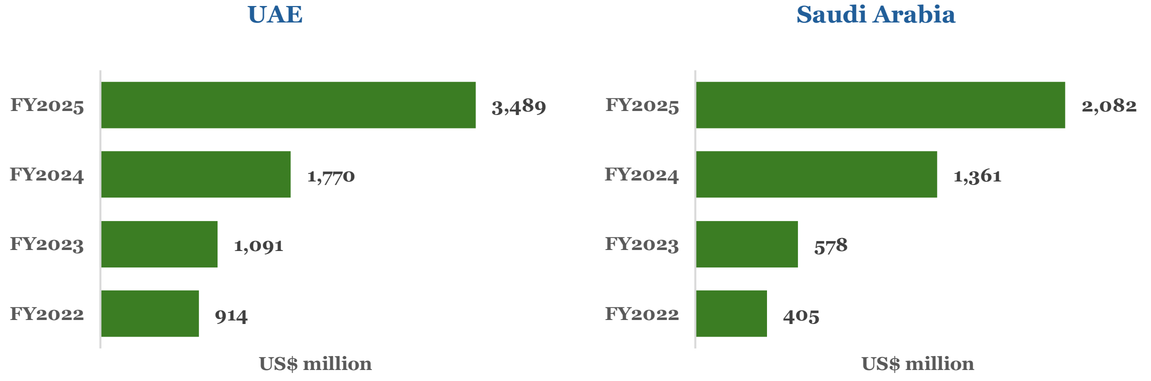
India-GCC strategic and defense cooperation has evolved from a buyer-seller energy relationship into a comprehensive strategic partnership focusing on maritime security, counter-terrorism, and joint defense exercises. Key focus areas include securing sea lanes, technology sharing in cybersecurity, and strengthening defense industrial collaborations with UAE and Saudi Arabia. India's Navy works with Arab Gulf navies to ensure regional security and protect maritime trade routes. Key exercises include "Desert Flag" (UAE), "Desert Knight" (India-France-UAE), and maritime drills with Oman and Saudi Arabia.

India's cooperation with UAE and Saudi Arabia is expanding toward co-development and joint manufacturing of equipment, including armaments and unmanned aerial vehicles. Both sides share intelligence and cooperate on counter-extremism to bolster regional stability. Initiatives like the I2U2 (India-Israel-UAE-USA) and the India-Middle East-Europe Corridor (IMEC) are deepening, focusing on security, technology, and energy security. Oman maintains long-standing maritime partnership (since 1972) with India, while the UAE and Saudi Arabia are central to India's recent strategic initiatives.

India collaborates closely with Arab Gulf nations - Saudi Arabia, UAE, Qatar and Oman to fight terror financing and extremism. Improvements in intelligence sharing have made it possible to follow terrorist networks more effectively and extradite wanted people. An increasing degree of mutual trust and strategic alignment is seen in this partnership. A key component of the partnership is maritime security. Ensuring the safety of maritime channels is essential because a significant amount of India's energy imports travel through the Gulf. Arab nations that are close to vital chokepoints like the Strait of Hormuz work with India to protect commercial lanes, fight piracy, and address marine dangers. This makes the cooperation essential for the stability of international trade and energy security.

In the last two years, the export of aircrafts and parts has witnessed significant increase in exports, strengthening India's presence in the Gulf. In FY2025, Indian export of aircrafts and spacecrafts to the Arab nations witnessed more than 150% growth compared to FY2024.

Chart 69: India's Export of Nuclear Reactor, Machineries and Aircrafts to GCC



Source: Ministry of Commerce, Union Government of India, ECOFIN Research

5.5.7. India – UAE Strategic Cooperation

India signed a US$ 3 billion deal on 19 January 2026 to buy liquefied natural gas from the United Arab Emirates, making it the UAE's top customer, as the leaders of both countries held talks to strengthen trade and defence ties. The agreement was signed during a very brief two-hour visit to India by UAE President Sheikh Mohammed bin Zayed Al Nahyan for talks with Indian Prime Minister Narendra Modi. They pledged to double bilateral trade to US$ 200 billion in six years and form a strategic defence partnership.

India–UAE relations have matured into a premier strategic partnership, with bilateral trade crossing US$ 100 billion in FY 2024–25 under the INDIA-UAE CEPA and a new target of US$ 200 billion by 2032. The UAE has emerged as India's third-largest trading partner and a key source of FDI, while cooperation has moved beyond oil through a 10-year LNG pact and new domains such as fintech (UPI–AANI & RuPay-JAYWAN), the India–Middle East–Europe Economic Corridor (IMEC) and recent talks on a Strategic Defence Partnership, including defence industrial collaboration and interoperability. Anchored in a 3.5 million–strong Indian diaspora, this partnership transforms economic interdependence into sustained geopolitical convergence.

Current Areas of Development in the India-UAE Relations

Enhanced Economic Partnership

The bilateral economic strategy has shifted from mere commodity exchange to a deep institutional integration designed to shield both economies from global volatility, credited to the Comprehensive Economic Partnership Agreement (CEPA). In January 2026, both nations set a target of US$ 200 billion in annual trade by 2032, building on the US$ 100 billion milestone reached in FY2025. By doubling the trade target, both nations are signaling a commitment to creating a corridor in the Global South, which bypasses traditional Western trade dependencies.

The Strategic Defence Pivot

India and the UAE are moving toward a formal security architecture, reflecting a shared vision of strategic autonomy and a collective stance against cross-border terrorism. This shift indicates that the UAE now views India, rather than traditional regional allies, as its primary partner for maritime security and defence industrial innovation in the Indian Ocean. For instance, a Letter of Intent (LoI) for a Strategic Defence Partnership was signed in January 2026, covering defence industrial collaboration and interoperability. Joint exercises such as Desert Cyclone and Desert Flag now feature complex combat scenarios involving multi-domain operations, real-time interoperability, and high-intensity air-land coordination, reflecting a shift from symbolic drills to realistic war-fighting preparedness.

From Crude Trade to Clean Energy Partnership

The energy relationship has transcended the "transactional crude" phase to embrace long-term energy security and the "SHANTI" (Sustainable Harnessing and Advancement of Nuclear Energy) framework. By venturing into civil nuclear cooperation and Small Modular Reactors (SMRs), the UAE is positioning itself as a primary financier and partner in India's green energy transition. For example, HPCL signed a 10-year LNG supply pact with ADNOC in 2026 for 0.5 million metric tonnes annually starting in 2028. Simultaneously, both nations are collaborating on Small Modular Reactors (SMRs) to capitalize on India's new nuclear policies and the UAE's Barakah nuclear expertise. Complementing this shift, India and the UAE are aligning their climate strategies to co-develop a Green Hydrogen value chain, combining India's manufacturing scale with the UAE's capital to build a sustainable "Green Corridor" for the Global South.

Fintech & Digital Alliance

Financial and digital connectivity has become the "new oil," with both nations aiming to create a sovereign digital payment corridor that challenges the hegemony of Western financial systems. The establishment of "Digital Embassies" and supercomputing clusters highlights a transition toward high-end technological interdependence. The integration of India's RuPay card with UAE's JAYWAN card stack has revolutionized remittances for the 3.5 million-strong diaspora.

Infrastructure Cooperation-The "Greenfield" Asset Shift"

The investment strategy has matured from passive portfolio holdings to active "greenfield asset creation," where UAE sovereign funds are now anchor investors in India's industrial backbone. This shift aims to physically integrate Indian manufacturing zones (like Gujarat) with the Jebel Ali transshipment hub, effectively operationalizing the IMEC corridor by owning the logistics chain end-to-end to bypass global chokepoints. For instance, the UAE committed to developing the Dholera Special Investment Region (Gujarat), including a new international airport and greenfield port. Simultaneously, DP World pledged an additional US$ 5 billion to upgrade India's port logistics network.

Space Cooperation-From "Launch Client" to "Co-Developer"

Space cooperation has graduated from a transactional "buyer-seller" model (UAE paying for launches) to a "co-development" partnership focused on capturing the global commercial payload market. The two nations are combining ISRO's cost-effective engineering with UAE capital to build a shared industrial base, moving beyond state-level science missions to private-sector integration and human spaceflight training. For instance, in January 2026, IN-SPACe and the UAE Space Agency signed a landmark Letter of Intent (LoI) to jointly develop Commercial Launch facilities.

The "Knowledge Corridor" & Skill Mobility

The relationship has shifted from a "labor-export" model to a high-end "knowledge partnership," aiming to create a seamless ecosystem for academic excellence and professional certification. This transition ensures that the Indian diaspora in the UAE is no longer just a workforce but a primary driver of the UAE's transition into a post-oil, innovation-led economy. For Example, following the 2024 opening of IIT Delhi-Abu Dhabi, the campus is set to double its student strength to 400 by late 2026 while introducing specialized Master's programs in AI. This is supported by the 2025 MoU on Mutual Recognition of Qualifications, facilitating the mobility of professionals across the 3.5 million-strong Indian community.

Cultural & Sports Diplomacy

The relationship has evolved beyond transactional diplomacy into a civilizational partnership, with the UAE emerging as a cultural extension of India. This approach follows a dual strategy: affirming the Indian diaspora's long-term belonging through unprecedented religious and cultural recognition, moving past the notion of a "temporary workforce", while also providing a neutral and trusted platform for managing sensitive regional engagements between India and Pakistan. For instance, The BAPS Hindu Mandir, inaugurated in February 2024, built on 27 acres of land gifted by the UAE President. At the same time, the UAE has positioned itself as a consistent neutral venue for sensitive India–Pakistan sporting interactions.

5.5.8. India – Saudi Arabia Defence Deal:

With an emphasis on security cooperation and potential defense industrial partnership, India's defense cooperation with the Kingdom of Saudi Arabia is expanding but is still less institutionalized than that of the United Arab Emirates. Both nations decided to deepen their defense cooperation in recent years (2024–2025), especially in the areas of joint military drills, maritime security, and defense industrial collaborations. The push for cooperative military equipment production under India's "Make in India" project is a significant development, and Saudi Arabia is investigating cooperation as part of its Vision 2030 diversification strategy. Additionally, to improve coordination and defense readiness, both nations participate in joint exercises such "Sada Tanseeq" (army) and "Al Mohed Al Hindi" (naval).

5.5.9. India and GCC Renewable Energy Cooperation

India has deepened its renewable energy cooperation with the Arab GCC states. In January 2023, under Indian Prime Minister Narendra Modi's "One Sun, One World, One Grid" plan, India and the UAE signed a Memorandum of Understanding to work together on green hydrogen development 2.0 and the installation of an underwater cable connecting the two countries. India–UAE are working together to advance a hybrid renewable energy project in the state of Gujarat wherein the UAE-based companies are on a look-out for opportunities to serve as critical knowledge and investment partners.

Saudi Arabia is planning to use its participation in the International Solar Alliance (ISA), together with Bahrain, UAE, and Oman, to further the organization's goals and forge closer ties with India in the field of solar energy. Indian solar and wind energy projects have received investments from Saudi corporations including Al-Jomaih and Al-Fanar. In 2018, the state-run Solar Energy Corp of India (SECI) held an auction in which the Saudi company Al-Fanar purchased interests in a 600 MW wind generating project in India. Additionally, Saudi Arabia and India are jointly studying and analyzing hydrogen as a potential energy source.

5.5.10. Artificial Intelligence (AI) and Fintech Cooperation

India and Gulf nations are increasing their interest in advanced computing, AI infrastructure, and data-driven innovation. The partnership is moving beyond investment to co-innovation, where both sides jointly develop AI ecosystems. GCC countries like Saudi Arabia, UAE, Qatar, etc. are adopting various strategical measures such as the national AI strategies to diversify their economies and improve governance, AI enabled services, data centers and others.

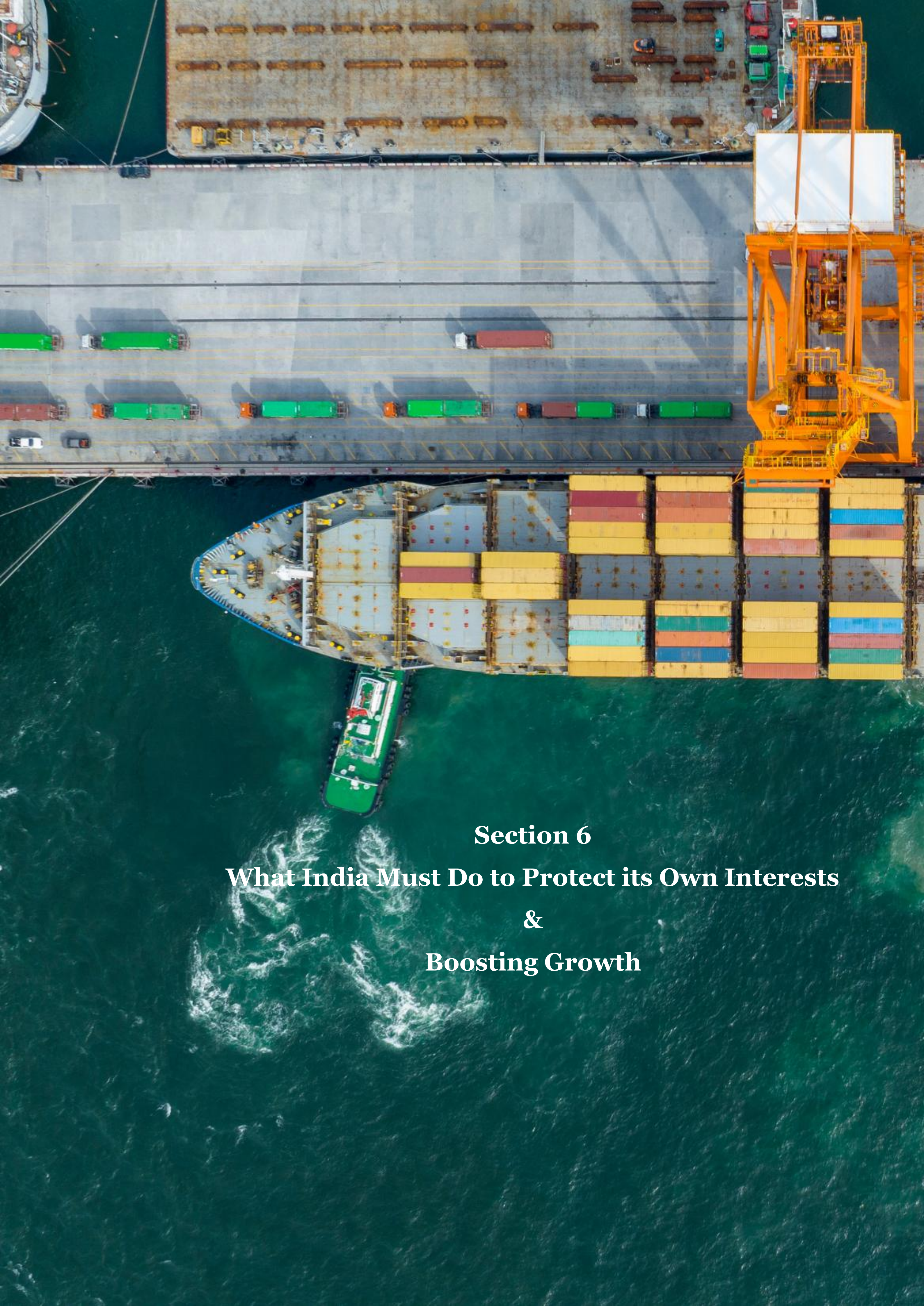
An MoU was signed between the India's technology industry body, National Association of Software and Service Companies (NASSCOM) and the Gulf for expansion of integrated Indian companies turning them into global finance ecosystem, digital fintech infrastructure and fintech collaboration. This involves in developing digital payment system, fintech innovation hub and cross border financial platform. UAE FinTech sector is all set to reach US$ 5.71 billion by 2029, driven by widespread consumer adoption of FinTech innovations, investor confidence in the opportunities offered by the local market.

5.5.11. Smart Cities & Infrastructure Development

India and GCC are collaborating on various projects on smart cities, infrastructure, and urban development projects, reflecting long-term strategic planning through joint investments by India and the Arab nations and developing for a future ready urban ecosystem, building smart city projects, logistic platform and infrastructure corridors. The collaboration between the Golf nations and India represents a transformational development in terms of energy-based projects trade, technological strategic partnership and infrastructural projects. The combination of India's expertise in software and digital innovation with Arab nations' capital, infrastructure and economic diversity, both India and Arab countries are building a future-oriented alliance in shaping the next generation system in terms of finance, government and urban development.

5.5.12. India-Arab Relationship Going Forward

The relationship between India and the Arab World has bloomed over the years building a multidimensional partnership, based on mutual trust and long-term strategic interests. The nations rely on each other in terms of trade, supply of energy, infrastructural projects and collaborates in various projects, manpower workforce and technological capabilities. There are millions of Indian working in Gulf nations, who not only strengthens the Indo-Arab economic tie-up, but also exchange remittance across borders acts as a powerful cultural and social bridge. At the same time, expansion of cooperation in the defence system, maritime security and counter terrorism shows a common vision. India and the Arab world have always maintained a balanced relationship and has always been a support to each other in terms of economic growth, regional stability and emerging global order.



Section 6

What India Must Do to Protect its Own Interests

&

Boosting Growth

6. What India Must Do to Protect its Own Interests & Boosting Growth

This section spotlights India's emerging supremacy not through dominance, but through principled resilience and strategic solidarity. A defining element of this approach is India's firm stand against economic coercion, most notably in pushing back against the Trump administration's 50% tariffs and accusations that India was financing Russia's war (Russia and the Ukraine war) through oil purchases. When the United States imposed punitive tariffs and a senior aide labelled India the 'maharaja of tariffs," the Ministry of External Affairs (MEA) delivered a sharp response, calling the measures 'unjustified and unreasonable', and asserting that neither the US nor the European Union (EU) can dictate India's choice of trade partners. This was not mere rhetoric – it was a declaration of sovereign economic policy, made clear by the Modi government's insistence that its energy imports are driven by vital national compulsion, not external pressure. In standing firm, India demonstrated that it would absorb short-term economic pain to defend long-term strategic autonomy, reinforcing a model of supremacy rooted in self-reliance rather than submission.

Crucially, India's strategy extends beyond defending its own interests to actively aiding and encouraging other nations too - to assert themselves on the global stage. Nowhere is this more evident than in its partnership with Brazil – when both nations found themselves targeted by the highest US tariffs and multiple sanctions – Prime Minister Narendra Modi and President Luiz Inácio Lula da Silva deepened their strategic alignment. During Lula's February 2026 visit to New Delhi, the two leaders set a target to double bilateral their trade to US$ 20–30 billion over five years and signed agreements on critical minerals, digital public infrastructure, defense cooperation, and renewable energy. However, the significance of this meeting went far beyond trade figures.

Lula explicitly called on developing nations to 'unionize' rather than cut individual deals with Washington, warning that **'it is easy' to break a single stick, but far more difficult to do so if the sticks are bundled tightly together.** This metaphor captures the essence of India's approach – using its own growing influence to empower others, amplifying the collective voice of the Global South in forums like the UN, G20, and WTO. Indian Prime Minister Modi reinforced this vision, stating that 'when India and Brazil work together', the voice of the Global South becomes stronger and more confident. In an age of organized chaos, India's supremacy is thus defined not by unilateral action but by its capacity to stand firm against coercion while building coalitions, which enable other nations to stand at the forefront among global powers.

6.1. The Blueprint, Energy Trifecta: Diversify, Stockpile and Transition

The imperative to fortify India's energy security has transcended its traditional framing as a purely economic concern – demanding a three-pronged approach centered on diversification, strategic stockpiling, and a managed transition. On the diversification front, India to move beyond rhetoric and urgently rewire its procurement architecture on any single region by systematically broadening its crude oil and natural gas supply basket. This entails transforming relationships with non-traditional suppliers such as Brazil, Canada, from transactional purchases into long-term strategic partnerships backed by equity oil arrangements and multi-year government-to-government contracts that remain insulated from spot market volatility and geopolitical coercion. Concurrently, New Delhi must weaponize its position as the world's third-largest energy consumer to construct alternative payment architectures – including fully operationalized rupee-riyal and rupee-ruble mechanisms, that circumvent the brittleness of dollar-denominated clearing systems vulnerable to secondary sanctions, thereby ensuring that trade flows remain uninterrupted regardless of shifts in the global financial order.

The second pillar, stockpiling, demands a decisive expansion of India's strategic petroleum reserve (SPR) infrastructure beyond its current capacity of approximately 66 days of import cover, achieving the more resilient benchmark of 90 to 100 days, comparable to International Energy Agency (IEA) member standards. That will require not only completing the delayed Phase II caverns at Chandikhol and Padur, but also leveraging public-private partnerships to commercialize underground storage and mandating that oil marketing companies maintain higher inventories through a revamped buffer stock norm that functions as a true shock absorber against supply disruptions, whether arising from conflicts in the Strait of Hormuz or unilateral export bans.

However, the most transformative and enduring layer of India's energy security architecture lies in the third pillar – the transition itself. India must fundamentally reframe its renewable energy push notably solar, wind, and green hydrogen – not merely as a climate compliance agenda but as the most potent geopolitical hedge available. The aggressively scaling domestic manufacturing capacity across the entire value chain of photovoltaics, electrolyzer, and battery energy storage systems under the Production Linked Incentive (PLI) scheme, India break the structural vulnerability inherent to being a net importer of fossil fuels and position itself instead as a self-reliant producer of energy assets that are immune to cartelization, pipeline politics, and maritime chokepoints. Electrifying mobility, transitioning industrial feedstock to green hydrogen, and modernizing the national grid to accommodate intermittent renewables are therefore not isolated policy goals but integrated components of a grand strategy to decouple India's growth trajectory from the volatility of global oil markets over the coming decade.

6.1.1. India's Purchasing of Russian Crude amid Geopolitical Repercussions

India has spent the past two years transforming itself into one of the biggest buyers of Russian oil, a shift, which has saved it billions while providing Moscow with a financial lifeline as it wages war in Ukraine. As reported by Forbes, a sharply worded letter from Ukrainian MP Oleksii Goncharenko in December 2025 raised the stakes, arguing that India's bargain-hunting is prolonging the conflict and calling for Europe to sanction Mukesh Ambani, the Indian billionaire whose refinery empire processes a large share of those Russian flows. That letter is not likely to alter India's energy calculus. However, it highlights a deeper geopolitical tension: India is attempting to shield its domestic economy from global shocks while simultaneously increasing its reliance on Russian oil.

Iuliia Mendel, former press secretary to President Zelensky, said that Kyiv is growing frustrated that India's discounted Russian oil purchases extend Russia's ability to fund its war—a concern Goncharenko made explicit in a letter to Indian officials: "Every discounted barrel India buys, is another day Russia can afford to fight." For India, the logic is simple. Russia offered steep discounts on its main oil exports—at times as low as US$ 35 a barrel as reported by Forbes—allowing India to shield consumers from price spikes and keep inflation under control. India now imports roughly one-third of its crude from Russia, up from almost nothing before the invasion.

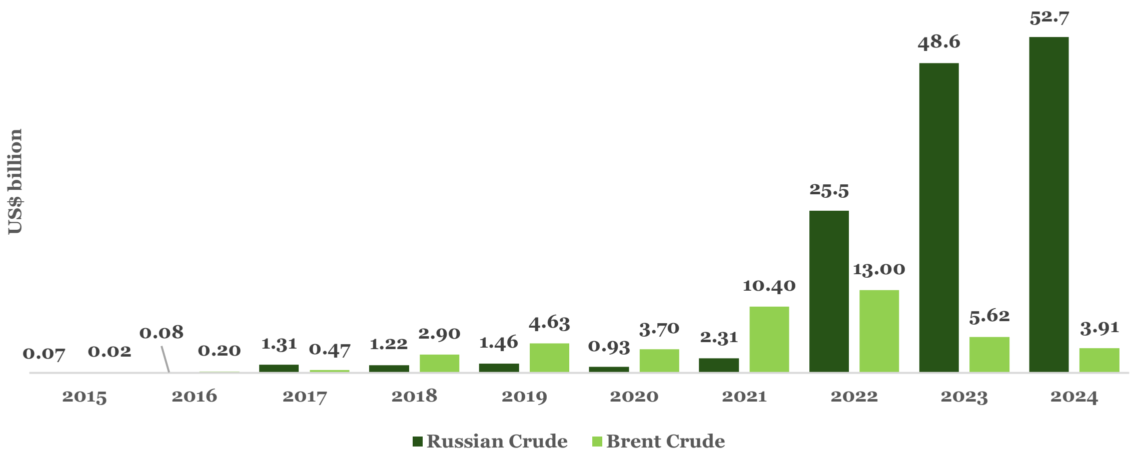
But energy security comes with geopolitical costs. As Europe has slashed its Russian purchases, India and China now account for more than 90% of Russia's seaborne oil exports, providing Moscow with a revenue stream that has proven remarkably resilient despite Western sanctions.

