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The Impact of Trade Disputes on the Indian Economy

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Abstract:* This paper examines the multifaceted impact of ongoing major trade disputes on the Indian economy. In an era of rising protectionism and redefined global alliances, India has found itself engaged in significant trade conflicts, notably with the United States and China. The research analyzes the direct effects, such as tariffs on key export sectors like steel, aluminum, and agricultural products, and the indirect consequences, including supply chain disruptions, investment uncertainty, and inflationary pressures. It also explores India's strategic responses, including tariff retaliation, diversification of trade partners through agreements like the India-UAE CEPA, and the push for self-reliance (Atmanirbhar Bharat). The paper concludes that while trade disputes pose significant short-term challenges to growth and stability, they also present a strategic imperative for India to deepen its domestic manufacturing base and integrate more deeply with alternative global value chains.
Keywords: Trade Disputes, Indian Economy, Tariffs, WTO, Geopolitics, Atmanirbhar Bharat, Supply Chains, US-India Trade, China-India Trade.

I. INTRODUCTION

The global trading system, since 2018, has been characterized by a shift from multilateralism to bilateralism and aggressive protectionism, epitomized by the US-China trade war. India, as an emerging economic power with deep integrations in the global economy, has been significantly affected by this trend. In essence, India's trade disputes highlight its difficult balancing act: using protectionist tools to build domestic capacity and ensure socio-economic stability, while navigating pressures from developed economies to open its large market and adhere to existing global trade rules.

A. Statement of Problem

India is concurrently engaged in complex trade disputes with major partners. These disputes are not merely about tariffs but involve deeper issues like digital trade, intellectual property, and agricultural subsidies, creating systemic risks for the Indian economy.

B. Objectives of the Study

1) To identify and analyze the major ongoing trade disputes involving India.
2) To quantify and qualify the economic impact on key sectors.
3) To evaluate the efficacy of India's policy responses.
4) To provide a forward-looking perspective on India's position in global trade.

C. Scope and Limitations

The study will focus primarily on the period from 2018 to the present. Key case studies will be disputes with the US and China. Limitations include data lag, the difficulty in isolating the impact of trade disputes from other shocks (e.g., COVID-19, global recession), and the qualitative nature of some strategic impacts.

II. LITERATURE REVIEW

Theoretical Framework: Review theories of international trade (Ricardian and Heckscher-Ohlin models) and modern trade theory that accounts for imperfect competition, economies of scale, and global value chains. Discuss the political economy of protectionism.

A. Empirical Studies on Trade Disputes

1) Summarize global research on the impact of the US-China trade war, highlighting spillover effects on third countries like India.
2) Review existing literature on specific India-US disputes (e.g., on solar panels, medical devices, and the Generalized System of Preferences - GSP).
3) Examine studies on the India-China border tensions and their economic fallout.

B. *Identification of Research Gap*

While many studies exist on individual disputes, there is a need for a comprehensive analysis that synthesizes the cumulative impact of multiple, concurrent trade conflicts on the Indian macroeconomy and its strategic policy shift.

III. MAJOR TRADE DISPUTES INVOLVING INDIA: A CASE STUDY APPROACH

Of course, India is actively engaged in several significant trade disputes, reflecting its growing economic footprint, protectionist policies, and strategic economic recalibration. Here are the key disputes and their primary causes:

A. *The India-United States Trade Dispute*

➢ Digital Services Taxes (DST)

Dispute: The US challenged India's 2% Equalisation Levy on non-resident e-commerce operators, claiming it discriminates against US tech giants (like Google, Amazon, Facebook).

Cause: The global struggle to tax digital giants effectively. India implemented the levy as a unilateral measure, arguing that existing international tax rules (designed for physical presence) don't capture value created in digital markets. The US sees it as discriminatory and a burden on its companies.

➢ Steel and Aluminum Tariffs

Dispute: The US imposed tariffs (25% on steel, 10% on aluminum) on national security grounds (Section 232) in 2018. India retaliated with tariffs on US products like almonds, apples, and walnuts. A temporary truce was reached in 2023.

Cause: US efforts to protect its domestic metal industry and reduce trade deficits. India viewed the "national security" rationale as inappropriate and sought to protect its export interests.

➢ Poultry and Agricultural Products

Dispute: A long-standing WTO case where India banned US poultry imports citing Avian Influenza (bird flu) concerns. The US argued the ban was not scientifically justified and was protectionist.

Cause: Clash between India's use of sanitary and phytosanitary (SPS) measures to protect its vast, vulnerable poultry sector and US demands for market access based on international scientific standards.

➢ Solar Cells (Domestic Content Requirement)

Dispute: The US successfully challenged India's "Jawaharlal Nehru National Solar Mission," which required solar power developers to use Indian-made cells and modules.

Cause: India's push for import substitution and self-reliance ("Atmanirbhar Bharat") in a critical renewable energy sector, clashing with global trade rules that prohibit local content requirements.

Section 232 Tariffs: US tariffs on Indian steel (25%) and aluminum (10%). Impact on Indian exports.

Retaliatory Tariffs: India's response on US agricultural products (e.g., apples, almonds) and other goods.

GSP Withdrawal (2019): Analysis of its impact on over 1,900 Indian products, from textiles to engineering goods.

Digital Service Tax (DST) and IPR Issues: A new frontier in the dispute.

B. *With the European Union (EU)*

➢ ICT Tariffs

Dispute: The EU challenged India's tariffs (up to 20%) on information and communication technology (ICT) products like mobile phones, components, and integrated circuits at the WTO.