Crude oil imports are a critical determinant of energy security, inflation, and the trade balance for oil-importing economies such as India. In 2025, India's crude oil consumption rose to 265.7 million metric tonnes (MMT), growing at a rate of 3.7% annually. Limited domestic production capability forces India to import around 89% of its needs. In October 2025, India was the second largest purchaser of Russian crude oil. India's Russian crude imports recorded a 11% month-on-month increase, which corresponds closely to an 8% month-on-month increase in total imports. Russian crude or Ural oil typically sells at a discounted price as compared to Brent crude due to western sanctions.

India's import of Russian oil surged dramatically following the Ukraine war, rising from less than 1% of its total crude oil imports to nearly 40%. This sharp increase was driven by steep discounts offered by Russia after some Western countries' purchases to punish Moscow for its invasion of Ukraine. While the shift helped India secure affordable energy supplies, the Trump administration criticized the purchases, accusing New Delhi of profiteering by buying discounted Russian oil and exporting refined fuel to regions including Europe. India has maintained that its actions do not violate any international laws, as there are no sanctions on purchasing Russian crude. The EU only recently imposed a ban on importing fuel derived from Russian crude. Additionally, the US has not sanctioned the purchase of Russian crude oil or its refined products.

Moscow offered discounts to Asian buyers, pricing its oil below the Brent benchmark. This catalyzed an import shift and allowed Indian refiners to benefit by approximately US$ 12.2 per barrel in 2023 and US$ 20 per barrel in 2022. Even in 2023-24, the per barrel price difference is about US$ 6 that translates India's gain in Russian crude purchases. Further, with the great bond with Russia, Russia offered steep discounted prices on its main oil exports—at times as low as US$ 45 a barrel in 2024—allowing India to shield consumers from price spikes and keep inflation under control.

Chart 70: India's Import of Brent Crude Vs. Russian Crude – 2015 to 2024



Source: Trading Economies

6.1.2. Price Differential Trend – Brent Crude Vs. Russian Crude

Chart 71: Brent Crude Vs. Russian Crude - Price Differential Trend in the Past One Decade

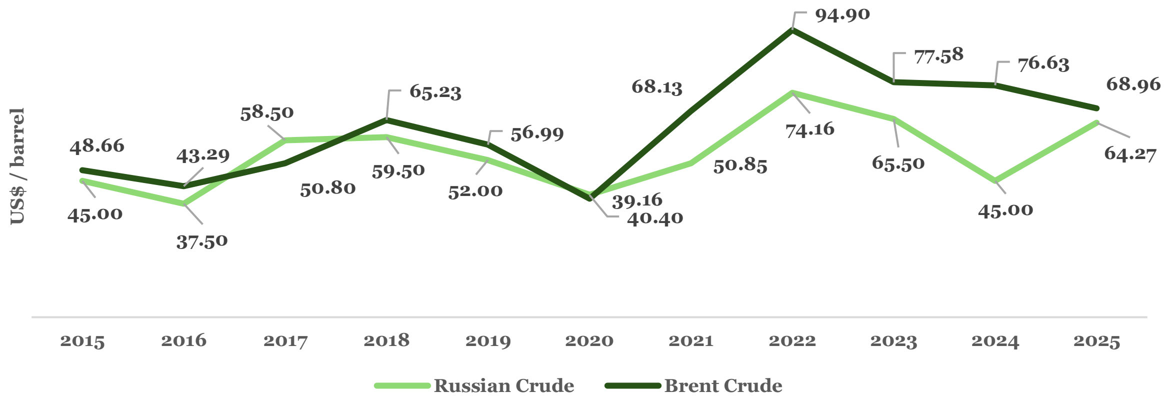
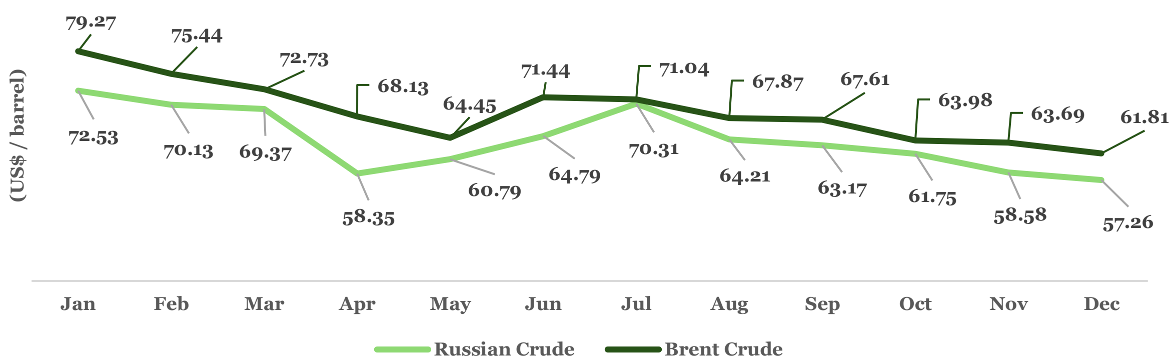


Chart 72: Brent Crude Vs. Russian Crude - Price Differential Trend in 2025



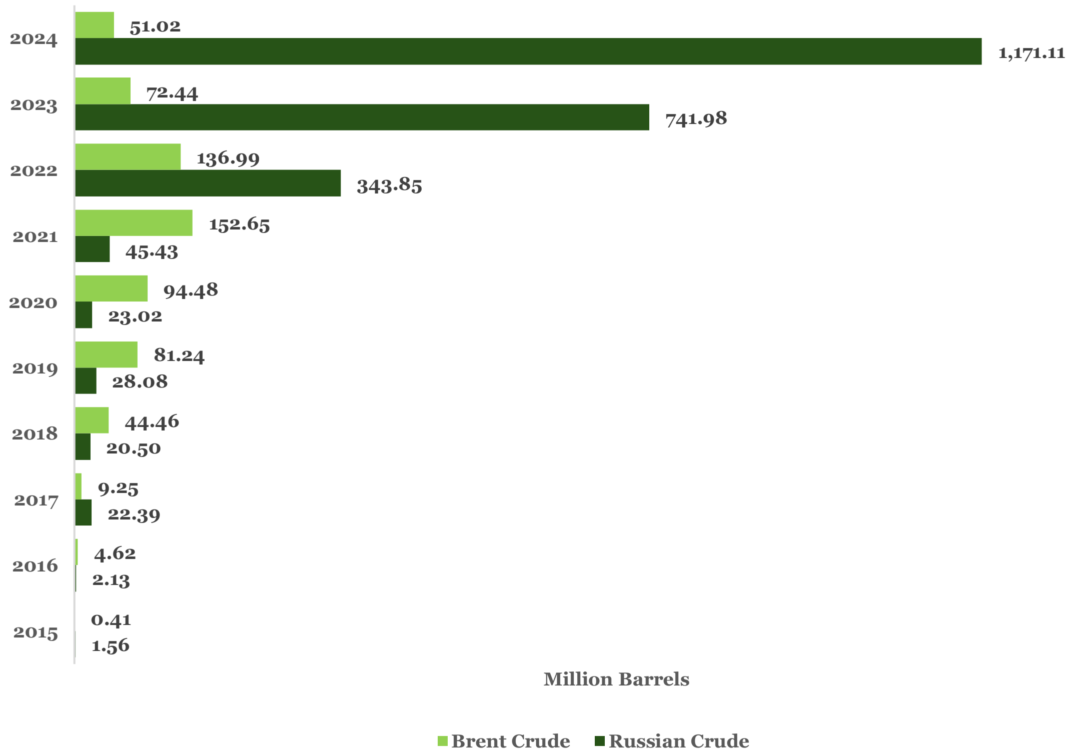
Source: US Energy Information Administration, Trading Economies, Petroleum Planning & Analysis Cell, ECOFIN Research

6.1.3. India's Barrel wise Crude Oil Import Analysis

A barrel-wise import analysis is also included to detect the import pattern. India's crude oil import pattern from Russia and the US reflects a clear cost-driven and strategic shift over the last decade.

India's imports of Russian crude remained negligible between 2015 and 2016 (below 3 million barrels annually) and rose modestly during 2017–2020 (around 20–28 million barrels). A structural break appears from 2021 onward, with imports jumping sharply to 45.4 million barrels in 2021, followed by an unprecedented surge to 343.9 million barrels in 2022, 742 million barrels in 2023 and further scaling up in 2024. This is due to the discounts offered by the Russian government to offset the effects of western sanctions. India utilized this opportunity by buying Russian crude at discounted prices and consuming and exporting refined petroleum products globally.

Chart 73: India's Import of Russian Crude and Brent Crude Oil – 2015 to 2024



Source: US Energy Information Administration, Trading Economies, ECOFIN Research

Please note: In the absence of authentic information about India's import (in barrels) of Russian crude or Brent Crude we have calculated this, each year, as follows:

Barrels of Russian crude purchased by India, each year = Import value of Russian crude, each year (Chart:28) / Yearly average price of Russian crude (Chart:70)

Barrels of Brent crude purchased by India, each year = Import value of Brent crude, each year (Chart:28) / Yearly average price of Russian crude (Chart:70)

In contrast, India's Brent crude imports from the USA show a moderate and more cyclical trend. Imports increased steadily from 0.41 million barrels in 2015 to a peak of 152.7 million barrels in 2021, reflecting diversification efforts and favorable US export availability. However, imports declined thereafter as Brent crude became relatively less lucrative to India due to its higher prices and US dollar dominated payments. The Russian crude or the Ural oil has evolved into India's dominant marginal barrel, primarily due to cost efficiency and refinery compatibility while US crude or Brent crude oil plays a pivotal role in shaping India's position in geopolitics. The widening volume gap from 2022 underscores that India's crude sourcing decisions are increasingly governed by economic optimization or cost-efficiency.

6.1.4. Cost Saving or Benefit to India in Purchasing Russian Crude vis-à-vis Brent Crude Considering FOB Crude Price, Hedging Cost and Freight & Insurance Charges

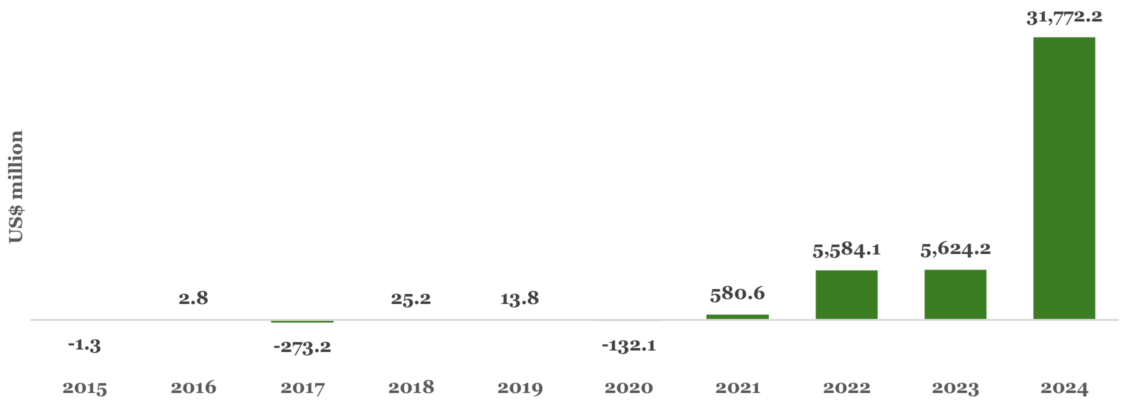
If we consider a comparative analysis of freight & insurance cost per barrel:

- The cost to charter a Very Large Crude Carriers (VLCC) to carry 2 million barrels of oil from the US Gulf Coast to India ranges between US$ 6 to US$ 10 per barrel, though this is not a constant figure.
- Let us assume a median value of freight & insurance cost per US crude oil barrel at US$ 8.
- For Russian import, the charge is anything between US$ 11 to US$ 19 per barrel, relatively higher than the US.
- Let us assume a median value of freight & insurance cost per Russian crude oil barrel at US$ 15.
- Hence, there is a differential of -US$ 7 (15-8) in savings by purchasing Russian Crude vis-à-vis Brent Crude

So, considering the hedging cost as well as freight & insurance charges,

Cost Savings/Benefit = (Brent Crude Price/barrel + Hedging Cost/barrel – Russian Crude Price/barrel + Differential in Freight & Insurance Charges) x No. of Barrels of Russian Crude Import

Chart 74: Cost Saving or Benefit to India in Purchasing Russian Crude vis-à-vis Brent Crude Considering FOB Crude Price, Hedging Cost and Freight & Insurance Charges



Source: US Energy Information Administration, Trading Economies, ECOFIN Research

The bars in Chart 74 represent the cost benefit enjoyed by India in purchase of Russian crude over US Brent crude after incorporating not just the headline price differential, but also risk and logistics costs embedded in it. US crude imports consist of additional costs such as currency hedging, freight, and insurance per barrel while Russian crude largely reflects non-US dollar or Indian rupee settlement and relatively lower ancillary cost exposure.

The India government aimed to implement amplification effect at scale by incorporating import volumes increment during 2021–2024 period. The absolute savings from Russian crude expand disproportionately, showing that cost efficiencies scale with volume. Chart 74 demonstrates India's crude import gains are maximized when price, currency risk, and logistics costs are evaluated together rather than in isolation.

Now, if President Trump's demand for purchasing Brent crude rather than Russian crude was accepted, implications for India could have been:

- Sharp increase in import bill, leading to larger trade deficit and excessive pressure on India's current account deficit (CAD).
- The crude oil trade deal between Russia and India, happens in rupee-ruble exchange, without the need of US dollar. If this deal may have happened with the US, the transaction will held in US dollar, worsening foreign exchange reserve and degrading Indian rupee.
- Crude oil deal with the US increases dependence on US suppliers, reducing India's bargaining power in the global oil market.

6.1.5. Indian Refineries are among the Most Technologically Advanced

The Reliance Jamnagar Refinery in Gujarat, India, is the world's largest and most complex single-site refinery, boasting a Nelson Complexity Index of 21.1, which is the world's highest. NCI values for most of the Middle East refineries are 2–5, European refineries are 6–10, and US Coast refineries are 9–15. With a capacity to process 1.4 million barrels of crude oil per day, Reliance Jamnagar Refinery features advanced units like the world's largest Refinery Off-Gas Cracker (ROGC). The facility enables high-efficiency conversion of low-value feedstocks into high-value products like gasoline, diesel, and petrochemicals.

The Nelson Complexity Index (NCI) is a crucial industry metric, which measures an oil refinery's capability to process heavy, sour crude into high-value, light products (gasoline, diesel). It calculates the complexity by assigning factors to secondary conversion units relative to distillation capacity. A higher index (e.g., >10) signifies greater sophistication, higher investment, and better profit potential.

Key Aspects of the Nelson Complexity Index:

- Calculation: NCI sums the weighted capacities of all processing units (cracking, reforming, hydrotreating) relative to the crude distillation unit (CDU).
- Scale: Ranging from 1 to over 20, a "topping" refinery has a score of ~1, while complex refineries, such as Reliance's Jamnagar complex, can exceed 20

Significance:

- Value: High-NCI refineries can process cheaper, heavier crudes, increasing profitability (crack spreads).
- Operations: They are more expensive to build and operate due to advanced technology.

Refineries having high NCI: **Jamnagar (India):** ~21.1 NCI (highly complex), **Paradip (India):** ~10.8 - 12.2 NCI.

The index acts as a key indicator for investors to assess a refinery's technological, economic, and operational efficiency.

6.1.6. India Diversifying its LNG Supplier Base

India is actively diversifying its Liquefied Natural Gas (LNG) suppliers to mitigate over-reliance on the Middle East, which supplies nearly 60% of its imports, notably about 47% from Qatar. Key diversification strategies include increasing long-term contracts with the US, Australia, and Canada, alongside fostering partnerships with African nations, as observed by Global LNG Hub. While Qatar remains the largest supplier (~11.7 bcm/year), India has accelerated procurement from the US (approx. 10.51%) and the UAE (approx. 13.47%). New, reliable sources now include Canada, Russia, Algeria, and Norway, strengthening security amidst Middle East volatility. Major long-term contracts include agreements with ADNOC (UAE), Cheniere (Sabine Pass), and Berkshire Hathaway (Cove Point) in the US. Increased use of spot market purchases and expansion of domestic regasification terminals allows flexibility to source from diverse global markets. The push for diversification seeks to reduce supply risks, secure competitive pricing, and support the goal of a 15% natural gas share in India's energy mix by 2030.

6.1.7. India's Strategic Autonomy: Ensuring Uninterrupted LNG through Strait of Hormuz

Tehran authorized Indian-flagged LPG tankers to pass under Operation Sankalp with direct warship escorts being allowed for these Indian tankers. A specific sub-plan, Operation Urja Suraksha, was reportedly constituted on 25 March to formalize these energy security escorts. That exception was not granted to China. Not to Russia. Not to any European power. It was granted to India, because Iran recognizes in India a country that has never treated it as an adversary, has maintained Chabahar, has continued the civilizational relationship through every sanction's regime, and has never weaponized the bilateral relationship for third-party purposes.

6.2. Trade Diversification: Making the Tariff War a Permanent Advantage

Diversification of Export Destinations – Focusing Majorly on Top Ten Countries Supporting India in the Aftermath of US Tariffs

Several countries supported India against US tariffs in 2025. These supports were not just symbolic gestures but powerful trade deals, and bold diplomatic moves, which could tilt the balance of global power itself. What began as US tariffs meant to squeeze India has instead sparked a wave of support, which reshaped alliances and opened doors to billions in new opportunities. Each country's decision was not just about trade. It was about signaling where the future of global power is headed. Together, they turned a challenge into a turning point. We have identified top ten such countries, which India should focus for increasing trade relations with higher exports. In alphabetical order these are Australia, Brazil, Canada, France, Germany, Japan, Russia, South Africa, UAE and UK.

Figure 1: Top Ten Countries India Should Focus for Trade Diversification

Source: World Maps, ECOFIN Research

Table 16: India's Trade with Our Proposed Trade Partners in FY2025

Country	Total trade	Export	Import
Australia	24.11	8.58	15.53
Brazil	12.21	6.77	5.44
Canada	8.24	4.32	3.92
France	15.19	7.96	7.23
Germany	29.58	10.63	18.95
Japan	25.16	6.25	18.92
Russia	68.69	4.88	63.81
South Africa	18.01	7.46	10.55
UAE	100.04	36.64	63.40
UK	23.13	14.55	8.58

Source: ECOFIN Research

Australia

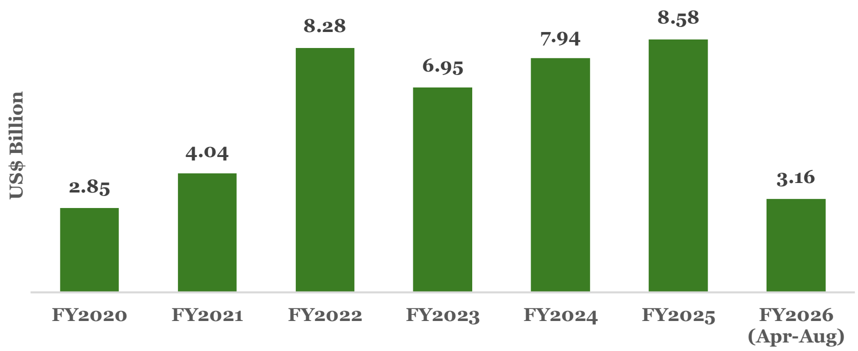
Australia's support for India in 2025 is subtle but strategically consequential. Canberra publicly criticized sweeping protectionism while carefully avoiding retaliatory tariffs, a posture driven by both principal and interest. Bilateral trade between India and Australia reached roughly US$ 24.11 billion in FY2025 with exports at US$ 8.58 billion and imports at US$ 15.53 billion, and this economic exposure explains why Australian policymakers moved to protect supply chains rather than escalate rhetoric alone.

Practically, Canberra expanded export credit lines, accelerated port and logistics cooperation in the Indo-Pacific, and promoted mineral and hydrogen joint projects that create tariff-resistant value chains for both countries. For Indian exporters, these moves delivered immediate relief, faster customs facilitation at key transshipment hubs, trade finance guarantees, which preserve working capital, and coordinated buyer introductions in Oceania. This will reduce immediate dependence of the Indian textile clusters, which depend on the US market. Australian logistics options and project finance allow some Indian producers to route consignments through neutral hubs or to pivot production to inputs from mining and energy partnerships.

Diplomatically, Australia's stance matters because it signals to Washington that security alignment does not imply unconditional acceptance of every trade tool. Middle powers will weigh national economic interest against alliance optics. That pragmatic independence gives New Delhi breathing room, a partner willing to translate words into finance, ports, and project deals while pressing for rules-based resolution at multilateral fora.

In short, Australia's support is not a loud headline. It is an operational lifeline measured in dollars, ports, and credit lines, which can help Indian firms weather tariff shock.

Chart 75: India's Export to Australia – Historical Trend



Source: Ministry of Commerce, Union Government of India

Table 17: Australia Import Matrix vis-à-vis Import from India

Product	Indian Exports to US (US$ billion)	Pc. Share of Exports to US - Commodity Category	Australia's Total Import - Commodity Category (US$ billion)	Australia's Import from India - Commodity Category (US$ billion)	Australia's Non India Import - Commodity Category (US$ billion)
Textile & Apparel	8.26	37%	6.43	0.55	5.88
Gems & Jewelry	9.97	15%	1.75	0.32	1.43
Chemicals (specialty & organic)	15.1	24%	2.6	0.08	2.52
Pharmaceuticals	9.8	40%	11.22	0.43	10.79
Machinery / Electricals	22.6	51%	6.96	0.37	6.59

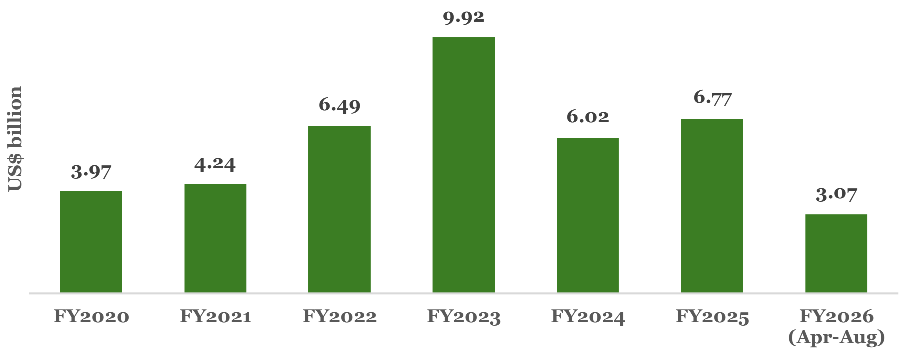
Source: Ministry of Commerce, Union Government of India, Trade Map, Australian Government Department of Foreign Affairs & Trade, ECOFIN Research

Brazil

Brazil's response converted rhetorical opposition to unilateral tariffs into practical market openings and financial support for Indian exporters. Brazil's two-way trade with India reached roughly US$ 12.21 billion in FY2025 with US$ 6.77 billion exports and US$ 5.44 billion imports. Brasilia used this commercial foundation to create special credit windows, expedite certification and testing processes, and deploy targeted buyer missions designed to absorb consignments squeezed by US tariffs. These measures were particularly useful for Indian pharmaceuticals, processed foods, and engineering goods – products that quickly found new supermarket chains, distributors, and industrial buyers across South America.

Brazil also coordinated commodity agreements, which stabilized offtake for items, which might otherwise have lost US contracts, which in turn protected prices and cash flows for Indian producers. For small and medium exporters, Brazilian market access plus short-term credit meant revenue continuity and breathing space to pursue regulatory approvals elsewhere. Diplomatically, Brazil's actions showed how major emerging powers can operationalize solidarity into finance and market access, coordinated interventions that blunt the leverage of unilateral tariffs, and provide India the time and alternatives needed to rebalance trade relationships.

Chart 76: India's Export to Brazil – Historical Trend



Source: Ministry of Commerce, Union Government of India

Table 18: Brazil Import Matrix vis-à-vis Import from India

Product	Indian Exports to US (US$ billion)	Pc. Share of Exports to US - Commodity Category	Brazil's Total Import - Commodity Category (US$ billion)	Brazil's Import from India - Commodity Category (US$ billion)	Brazil's Non India Import - Commodity Category (US$ billion)
Chemicals (specialty & organic)	15.1	24%	16.66	0.78	15.87
Pharmaceuticals	9.8	40%	12.35	0.52	11.83
Machinery / Electricals	22.6	51%	31.00	0.2	30.80
Automobiles & Auto Components	2.7	13%	23.05	0.69	22.36
Plastics & Rubber	2.6	20%	15.53	0.31	15.22

Source: Ministry of Commerce, Union Government of India, Trade Map, ECOFIN Research

Canada

Canada is cozying up to India for trade deal after years of strain as US President Donald Trump continues pushing the world into new alliances. The relationship between Ottawa and New Delhi improved in June when Canadian Prime Minister Mark Carney invited Indian Prime Minister Narendra Modi to the G7 summit in Alberta and when both countries agreed to restore their top diplomats in August.

In spite of diplomatic strain, India remained a key trade partner of Canada, strengthening its economic links to the Indo-Pacific under a comprehensive strategy for the region. In 2024, India was Canada's seventh-largest goods and services trading partner, with two-way trade coming to US$ 23 billion. In that year, India's merchandise exports to Canada were US$ 4.32 billion, increasing and India's merchandise imports from Canada were US$ 3.92 billion.

This bilateral reset comes amid global uncertainty, economic shocks, and intensifying geopolitical rivalries. US imposed a 50% on Indian goods in August to punish the country for buying Russian oil and in the same month. US also increased the tariff rate on some Canadian shipments to 35% as part of his campaign to curb trade flows. Canadian Foreign Minister Anita Anand in November 2025 said that Canada and India will move quickly to advance a trade deal after two years of strained relations, noting Ottawa has a new foreign policy in response to US President Donald Trump's trade war. Anand's statement follows a meeting between Prime Minister Mark Carney and Prime Minister Narendra Modi at the Group of 20 summit in South Africa in November, where the leaders agreed to restart stalled talks for a new trade deal.

"The leaders were adamant that this work proceeds as quickly as possible so that timing is going to be expeditious," Anand said in a telephone interview with The Associated Press. Prime Minister Mark Carney will visit India early 2026. Anand noted Carney's goal to double non-US trade over the next decade. Canada is one of the most trade-dependent countries in the world, and more than 75% of Canada's exports go to the US. Most exports to the US are exempted by the USMCA trade agreement but that deal is up for review in 2026. "This is a completely new approach to foreign policy that is responsive to the global economic environment in which we find ourselves," Anand said. "There is a new government, a new foreign policy, a new prime minister and a new world order where countries are becoming more protectionist and this is a moment for Canada as a trading nation."

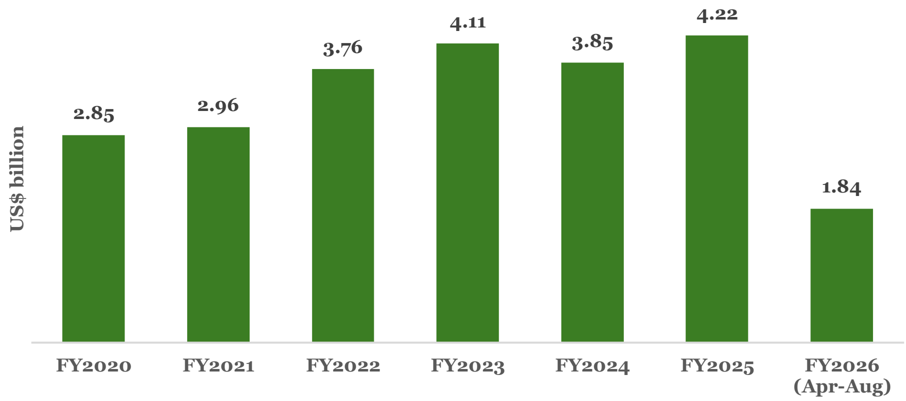
In the current geopolitical context, Canada's priority is to secure reliable, long-term partnerships in its largest export sectors: energy (oil, gas, and coal), precious metals and minerals, automotive, aerospace, agriculture and agri-food, forestry, and services. Among its Indo-Pacific partners, New Delhi offers a comparable scale to Beijing, with high demand for energy, critical minerals, agriculture, aerospace, and forestry products, alongside the technologies and investment required to advance several of these sectors.

With its goal of becoming a developed country by 2047, India is focused on boosting manufacturing and attracting partnerships in priority sectors, including infrastructure, clean energy, electronics and semiconductors, pharmaceuticals, digital and fintech, agri-food, and automotive, including electric vehicles (EVs). In response to recent US tariffs, New Delhi seeks to diversify trading partners while maintaining stable relations with China.

Canada's commercial priorities in India are targeted at the country's policy objectives and sectors where Canada has a comparative advantage. These include:

- Agriculture and Value-Added Food, with a focus on value-added products and expertise in food supply and cold chain management and technologies.
- Clean Technology, with a focus on water and sewage treatment and renewable energy, including bioenergy, wind, hydro and solar.
- Digital Industries / Artificial Intelligence (AI) / Machine Learning / Internet of Things (IoT).
- Infrastructure, with a focus on Roads/Rail/Airports/Ports/Dams and Services.

Chart 77: India's Export to Canada – Historical Trend



Source: Ministry of Commerce, Union Government of India

Table 19: Canada Import Matrix vis-à-vis Import from India

Product	Indian Exports to US (US$ billion)	Pc. Share of Exports to US - Commodity Category	Canada's Total Import - Commodity Category (US$ billion)	Canada's Import from India - Commodity Category (US$ billion)	Canada's Non India Import - Commodity Category (US$ billion)
Chemicals (specialty & organic)	15.1	24%	13.04	0.25	12.79
Pharmaceuticals	9.8	40%	18.97	0.54	18.43
Machinery / Electricals	22.6	51%	52.08	0.27	51.81
Plastics & Rubber	2.6	20%	26.52	0.22	26.30
Vehicles and Parts	2.7	13%	90.38	0.13	90.25

Source: Ministry of Commerce, Union Government of India, Trade Map, ECOFIN Research

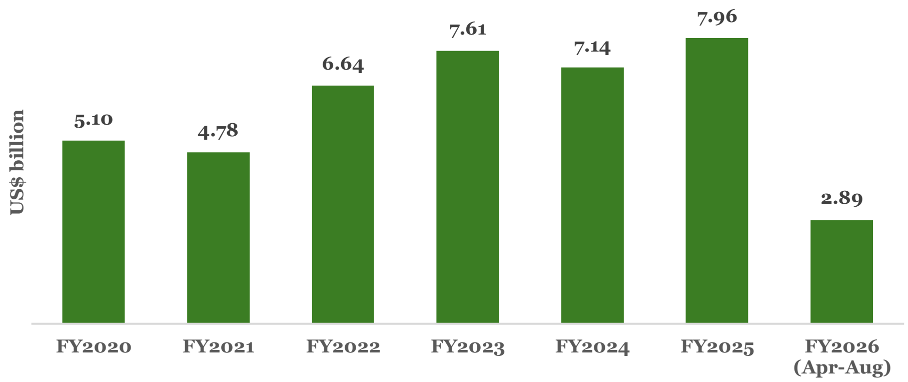
France

France's backing of India combined diplomatic firmness with sector shielding for large, high-technology contracts. Paris publicly denounced the weaponization of tariffs and moved to ensure defense, aerospace, and civil nuclear programs continued under agreed timelines and guarantees. Indo-French bilateral trade reached about US$ 15.19 billion in FY2025 with exports at US$ 7.96 billion and imports at US$ 7.23 billion. The more consequential numbers are the multibillion-dollar contracts, the aircraft partnerships, nuclear cooperation agreements, and defense offsets, which carry long lead times and complex financial structures.

France paired public criticism of punitive tariffs with private instruments, export credit guarantees, contractual reaffirmations, and industrial assurances from major French firms that key projects would remain on track. That cushion mattered for India because delays or cancellations in these sectors are not just budgetary headaches. They are capability gaps with multiyear consequences.

For Indian planners, French actions preserved timelines for technology transfers, kept financing lines open for big civil projects, and protected joint ventures that depend on predictable long-term procurement schedules. Beyond the bilateral, Paris' posture helped to galvanize a European discourse on rules-based dispute settlement and made it politically feasible for other EU partners to align with India's demand for predictable trade frameworks. In practice, France turned high-level solidarity into contractual and financial cushions that preserved India's roadmap for strategic industrial modernization.

Chart 78: India's Export to France – Historical Trend



Source: Ministry of Commerce, Union Government of India

Table 20: France Import Matrix vis-à-vis Import from India

Product	Indian Exports to US (US$ billion)	Pc. Share of Exports to US - Commodity Category	French Total Import - Commodity Category (US$ billion)	French Import from India - Commodity Category (US$ billion)	French Non India Import - Commodity Category (US$ billion)
Textile & Apparel	8.26	37%	25.42	0.42	25.00
Gems & Jewelry	9.97	15%	10.78	0.33	10.46
Chemicals (specialty & organic)	15.1	24%	19.71	0.39	19.32
Pharmaceuticals	9.8	40%	33.06	0.59	32.48
Machinery / Electricals	22.6	51%	66.68	1.62	65.06
Leather & Footwear	0.5	20%	9.11	0.12	8.98
Seafood / Marine Products	2.04	32%	6.01	0.08	5.93
Toys & Sporting Goods	0.2	0.35	5.91	0.01	5.90

Source: Ministry of Commerce, Union Government of India, Trade Map, ECOFIN Research

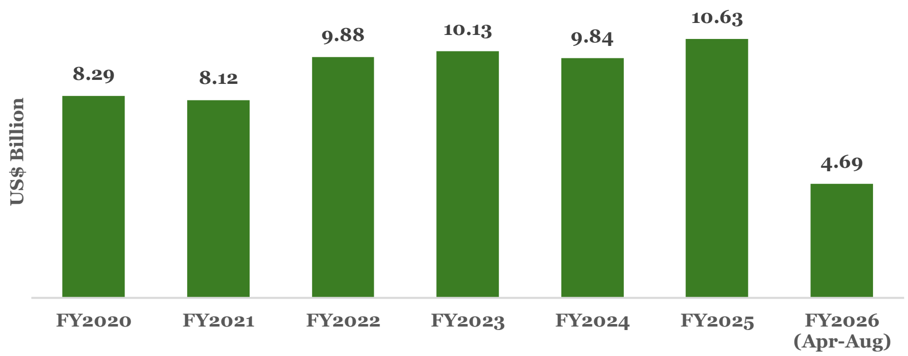
Germany

Germany's support for India during the 2025 tariff crisis was driven by sheer industrial logic and institutional leverage. Berlin warned that unilateral tariffs threaten the predictability on which Germany's export-orientated manufacturers rely, and it pushed EU mechanisms to preserve market continuity for partners hit by extraterritorial duties. Indo-German trade reached about US$ 29.58 billion in FY2025 with exports at US$ 10.63 billion and imports at US$ 18.95 billion, with German firms deeply embedded in India's capital goods, automotive, and industrial automation ecosystems. Disruptions in US demand for Indian products rippled back into German orders, investment timelines, and joint R&D plans.

Germany accelerated planned investments and technology transfers to India in green hydrogen, precision engineering, and advanced manufacturing, offered export credit reassurances to joint ventures, and encouraged European buyers to maintain contractual ties with Indian suppliers. For Indian manufacturers, these were measurable benefits. Capital commitments lower the marginal cost of retooling assured equipment supplies, which prevents production stoppages. This also facilitates regulatory cooperation, which speeds certifications for goods bound for European markets. Politically, Berlin's stance gave the EU authority to convert rhetoric into concrete policy support, making it harder for a single large market to weaponize trade without encountering coordinated pushback.

The net result for New Delhi was manifold. German engagement helped replace threatened US orders with deeper European partnerships, preserved industrial momentum, and strengthened India's negotiating position by tying a major European economy to the idea of predictable global commerce.

Chart 79: India's Export to Germany – Historical Trend



Source: Ministry of Commerce, Union Government of India

Table 21: Germany Import Matrix vis-à-vis Import from India

Product	Indian Exports to US (US$ billion)	Pc. Share of Exports to US - Commodity Category	Germany's Total Import - Commodity Category (US$ billion)	Germany's Import from India - Commodity Category (US$ billion)	Germany's Non India Import - Commodity Category (US$ billion)
Textile & Apparel	8.26	37%	47.19	0.031	47.16
Vehicle Parts	2.7	13%	147.12	0.029	147.09
Pharmaceuticals	9.8	40%	7729.00	0.105	7728.90
Machinery / Electricals	22.6	51%	376.16	0.013	376.14
Chemicals (specialty & organic)	15.1	24%	41.46	0.002	41.46

Source: Ministry of Commerce, Union Government of India, Trade Map, ECOFIN Research

Japan

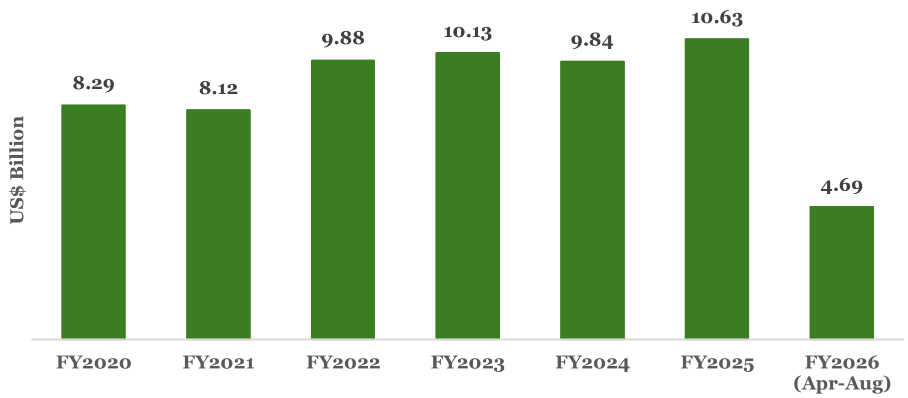
Japan's response to US imposing 50% tariff on Indian exports was capital-intensive and strategically designed to re-anchor supply chains in Asia. Tokyo prepared a private-sector investment initiative valued at about ¥ 10 trillion – roughly US$ 68 billion – targeted at semiconductors, electric vehicle components, critical minerals, and advanced manufacturing in India over the coming decade.

Those commitments are operational, not symbolic. Multi-year equity, long-term purchase agreements, and supplier development programs translate into factory builds, workforce training, and local component ecosystems that substitute for disrupted US channels. For Indian industry, Japanese capital provides the raw means to pivot from low-margin commodity exports toward higher-value-added manufacturing that attracts European, Gulf, and Southeast Asian buyers.

A single large Japanese hub can spawn hundreds of local suppliers, dramatically reduce lead times for sophisticated components, and increase the share of made-in-India value in export items. Beyond mitigation, Tokyo's pledge signals durable industrial partnership. It commits engineering know-how, quality control systems, and market linkages that raise product standards and export credibility. Strategically, Japan's move alters bargaining power. It shows New Delhi that large-scale, patient capital can replace short-term market pain with structural resilience, turning tariff shocks into incentives for domestic industrial upgrading and deeper regional integration.

India’s current bilateral trade with Japan in FY2025 stood at US$ 25.16 billion with exports contributing US$ 6.25 billion and imports at US$ 18.92 billion.

Chart 80: India’s Export to Japan – Historical Trend



Source: Ministry of Commerce, Union Government of India

Table 22: Japan Import Matrix vis-à-vis Import from India

Product	Indian Exports to US (US$ billion)	Pc. Share of Exports to US - Commodity Category	Japan’s Total Import - Commodity Category (US$ billion)	Japan's Import from India - Commodity Category (US$ billion)	Japan's Non India Import - Commodity Category (US$ billion)
Vehicles and Parts	2.7	13%	22.97	1.02	21.95
Chemicals (specialty & organic)	15.1	24%	21.73	0.71	21.02
Pharmaceuticals	9.8	40%	30.24	0.10	30.14
Machinery / Electricals	22.6	51%	106.17	0.74	105.43
Textile & Apparel	8.26	37%	22.86	0.27	22.59
Seafood / Marine Products	2.04	32%	9.43	0.38	9.06
Gems & Jewelry	9.97	15%	15.17	0.24	14.93

Source: Ministry of Commerce, Union Government of India, Trade Map, ECOFIN Research

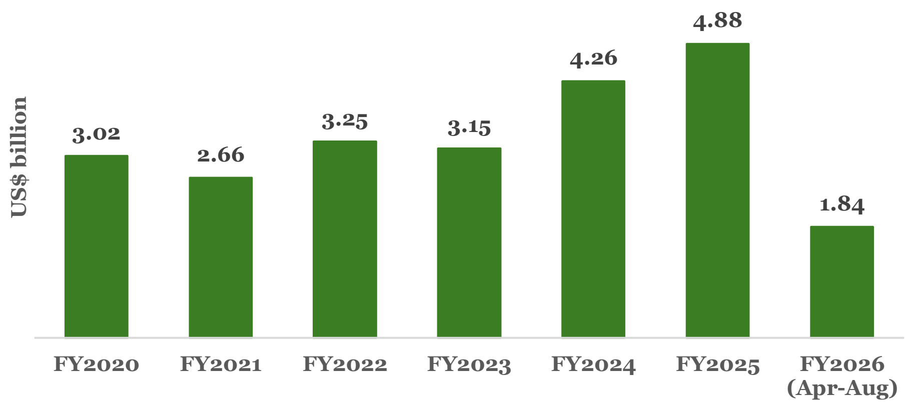
Russia

Russia's support for India was transactional and energy-centric, producing immediate macroeconomic effects. Bilateral trade surged to a record of roughly US$ 68.69 billion in FY2025, driven largely by discounted crude and petroleum products, which guaranteed India's energy needs while furnishing Moscow with reliable buyers.

Russia publicly criticized punitive US tariffs and simultaneously offered practical workarounds, supply continuity, rupee-ruble settlement discussions, and expanded lines of credit for trade facilitation. Those actions mattered in two ways. They reduced India's vulnerability to energy price shocks, and they created payment alternatives that eased dollar-centric frictions for importers and exporters.

For New Delhi, reliable and cheaper energy imports provided strategic insurance when tariff pressure threatened broader economic stability. For Moscow, deeper commercial ties expanded a market for energy and non-energy exports while strengthening a partnership that can absorb geopolitical shocks. The practical effect was immediate liquidity, stable fuel supplies, and a set of payment and logistics options that blunt the leverage the US sought to exert through market access coercion.

Chart 81: India's Export to Russia – Historical Trend



Source: Ministry of Commerce, Union Government of India

Table 23: Russia Import Matrix vis-à-vis Import from India

Product	Indian Exports to US (US$ billion)	Pc. Share of Exports to US - Commodity Category	Russia's Total Import - Commodity Category (US$ billion)	Russia's Import from India - Commodity Category (US$ billion)	Russia's Non India Import - Commodity Category (US$ billion)
Chemicals (specialty & organic)	15.1	24%	9.79	0.61	9.17
Pharmaceuticals	9.8	40%	12.38	0.42	11.96
Machinery / Electricals	22.6	51%	20.73	0.36	20.36
Plastics & Rubber	2.6	20%	10.95	0.19	10.76
Seafood / Marine Products	2.04	32%	1.66	0.12	1.53
Ceramics	0.25	0.06	1.02	0.15	0.88

Source: Ministry of Commerce, Union Government of India, Trade Map, ECOFIN Research

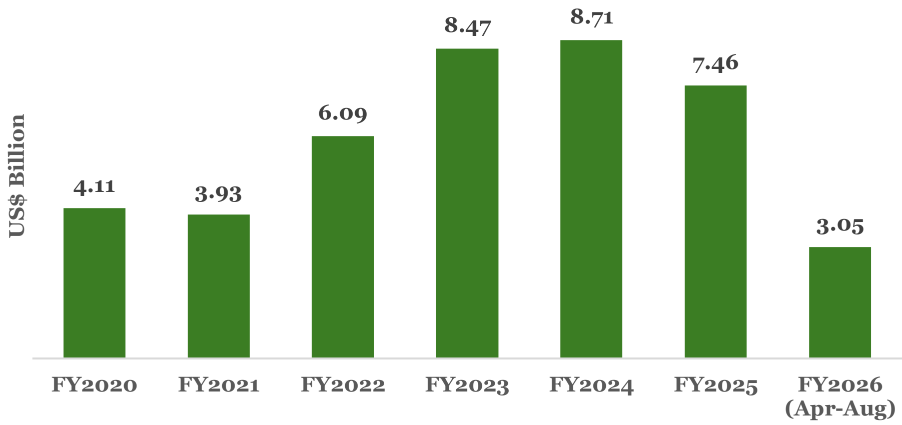
South Africa

South Africa played a pivotal role by turning BRICS solidarity into operational support rather than mere statements. At the Rio Summit and in Ministerial Communiques, the expanded BRICS group expressed clear unease with coercive unilateral tariffs and pushed for rules-based dispute settlement, alternative financing arrangements, and deeper intra-block trade facilitation. South Africa helped operationalize those objectives by leading buyer missions, opening market channels for Indian apparel and processed goods, and fostering work on payment corridors that reduced dependence on dollar-only settlement systems.

For Indian exporters, this translated into additional demand pools across Africa and the Southern Hemisphere and initial financial mechanisms that allow trade in local currencies or through block arrangements. The practical payoff is concrete. Goods that would have faced a steep US tariff found buyers in BRICS member markets, and finance windows provided the short-term liquidity exporters needed to maintain production.

Politically, BRICS solidarity converted a US bilateral lever into a multilateral diplomatic negotiation, raising the cost of prolonged coercion and giving New Delhi institutional cover and alternative demand while it pursued longer-term reorientation.

Chart 82: India's Export to South Africa – Historical Trend



Source: Ministry of Commerce, Union Government of India

Table 24: South Africa Import Matrix vis-à-vis Import from India

Product	Indian Exports to US (US$ billion)	Pc. Share of Exports to US - Commodity Category	South Africa's Total Import - Commodity Category (US$ billion)	South Africa's Import from India - Commodity Category (US$ billion)	South Africa's Non India Import - Commodity Category (US$ billion)
Chemicals (specialty & organic)	15.1	24%	3.07	0.18	2.89
Pharmaceuticals	9.8	40%	2.42	0.64	1.79
Machinery / Electricals	22.6	51%	9.86	0.36	9.50
Vehicles and Parts	2.7	13%	7.14	1.63	5.51
Plastics & Rubber	2.6	20%	4.26	0.23	4.03
Textile & Apparel	8.26	37%	2.21	0.14	2.07

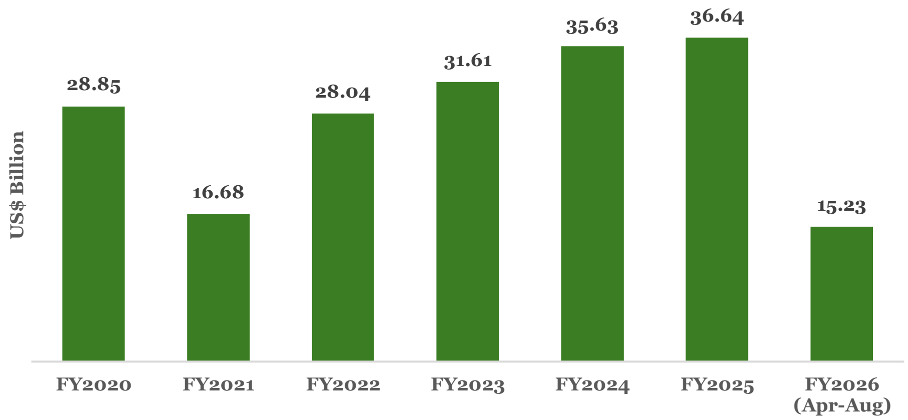
Source: Ministry of Commerce, Union Government of India, Trade Map, ECOFIN Research

UAE

The United Arab Emirates emerged as one of India's fastest operational responders to tariff shock. India's bilateral merchandise trade with United Arab Emirates surged past the US$ 100 billion mark in FY2025, reaching approximately US$ 100.06 billion, a significant jump from US$ 72.87 billion in FY2022, driven by the Comprehensive Economic Partnership Agreement (CEPA), which boosted exports in gems, jewelry, engineering goods, and agri-products, with the UAE solidifying its position as a key trading partner for India. Non-oil exports grew sharply, giving the UAE extraordinary leverage as a logistics and re-export hub. That scale mattered because Emirati ports, bonded warehouses, and free zones allow Indian exporters to consolidate orders, use tariff-efficient transit, and preserve margins while alternative market access is arranged. Indian jewelry, textile, and electronics firms quickly used UAE warehousing and re-export services to time consignments and meet preferential origin rules in new markets.

At the same time, sovereign and private Gulf capital accelerated investments into Indian ports, logistics parks, and special economic corridors, providing the balance sheet support exporters needed to maintain production rather than shutter capacity. For many SMEs, the UAE offered a near-immediate practical solution – routes that avoided punitive duties, short-term storage that preserved inventory value, and buyer introductions that replaced lost US orders. Geopolitically, the UAE's response illustrated how an energy and trade hub can pivot from transactional partner to active facilitator of resilience, using trade facilitation and capital to blunt the immediate economic pain and buy time for longer-term diversification.

Chart 83: India's Export to UAE – Historical Trend



Source: Ministry of Commerce, Union Government of India

Table 25: UAE Import Matrix vis-à-vis Import from India

Product	Indian Exports to US (US$ billion)	Pc. Share of Exports to US - Commodity Category	UAE's Total Import - Commodity Category (US$ billion)	UAE's Import from India - Commodity Category (US$ billion)	UAE's Non India Import - Commodity Category (US$ billion)
Textile & Apparel	8.26	37%	6.78	1.51	5.27
Gems & Jewelry	9.97	15%	63.36	7.76	55.60
Chemicals (specialty & organic)	15.1	24%	6.24	0.79	5.45
Pharmaceuticals	9.8	40%	4.53	0.21	4.32
Machinery / Electricals	22.6	51%	50.81	3.84	46.97
Vehicles and Parts	2.7	13%	30.10	1.01	29.09
Plastics & Rubber	2.6	20%	9.62	0.67	8.95

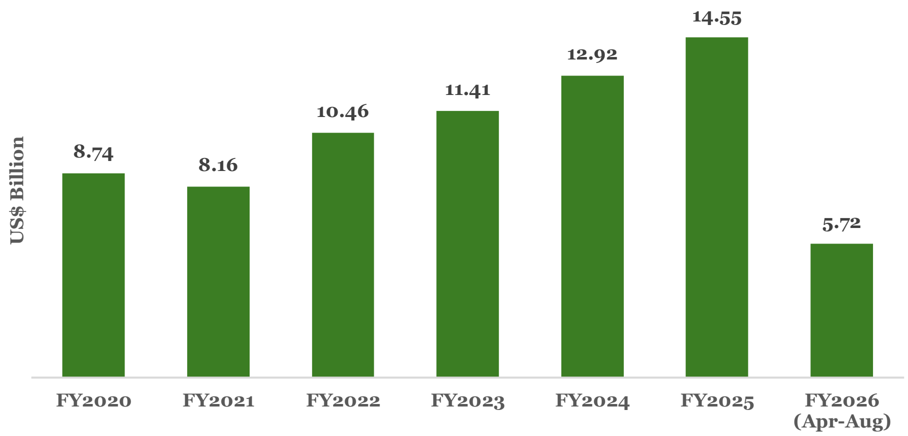
Source: Ministry of Commerce, Union Government of India, Trade Map, ECOFIN Research

UK

The India-UK Free Trade Agreement (FTA), or Comprehensive Economic and Trade Agreement (CETA), was finalized in May 2025 and signed in July 2025, aiming to cut tariffs, boost trade to US$ 120 billion by 2030, and ease professional mobility, benefiting sectors like Indian textiles, IT, UK spirits, automotive, and services, while safeguarding sensitive Indian products such as dairy, and simplifying visa rules for professionals and workers. The treaty targeted tariff liberalization across textiles, engineering goods, and a wide set of services, and it included regulatory cooperation that reduces compliance costs for small and medium exporters.

Crucially, the FTA went beyond duty lines. It built investment protections, procurement access, and dispute settlement mechanisms encouraging British firms to locate manufacturing and service hubs in India aimed at third-country markets. For Indian exporters facing punitive US duties, the pact immediately opened an alternative high-income market with preferential rules of origin and legal safeguards that reduce project risk. That allowed many firms to reroute consignments, reprice contracts, and accept multi-year procurement agreements with British partners rather than rush into distressed sales. Institutional investors and development banks responded in kind, maintaining infrastructure finance pipelines, and offering export credit guarantees key to the new treaty. Politically, the UK-India deal demonstrated a template. Bilateral shields can blunt the bite of unilateral tariffs by offering alternative demand, legal protections, and credible long-term investment, practical insurance when a single market threatens major disruption.

Chart 84: India's Export to UK – Historical Trend



Source: Ministry of Commerce, Union Government of India

Table 26: UK Import Matrix vis-à-vis Import from India

Product	Indian Exports to US (US$ billion)	Pc. Share of Exports to US - Commodity Category	UK's Total Import - Commodity Category (US$ billion)	UK's Import from India - Commodity Category (US$ billion)	UK's Non India Import - Commodity Category (US$ billion)
Chemicals (specialty & organic)	15.1	24%	54.11	0.73	53.38
Pharmaceuticals	9.8	40%	20.51	0.78	19.73
Machinery / Electricals	22.6	51%	58.49	0.67	57.82
Leather & Footwear	0.5	20%	3.23	0.28	2.95
Vehicles and Parts	2.7	13%	83.54	0.26	83.28

Source: Ministry of Commerce, Union Government of India, Trade Map, ECOFIN Research

Table 27: Maximum Export Potential from India

(US$ billion)

Commodity	Australia	Brazil	Canada	France	Germany	Japan	Russia	South Africa	UAE	UK	Total (B)	Indian Exports to the US (A)	(A) as a Percent of (B)
Gems & Jewellery	1.43			25.00	22.28	14.93			55.60		119.24	9.97	8.36%
Textiles & Apparel	5.88			10.46	47.16	22.59		2.07	5.27		93.42	8.26	8.84%
Seafood / Marine Products				5.93	4.51	9.06	1.53				21.04	2.04	9.70%
Leather & Footwear				8.98	13.86					2.95	25.79	0.50	1.94%
Carpets / Home furnishings				0.56	1.18						1.74	1.23	70.54%
Chemicals (specialty & organic)	2.52	15.87	12.79	19.32	41.46	21.02	9.17	2.89	5.45	53.38	183.88	15.10	8.21%
Pharmaceuticals	10.79	11.83	18.43	32.48	77.19	30.14	11.96	1.79	4.32	19.73	218.65	9.80	4.48%
Machinery / Electricals	6.59	30.80	51.81	65.06	376.14	105.43	20.36	9.50	46.97	57.82	770.50	22.60	2.93%
Automobiles & Auto Components	2.9	22.36	90.25	80.01	147.09	21.95		5.51	29.09	83.28	482.44	2.60	0.54%
Plastics & Rubber		15.22	26.30	26.46	65.79		10.76	4.03	8.95		157.50	2.60	1.65%
Metals / Industrial metals				13.35	27.07						40.42	4.10	10.14%
Paper & Paper Products				1.40	4.56						5.95	0.60	10.08%
Toys & Sporting Goods				5.90	8.57						14.46	0.20	1.38%
Ceramics & Glass				2.36	3.22		0.88				6.46	0.25	3.87%

Source: Ministry of Commerce, Union Government of India, Trade Map, Australian Government Department of Foreign Affairs & Trade, ECOFIN Research

WE have tried to make an analytic study about potential alternate export destinations for various categories of Indian products, which are currently being exported to USA.

Table 28: Product wise Suggested Export Destination

Product	Export to US in FY2025 (US$ billion) (A)	Suggested Export Destinations	Combined Non India Import of These Countries in FY2025 (US$ billion) (B)	(A) as a Percent of (B)
Gems & Jewellery	9.97	UAE, France, Germany, Japan, Australia	119.24	8.36%
Textiles & Apparel	8.26	Germany, Japan, France, Australia, UAE, South Africa	93.42	8.84%
Seafood / Marine Products	2.04	Japan, France, Germany, Russia	21.04	9.70%
Leather & Footwear	0.50	Germany, France, UK	25.79	1.94%
Carpets / Home furnishings	1.23	Germany, France	1.74	70.69%
Chemicals (specialty & organic)	15.10	UK, Germany, Japan, France, Brazil, Canada, Russia, UAE, South Africa, Australia	183.88	8.21%
Pharmaceuticals	9.80	Germany, France, Japan, UK, Canada, Russia, Brazil, Australia, UAE, South Africa	218.65	4.48%
Machinery / Electricals	22.60	Germany, Japan, France, UK, Canada, UAE, Brazil, Russia, South Africa, Australia	770.5	2.93%
Automobiles & Auto Components	2.60	Germany, Canada, UK, France, UAE, Brazil, Japan, South Africa, Australia	482.44	0.54%
Plastics & Rubber	2.60	Germany, France, Canada, Brazil, Russia, UAE, South Africa	157.5	1.65%
Metals / Industrial metals	4.10	Germany, France	40.42	10.14%
Paper & Paper Products	0.60	Germany, France	5.95	10.08%
Toys & Sporting Goods	0.20	Germany, France	14.46	1.38%
Ceramics & Glass	0.25	Germany, France, Russia	6.46	3.87%

Source: Ministry of Commerce, Union Government of India, Trade Map, Australian Government Department of Foreign Affairs & Trade, ECOFIN Research

6.3. Nine-million Diaspora: A Strategic Asset

The Indian diaspora, notably around nine million Indians are residing in GCC countries (Saudi Arabia, UAE, Qatar, Kuwait, Oman, and Bahrain), acts as a critical strategic asset for India – bridging economic, diplomatic, and security interests. This serves as a vital economic pillar through remittances and strengthens India's foreign policy through soft power and cultural ties. Their annual remittances, which constitute over 38% of India's total inflows and reached a record US$ 135 billion in 2025, act as a 'secret, thrumming vein' of the Indian economy. This steady flow of foreign currency not only bolsters household incomes across the Indian states such as Kerala and Uttar Pradesh – but also provides a vital cushion for India's current account deficit and supports the value of the rupee, particularly crucial during times of global uncertainty when other capital flows may become volatile.

Beyond the macroeconomic impact, this diaspora is considered a strategic asset because of the trust and influence it affords India within the Gulf. Recognized as a 'most trusted, liked, and preferred workforce', their presence has elevated India's relationship with the region from a purely transactional, buyer-seller dynamic to a truly strategic partnership. This human capital has paved the way for deeper cooperation in critical areas, including energy security, infrastructure investment, defense, and counter-terrorism. Consequently, during the current conflict, the Modi government has prioritized the welfare of these citizens as a matter of paramount national importance, deploying proactive consular services and leveraging high-level diplomatic engagement with all regional stakeholders to ensure their safety. The Indian government's ability to protect this asset, whether through securing safe passage for stranded workers or facilitating their evacuation, is seen as a direct test of its strategic capability and a key factor in maintaining the robust bilateral ties that have been cultivated over decades.

The 'Knowledge Corridor' & Skill Mobility

The relationship has shifted from a 'labor-export' model to a high-end 'knowledge partnership', aiming to create a seamless ecosystem for academic excellence and professional certification. This transition ensures that the Indian diaspora in the UAE is no longer just a workforce but a primary driver of the UAE's transition into a post-oil, innovation-led economy. For Example, following the 2024 opening of IIT Delhi-Abu Dhabi, the campus is set to double its student strength to 400 by late 2026 while introducing specialized Master's programs in AI. This is supported by the 2025 MoU on Mutual Recognition of Qualifications, facilitating the mobility of professionals across this Indian community.

Table 29: Top Ten Countries with Indian Diaspora (the GCC is in Spotlight)

Country	Non-Resident Indians (NRIs)	Persons of Indian Origin (PIOs)	Overseas Indian
USA	**2.08**	**3.33**	**5.41**
UAE	**3.55**	**0.01**	**3.57**
Malaysia	0.16	2.75	2.91
Canada	1.02	1.86	2.88
Saudi Arabia	**2.46**		**2.46**
UK	0.37	1.50	1.86
South Africa	0.06	1.64	1.70
Kuwait	**0.99**	**0.001**	**1.00**
Australia	0.35	0.63	0.98
Mauritius	0.02	0.87	0.89
Qatar	**0.84**		**0.84**

Source: Ministry of External Affairs, Union Government of India

India's Strong Grip on Business and Corporates

India's presence in the GCC countries transcends the traditional narrative of remittance-driven labor – it represents a deeply entrenched corporate and business stronghold that gives New Delhi significant economic and strategic leverage. Over the past five decades, Indian entrepreneurs and professionals have evolved from modest traders and shopkeepers into founders and CEOs of some of the region's largest conglomerates, effectively embedding Indian enterprise into the very infrastructure of Gulf economies. Today, Indian-owned or Indian-led corporations dominate critical sectors including retail, healthcare, education, construction, logistics, and real estate across all six GCC nations. What makes this business dominance a strategic asset for India is the manner in which it translates into diplomatic influence, investment flows, and labor stability. These corporate leaders maintain direct, personal relationships with Gulf royalty – including the Al Nahyan family in Abu Dhabi, the Al Maktoum family in Dubai, and the Al Khalifa family in Bahrain, effectively serving as unofficial ambassadors who facilitate high-level bilateral agreements. The India-UAE Comprehensive Economic Partnership Agreement (CEPA), signed in 2022, was significantly bolstered by the advocacy of Indian business leaders in the Gulf who demonstrated the mutual benefits of deepened trade ties.

Moreover, Indian corporates in the GCC function as employment anchors, collectively providing livelihoods to over a million of people, the vast majority of whom are Indian nationals. This gives India a unique form of leverage – the stability and welfare of the diaspora are directly tied to the success of Indian-owned enterprises, incentivizing Gulf governments to maintain favorable labor policies and strong bilateral relations. When the UAE introduced labor reforms or Saudi Arabia launched its Vision 2030 economic diversification plan, Indian business leaders acted as trusted intermediaries, ensuring smooth implementation while protecting the rights of Indian workers. India's grip on Gulf corporates is further reinforced by the deep investment linkages between the two regions – profits earned in the GCC are frequently reinvested into India's real estate, healthcare, and financial markets, creating a continuous cycle of economic reciprocity. This symbiotic relationship ensures that India is not merely a supplier of labor to the Gulf but a co-architect of its economic future. As the GCC nations pivot toward post-oil economies focused on technology, renewable energy, and innovation, India's entrenched corporate presence positions it to transition from a labor-supply model to a partnership of equals – one where Indian capital, expertise, and entrepreneurial vision remain indispensable to the region's continued growth. In this sense, India's grip on business and corporates in the GCC is not just an economic achievement, it is a foundational pillar of its geopolitical strategy in West Asia.

To Conclude…

The diaspora represents a unique model of expatriate influence. Unlike Indian diaspora leaders in the West (who are often professionals or academics), these Gulf-based leaders are industrialists and infrastructure builders who have woven themselves into the economic fabric of their host nations. They serve as the strategic bridge – converting remittances into bilateral trade, labor into diplomatic leverage, and cultural presence into geopolitical goodwill. As the GCC nations pivot toward post-oil economies (Saudi Vision 2030, UAE Centennial 2071), this leadership cohort is poised to transition the diaspora from being a labor force to a knowledge and investment partner.

6.4. Financial Resilience: Building Buffers Before the Next Shock

6.4.1. Boosting Small-scale SME and MSME Exports

State-led Industrial Strategy

India can selectively target the sectors, which are affected by the tariff imposition. These sectors include textile, gems and jewellery, machinery and electricals and others. Say for example, if we consider the sector textile, we need to identify the Indian states with massive textile industry. The following matrix gives a broad idea about the states with textile industry. These states form the backbone of India's vast textile sector, leveraging raw material availability, skilled labor, and robust infrastructure.

Table 30: Key States for Textile Industry in India

States	Places with Type of Textiles
Gujarat	'Textile Capital of India'; powerhouse for cotton, denim, and synthetic fabrics; Saurashtra region leads in cotton production and manufactures sarees, shirting fabrics, and dress materials. Surat specializes in rayon sarees.
Tamil Nadu	"Knitwear Capital," leading in cotton knitwear, hosiery, and spinning; Coimbatore, known as "Manchester of South India" for leading in cotton yarn and fabric production, excels in cotton sarees (lightweight, breathable, rich colors), silk-cotton blends, soft cotton towels, and dyed fabrics known for color fastness, blending traditional weaving with modern design. Tirupur: for knitwear, Karur: for home textiles, Salem and Erode: for woven textiles, Pallipalayam: for viscose fabrics and Kanchipuram for silk sarees.
Maharashtra	Strong in cotton textiles, denim, and fashion garments (Mumbai, Ichalkaranji, Solapur).
Uttar Pradesh	Known for handlooms, silks, carpets, and leather textiles; Kanpur for leather goods and Varanasi for Banarasi silk sarees, chikankari embroidery and zardozi work.
West Bengal	Major jute producer and diversified textiles; Kolkata and districts such as Bankura, Purulia and Murshidabad produce Baluchari sarees, Murshidabad silk, and Tussar silk garments.
Punjab	Famous for woolen and hosiery goods (Ludhiana)
Andhra Pradesh	Growing hub for integrated textile parks and garment manufacturing
Telangana	Rising star in textile and apparel, strong in cotton
Karnataka	Strong in cotton and emerging in technical textiles (Bengaluru, Ilka), Mysore Silk
Rajasthan	Traditional handlooms and power looms
Madhya Pradesh	Famous for Chanderi weaves
Haryana & Delhi	Have significant textile and apparel manufacturing centers

Source: ECOFIN Research

Targeting Non-resident Indians

To overcome the loss of this industry due to loss in exports to US due to high tariffs, Indian SME and MSME exports can target the non-resident Indian (NRI) population.

Overseas Indians are present in more than 200 countries and territories, reflecting India's extensive global migration history. Countries such as the United States, United Kingdom, Canada, Australia, and the United Arab Emirates host the largest Indian populations, each exceeding several hundred thousand to millions. These countries have sizeable representation from both NRIs (recent migrants with Indian passports) and PIOs (descendants of earlier migration waves). Regions such as the Caribbean, Africa, Southeast Asia, and the Pacific feature distinct diaspora communities resulting from historical indentured labor migration in the 19th and early 20th centuries. Countries such as Trinidad and Tobago, Guyana, Fiji, and Suriname have more Persons of Indian Origin than NRIs, underscoring their deep-rooted Indian heritage.

Apart from that, India has about 35 million individuals living overseas, majorly in countries including the UAE, Canada, Malaysia, UK and the other countries. Among this 35 million, around 15.8 million individuals are non-resident Indians (NRIs) and 19.57 million individuals are of Indian origins.

The products in the affected sectors can be catered to these countries with proper policymaking. Chambers of Commerce may take the initiative to collaborate with these NRI associations to promote Indian culture and items.

Other Industry Specific Strategies

For other affected industries such as automobile and components, chemicals and pharmaceuticals, market leaders and MSMEs may participate in industrial trade fairs to showcase products, network, learn trends, and find opportunities, focusing on a unique design, and engagement strategy to attract buyers and partners. With the intervention of Export Promotions Council (EPC), opportunities can be provided to SMEs and MSMEs by offering stalls at low cost or no cost to showcase their products at international trade fairs. For example, India's automobile and components clusters include states such as Maharashtra, Tamil Nadu, National Capital Region (NCR), Gujarat and Madhya Pradesh. By identifying small and medium enterprises and showcasing their products in international exhibitions, new export channels for these companies can be facilitated and trade diversification may happen.

Focusing More on One District One Product Policy

The One District One Product (ODOP) initiative in India aims to promote balanced regional growth by identifying, branding, and promoting one unique product from each district of the various states in India, while a GI (Geographical Indication) tag legally protects and authenticates region-specific products, ensuring quality and boosting market value fostering local economies, creating jobs, boosting exports, and empowering artisans and farmers, by leveraging India's rich diversity in agriculture, handicrafts, and textiles for holistic socioeconomic development. Anchored by DPIIT (The Department for Promotion of Industry and Internal Trade), it supports product development, marketing, and innovation, turning local specialties into global brands under the larger vision of "Atmanirbhar Bharat". The initiative adopts the One District One Product (ODOP) approach to reap the benefit of scale in terms of procurement of inputs, availing common services and marketing of products. ODOP for the scheme will provide the framework for value chain development and alignment of support infrastructure. There may be more than one cluster of ODOP products in one district. There may be a cluster of ODOP products consisting of more than one adjacent district in a State. The States would identify the food product for a district, keeping in perspective the focus of the scheme on perishables. A baseline study would be carried out by the State Government.

The ODOP product could be a perishable agri produce, cereal-based product, or a food product widely produced in a district and their allied sectors. An illustrative list of such products includes mango, potato, litchi, tomato, tapioca, kinnu, bhujia, petha, papad, pickle, millet-based products, fisheries, poultry, meat as well as animal feed among others. Besides, certain other traditional and innovative products including waste to wealth products could be supported under the Scheme. For example, honey, minor forest products in tribal areas, traditional Indian herbal edible items such as turmeric, amla, etc.

6.4.2. Focusing on FTAs

In 2025 and 2026, India has been aggressively pursuing Free Trade Agreements (FTAs) and Comprehensive Economic Partnership Agreements (CEPAs) to mitigate the impact of steep US tariffs, which reached as high as 50% in late 2025. By diversifying its export markets through these deals, India aimed to reduce its reliance on the US, which historically accounts for roughly 20% of its exports. With global trade increasingly shaped by tariff disputes and geopolitical tensions, India is betting that a wider network of trade agreements will help cushion US shocks and anchor its export ambitions.

Key Strategic Trade Agreements (2025–2026)

- **European Union (EU) FTA:** Often called the "Mother of All Deals," this landmark agreement was finalized during the India-EU Summit on 27 January 2026. It will create a shared market of two billion people, covering nearly 25% of global GDP, and provides a massive alternative to the US market for Indian textiles, pharmaceuticals, and technology.
- **EFTA (European Free Trade Association):** India's first FTA with a bloc of developed European nations (Switzerland, Norway, Iceland, Liechtenstein) took effect on 1 October 2025. It includes a unique binding commitment of US$ 100 billion in investment and the creation of one million jobs over 15 years.
- **United Kingdom (UK) FTA:** Finalized in May 2025, this agreement grants Indian businesses nearly tariff-free access to British markets and includes provisions for easier professional mobility.
- **Oman CEPA:** Signed in December 2025, this deal provides zero-duty access for 98% of Indian exports to Oman, serving as a gateway to the broader Gulf region.
- **New Zealand FTA:** Negotiations concluded in December 2025, with a formal signing expected in the first quarter of 2026.

India is focusing its FTA outreach on sectors most vulnerable to US protectionism:

- **Textiles and Garments:** Facing high US duties, these labor-intensive sectors are a priority in the EU and UK deals to regain lost market access.
- **Pharmaceuticals & Medical Devices:** New agreements with the EU and Oman aim to lower regulatory barriers and eliminate tariffs.
- **Technology & IT Services:** FTAs are being used to secure market access for India’s skilled talent base, particularly in Europe, as a counter to US immigration and trade uncertainties.

Despite the FTA push, some economists note that even combined, these new markets may not immediately replace the sheer scale of the US market, particularly for high-value items such as electrical machinery. India also continues to negotiate with Chile, Israel, and the GCC to further broaden its trade safety net. India is trying to lower the concentration risk over time. For this, India needs to keep signing FTAs, but strategically.

India already has good agreements with the UAE, Singapore, the UK, EU, Brazil and EFTA countries. Agreements with Chile, and maybe even the US are in the works. These are important because they lower tariffs, but more importantly, they lower friction. That makes it easier for Indian goods and services to flow across borders, with fewer approvals, better recognition of standards, and more predictable rules. However, the real work begins only after the FTA is signed. Indian exporters have to actually go out and cultivate demand in these countries. That means building sales teams, navigating local laws, and being competitive on pricing and quality. Without that follow-through, the FTA is just a piece of paper.

6.4.3. An Integrated Marketing Plan for Creating Demand for Indian Products in various Countries

An integrated marketing plan focusing on systematically creating and sustaining demand for Indian products in key alternative markets, using a coordinated approach between the Government of India and apex industry bodies such as CII, ASSOCHAM, FICCI, FIEO could be the answer.

The India Exports Branding Mission

The Indian government, through DPIIT, DGFT and the Ministry of Commerce, can launch a unified *Indian Exports Branding Mission*, with a clear visual identity, slogan and sector-specific narratives for textiles, gems and jewellery, machinery and electricals, chemicals, pharmaceuticals, auto components and agro-based products. A dedicated *Export Branding Fund* can co-finance campaigns in priority markets like the UK, Japan, Canada, Germany, and Australia, highlighted in this study as having high export potential and strong tariff advantages. Industry bodies such as CII, FICCI and ASSOCHAM may be designated as *Brand Custodians* for specific sectors to ensure consistent messaging, quality standards and alignment with emerging FTAs and CEPAs.

Market-wise Integrated Promotion Strategy

The strategy should be structured around the countries mentioned in this study, where Indian exporters enjoy clear tariff and demand advantages. For each country, Government - industry task forces can prepare a three-year *Market Development Plan* combining B2B missions, participation in leading trade fairs, retail tie-ups, large scale e-commerce onboarding, and diaspora-focused outreach. Sectoral EPCs such as AEPC for apparel, GJEPC for gems and jewelry, Pharmaceutical Export Promotion Council of India for pharmaceutical exports, EEPC for engineering products, should co-lead country desks that continuously track buyer needs, standards and regulatory changes, translating these into simple market entry playbooks, especially for SMEs.

Diaspora-centric Marketing and NRI Partnerships

Given the large Indian diaspora in the UAE, Malaysia, Canada, Saudi Arabia, UK, South Africa, Kuwait, Australia, Qatar, and other countries, the plan should explicitly treat NRIs and PIOs as primary demand multipliers for affected sectors such as textiles, leather, food products, handicrafts and cultural items. Chambers such as CII, FICCI, ASSOCHAM, and FIEO should sign formal MoUs with major diaspora business networks to establish annual NRI Buyer - Indian Supplier meets, with a special focus on SMEs from export-oriented districts and ODOP producers.

Clusters, and One District One Product (ODOP)-linked Export Plan

A marketing plan rooted in India's production geography: textile hubs (Surat, Coimbatore, Tirupur, Ludhiana, Varanasi, etc.), auto clusters (Maharashtra, Tamil Nadu, NCR, Gujarat, MP), chemical - pharma belts and ODOP districts is advocated through this study. Government can support *Cluster Export Brands* like Surat Sarees, Tirupur Knitwear, Morbi Ceramics, Coimbatore Engineering with joint branding, quality upgradation, packaging, and participation in international fairs, especially in markets where tariff gains over the US are high. Likewise, ODOP products with export potential but not yet deeply marketed, such as specialty foods, handicrafts, minor forest produce, traditional textiles is proposed to be given a dedicated global promotion calendar, linking them to FTAs and CEPA markets where new demand is being created.

Government - Industry Bodies' Joint Export Ready Program

To convert tariff advantage into sustained demand, quality, compliance, and reliability must be marketed as strongly as price. Government agencies along with industry bodies can run *Export Ready Programmes* in key clusters, covering packaging, certifications, sustainability norms, ESG communication and logistics, aligned to EU Green Deal requirements and other regulatory regimes. Industry bodies may simplify sector-specific *Export Quality Charters* and voluntary labels that signal reliability and ethical standards to foreign buyers, particularly in sensitive sectors like food, textiles, leather and chemicals, to help SMEs become more proficient in exporting their products through the market-wise integrated promotion strategy.

Coordinated Use of FTAs and Trade Finance Instruments

With the growing FTA network, a marketing plan integrating tariff benefits directly into buyer communication and pricing strategies is suggested. Government, EXIM Bank and ECGC can work with CII, FICCI, ASSOCHAM and EPCs to create simple financing and guarantee products for SMEs entering new FTA markets, bundling credit, insurance and advisory support with targeted marketing campaigns. Clear *FTA Advantage* campaigns in each partner country may explicitly communicate the cost and reliability advantages of sourcing from India versus higher-tariff suppliers, using examples from textiles, gems and jewelry, machinery, auto components, chemicals and pharmaceuticals where data in this study already shows large tariff differentials.

Institutional Coordination and Monitoring

Finally, a high-level unified *National Export Marketing Council* chaired by the Ministry of Commerce, with representation from CII, FICCI, ASSOCHAM, sectoral EPCs, state governments and logistics players, may be given the task with designing and monitoring the integrated marketing plan. The Council can set annual export marketing targets by product and country, track utilization of schemes, and publish a yearly *India Export Market Development Report* to course-correct strategy and highlight successful models for replication across clusters and districts.

The successful execution of any of the aforementioned recommendations will require a joint collaboration between the Government of India, and relevant industry bodies. Such partnerships, potentially involving top-tier consultancies like MBB or the Big Four or other domestic specialized firms, may help implementation of the plan with the rigor and strategic focus it demands.

6.4.4. Focus on Making India a Global Production Hub

India has significant potential to become a global manufacturing hub, leveraging its large, young workforce, growing domestic market, and "China+1" supply chain diversification, supported by government initiatives such as “Atmanirbhar Bharat”, "Make in India" and PLI schemes, though it must overcome challenges in infrastructure, logistics, policy consistency, and skill development to compete with established centers.

India enjoys the following key strengths and opportunities

- **Demographic Dividend:** A vast, young population and rising middle class provide abundant labor and a huge consumer base.
- **Supply Chain Diversification:** Global companies are shifting away from over-reliance on China, viewing India as one of the key alternatives.
- **Government Support:** Initiatives such as "Make in India," Production Linked Incentives (PLI), and the National Logistics Policy aim to boost domestic manufacturing.
- **Tech Sector Growth:** Major tech firms are investing, with success seen in electronics and mobile manufacturing.
- **Cost Advantage:** Significantly lower labor costs compared to China attract investment.

However, India, on the government front as well as in the corporate front need to address the following challenges:

- **Infrastructure Gaps:** Need for better logistics, ports, and road/rail networks for efficient movement of goods.
- **Policy & Regulation:** Simplifying regulations and ensuring consistent policies is crucial for attracting sustained investment.
- **Skill & Efficiency:** Enhancing production efficiency, quality standards, and automation is necessary to compete globally.
- **Market Access:** India needs more Free Trade Agreements (FTAs) to expand market access for its manufactured goods.
- **Exchange Rate:** A strong Indian rupee can make imports cheaper, impacting domestic industry competitiveness.

India needs to give further impetus on infrastructure development and continue developing clusters, ports and connectivity. We suggest Indian government to focus to expansion of Special Economic Zones.

Expansion of Special Economic Zones

As India is already on its of pace of **“Make in India”** initiative, a well design large scale special economic zones can attract foreign investments.

China turned its Special Economic Zones (SEZs) into engines for manufacturing, innovation, and dominance in global trade. This includes establishment of controlled "laboratories" to test market reforms, providing incentives such as tax breaks and port infrastructure. This resulted into boom in foreign investment and technology, decentralizing control for flexibility, and progressively extending policies from coastal zones inland. Shenzhen's transformation from a fishing village to a tech hub serves as an example.

India can focus on these following points:

- Create few, large, plug-and-play Export Manufacturing Zones (EMZs) instead of many small SEZs.
- Creating port infrastructure to facilitate large cargos, and expanding warehousing, cold storage, intermodal yards.
- Framework for single-window clearances, stable tax regime (ten to fifteen years), global logistics.
- Establishing sector-focused zones such as electronics, EVs, chemicals, defense, pharmaceuticals and others to ease out trade and management.

Skill-set Development

Skill-set development in a pre-requisite to make India a global manufacturing powerhouse because there is serious lack of job-ready talent in the country. Today, India produces over 1.5 million engineers annually, but as multiple reports suggest, quantity alone is not the metric, which will define India's global competitiveness. The World Bank's 2024 India Skills Report observed that only 46% of Indian graduates are considered employable in emerging sectors such as AI, robotics, clean tech, and Industry 4.0, pointing to a need for curriculum overhaul, experiential learning, and interdisciplinary thinking. According to a Deloitte-NSDC report, India may face a shortage of over 29 million skilled professionals in the manufacturing and infrastructure sectors by 2030. With Industry 4.0 technologies such as AI, robotics, IoT, and additive manufacturing, rapidly transforming traditional factories into intelligent, interconnected systems, the demand has shifted from basic shop-floor labor to multi-skilled, digitally fluent professionals. This transformation creates an urgent need for a workforce that is agile, cross-functional, and capable of thriving in an innovation-driven environment.

Key Skill Gaps and Requirements

- **Industry 4.0 Readiness:** The shift to automated, digital factories requires proficiency in AI, machine learning, robotics, and 3D printing (additive manufacturing).
- **Technological Fluency:** There is a critical need for skills in big data analytics, coding, and programming for intelligent manufacturing systems.
- **Vocational Training:** Despite producing many engineers, only 4.7% of India's total workforce has formal training compared to 96% in South Korea.
- **Soft Skills & Specialization:** Industry demands improved critical thinking, teamwork, and domain-specific expertise to boost productivity.

We suggest Indian government to take the following strategic initiatives for skill-set development:

- **Center of Excellence (CoE):** Establishing Regional Skill Centers for advanced, specialized manufacturing training.
- **Public-Private Partnerships (PPP):** Launching funds for technology acquisition and integrating industry needs into academic curricula.
- **Focus on MSMEs:** Modernizing Small and Medium Enterprises with digitally controlled, energy-efficient machinery.
- **Curriculum Overhaul:** Aligning education with practical industrial needs under the New Education Policy 2020 to improve employability, which is currently around 46% for emerging sectors.

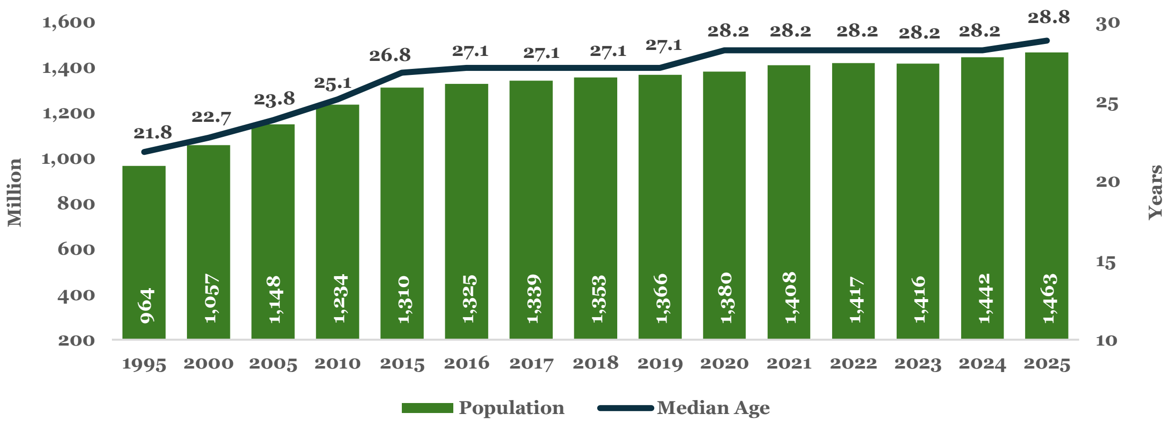
We further suggest the Indian government to focus on:

- **Labor-Intensive Sectors:** Strengthening skills in apparel, textiles, and electronics, particularly in hubs such as Tamil Nadu and Gujarat.
- **Strategic Location:** Leveraging proximity to ASEAN, Middle East, and Africa for, with improvements in logistics and infrastructure, as highlighted by India 2 West.
- **Government Policy:** Utilizing Make in India and the Production Linked Incentive (PLI) Scheme to drive investment and create jobs.

6.4.5. Enhance Domestic Consumption

India has overtaken China to become the world's most populous nation, in 2023. As reported by Bloomberg, at the end of 2022, India's population stood at 1.417 billion, based on UN projections, while according to data released by China's National Bureau of Statistics, its population at the end of 2022 was slightly less than 1.412 billion, a decrease from 2021. India, from 2023, hence is the largest populated country. The current median age of India is 28.8 years. There are two reasons for India's population exceeding that of China. First, India has always had a historically high population, especially in its fertile northern plains. There, due to climatic reasons, it is possible to grow both wheat, a winter grain, and rice, a summer grain, yielding twice as much food as many other parts of the world. Secondly, India transitioned away from higher fertility rates later than China did because of a lag in educating people, particularly women.

Chart 85: Indian Population and Median Age Trend



Source: The World Bank, Worldometer, Note: 2025 Population figure as on December 2025.

India has one of the youngest populations in an aging world. In 2025, the median age in India is just 28.8 years, compared to 40.1 years in China 38.5 years in US, 43.6 years in Western Europe, and 49.8 years in Japan.

India Demographic Dividend...

India's "demographic dividend" rises from a decline in total fertility rates, resulting in fewer youth dependents and a larger workforce. This demographic dividend offers India a distinctive opportunity for economic development, with the young population ensuring sustained growth and prosperity. India entered the demographic dividend phase around 2010, when the share of the working-age population was about 51%, and will continue to enjoy the benefit until 2056, with the ratio projected at 54%. Globally, between 2021 and 2052, India will have the highest share in terms of working-age population. This is the largest consumer base in a single country in the world. India is not only strengthening its competitive advantage but also setting trends in consumer and discretionary spending. According to EY, India will have 1.04 billion working age persons by 2030, highest of any large economy.

India's Large and Resilient Domestic Consumption…

India should focus more on enhancing domestic consumption as it's large and resilient domestic consumption serves as a significant cushion against external trade shocks like the Trump Tariffs, which had imposed up to 50% duties on many Indian goods. Domestic consumption makes up about 61-63% of India's GDP, a much larger share than in many export-heavy economies, making the economy less vulnerable to global trade fluctuations. This strong internal demand helps absorb production that might otherwise be exported, with the rural economy, in particular, showing robust growth and resilience to direct tariff impacts. The Indian government is implementing and should actively implement further policies to boost internal demand and mitigate the impact on affected export-oriented sectors.

Economists are of the view that India’s economic growth story is largely domestic driven, which largely insulates it from external headwinds and shocks. Most economists also stress the need for continued capital expenditure push while working to reduce fiscal deficit, and focus on job creation and opine that Union Government of India 2026 budget should aim to further boost consumption by following policies, which would create jobs and lower the cost of living.

Lessons from the History

India's large and robust domestic consumption base was a key factor, which helped cushion the impact of the 2008 global financial crisis (which originated as the subprime crisis) and prevented an outright recession.

India's economy was resilient during the 2008 crisis due to several structural factors and proactive policy responses such as:

- **Strong Domestic Consumption:** Unlike many export-dependent economies, a significant majority of India's GDP is driven by internal demand. The fact that Indians continued producing goods and services for other Indians kept the economy running, even as global trade slowed down.
- **Limited Exposure to Toxic Assets:** India's financial system was highly regulated and conservative at the time, which meant its banks and financial institutions had minimal exposure to the subprime mortgage-backed securities and credit-default swaps that crippled many Western financial institutions.
- **Proactive Policy Measures:** The government and the Reserve Bank of India (RBI) implemented swift fiscal and monetary stimulus packages, including injecting liquidity into the system and reducing interest rates, which helped stabilize the financial sector and boost domestic demand. The RBI significantly reduced the Repo rate and Reverse Repo rate to 5.5% and 4% respectively, and the Cash Reserve Ratio (CRR) was cut to 5% to inject liquidity into the banking system. The government launched multiple stimulus packages, including tax cuts, increased public expenditure (₹ 307 billion in the first package), and support for sectors like infrastructure and exports.
- **High Domestic Savings Rate of around 32% and 33% of GDP respectively in 2008-09 and 2009-10:** Indians generally maintain a high savings rate and are more risk-averse than their American and European counterparts, which helped maintain a stable pool of domestic capital for investment.

While India did experience a slowdown in foreign trade, nevertheless, its economy remained strong, with the GDP growth rate increasing from 6.8% in FY2009 to 8% in FY2010, showcasing the significant role of the domestic economy in providing resilience to external shocks.

In a nutshell, India can create more domestic demand by boosting consumption through infrastructure and rural spending, encouraging import substitution in sectors such as electronics and capital goods, helping MSMEs scale through better credit access and supply chain integration, expanding PLI (Production Linked Incentive) schemes to new sectors and supporting domestic champions in pharma, engineering, and chemicals.

6.4.6. Enhance Job Creation

Domestic consumption will significantly increase with more purchasing power of the Indian youth. This can be achieved by more job creation in the economy. In spite of clocking highest GDP growth among the large economies, job creation, nevertheless, remains a concern. The Union Government of India should majorly focus on enhanced job creation. To sustain economic growth and support a rising workforce, India needs to generate nearly 7.85 million to 8 million non-farm jobs annually until 2030, with some projections reaching up to 115 million total new jobs by 2030. The focus should be on strengthening manufacturing, boosting MSMEs, and fostering entrepreneurship to combat automation-driven job displacement.

Key Drivers for Job Creation in India:

- **Manufacturing Expansion:** Increasing the share of manufacturing in GDP is critical, utilizing Production Linked Incentive (PLI) schemes, the MITRA Textile scheme, ODOP scheme, expansion of special economic zones, etc.
- **MSME Support:** Enhancing the role of MSME to fill the employment gap faster
- **Entrepreneurship:** Moving from a "job seeker" to "job creator" mindset to boost innovation and self-sustaining ventures
- **Service Sector Growth:** High-growth areas include technology, data science, and services, with one million plus jobs predicted in IT fields like cybersecurity and AI
- **Skill Development:** Focusing on high-skill training and labor reforms to increase productivity and wages.

The 2023-24 Economic Survey of India highlights that while employment has risen, with 168.3 million jobs added in six years, accelerated efforts are needed to meet the demand. The focus should be on creating jobs in sectors, which offer higher productivity and value, aiming for a developed India (*Vikshit Bharat*) by 2047.

6.4.7. Focus on AI Industry

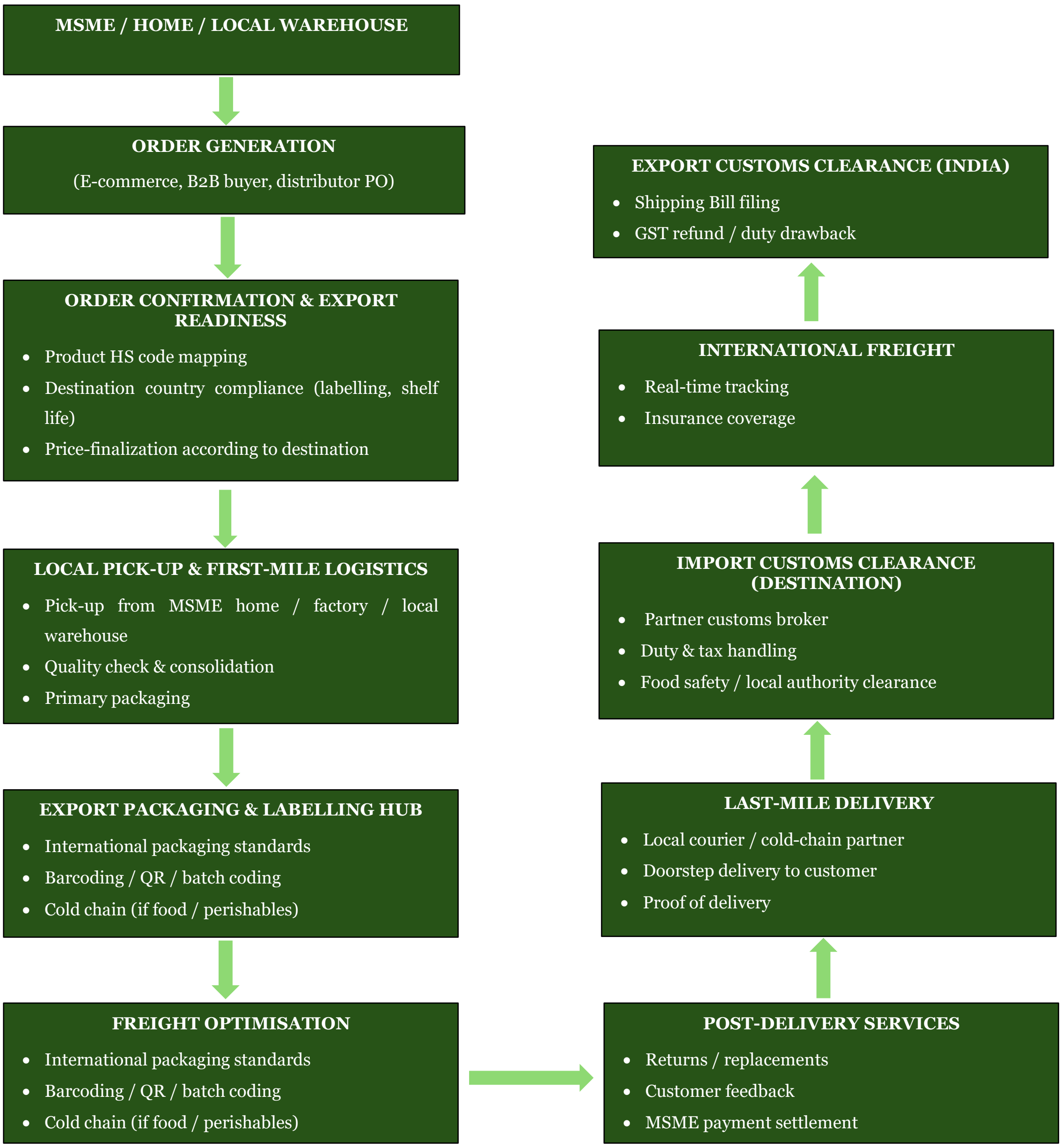
As said by Satyen K. Bordoloi, noted AI Communications Consultant, India's response to the Trump tariffs should not be defensive, not even offensive; rather, it should be transformational. Rather than merely weathering this storm or fighting back, India can use AI to fundamentally restructure its economic model from one based on cost arbitrage to one driven by innovation and intelligence. But this transformation will require coordinated action across government and industry. The government must accelerate AI infrastructure development, expand international AI partnerships, and create regulatory frameworks that encourage rather than constrain AI adoption. On the other hand, companies must reciprocate by investing in AI capabilities not as defensive measures but as growth engines for global expansion.

The stakes go beyond immediate tariff mitigation. Success in this AI transformation will put India into a technology leader position in an emerging multipolar world order. The opportunity, though in the future, is transformational: acceleration of India's AI revolution and emergence as a global technology superpower. India should reimagine its role in the global economy through the use of artificial intelligence because only those nations that successfully deploy AI to navigate this trade disruption will emerge not just resilient but dominant in the post-tariff global economy. India must move fast, and the way forward is through artificial intelligence.

6.4.8. Creation of a Global Logistics Network

A global MSME value chain creation such as creation of apps that can systematically pick up orders from local warehouses or MSME homes and ship it to global locations, can rapidly boom small businesses in India. This will enable international shipping for small businesses.

Figure 2: Flow Chart – Global Logistics Network Creation



Source: ECOFIN Research

The intercountry transactions may happen directly through their national currencies bypassing US Dollar as international medium.

6.4.9. Sector Specific Policies Cementing India's Supremacy (Union Budget 2026-27)

Banking, Financial Services & Insurance (BFSI)

The Indian Union Budget 2026 pushes forward structural reforms to bolster financial intermediation, expand capital markets, and enhance credit availability across industries. Key measures include:

- Setting up a high-level committee on banking for Viksit Bharat (Advanced India) to drive comprehensive banking reforms.
- FEMA (Foreign Exchange Management Act) will be simplified to facilitate smoother foreign investment inflows.
- Focus areas encompasses technology enhancements like AI-driven risk assessment and digital lending, alongside improved credit for MSMEs and rural regions.
- Full foreign ownership is now permitted in insurance (previously restricted), allowing single firms to offer both life and general (health/property) products to boost competition and attract capital.
- Health and life insurance premiums will see 5-10% rate cuts to reduce costs, targeting greater penetration and making coverage more accessible for middle-class families.

Manufacturing & MSMEs

Budget 2026 targets six high-growth sectors with incentives, PLI (Production-Linked Incentive) scheme extensions, and export-boosting measures to generate 20 million jobs by 2030.

- **Biopharmaceuticals:** Establish vaccine and medicine manufacturing hubs with tax holidays, building on India's 60% global vaccine market dominance for advanced biologics like monoclonal antibodies.
- **Semiconductor Chips:** Doubles design and fabrication incentives; aims for 10% global market share via new clusters in Gujarat and Uttar Pradesh.
- **Electronics:** PLI 2.0 for mobiles and components targets US$ 300 billion in exports, focusing on displays, batteries, and PCBAs.
- **Capital Goods:** Viability gap funding supports local production of machine tools and industrial robots.
- **Textiles:** Mega hubs across fifteen states prioritize man-made fiber (MMF) for garment export expansion.
- **Sports Goods:** Jammu & Kashmir clusters for manufacturing, tied to 2036 Olympics preparations, including leather and rubber processing.

MSME and Professional Support

- **Dedicated MSME Fund:** A dedicated ₹ 100 billion fund offers growth capital to promising MSMEs via innovative financing, plus broader TReDS (Trade Receivables Discounting System) expansion for quicker invoice discounting from CPSEs (Central Public Sector Enterprises) and big buyers to ease working capital.
- **Professional Assistance:** "Corporate Mitras" program provides compliance, governance, and regulatory guidance to help small firms formalize, enhance credit profiles, and grow sustainably.

Agriculture & Rural Economy

Budget 2026 earmarks ₹ 1.63 trillion for agriculture and rural development, pivoting from subsidies toward productivity gains, value chain enhancements, and climate resilience in a sector employing 46% of the workforce.

- **High-value Crops:** Boosts coconuts, cashews, cocoa, sandalwood, and agar trees (with Northeast emphasis); promotes almonds and walnuts in coastal regions to deliver 20-30% higher farmer incomes.
- **Livestock & Fisheries:** Increases allocation by 27%; offers credit subsidies for dairy and poultry units; develops 500 reservoirs to expand inland fish farming.
- **Rural Infrastructure:** PMGSY Phase-5 links 25,000 villages; solar irrigation reaches 1 crore farmers.
- **Employment Generation**: Agri-processing parks and rural MSME clusters aim for 50 lakh non-farm jobs; skill centers train youth in food logistics and animal husbandry.

Energy

The Electronics Component Manufacturing Scheme's outlay will increase from ₹ 229.19 billion to ₹ 400 billion. Dedicated Rare Earth Corridors will be set up in Odisha, Kerala, Andhra Pradesh, and Tamil Nadu. Additionally, ₹ 200 billion will fund carbon capture, utilization, and storage over five years. Semiconductor Mission 2.0 will launch to advance the sector.

Infrastructure

Infrastructure takes center stage in Union Budget 2026, with ₹ 12.2 trillion in capital expenditure. A major priority: transforming Tier 2 and 3 cities into vibrant growth hubs.

Key Projects

- **New freight corridor** from Dankuni (East) to Surat (West).
- **Twenty new waterways** connecting minerals, industries, and ports.
- **Dedicated ecosystem** for inland vessel repairs.
- **Coastal Cargo Promotion Scheme:** Subsidies encourage firms to shift bulk cargo from trucks/trains to ships, cutting logistics costs by 20-30%, emissions by 40%, and creating port/shipyard jobs.
- **Seven high-speed rail corridors:** Mumbai-Pune, Pune-Hyderabad, Hyderabad-Bengaluru, Hyderabad-Chennai, Chennai-Bengaluru, Delhi-Varanasi, Varanasi-Siliguri.

Financing and Monetization Initiatives

- **Infrastructure Risk Guarantee Fund:** Provides partial credit guarantees to lenders during high-risk construction, unlocking long-term capital from insurers/pension funds by boosting project ratings and lowering borrowing costs.
- **Seaplane VGF Scheme:** Viability gap funding via grants/subsidies to launch financially sustainable domestic seaplane services.
- **REITs for CPSEs** like NTPC and ONGC to monetize surplus land/buildings without sales, offering retail investors stable rental income.
- **City Economic Region Grants:** ₹ 50 billion per Tier 2/3 city over 5 years, awarded as incentives for infrastructure milestones.

Technology, Startups & Digital Economy

- **Deep Tech R&D Fund:** A ₹ 200 billion fund targets equity investments in AI, quantum computing, and biotech startups, with a goal of nurturing 1,000 unicorns by 2030.
- **Startup Incentives:** Extends 3-year tax holiday and scraps angel tax; introduces ESOP liquidity benefits for early employees.
- **National Digital Commerce Mission:** Links ONDC, UPI, and DigiLocker to empower 500 million SMBs; includes sovereign AI data centers for secure, scalable tech.

Healthcare

The Budget allocates up to ₹ 1.06 trillion to health, emphasizing training and specialized institutions over hospital builds.

- **Biopharma SHAKTI:** ₹ 100 billion over five years funds three new NIPERs (pharma research hubs) and upgrades training in biologics, vaccines, and regulatory sciences.
- **Allied Health Expansion:** New institutes for 10 fields (optometry, radiology, anesthesia, psychology) to train ten million professionals in five years.
- **AYUSH & Mental Health:** Three new All India Ayurveda Institutes; five regional medical centers with AYUSH focus; dedicated mental health facilities in North India.

Education

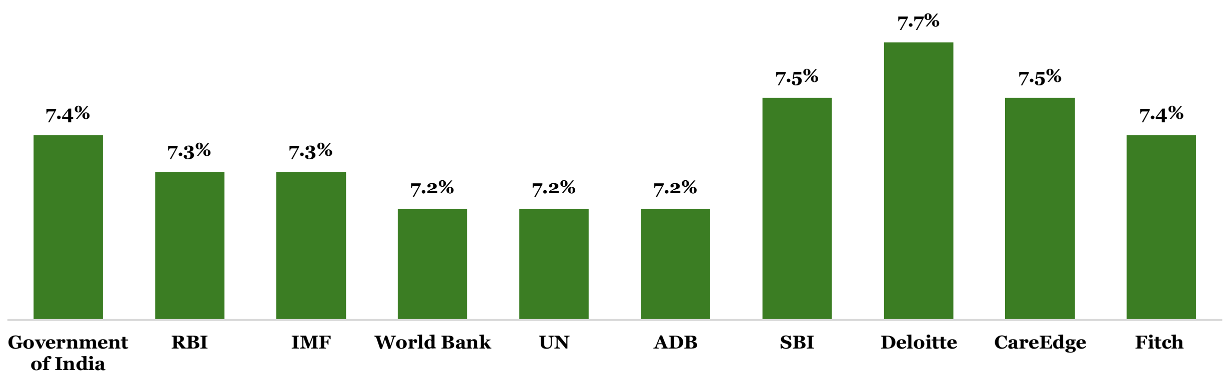
Budget 2026 redirects ₹ 1.52 trillion toward skill-based, industry-aligned training.

- **Medical Education:** Funds new medical colleges, expands UG/PG seats, and boosts nursing capacity (₹ 17.25 billion allocation).
- **Skilling Push:** Trains 15 million caregivers via NSQF programs focused on elderly and disabled care.
- **Regional Hubs:** Creates medical clusters blending education, research, and tourism for hands-on training.

6.4.10. Indian Growth Story Continues…

Before the Israel-Iran war started, India's GDP growth for FY2026 (April 2025 – March 2026) was projected to be robust, with recent government estimates pegging it at 7.4% due to strong services and manufacturing performance. Major international bodies have upgraded their forecasts to between 6.6% and 7.5%, citing strong domestic consumption, tax reforms, and resilient public investment. India has been a key driver of global growth, International Monetary Fund (IMF) spokesperson Julie Kozack said in January 2026.

Chart 86: Forecasted GDP Growth Rate of India for FY2026



Source: Press releases of Government of India, RBI, IMF, World bank, UN, ADB, SBI, Deloitte, CareEdge, Fitch

6.5. Defense Self-Reliance

India is no longer content to be a mere consumer of global defense technology, it is actively positioning itself to claim the strategic space traditionally occupied by Israel and Europe, transforming from a buyer into a co-developer, manufacturer, and exporter of military hardware. This ambition rests on a three-pronged strategy – deepening bilateral defense manufacturing partnerships with European powers like France and Germany, elevating the strategic relationship with Israel to co-develop cutting-edge technologies, and leveraging these collaborations to build indigenous capabilities that serve both domestic needs and emerging export markets. The recent elevation of India-Israel ties to a 'Special Strategic Partnership for Peace, Innovation & Prosperity' during Prime Minister Modi's February 2026 visit to Jerusalem exemplifies this shift, with both nations agreeing to deepen collaboration in critical and emerging technologies including artificial intelligence, cybersecurity, semiconductors, quantum computing, biotechnology, defense platforms, and space exploration. A new initiative on Critical and Emerging Technologies, led by the two National Security Advisors, now guides focused cooperation in these frontier sectors, while the establishment of an India-Israel Centre of Excellence in Cybersecurity in India and a multi-year strategic cyber program further institutionalizes this partnership. Crucially, this relationship has already yielded tangible results – joint ventures between Indian companies like Adani and Elbit Systems produced Hermes 900 UAVs in Hyderabad and exported them to the Israel Defense Force in 2024, while Bharat Forge-Elbit partnerships manufactured weapons and subsystems for the IDF during the Gaza conflict. These developments signal that India is not just importing Israeli technology but co-producing it for third-party markets – a role Israel has long played for other nations.

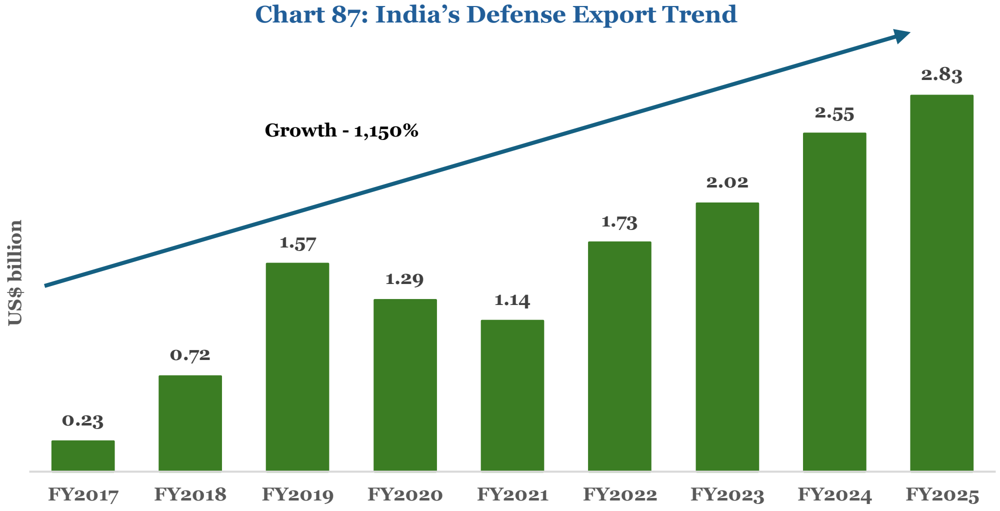
Simultaneously, India is deepening its European defense architecture through France, its most trusted Western strategic partner. The 6th India-France Annual Defense Dialogue, co-chaired by Indian Defense Minister Rajnath Singh and his French counterpart Catherine Vautrin in Bengaluru in February 2026, resulted in the renewal of a ten-year defense cooperation agreement and the signing of an MoU between Bharat Electronics Limited and Safran Electronics & Defense for joint manufacturing of Hammer missiles in India. This agreement is particularly significant because it transfers not just assembly but manufacturing capability to India, embedding Indian industry into the supply chains of a European defense major. The two nations also announced reciprocal deployment of officers at Indian Army and French Land Forces establishments, deepening military-to-military interoperability.

Beyond bilateral ties, India is leveraging the newly signed EU-India Security and Defense Partnership – described by geopolitical experts as a 'strategic statement' that trade, security, technology, and geopolitics 'now travel together' – position itself as a connector between Europe and West Asia. This framework allows India to access defense technologies while offering European nations a gateway to Indo-Pacific security architecture.

6.5.1. Defense Exports from India Touch New Heights

India's defense exports have surged to a record high of US$ 2.83 billion in FY2025, registering a growth of over 11% from the previous year. India's defense exports rose more than 31 times in the past one decade. The Defense Public Sector Undertakings (DPSUs) have shown a significant increase of 42.9% in their exports in the FY2025, reflecting the growing acceptability of Indian products in the global market and the ability of the Indian defense industry to be a part of the global supply chain. The private sector and DPSUs have contributed 64.5% and 35.5% respectively in defense exports of FY2025. As per the Indian Defense Minister, the nation's target is to achieve the target of increasing defense exports to ₹ 500 trillion by 2029, which according the current average conversion rate stands at US$ 5.75 trillion.

Chart 87: India's Defense Export Trend



Source: Ministry of Commerce & Industry, Union Government of India, ECOFIN Research

India has evolved from a largely import-dependent military force to the one increasingly focused on self-reliance and indigenous production. In a major boost to defense exports, wide range of items from ammunition, arms, sub-systems/systems and parts & components have been exported to around 80 countries in the just-concluded financial year. The Department of Defense Production has a dedicated portal for application and processing of export authorization requests, and 1,762 Export Authorization were issued in FY2025 compared to 1,507 in the preceding year, registering a growth of 16.9%. The total number of exporters also grew by 17.4% in the same period.

Many policy reforms have been brought-in by the Union Government of India in the past few years to boost the defense industry such as simplification of industrial licensing procedure, removal of parts and components from license regime, extending the validity period of license etc. In addition, SOP for grant of Export Authorization was further simplified, and more provisions were added in the last financial year to boost exports from the country.

The key platforms, which India has been exporting are Dornier-228 aircraft, 155 mm Advanced Towed Artillery Guns (ATAGs), Brahmos missiles, Akash missile system, radars, mine protected vehicles, armored vehicles, Pinaka rockets and launchers, ammunition, thermal imagers and various components of avionics and small arms. There is growing global demand for Light Combat Aircraft Tejas, light combat helicopters and aircraft carrier, MRO (maintenance, repair and operations) facilities, the ministry said. India is currently exporting military hardware to over 85 countries. "The Indian industry has shown its capability of design and development to the world, with 100 firms exporting defense products at present. The rising defense exports and participation of 104 countries in Aero India 2023 are proof of India's growing defense manufacturing capabilities," the ministry said. "Through consistent policy initiatives of the government and tremendous contribution of the defense industry, India has achieved a remarkable milestone in defense exports".

As per the Stockholm International Peace Research Institute (SIPRI) report dated 1 December 2025, global arms revenues soared in 2024, driven by the wars in Ukraine and Gaza, escalating geopolitical tensions, and rising military spending. For the first time since 2018, all five of the largest arms companies reported increased revenue. Although most global growth came from European and US firms, all regions in the Top 100 saw year-over-year gains, including the surprise entrant, India. India, though, still far from being a global arms giant, posted a quiet but steady 8.2% increase in combined revenues across its three Top 100 companies. In sharp contrast, Chinese arms revenues fell 10%, a setback tied to a wave of high-profile corruption scandals and major contract delays that rattled Beijing's defense establishment. India's three firms among the Top-100 firms are Hindustan Aeronautics Ltd (HAL), Bharat Electronics Ltd (BEL), and Mazagon Dock Shipbuilders. Together they pulled in US$ 7.5 billion in arms revenue in 2024, up from US$ 6.9 billion in 2023. BEL led the growth with a 24% revenue jump, reaching US$ 2.47 billion. The rise was driven by domestic orders, especially in radar systems and electronic warfare equipment.

HAL, India's top-ranked defense firm at rank 44 globally, earned US$ 3.81 billion, a slight 0.3% decrease from the previous year. Despite delivery delays, it remained a key supplier for the Indian Air Force and Navy. At number 91, Mazagon Dock, focused on naval shipbuilding, reported US$ 1.23 billion in arms revenue, a 9.8% increase year-on-year, thanks to ongoing submarine and destroyer production.

India continues to advance its **"Atmanirbhar Bharat"** (self-reliant India) campaign in defense manufacturing. While not garnering global headlines, its gradual gains reveal an emerging industrial base that could challenge traditional suppliers over time. The remarkable growth has been achieved due to the policy reforms and 'Ease of Doing Business' initiatives brought in by the government, in addition to the end-to-end digital solution provided to the Indian industries for promoting defense exports. This growth is a reflection of global acceptability of Indian defense products and technologies.

India's Export Potential of BrahMos Missile

India is poised to finalize export deals worth around US$ 450 million for the BrahMos supersonic cruise missile with Indonesia, marking a significant milestone in its defense export ambitions. Multiple friendly nations are set to benefit from this advanced weaponry as agreements near completion. A large number of countries have expressed interest in the BrahMos system after recent demonstrations of its operational performance, including during "Operation Sindoor". India has been working closely with partner nations to expand its defense export footprint, with DRDO playing a central role in pushing indigenous platforms abroad. Officials said New Delhi is also exploring new markets in the Middle East and Africa for various categories of military hardware.

Among the major agreements in the pipeline is India's proposed deal with Indonesia for the purchase of the BrahMos missile. Defense sources told India Today that all negotiations between New Delhi and Jakarta have been completed, and the contract is ready for signing pending final approval from Russia, a required step due to the joint Indo-Russian development of the system. Once cleared, this would mark a substantial breakthrough in India's defense export ambitions, boosting its profile as a supplier of advanced, high-precision weaponry to strategic partners.

6.5.2. Isreal and Europe Want India as the World's Weapon Production Line

India has overtaken most nations to become the third-largest military power in 2025, behind only the United States and China. Operation Sindoor demonstrated indigenous weapons and anti-drone capabilities, while the government eyes a 20-25% increase in the defense budget for 2026 and aims to take defense exports to ₹ 300 billion. Emphasis on self-reliance and modern technology is turning India into a formidable player in the global defense market.

As global conflicts become longer, more industrial, and attrition-heavy, Europe and Israel are increasingly looking at India not just as a defense partner or export destination, but as a potential large-scale weapons production base for future wars. This shift is driven by hard realities of capacity, cost, politics, and geography-areas where India now offers advantages few others can match. The Ukraine war fundamentally changed how advanced militaries think about conflict. Precision weapons alone are not enough; wars today consume artillery shells, missiles, UAVs, air-defense interceptors, and spare parts at rates unseen in decades. European defense industries, optimized for peacetime efficiency rather than wartime surge, have struggled to scale production fast enough. Israel faces a different but equally acute problem. Sustained, multi-front conflicts require uninterrupted supply of munitions, air-defense missiles, loitering weapons, and electronics. Domestic production capacity, while technologically advanced, is finite and vulnerable to saturation during prolonged crises.

In this context, India emerges as a rare country with the industrial depth, workforce scale, and strategic autonomy needed to act as a reliable production hub. India combines several factors that Europe and Israel lack in sufficient measure. It has a massive skilled and semi-skilled workforce, expanding private defense industry participation, and growing mastery over complex systems such as missiles, radars, UAVs, artillery, and electronic warfare equipment. Unlike many smaller nations, India can absorb large production runs without destabilizing its own economy. Equally important is geography. India is far removed from active European or Middle Eastern conflict zones, making its factories less vulnerable to missile strikes, sabotage, or blockade. For partners looking to ensure continuity of supply during wartime, this physical distance is a strategic asset. For European countries, outsourcing or co-locating production in India reduces pressure on overstretched domestic factories while avoiding politically sensitive dependence on the US or East Asia. Producing ammunition, missiles, or subsystems in India also lowers unit costs and allows European firms to maintain export commitments even during crises. However, this model only works if production can continue uninterrupted and exports can flow without case-by-case political approvals. European planners are acutely aware that delays caused by licensing reviews or end-user debates can be fatal in wartime scenarios. Israel's defense industry excels at innovation but not mass production at prolonged wartime scale. Partnering with India allows Israeli systems-especially missiles, air-defense interceptors, loitering munitions, and sensors-to be produced in far larger numbers than Israel alone could sustain. India also offers redundancy. In a high-intensity regional war, Israeli factories could become priority targets. Offshore production lines in India ensure continuity of supply not just for Israel, but also for its export customers who depend on Israeli-origin systems.

Despite these advantages, India faces a self-imposed limitation. Its defense exports are still governed by a cautious, permission-based framework where each sale requires layered approvals, political clearance, and often informal diplomatic signaling. This may be manageable for occasional exports, but it is incompatible with acting as a global weapons production line. For Europe and Israel, predictability matters more than intent. They need assurance that once a system is approved, production and export will continue automatically-even during politically sensitive conflicts-unless explicitly stopped for extraordinary reasons. If India wants to grow into a serious global arms supplier, it will need to move toward a "No Ask" policy for approved partners and categories of weapons. This does not mean abandoning oversight or national interests. It means shifting from discretionary, case-by-case permissions to predefined export corridors where partners know in advance what can be produced, stockpiled, and shipped without delays. Without such a framework, foreign partners will hesitate to invest in Indian production lines that could be rendered idle by sudden export holds, diplomatic pressure, or internal policy reviews.

6.5.3. India Rejects US Offer, Goes with France and Rafales

India is finalizing mega defense deals, the purchase of 114 Rafale fighters for the Indian Air Force and 26 Rafale-M fighters for the Indian Navy. The deal is worth over US$ 18 billion, making it one of the largest defense procurements in Indian history. These acquisitions represent a complete overhaul of India's air deterrence posture, signaling deep Indo-French defense alignment and assertive strategic autonomy amid growing US and Chinese pressure. For the IAF, India will also procure 114 Rafale F-4 and F-5 fighter jets under the MRFA program to be manufactured in India through Dassault Aviation's subsidiary in partnership with Tata Advanced Systems with integration of indigenous weapons such as Astra BVR, BrahMos, SAAW and AI-enabled avionics upgrades. The Navy will acquire 26 Rafale-M fighters, 22 single-seat and four trainers to be deployed on INS Vikram and INS Vikramaditya by 2029. Once complete, India will be operating 176 Rafale and becoming the largest Rafale operator outside of France.

In 2016, 36 Rafales were purchased under a 7.87 billion G2G, government-to-government deal. Between the period 2020 to 22, Rafales were inducted and battle tested along the line of control and line of actual control with China, proving decisive in air dominance and precision strikes. In 2026, India expanded to 114 plus 26, that's what the deal we are talking about, transforming Rafale from a stopgap solution to a long-term backbone of Indian air power. By the way, this also means that India is moving away from Russia. The Supreme Court dismissed past allegations of irregularities upholding the integrity of the government-to-government procurement model.

The US offered Boeing F-A-18 Super Hornet for the Indian Navy and the Lockheed Martin F-21, a customized variant of the F-16 for the IAF. The US attempted to link defense deals to tariff concessions and reduced oil imports from Russia, but India refused to compromise its strategic autonomy, prioritizing technology access and sovereignty over political pressure. Rafale wins on performance and make an India promise. India signals it chooses partners, not patrons. This is a big deal. Now France gets a breath of fresh air here, the Rafale was supposed to be completely shut down.

Now with India coming in, many other countries are also buying Rafales. France has consistently supported India during the 1999 nuclear test, the Kargil war and the post article 370 diplomatic challenges. Discussions are expected to intensify during French President Macron's visit to India scheduled for February 2026. France's support ecosystem includes Dassault, Hales, Safran and Naval Group, forming a comprehensive alliance across air, sea and digital warfare domains. India is also partnering with Germany's ThyssenKrupp Marine Systems, TKMS, for submarine development. The goal is to procure six AIP-enabled next-gen submarines to boost undersea combat strength. The outcome complements Rafale's air dominance with enhanced underwater deterrence, establishing a 360-degree security framework across the Indo-Pacific. India has the deal with France in such a way that they can also export some of these products that might be built in India. India strengthens its global standing as a sovereign power, not aligned but strategically partnered. There is a roadmap that India has planned. By 2031, the Rafale M fleet will be fully integrated on both carriers, while IAF Rafale squadrons will be operational along the northern and western fronts. By 2035, India will transition from a major arms importer to an export-capable aerospace power, bridging the Rafale and indigenous AMCA fighter generations. The Indo-French defense partnership is emerging as a key pillar of the Indo-Pacific security architecture, countering China's assertiveness and balancing the US's unpredictability.

6.5.4. India-Germany Ties Set to Scale New Heights...

India-Germany ties crossed US$ 50 billion trade milestone ushering a new era of strategic partnership. Prime Minister Narendra Modi and German Chancellor Friedrich Merz turned Ahmedabad into a hub of diplomacy on 12 January 2026, as they unveiled a powerhouse India Germany Partnership at the India-Germany CEOs Forum. With bilateral trade smashing the US$ 50 billion mark, this meeting is not just ceremonial, it is a bold response to global uncertainties, blending economic muscle with cultural bonds. Happening amid 75 years of diplomatic ties and 25 years of strategic partnership, it spotlights why strengthening India Germany Partnership matters now more than ever. At the Mahatma Mandir Convention Centre in Gandhinagar, the Ahmedabad CEOs Forum stole the show. PM Modi hailed over 2,000 German firms in India as proof of "unwavering confidence."

Key announcements in Gandhinagar:

- Joint Declaration of Intent for defense co-innovation and production.
- Deeper tech ties in semiconductors, biotech, quantum, and cybersecurity.
- Hints at an imminent India EU FTA, with Modi inviting German "precision and innovation" to pair with India's "scale and speed."

Key Areas of Cooperation Between India and Germany

Defense and Security Cooperation

Defense cooperation has emerged as a key pillar of India–Germany relations, marked by deeper military engagement, strategic dialogue, and defense industrial collaboration. The Joint Declaration of Intent on a Defense Industrial Cooperation Roadmap signals a shift from a buyer–seller model to co-development. Germany’s participation in MILAN (Naval exercise), Indian Ocean Naval Symposium, and TARANG SHAKTI (Air exercise) reflect growing Indo-Pacific convergence, complemented by cooperation in advanced defense technologies such as the Eurodrone MALE UAV programme. Progress on frameworks like reciprocal logistics support, peacekeeping training, and DRDO–BAAINBw collaboration further strengthens interoperability and strategic trust.

Counter-Terrorism Cooperation

India and Germany unequivocally condemned terrorism and violent extremism in all forms, including cross-border terrorism. Germany strongly denounced recent terror attacks in Jammu & Kashmir and Delhi, reaffirming zero tolerance for terrorism. The ratification of the Mutual Legal Assistance Treaty and progress under the Joint Working Group on Counter-Terrorism enhance legal and institutional cooperation. Both sides are committed to strengthening cooperation against terrorist entities, including those listed under the UN 1267 Sanctions Committee.

Trade, Investment and Economic Cooperation

Economic engagement forms the backbone of India–Germany relations, with bilateral trade in goods and services crossing US$ 50 billion in 2024, accounting for over a quarter of India's trade with the EU and sustaining momentum into 2025. Germany has positioned itself as a gateway for Indian firms to Europe and advanced technologies. Strong support for the early conclusion of the India–EU FTA and the strengthening of the German-Indian CEO Forum reflect efforts to institutionalize private-sector cooperation across manufacturing, defense, infrastructure, pharmaceuticals, and energy.

Technology, Innovation, Science and Research

India–Germany ties have increasingly assumed an innovation-led character, anchored in the Innovation and Technology Partnership Roadmap covering semiconductors, digitalization, health, bioeconomy and emerging technologies. A Joint Declaration of Intent on a Semiconductor Ecosystem Partnership and another on critical minerals aim to strengthen collaboration across R&D, manufacturing, recycling and third-country supply chains, addressing strategic vulnerabilities. The extension of the Indo-German Science and Technology Centre (IGSTC) reinforced industry–academia linkages and inclusive innovation in areas such as AI, advanced manufacturing and sustainable production. The proposed Indo-German Centers of Excellence and expanding ISRO–DLR space cooperation further institutionalize long-term scientific and technological collaboration.

Green and Sustainable Development Partnership

The Green and Sustainable Development Partnership is a flagship pillar of India–Germany relations, with around € 5 billion of Germany's € 10 billion commitment (2022–2030) already deployed or earmarked by the 2026 mid-point. The partnership supports climate mitigation and adaptation, renewable energy, sustainable mobility, biodiversity, circular economy and skilling, while aligning closely with Indian initiatives such as PM e-Bus Sewa, National Green Hydrogen Mission, solar rooftop expansion, metro rail projects and battery storage. Joint working groups on solar manufacturing, wind energy and energy storage strengthen cooperation on technology, standards and resilient supply chains.

Global Governance and Strategic Convergence

India and Germany reaffirmed support for a free, open and rules-based Indo-Pacific, grounded in UNCLOS and international law, and institutionalized strategic coordination through a new Indo-Pacific consultation mechanism, complemented by Germany's engagement in the Indo-Pacific Oceans Initiative. Shared backing for the India–Middle East–Europe Economic Corridor (IMEC) reflects convergence on transparent, sustainable and resilient connectivity. On global governance, both countries reiterate support for UNSC reforms under the G4 alliance, including expansion in permanent and non-permanent categories and early text-based negotiations. On global issues, India and Germany expressed concern over the war in Ukraine, supported efforts for a just peace under the UN Charter, welcomed progress on Gaza in line with UNSC resolutions and reiterated commitment to a Two-State Solution.

Education, Skilling, Mobility and People-to-People Ties

People-to-people linkages remain a core pillar of India–Germany relations, reflected in the growing presence of Indian students and skilled professionals in Germany. The Indo-German Comprehensive Roadmap on Higher Education strengthens institutional partnerships, joint degrees and research collaboration, while India has invited German universities to establish campuses under the NEP framework. The Migration and Mobility Partnership facilitates ethical skilled migration, especially in healthcare and addresses labor-market needs through initiatives such as the Indo-German Centre of Excellence for Skilling in Renewable Energy.

Merz called the India Germany Partnership a "strategic asset" amid tech shifts and geopolitics. He pushed for the India-EU FTA and praised India as Germany's "partner of choice." Modi thanked Germany for visa-free transit for Indians, easing people-to-people links.

6.5.5. India Ships Pinaka Rockets to Armenia in Major Defense Boost...

India shipped its homegrown guided Pinaka rockets to Armenia for the first time ever in the third week of January. The Pinaka is a multi-barrel rocket, developed by India's DRDO in the 1980s. The first versions had a range of 37.5 km. The newer ones can reach up to 75 km. The latest version was trialed last month by the DRDO, which could strike up to 120 km away. The latest version has precise and lethal striking capabilities. It's the first time India is selling these rockets abroad. The Indian Defense Minister, Mr. Rajnath Singh said, it's just the start.

6.6. Strategic Autonomy: The Non-Negotiable Foundation of Peace Leadership

6.6.1. Navigating a Fragmented Global Order

The contemporary global order is marked by intensifying geopolitical rivalries, fractured alliances, and a steady erosion of multilateral consensus. The resurgence of great power competition—most notably between the United States and China—alongside protracted conflicts such as the Russia–Ukraine war and recurring instability in West Asia, has deepened global polarization. In such an environment, the space for neutral, credible, and principled leadership has significantly narrowed. Yet, amidst this turbulence, India has emerged as a distinctive actor—one that neither conforms to rigid alliance structures nor retreats into isolationism. India's foreign policy doctrine of strategic autonomy has thus assumed renewed significance. Far from being a passive legacy of Cold War-era non-alignment, it has evolved into a dynamic and pragmatic framework that enables India to engage with multiple power centers while preserving independent judgement. This autonomy is not merely a strategic preference; it is the very foundation upon which India's credibility as a peace-oriented global leader rest. In an era where alignment often dictates allegiance, India's insistence on sovereign decision-making positions it uniquely as a bridge-builder, initiator, and advocate for global equilibrium.

6.6.2. The Evolution of Strategic Autonomy: From Non-Alignment to Multi-Alignment

India's commitment to strategic autonomy is deeply embedded in its post-independence foreign policy architecture, shaped by both its historical experience of colonial subjugation and its aspiration to exercise sovereign agency in global affairs. Under Prime Minister Jawaharlal Nehru, India emerged as a principal architect of the Non-Aligned Movement (NAM), which sought to resist the binary pressures of the Cold War order. However, non-alignment was never intended as passive neutrality or equidistance between the United States and the Soviet Union; rather, it was conceived as a doctrine of independent judgment, enabling India to evaluate international issues on their merits while safeguarding its strategic independence.

The end of the Cold War and the collapse of the bipolar order necessitated a fundamental recalibration of India's foreign policy. The economic crisis of 1991 and the subsequent liberalization reforms marked a turning point, as India increasingly integrated with the global economy and diversified its external partnerships. In this new unipolar and later multipolar context, strategic autonomy evolved from an ideologically driven posture to a more pragmatic and interest-based framework. India began to actively engage with major global powers, including the US, EU, Japan, and ASEAN, while maintaining its long-standing ties with Russia.

This phase witnessed the emergence of what can be termed multi-alignment—a strategy that involves cultivating overlapping partnerships across geopolitical divides without entering into exclusive or binding alliances. The India–US Civil Nuclear Agreement (2005–08) exemplified this shift, symbolizing a deepening strategic partnership with Washington while preserving New Delhi's independent decision-making space. Simultaneously, India continued to strengthen its defense and energy cooperation with Russia, reflecting a deliberate effort to avoid overdependence on any single partner. In the 21st century, this doctrine has further matured into a sophisticated model of issue-based alignment, characterized by flexibility, selectivity, and contextual engagement. India participates in a diverse array of multilateral and minilateral platforms—including the Quadrilateral Security Dialogue (Quad), BRICS, and the Shanghai Cooperation Organization (SCO)—many of which represent differing, and at times competing, geopolitical visions. Its involvement in the Quad underscores its commitment to a free and open Indo-Pacific, while its engagement with BRICS and SCO reflects its interest in shaping alternative global governance frameworks and maintaining dialogue with Eurasian powers, including China and Russia.

Another defining feature of this evolution is the growing emphasis on minilateralism and coalition-building on specific issues. India has actively participated in flexible, purpose-driven groupings such as the International Solar Alliance (ISA) and the Coalition for Disaster Resilient Infrastructure (CDRI), which address global challenges without the rigidities of traditional alliances. These initiatives highlight India's ability to combine autonomy with leadership in shaping global norms and solutions.

6.6.3. Strategic Autonomy in Practice: Evidence from Contemporary Geopolitics

India's strategic autonomy is most visible not in rhetoric, but in its calibrated responses to global crises. Its ability to maintain relationships across competing blocs has enhanced its credibility as an impartial and constructive actor.

The Russia–Ukraine Conflict: Balancing Principles and Interests

The Russia-Ukraine war presented a complex diplomatic challenge. While Western nations imposed sweeping sanctions on Russia, India adopted a nuanced position. It consistently called for cessation of hostilities, respect for sovereignty, and dialogue, while refraining from outright condemnation of Moscow. Simultaneously, India continued to procure discounted Russian crude oil, which became a significant component of its energy security strategy – accounting for over 30-35% of India's oil imports in 2023, compared to less than 2% prior to the conflict. This approach attracted criticism from some quarters, yet it exemplified strategic autonomy in action. India neither succumbed to external pressure nor abandoned its principled advocacy for peace. Instead, it preserved its ability to engage with all stakeholders—Russia, Ukraine, and the West—thereby retaining diplomatic relevance.

Israel–Palestine: Navigating a Delicate Equilibrium

India's position on the Israel–Palestine issue further illustrates its balanced diplomacy. Over the past decade, India has significantly deepened its strategic partnership with Israel, particularly in defense, agriculture, and technology. Israel is among India's top defense suppliers, contributing advanced systems such as drones and missile technologies. At the same time, India has maintained its longstanding support for the Palestinian cause, consistently advocating a two-state solution and extending humanitarian assistance. This dual engagement allows India to maintain credibility in West Asia – a region critical for its energy security, diaspora welfare, and trade.

Leadership of the Global South: The G20 Presidency and Beyond

India's G20 Presidency in 2023 marked a watershed moment in its global leadership trajectory. By prioritizing the concerns of developing nations–particularly on issues such as debt distress, climate finance, and digital inclusion–India positioned itself as the voice of the Global South. The inclusion of the African Union as a permanent member of the G20 was a significant diplomatic achievement, reflecting India's commitment to a more inclusive global governance architecture. India also hosted the Voice of Global South Summit, bringing together over 120 countries to articulate shared developmental challenges. This initiative underscored India's role as a facilitator of dialogue and consensus in an increasingly divided world.

Humanitarian Diplomacy: Soft Power with Strategic Depth

India's peace leadership is further reinforced by its protective humanitarian engagement. During the COVID-19 pandemic, the *Vaccine Maitri* initiative saw India supply over 250 million vaccine doses to more than 100 countries, particularly in the developing world. This effort was not driven by transactional interest, but by a broader commitment to global public goods. Similarly, India has been at the forefront of disaster relief operations—from Operation Dost in earthquake-hit Türkiye and Syria to assistance during economic crises in Sri Lanka and humanitarian support to Afghanistan. These actions reflect a consistent pattern: India leverages its autonomy not for isolation, but for constructive global engagement.

6.6.4. Why Strategic Autonomy Enables Peace Leadership

The intrinsic link between strategic autonomy and peace leadership lies not merely in operational flexibility, but in the deeper triad of credibility, strategic space, and normative legitimacy. In an increasingly polarized international system—where alliances often dictate positions and constrain diplomatic maneuverability—countries embedded within rigid blocs are frequently perceived as extensions of larger power interests. India's independent posture enables it to transcend these structural limitations, positioning it as a rare actor capable of engaging across divides without forfeiting its agency.

At the core of this dynamic is credibility, which arises from the absence of coercive alignment. India's foreign policy decisions are not seen as externally dictated, but as outcomes of sovereign judgment rooted in national interest and global responsibility. This enhances its legitimacy in multilateral forums such as the United Nations, G20, and Global South platforms, where trust deficits often undermine collective action. Unlike alliance-bound states, India retains the ability to articulate positions that are principled yet pragmatic, thereby commanding broader acceptance.

Equally critical is strategic flexibility, which allows India to maintain active engagement with competing power centers simultaneously. This multi-vector diplomacy enables India to communicate with all parties in a conflict—whether in the context of the Russia–Ukraine war, tensions in West Asia, or Indo-Pacific rivalries. Such flexibility is indispensable for any actor aspiring to play a conciliatory or facilitative role, as it ensures continued access, dialogue, and influence across geopolitical fault lines. In this sense, strategic autonomy expands India's diplomatic bandwidth, allowing it to operate as a connector rather than a camp follower.

A third pillar is trust, built through consistency and predictability in India's long-term strategic behavior. India's refusal to succumb to short-term geopolitical pressures reinforces the perception that its actions are guided by enduring principles rather than transient alignments. This consistency is particularly valued in the Global South, where many nations view India as a partner that understands their developmental concerns without imposing conditionalities. Consequently, India's voice carries weight not because of coercive power, but because of earned confidence.

Beyond these functional attributes, strategic autonomy also confers normative legitimacy—a critical but often underappreciated dimension of peace leadership. India's positions are anchored in broader civilizational and philosophical principles, such as *Vasudhaiva Kutumbakam*, which emphasize inclusivity, dialogue, and coexistence. This normative framing allows India to advocate for peace not merely as a strategic necessity, but as a moral imperative, thereby strengthening its appeal across diverse political and cultural contexts.

Importantly, India's approach reflects a nuanced and active conception of neutrality. It is not neutrality born of passivity or indifference, but one characterized by responsible engagement and constructive intervention. India does not equate neutrality with silence; rather, it combines independent positioning with proactive contributions—whether through humanitarian assistance, development partnerships, or diplomatic outreach. This distinction is crucial, as it differentiates India from actors that remain disengaged under the guise of neutrality.

Furthermore, strategic autonomy enhances India's ability to contribute to de-escalation and conflict management. By maintaining open channels with all stakeholders, India can facilitate backchannel communications, reduce misperceptions, and support incremental confidence-building measures. While not always a formal negotiator, India often plays the role of a stabilizing interlocutor, particularly in crises where direct dialogue between adversaries is limited.

Finally, in a world increasingly defined by binary choices and zero-sum calculations, India's insistence on plurality in partnerships offers an alternative paradigm. As articulated by India's External Affairs Minister, Dr. S. Jaishankar, global politics cannot be reduced to rigid binaries; instead, it requires a framework that accommodates diversity in alignments and autonomy in decision-making. This approach not only preserves India's strategic interests but also contributes to a more balanced and less adversarial international order.

6.6.5. Constraints and Challenges to Strategic Autonomy

Despite its strengths, India's pursuit of strategic autonomy is not without challenges. The evolving geopolitical landscape imposes structural constraints that require careful navigation.

One major challenge is the pressure from major powers, particularly in areas such as defense cooperation, trade, and technology. The United States, for instance, views India as a key partner in balancing China, while Russia remains a critical defense supplier–accounting for nearly 45-50% of India's military imports over the past decade. Balancing these relationships without alienating either side requires diplomatic finesse.

Secondly, economic dependencies pose limitations. India's reliance on energy imports–over 85% of its crude oil consumptions – makes it vulnerable to external shocks. Similarly, integration into global supply chains necessitates engagement with multiple partners, sometimes constraining policy choices.

Thirdly, regional security challenges, particularly along the Line of Actual Control (LAC) with China, complicate India's strategic calculus. Managing border tensions while maintaining economic engagement with China demands a delicate balance.

Finally, the push for defense indigenization and technological self-reliance remains a work in progress. While initiatives such as Atmanirbhar Bharat have gained momentum, achieving full-spectrum autonomy requires sustained investment and institutional capacity.

6.6.6. Strategic Autonomy as a Doctrine of Responsible Leadership

India's strategic autonomy is often misunderstood as a vestige of a bygone geopolitical era, associated primarily with the rhetoric of Cold War non-alignment. In reality, it has evolved into a refined, adaptive, and forward-looking doctrine, uniquely attuned to the complexities of the 21st century international system. Far from being a passive stance, it represents an active and deliberate strategy that enables India to navigate competing interests without compromising its sovereignty, to engage with multiple power centers without being entrapped in rigid alliances, and to exercise influence without resorting to coercion.

In an international order increasingly characterized by fragmentation, great power rivalry, and the erosion of multilateral consensus, India's approach offers a compelling alternative paradigm—one grounded in independence, inclusivity, and responsible engagement. Unlike traditional power politics, which often relies on dominance, deterrence, or bloc discipline, India's peace leadership is anchored in the credibility of its choices, the consistency of its principles, and the legitimacy of its actions. This distinction is critical, as it allows India to operate as a stabilizing force capable of bridging divides rather than deepening them.

The global order is shifting away from US unipolarity, with institutions such as the UN and WTO experiencing reduced effectiveness, leading to a more fragmented, multipolar, and unstable international system. Strategic autonomy enables India to articulate and advance a vision of global order that is multipolar, equitable, and participatory. By championing the concerns of the Global South, advocating reforms in global governance institutions, and promoting cooperative solutions to transnational challenges such as climate change, public health, and digital inequality, India extends its role beyond that of a traditional state actor to that of a norm-shaper and agenda-setter. Its leadership is thus not merely reactive, but constructive—seeking to build consensus where divisions persist.

Importantly, the sustainability of this doctrine rests on the continued strengthening of India's domestic capabilities—economic resilience, technological advancement, and defense self-reliance—which collectively reinforce its external independence. Strategic autonomy, in this sense, is both an external posture and an internal imperative, requiring coherence between national capacity and global ambition. As the world searches for credible stabilizing forces amid deepening uncertainty, India's strategic autonomy stands out not merely as a diplomatic preference, but as a non-negotiable foundation of its global identity and responsibility. It equips India to act not just as a balancing power in a contested system, but as a principled architect of peace, capable of fostering dialogue, reducing tensions, and promoting cooperative coexistence.

India's strategic autonomy represents more than a foreign policy doctrine – it embodies a broader philosophical and strategic vision for navigating a divided world. By combining independence with engagement, pragmatism with principle, and national interest with global responsibility, India is uniquely positioned to shape a more stable, and peaceful international order.

The global order is shifting away from US unipolarity, with institutions like the UN and WTO experiencing reduced effectiveness, leading to a more fragmented, multipolar, and unstable international system.

6.7. The Way Forward

India was in the spotlight at the World Economic Forum in Davos 2026 with global leaders, investors and policy makers focusing on the country's rapidly rising economic profile. The fragmentation of the global economy is fast becoming a hard reality. Tariff wars, sanctions regimes, the prolonged impact of the Russia–Ukraine conflict and rising geopolitical tensions have reshaped trade flows and supply chains. In this unsettled environment, India finds itself confronting global headwinds even as new strategic openings emerge.

India remains one of the fastest growing major economies in the world, outpacing global averages. Analysts point to robust consumption, strong investment and a resilient service sector as the key drivers of this growth momentum. With GDP valued at US$ 4.18 trillion, India has already surpassed Japan to become the fourth largest economy and official projections suggest that it could surpass Germany within the next few years. India is also expected to enter the upper middle-income category by 2030, with per capita income approaching US$ 4,000. Global investors and multinational companies are eyeing India as a strategic hub attracted by market potential, policy support and resilient demand. Indian Prime Minister Narendra Modi, after inaugurating the Vibrant Gujarat Regional Conference on 11 January 2026, said that amid great global uncertainty, India is witnessing an era of unprecedented certainty. The country’s growth revolves around the mantra of “reform, perform and transform”, Prime Minister Modi said and added that India today is the largest consumer of data globally, while the UPI has emerged as the world’s number one real-time digital payment platform. He said the expanding new middle class and their growing purchasing power are among the major factors, which have made India a country of immense possibilities.

India is in a rare Goldilocks phase with low inflation and strong growth, creating a favorable environment for expansion. The RBI has been cautiously cutting rates and ensuring abundant liquidity for borrowers. Previous monetary easing has injected billions into the system. On the regulatory side, banking rules and capital market regulations have been simplified, while the new labor code promises streamlined compliance, making it easier for businesses to invest and hire. India's growth engine is powered by people, technology and innovation. Over 30 million youth have been trained under skilled development programs, while investments in IITs, IIMs, AIMs and billions in R&D corpus are driving human capital and innovation. The Indian startup ecosystem is now the third largest globally, while tourism potentially contributing 10% of GDP and infrastructure projects such as the Urban Challenge Fund are generating jobs. Manufacturing and the automobile sector have also expanded rapidly, with the industry now the third largest globally and a turnover exceeding ₹ 22 billion.

India is a consumption-driven domestic economy and that is a reason why notwithstanding the tariffs that have been imposed by the US, India is on track to maintain its growth momentum. US tariffs have had a very limited impact in terms of growth and that is largely because of the pick-up in consumption as a result of the cut in the GST rates over the months gone by. Again, US tariffs strengthened India’s resolve to maintain its strategic autonomy and diversify its foreign trade. India has opened its economy to several countries via various trade deals. The FTAs signed with EU and UK is in the right direction. Enhanced cooperation with Middle East powers such as UAE, Oman and focusing on BRICS partners and global south - all bodes well for strengthening Indian economy, with or without US tariffs.

However, challenges remain. India is on course to become the world’s third-largest economy within the next few years, but sustaining that rise will depend on how effectively the country raises per capita income and productivity, stated Harvard economist Gita Gopinath at the World Economic Forum (WEF) Annual Meeting 2026 in Davos.

A combination of demographic advantages, intentional government initiatives and a committed focus on innovation and sustainability characterizes the rise of India. India is capitalizing on its youthful population and is well-positioned to navigate the complexities of the global economy, fostering a successful and inclusive future for its citizens, thereby cementing its role as a key player on the global stage.

Strengthening the Architecture of Autonomy

To sustain and enhance its strategic autonomy, India must adopt a multi-dimensional approach.

- Economically, it must continue diversifying its trade and energy partnerships, reducing overdependence on any single source. Initiatives such as Production-Linked Incentive (PLI) schemes and supply chain resilience partnerships can strengthen domestic capabilities.
- In the defense sector, accelerating indigenization and joint production will reduce reliance on imports while enhancing technological sophistication. The expansion of domestic defense manufacturing and exports—already crossing USD 2.5 billion annually—is a step in this direction.
- Diplomatically, India must deepen its engagement with both established and emerging platforms, reinforcing its role as a connector of regions and interests. Its participation in forums such as QUAD, BRICS, IPEF, and SCO should continue to be guided by issue-based priorities rather than bloc politics.
- Finally, India must invest in normative leadership—shaping global discourse on issues such as climate justice, digital governance, and equitable development. By aligning its strategic autonomy with a broader vision of global welfare, India can strengthen its moral and political authority.

We suggest the government of India to emphasize on the following in the current and emerging global geopolitical scenario:

- Not to depart from the Indo- Russia Strategic Cooperation – crude oil, defense, localizing manufacturing across segments such as engineering, shipbuilding, information technology, renewable power, oil processing, metallurgy, and other sectors
- Stress on multipolarity whilst maintaining its strategic autonomy
- Stress on delinking Indian Rupee with US dollar in international transactions
- Focus on digital rupee
- Focus on BRICS inter-currency transaction as proposed by RBI, the Central Bank of India
- Focus on Rupee - Euro conversion in Indo - EU Trade Agreement without US dollar
- Making a robust gold reserve to boost Indian rupee
- Giving incentive to FDI through more benefits such as capital conversion after limited lock-in-period
- Extending sovereign guarantees by GoI for ECB for several other sector, which are currently not covered.

World is showing an unwavering faith in a young republic rooted in an ancient civilization, which was the pivot of global trade and diplomacy in ancient and medieval era. It is time, India, or Bharat, reclaims its civilizational glory and play a major role in the global power play for world peace and sustainable as well as inclusive economic development.

Section 7

INDIA - Peace Harbinger

7. Peace Harbinger - India's Diplomatic Architecture for Conflict Resolution

The term 'harbinger' is carefully chosen. According to Oxford Learner's Dictionary, a harbinger (noun) is a person or thing that signals or shows that something is going to happen soon, often something bad. A harbinger is not merely a bystander who observes what is coming. It is not merely a commentator who describes events accurately. It is the actor who moves ahead of events, who shapes the conditions in which the bad can be mitigated by making peace possible, who creates the channels through which warring parties can eventually communicate and eventually settle.

India's credentials for this role are not rhetorical. They are operational. The question is whether India will exercise them with the urgency, the commitment, and the strategic sophistication that the moment demands. Through this report we discuss

7.1. The Triangulation: India's Unique Strategic Position

India's diplomatic triangulation across Israel, the United States, and Iran is unique in the world. No other country can credibly claim trusted relationships with all three simultaneously. China has deep economic relationships with Iran but is regarded with deep suspicion by Israel and the United States. Russia has historical ties with Iran but is in open conflict with the Western powers supporting the anti-Iran coalition. The European Union has diplomatic relationships with all parties but lacks the strategic credibility to serve as a military-level conciliator in a conflict of this intensity. And the Arab Gulf states - Saudi Arabia, the UAE, Qatar are themselves targets of Iranian retaliation and cannot credibly serve as neutral third parties.

India therefore, alone occupies the triangulated position. And as the Petrodollar Game Matrix demonstrates, the structural logic of the US-Iran conflict is a prisoner's dilemma that cannot be resolved by either party acting alone. The (E,E) outcome - mutual escalation, payoffs of -3 and -4, severe economic losses for both along with an existential crisis for one is the dominant strategy equilibrium when each party pursues its unilateral best response.

Escaping this prisoner's dilemma requires a trusted external actor who can credibly commit both parties to the cooperative (D,D) outcome, payoffs of (3,3), and provide the assurances necessary for that commitment to hold over time. India is the only actor currently positioned to serve this function.

7.2. Three Tracks of Peace Leadership

India's peace initiative must operate on three tracks simultaneously:

- Track 1 (Governmental, Leader-level),
- Track 2 (Institutional and Multi-lateral Level), and
- Track 3 (Economic and Developmental).

This peace initiative must be distinguished from the kind of declaratory peace diplomacy that generates press releases without results.

Track 1 (Governmental, Leader-level)

Track 1 is the personal diplomatic engagement that Prime Minister Narendra Modi is uniquely positioned to provide. The personal relationships he has built with leaders across all parties to this conflict, his description of his relationship with Netanyahu as that of a 'brother', his description of Trump as 'my dear friend', his direct engagement with President Masoud Pezeshkian of Iran through NSA-level and EAM-level channels are the foundation on which a serious peace effort must be built. PM Modi has demonstrated his abilities in the Ukraine context through his 2024 visit to Kyiv, that was praised by the Ukrainian ambassador as 'brave and significant', that he is willing to invest political capital in peace efforts that carry domestic and international risk. The Iran war demands a comparable investment.

The specific elements of a Track 1 initiative should include a formal Indian proposal for a phased ceasefire framework, developed in consultation with all parties; a Modi-convened multilateral summit - potentially under the BRICS Chairship, which India assumed on 1 January 2026; focused on Middle East stabilization; and the explicit use of India's relationships with both Tehran and Jerusalem to establish back-channel communication that does not currently exist between the warring parties. India's 2026 BRICS Chairship theme on Building for Resilience, Innovation, Cooperation and Sustainability provides a natural institutional home for a peace initiative that presents itself not as taking sides but as serving the interests of the global community, particularly the Global South, which is bearing the largest relative burden of the oil shock and trade disruption.

Track 2 (Institutional and Multi-lateral Level)

Track 2 is the multilateral and institutional track. India should use its position in the G20, the BRICS+, the SCO, and the Non-Aligned Movement to build a coalition of countries willing to support an Indian-led diplomatic framework. The arguments for such a coalition are compelling: China needs the Strait of Hormuz reopened for its energy security. Russia needs diplomatic space that the current crisis is consuming. The Gulf states need their infrastructure protected and their economic diversification strategies revived. And the Global South collectively bearing the weight of oil-driven inflation, aviation disruption, trade logistics chaos, and food cost increases, has an overwhelming interest in a settlement. An Indian diplomatic initiative that can articulate this interest and propose a framework for addressing it would be the most consequential multilateral leadership exercise since India's G20 presidency secured African Union membership.

Track 3 (Economic and Developmental)

Track 3 is the economic and developmental track. The economic and developmental track will transform peace from an abstract aspiration into a concrete set of incentives. India's Chabahar Port investment is the anchor of this track. A post-conflict diplomatic settlement that includes provisions for Chabahar's continued operation, potentially under a multilateral framework that gradually eases sanctions pressure and provides Iran with a path toward economic reintegration would give Tehran positive incentives for de-escalation that pure diplomatic pressure cannot provide. The Petrodollar Game Matrix's core insight is that Iran's participation in a cooperative (D,D) equilibrium requires that Iran sees a credible economic benefit from de-escalation. Chabahar and the broader India-Iran economic relationship it represents is the mechanism through which India can make that benefit concrete and credible.

7.3. In Practice: What Immediate Action Looks Like

India's peace harbinger role is not a distant aspiration. It must begin with immediate actions, in the days and weeks ahead, that demonstrate India's seriousness and capitalize on the relationships it has built.

First, India must establish, through NSA and EAM-level channels, a formal communication framework between Tehran and Jerusalem, one that does not publicly acknowledge itself as such, but that creates a structured process through which de-escalation proposals can be tested without the public commitment risks that direct talks would entail. The very recent Oman model in which Muscat's long-standing role as a neutral, trusted interlocutor in West Asia, helped it play a decisive role in conciliating between Iran and the West including the US and indirectly with Israel, to ending the brief but intense 12-Day War between Israel and Iran in June 2025. Muscat therefore acted as a reliable communication channel facilitating indirect Iran-US negotiations, thus helping prevent a broader conflict. The Oman model thus provides a precedent; India can build on it with the specific advantage of its trusted relationships on both sides.

Second, India must engage the United States with a specific diplomatic proposal, not merely a general call for peace. India's leverage with Washington, including its commitment to large-scale US energy and technology purchases under the trade framework, its QUAD partnership, and its explicit recognition by US Ambassador Sergio Gor as a strategic partner in global energy stabilization gives India the standing to propose, rather than merely request. The proposal should center on a phased framework with an initial maritime ceasefire in the Strait of Hormuz, thus, protecting commercial shipping from all non-belligerent nations, followed by a broader ceasefire, and then a structured negotiations on Iran's nuclear programme under a new multilateral framework that addresses the legitimate security concerns of all parties.

Third, India must use its BRICS 2026 Chairship to convene an extraordinary meeting of BRICS and BRICS+ foreign ministers focused specifically on Middle East stabilization and the humanitarian consequences of the Strait of Hormuz closure. The expanded BRICS grouping, now including Egypt, Ethiopia, Iran, Indonesia, and the UAE alongside the original members contains actors from all sides of the conflict and from the most affected third-party economies. A BRICS foreign ministers' meeting that produces a unified call for a ceasefire, backed by a specific Indian peace framework, would carry the multilateral weight that unilateral Indian appeals may not.

India's choice is stark: either watch the region slide towards a wider, longer war, or move first and fast to bend events towards de-escalation. By quietly building an Oman-style backchannel, tabling a concrete peace vehicle in Washington, and rallying an expanded BRICS behind a ceasefire linked to real security guarantees, India can turn its much invoked "strategic autonomy" into visible strategic agency. If New Delhi is willing to spend diplomatic capital now, before the next miscalculation closes the window, it can emerge not merely as a beneficiary of someone else's order, but as one of the few actors capable of reshaping it in favor of restraint, stability, and a fairer peace in the world.

7.4. Conciliating Role: India as the most Trustworthy Partner

The role that we see for India does not merely assert its unique position as a trusted peacemaker in the US-Israel and Iran war. It builds a layered, evidence- based argument for why India is the only actor currently capable of doing so from a position of genuine, tested, multi-directional trust. The argument rests on five interlocking pillars.

Pillar 1: India as an Architect, not a Petitioner

This pillar is all about an open declaration that defines the entire diplomatic posture: "India retains bold transformation instead of passive accommodation to negotiate not as a petitioner, but as an architect of the emerging order."

This distinction is foundational to understanding India's peace initiator credentials. A petitioner asks for access, concessions, and consideration. An architect designs the framework within which others operate. India's conciliating authority derives precisely from the fact that it has never positioned itself as a supplicant in this conflict; not to US, not to Iran, and not to Israel. It has maintained its own position, made its own choices like buying Russian crude when it suited domestic needs; running Operation Sankalp since 2019 instead of joining a US-led coalition, allowing the Indian Navy to protect its own commercial interests without any prior engagement in multilateral military constructs; or engaging Iran's NSA through back-channels while simultaneously being a QUAD partner. India, therefore, arrives at the conciliating table with credibility that no actor who has simply followed another's lead can possess. India can use its global standing as initiator of peace and high -skill in diplomacy to resolve the global tension together with other key players.

A conciliator who owes their position to one of the belligerents is not a conciliator. They are a proxy. India's steady, independent foreign policy, often framed as strategic autonomy or multi-alignment, is a conscious choice to put national interest above rigid bloc politics. Instead of tying itself to any one camp, New Delhi has moved from classic non-alignment during the Cold War to broad-based partnerships in the contemporary era, unsettling Washington at times and frustrating Brussels by refusing to fit inherited geopolitical templates. Yet it is precisely this record of holding an 'India First' line, regardless of pressure, that now underpins India's credibility with all sides fully aware of the fact that even in moments of confrontation, India will act on a consistent logic of its own, making it predictable and a reliable partner across all conflicts.

Pillar 2: Multi-Alignment as the Architecture of Trust

India's shift from traditional non-alignment to what it calls a 'multi-aligned' stance is the structural foundation of India's conciliating or negotiating capacity. Non-alignment, in the Cold War sense, meant equidistance, i.e., staying away from both blocs, maintaining formal neutrality. Multi-alignment is something more active and more sophisticated. It means deepening substantive, working relationships with actors across all divides, simultaneously, and without any justification.

India has deepening strategic ties with the US; is maintaining robust defense cooperation with Russia; is continuing trade with China despite border disputes; and is extending influence through partnerships with ASEAN, Africa, and Latin America. In the specific context of the Iran war, this multi-alignment translates into a triangulation with US, Israel, and Iran, that no other major power can replicate. As US Ambassador Sergio Gor explicitly stated "a great partner in maintaining stable oil prices around the world." Washington needs India's cooperation in the Indo-Pacific in ways that make Indian counsel impossible to ignore. A Special Strategic Partnership with Israel, the sixteen MoUs, and a relationship deep enough that PM Netanyahu has described PM Modi as "more than a friend, a brother." Israel will most certainly hear from India, including some uncomfortable truths, what it will not hear from any other country. Finally, with Iran that has closed the Strait of Hormuz to the world's commercial shipping, extraordinary credentials authorized Indian-flagged LPG tankers to pass under Operation Sankalp with direct warship escorts being allowed for these Indian tankers. A specific sub-plan, Operation Urja Suraksha, was reportedly constituted on 25 March to formalize these energy security escorts. That exception was not granted to China. Not to Russia. Not to any European power. It was granted to India, because Iran recognizes in India a country that has never treated it as an adversary, has maintained Chabahar, has continued the civilizational relationship through every sanction's regime, and has never weaponized the bilateral relationship for third-party purposes.

The essence of this can be captured with a single formulation, "India's position is large enough to disrupt, independent enough to choose, credible enough to attract, but gives it real cards to play." Those are not just economic cards. They are diplomatic cards of the highest denomination, built over decades of consistent, principled multi-engagement.

Pillar 3: Demonstrated Performance, Not Mere Posture

The argument for India as a trustworthy partner is grounded not in declarations but in demonstrated behavior across prior crises. This is critical to the conciliating role, because trust is not built by saying the right things. It is built by doing them, consistently, under pressure, when it would have been easier or more profitable to do otherwise.

The most powerful example being India's role during the Russia-Ukraine war. When the Western world expected India to boycott Russian crude oil to choke the Russian economy, India refused. When some estimates suggested that oil would hit US$ 200 per barrel with the real threat of collapsed transport logistics, and triggered food inflation globally, India stepped in like a savior, buying Russian crude at US$ 20-30 below market price, absorbing the political cost of Western displeasure, which blamed India for funding the Russian war machine, and then doing something even more consequential: refining that crude at facilities like Reliance in Jamnagar into high-quality petrol and diesel and exporting it globally. India did not merely protect its own energy security. It stabilized global oil prices for everyone including the Western allies who were pressuring it to stop.

US Ambassador Gor's acknowledgment: "India has been a great partner in maintaining stable oil prices around the world. The United States recognizes ongoing purchases of Russian oil are a part of this effort." This is Washington explicitly validating India's independent energy policy as a global public good precisely because India acted from its own judgment rather than following instructions.

This pattern of acting with sovereign independence, for principled reasons, in ways that ultimately benefit the global system is the behavioral foundation of trustworthiness. A negotiator must be trusted not just because they say they are neutral, but because their track record shows they act in the interests of stability and the common good rather than in the narrow interest of any single patron. India has built exactly this track record.

Pillar 4: The Strength of Overt and Covert Multi-Track Diplomacy

India's diplomatic methodology is based on operating across both overt and covert channels, maintaining engagement simultaneously in the G20, BRICS, and the Quad, and this multi-track capacity is precisely what makes India an effective rather than merely aspirational conciliator.

Conciliation in a conflict as complex and pride-laden as the US-Israel and Iran war cannot happen entirely in public. Public diplomacy, formal statements, UN speeches, press conferences, all of these play a role in establishing the legitimacy of the process and mobilizing multilateral support. However, the real work of finding a ceasefire framework, testing the terms of each side's minimum acceptable outcome, and creating the conditions under which leaders can make concessions without appearing to capitulate to pressure are the real work that happens in back-channels. India has demonstrated, through NSA Ajit Doval's reported engagements, through External Affairs Minister, Dr. Jaishankar's conversations with Iranian Foreign Minister Abbas Araghchi, and through the quiet diplomacy that secured Iran's exception for Indian tankers, that it can operate effectively on this covert track.

The defining moment that captures India's negotiating posture that India was willing to navigate an entire US presidential term to secure equitable terms unambiguously tells the strategic clarity with which India operates. Great negotiations are executed on clarity of conviction. When timelines do not intimidate, pressure loses its edge. India acting as a conciliator today, cannot be rushed, bullied, or financially coerced into abandoning the process, which India does not feel is in the best interest of the nation and the globe. A conciliator whose conviction is unshakeable, whose credibility with all parties' rests precisely on the fact that they cannot be pushed around by any of them, India, has demonstrated willingness to absorb pressure from the world's most powerful economy without capitulating is the proof, not just the claim, of that unshakeable conviction.

Pillar 5: The Moral Legitimacy

The final, and perhaps most underappreciated, dimension of India's conciliating or negotiating authority is not because India is a large economy with good bilateral relationships. Rather, it is because, India is the self-appointed and internationally recognized champion of the Global South, of the 54 nations whose African Union membership India secured at the G20; of the developing countries whose voices are amplified through India's Voice of the Global South summits; of the billions of people across Asia, Africa, and Latin America who are bearing the heaviest burden of the oil shock, the trade disruption, and the inflationary consequences of a war they had no part in starting.

This gives India a moral authority in the current conflict that the belligerent powers entirely lack. The US and Israel, as the attacking parties, cannot credibly claim to speak for the global interest. Iran, as the country that has closed the world's most critical oil transit waterway, cannot credibly claim to speak for global economic stability. But India having absorbed the costs of the Strait's closure, mobilized its navy to protect its own shipping, maintained its diplomatic channels with all parties, and consistently argued for a multipolar, representative global order, can credibly claim to speak for the world beyond the combatants. The vision is explicitly clear. India is not just reacting to a splintered world but actively sculpting it into a balanced, open, and innovative order. In the specific context of the Iran war, this means India's peace initiative carries a legitimacy that no bilateral diplomatic effort by any of the parties could carry. When India calls for a ceasefire, it does so as the voice of more than 1.4 billion citizens, of 54 African nations, of the Indo-Pacific economies choking on US$ 100 crude, of the 9.1 million Indian workers in Gulf states caught between warring powers. That is not merely diplomatic weight. It is moral authority, the kind that cannot be manufactured or purchased, only earned through consistent, principled engagement over time.

7.5. Why Trust, therefore, is the Precondition for Peace?

Converging on a single insight that is worth stating in unambiguous terms is that in the US-Israel and Iran war, the absence of a trusted third-party conciliator is itself the reason the conflict has no exit ramp. The Petrodollar Game Matrix, which frames the conflict as a prisoner's dilemma, makes this structurally clear. Both the United States (with Israel) and Iran are locked in a (E,E) mutual escalation equilibrium that produces the worst collective outcome payoffs of -3 and -4, severe losses on both sides even though both would be better off in the cooperative (D,D) outcome of mutual de-escalation. They cannot escape this trap unilaterally, because unilateral de-escalation is even worse for the de-escalating party than mutual escalation. They can only escape it together, coordinated by a third party that each side trusts sufficiently to believe the other will actually hold to a deal.

India is ideally poised to be that third party. Not because it declared itself so, but because it built itself into that role through decades of multi-aligned diplomacy, through the practical proof of Operation Sankalp, through moral authority, through the unshakeable conviction through the Wait Out doctrine, and through the civilizational wisdom of *Vasudhaiva Kutumbakam* the understanding, deeper than any game theory, that the world is one family, and that a family tearing itself apart does not need a judge, it needs a trusted elder who has the credibility, the relationships, and the courage to sit down with all parties and find the way back.

That is India's role in this war. And with evidence, with logic, and with the full force of India's demonstrated record, that it is a role no other country currently on Earth is positioned to play.

Section 8
Conclusion: This is India's Moment

8. Conclusion: This is India's Moment

This study highlights how the world has been shaken up by two major crises - the Trump Tariff offensive and the US-Israel and Iran War, and a third vital element, the Petrodollar Game Matrix. Collectively, this is the most detailed analytical documentation of the current global crises compiled by a global research and consulting firm. The study provides the evidentiary foundation for an argument that is bold, but not speculative. It is grounded in data, in diplomatic history, and in the game-theoretic logic of the world's most dangerous current conflict.

The world of 2025-2026 is a BANI world. Brittle systems break under stress. Anxious leaders make anxious, fear-driven decisions. Incomprehensibility of interactions that defeats the analytical frameworks of even the most powerful governments, with small events triggering large effects. It is difficult to tell if any one grasps the full picture under these situations. Power follows different rules here. Trust matters more. Reach matters more. Clear goals matter more. In this world, the actors who matter most are not necessarily the largest or the most heavily armed. They are the actors who have the widest networks of trusted relationships, the clearest sense of their own interests and values, and the imagination to see possibilities that others, trapped in adversarial frameworks, cannot perceive.

India has all three of these qualities.

a. It has the **network** – Israel, the United States, Iran, Russia, China, the Global South. India also has strong relationship of mutual trust with most of the GCC countries. This network makes India the world's most connected diplomatic node.
b. It has the **clarity of interest**. Energy security, trade diversification, diaspora protection, strategic autonomy, manufacturing leadership, all of these makes India’s objectives comprehensible and its commitments credible.
c. And it has, in the ***Vasudhaiva Kutumbakam*** tradition, the imagination to see the world as a family that can, and must, be brought back from the brink.

That these three qualities are not merely aspirational claims but documented, operational realities are precisely what distinguishes this study from the category of wishful thinking reports. Considering what India has actually demonstrated over the twelve months that this study documents. When the Trump administration imposed 50% tariffs and threatened 500% duties to coerce India into abandoning its energy policy, neither did India capitulate, nor did it confront. It negotiated, with unshakeable conviction, from a position of strategic self-knowledge.

India’s National Security Advisor, Ajit Doval's reported declaration that India was prepared to navigate an entire US presidential term for equitable terms was not defiance for its own sake. It was a statement of economic reality. The macroeconomic logic of India's energy policy was simply unalterable by tariff pressure.

India absorbed the pain, diversified its trade relationships with speed and precision, concluded the India-UK FTA in July 2025, the India-EFTA TEPA in October 2025, attracted US$ 51 billion in FDI in just the second half of 2025, and emerged from the tariff crisis not weakened but, strategically rebalanced - with the US share of India's exports declining from 22.5% in the pre-tariff period to 17.8% in the post-tariff phase, while markets in the UAE, China, Saudi Arabia, Spain, and Hong Kong recorded notable gains. When pressure was applied, India did not fracture. It adapted, innovated, and expanded. That is not the behavior of a brittle system. That is the behavior of a civilizational state with deep institutional roots and unshakeable strategic conviction.

The Petrodollar Game Matrix at the heart of this report provides the analytical framework for understanding why India's role is not merely desirable but structurally necessary. The US-Iran conflict is a classic prisoner's dilemma: both parties in mutual escalation (E,E) outcome, face payoffs of (-3, -4), representing severe economic losses, oil shock, global trade disruption, and massive military expenditure on both sides, along with deeper Iranian economic isolation and accelerating US de-dollarization risk. The collectively optimal outcome of mutual de-escalation (D,D) with payoffs of (3,3) requires stable oil markets, reduced sanctions, resumed trade and investment, and crucially, a trusted third party to coordinate the transition from one equilibrium to the other. The game matrix is explicit on this point. Third-party economies such as India, the EU, and China suffer as negative externalities even though they are not players in the game. But the matrix's deeper insight is that India is uniquely positioned to convert its role from passive victim of this negative externality into the active architect of the (D,D) solution. As the matrix notes, repeated game dynamics mean that if interactions continue over time, both sides may gradually move toward cooperative equilibrium. However, that will be possible only if a credible, trusted intermediary can sustain that trajectory against the constant pull of mutual suspicion. India is that intermediary.

The evidence for this claim is not theoretical. It is operational. When Iran effectively closed the Strait of Hormuz to the world's commercial fleet, disrupting 20% of global oil supply and 80% of India's energy imports, and leaving over 100 ships stranded in the Gulf, it made one exception. Under Operation Sankalp, with the Indian Navy providing escort and Indian diplomacy providing the political bridge, Iran allowed Indian-flagged LPG tankers to pass, based on trust that not many other nation's relationship with Tehran currently possesses. Iran making a sovereign exception to its blockade for India, is powerful evidence of India being the world's indispensable peacemaker. It is not a diplomatic signal. It is proof of relationship capital that no other power can replicate.

This study is also, therefore, a record of India's economic strengths, and those strengths matter as much as India's diplomatic credentials, because durable peace is built not on the moments' negotiations alone but on the economic architecture of incentives that make peace more rewarding than conflict. India is the world' s fourth- largest economy, and the world' s largest consumer of data, operating the world's number one real-time digital payment platform in UPI. It is the third-largest AI power by Stanford's assessment, with a dedicated ₹ 103 billion India AI Mission. It is the 'Pharmacy of th e World', contributing 60%of global vaccine supply, with pharmaceutical exports reaching 200 markets. Israel and Europe are actively seeking India to be a partner as the world's large- scale weapons production base for the wars of the 21st century. India has overtaken most nations to become the third- largest military power in 2025, and Operation Sindoor demonstrated indigenous weapons and anti- drone capabilities that have drawn serious attention from allies across the globe. These are not the metrics of a country that needs to be invited to the table. They are the metrics of a country that has earned the right, and carries the obligation, to shape the table itself.

India's BRICS 2026 Chairship - launched under the deliberate theme of Building for Resilience, Innovation, Cooperation and Sustainability - provides the institutional platform precisely suited to this moment. With EAM S. Jaishankar outlining four priorities - strengthening institutions to handle global shocks, leveraging digital public infrastructure to reach underserved populations, fair energy transitions respecting national circumstances, and enhanced cooperation across security and trade - India's Chairship agenda maps directly onto every dimension of the current crisis. BRICS now includes Iran as a full member and the UAE as a partner, meaning India presides over a grouping that contains warring parties and the most economically affected regional actors. No other institutional framework available to any world leader today contains within its membership the combination of US allies, Iran, Gulf states, and Global South representatives that BRICS+ does. India's 2026 Chairship is a structural opportunity to host the multilateral conversation that could produce a ceasefire framework, if India chooses to use that platform with the urgency and ambition that the moment demands.

The testimony of international voices - voices not of Indian origin, and therefore not subject to the suspicion of self-serving advocacy corroborates our argument in favor of India. Ukraine's Ambassador to India, Dr. Oleksandr Polishchuk, lauded Prime Minister Modi as a "global leader" at the Vibrant Gujarat Regional Conference in January 2026, specifically crediting India's balanced diplomacy with having "earned worldwide trust" and referencing Prime Minister Modi's landmark 2024 visit to Kyiv as a "brave and significant signal" of India's commitment to a just peace. He extended an explicit invitation for Indian companies to participate in Ukraine's post-war reconstruction - a recognition that India's credibility extends not merely to the moment of crisis but to the architecture of the aftermath.

The World Bank's January 2026 Global Economic Prospects report described India as "a key driver of global growth" even as the global economy slowed to 2.6% - a recognition that India's domestic resilience, with GDP growth forecast between 6.6% and 7.4%, represents an anchor of economic stability in a destabilized world. And as Prime Minister Modi himself stated at the Vibrant Gujarat inaugurations, "amid great global uncertainty, India is witnessing an era of unprecedented certainty," powered by the mantra of reform, perform, and transform, and by the expanding new middle class whose growing purchasing power makes India a country of immense possibilities. These are the words of a civilizational power stepping forward.

The Ukrainian ambassador's description of Modi as a Global Leader, the US Ambassador's praise of India as a great partner in global stability, the Iranian government's decision to allow Indian tankers through the Strait of Hormuz - these are not mere diplomatic courtesies. They are invitations. The world is not simply calling India a beacon of hope. It is asking India to lead.

In a striking global endorsement, a former US defence advisor has declared that if anyone can influence Donald Trump right now… it is Narendra Modi. Amid the raging West Asia conflict, retired US Colonel Douglas Macgregor dismissed Pakistan's mediation ambitions as "ludicrous nonsense," questioning its credibility on the global stage. Instead, he pointed to India as the only country with the trust and stature to engage all sides — from Washington to Tehran to Tel Aviv.

And yet this is the most important single observation this conclusion can make - *the window will not remain open indefinitely*. The Petrodollar Game Matrix's insight about repeated game dynamics that sustained interaction can gradually move both parties toward cooperative equilibrium depends critically on a trusted intermediary entering the process before the mutual escalation becomes irreversible, before the casualties accumulate to a level that makes any Iranian leader who accepts peace look like a traitor, before the US finds itself so politically committed to a military outcome that de-escalation becomes domestically impossible. Energy expert Boyan Rashev's warning that *"Two more weeks of the Hormuz Strait blockade will push oil prices up to 160 dollars per barrel and keep prices high until the end of the year. ... A two-month blockade will lead to a genuine global fuel shortage, as many countries will simply halt exports and hold everything back for domestic consumption. Those without their own oil wells or refineries would suffer greatly. After three months we'd see a severe global recession, coupled with high inflation, as the commercial and government reserves of most importing countries would be practically depleted. Beyond three months we'll be facing a scenario like the next instalment of Mad Max."* indicates at a clock ticking. The World Bank's warning that the 2020s are on track to be the weakest decade for global growth since the 1960s, too weak to avert stagnation and joblessness in emerging market and developing countries, is not merely an economic forecast. It is a forecast of the social instability, the political radicalization, and the further erosion of the multilateral order that unchecked conflict will produce.

India retains bold transformation instead of passive accommodation, to negotiate as an architect of the emerging order. The question, as we have unambiguously stated, is no longer what power allows. It is what imagination demands.

The world is showing, an unwavering faith in a young republic rooted in an ancient civilization, which was the pivot of global trade in ancient and medieval era. That ancient civilization understood something that the BANI world is relearning with great pain. That the world is most stable, most prosperous, and most humane not when one power dominates, but when a trusted, principled, multi-aligned actor ensures that no party's legitimate interests are entirely sacrificed to any other. India was that actor in another era. It was the crossroads through which the Silk Road and Spice Route's goods, ideas, culture and people moved. It was the civilization whose traders, scholars, and diplomats were welcomed in courts from Dilmun to Alexandria to Rome to Kaifeng to Sumatra because they came not to conquer, but to connect.

The answer to the challenges the world faces today, the answer that this study, this moment, and this era demands is that India must step forward, with all its relationships, all its resilience, and all its civilizational wisdom, as the world's true harbinger of peace. It must do so not merely because it is strategically advantageous, not merely because it is economically rational, but because it is the right thing to do, and because India, more than any other country today, carries within it the philosophical tradition, the diplomatic record, and the human capacity to know the difference between power exercised for domination and power exercised for peace.

History remembers those who acted when it mattered. It forgets those who waited for the perfect moment that never came.

The world is looking at India to lead.
And, India must lead. Now.

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