Cause: India argues these tariffs are for revenue generation and to boost domestic electronics manufacturing ("Make in India"). The EU contends India is violating its WTO commitment under the Information Technology Agreement (ITA-1) to keep these imports duty-free.

➢ India-EU FTA Stalemate

Dispute: While not a legal dispute, the collapse of Broad-Based Trade and Investment Agreement (BTIA) negotiations is a major trade friction.

Causes: Sticking points include automotive tariffs, data localization rules, geographical indications (GIs) for food products (like cheese names), and EU demands for steep cuts in Indian duties on wines and spirits. India seeks greater services market access and "data secure" status for its IT sector.

C. At the World Trade Organization (WTO) - Multilateral

Agricultural Subsidies: Long-standing disputes with the US and others over India's public stockholding programs and food security.
Sugar Subsidies: Recent panel rulings against India's sugar subsidies.

- Public Stockholding for Food Security

Dispute: India, along with other developing nations, demands a permanent solution to the issue of farm subsidy caps. Its massive food procurement and distribution system (for crops like rice and wheat) breaches the agreed limit (10% of production value) on trade-distorting subsidies.
Cause: A fundamental conflict between WTO rules designed in the 1990s and the food security needs of large developing nations. Developed countries (like the US, EU) argue India's stockpiling depresses global prices and hurts their farmers. This is a defining issue for India in global trade talks.

- Fisheries Subsidies

Dispute: India has been a key negotiator, insisting on special and differential treatment for its small-scale, artisanal fishers and a longer transition period to curb subsidies that contribute to overfishing.
Cause: India's stance is driven by the need to protect the livelihoods of millions of poor fishermen, while developed nations with distant-water fleets push for stricter disciplines. India also demands that countries with large historical fishing fleets take greater responsibility.

D. With Other Countries

- UK - Scotch Whisky Tariffs

Dispute: India imposed high tariffs (up to 150%) on imported spirits, a major barrier for Scotch Whisky.
Cause: Revenue and protectionism. High duties protect the domestic spirits industry and generate significant tax revenue. This is a central issue in ongoing India-UK FTA negotiations.

- China - Border Tensions & Trade Imbalance

Dispute: Not a formal legal case, but India has imposed non-tariff barriers (e.g., stringent quality checks, delayed clearances) and bans on hundreds of Chinese apps (like TikTok, WeChat).
Cause: A massive trade deficit with China (over $100 billion), national security concerns following the 2020 border clash, and a strategic push to reduce dependency on Chinese imports, especially in critical sectors like electronics and telecom.

E. The India-China Trade and Geopolitical Conflict:

- Border Clashes (Galwan, 2020): How geopolitical tensions translated into economic policy.
- Trade Deficit: Analysis of India's massive and persistent trade deficit with China.
- Policy Responses: Bans on Chinese apps (e.g., TikTok, PUBG), increased scrutiny of FDI, and production-linked incentive (PLI) schemes to reduce dependency on Chinese imports (e.g., in electronics, APIs for pharmaceuticals).

IV. ECONOMIC IMPACT ANALYSIS

The economic impact of India's ongoing trade disputes is multifaceted, affecting GDP, specific sectors, employment, and inflation through both direct and indirect channels. The effects are a mix of short-term costs and longer-term strategic recalibrations.
The direct and indirect impacts:

A. Impact on GDP

- Direct Impact (Negative/Drag):

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Export Contraction: Tariffs and market access barriers (e.g., US steel/aluminum duties, EU's CBAM, UK's whisky tariffs) directly reduce export volumes and value in affected sectors, subtracting from GDP growth calculated via the expenditure method (Net Exports = Exports - Imports).
Retaliation Costs: India's own retaliatory tariffs on products like apples, walnuts, and ICT goods can increase input costs for downstream industries, potentially reducing their output and competitiveness.

- Indirect Impact (Mixed):

Investment Chill: Protracted disputes, especially with major partners like the US and EU, can create policy uncertainty, delaying or deterring Foreign Direct Investment (FDI) in manufacturing and tech sectors, impacting long-term GDP potential.
Import Substitution ("Atmanirbhar Bharat"): A key indirect goal. While disputes often arise from protectionist policies, these same policies aim to boost domestic manufacturing (e.g., in electronics, solar modules, defense). If successful, this can increase GDP through higher domestic investment and industrial output, partially offsetting trade losses. However, the transition is costly and inefficient in the short term.

B. *Impact on Sectoral Growth*

- Direct & Sector-Specific Impacts:

Technology & E-commerce: US/EU disputes over digital taxes and data localization increase compliance costs and operational complexity for tech MNCs, potentially slowing sector growth. Indian IT services firms may face higher barriers in key markets.
Heavy Industry (Steel, Aluminum, Cement): The EU's CBAM is a direct threat. It imposes a significant cost on carbon-intensive exports, eroding the price competitiveness of a core industrial sector unless expensive green transitions are undertaken.
Agriculture: The WTO public stockholding dispute creates policy uncertainty. If India's subsidies are successfully challenged, it could force a restructuring of the MSP (Minimum Support Price) system, impacting farmer incomes and agricultural investment. Export bans (like on wheat, rice) used to control domestic inflation also hurt sectoral export growth.
Renewable Energy: Disputes over solar cell tariffs aim to protect domestic manufacturers but raise costs for solar project developers, potentially slowing the rollout of renewable capacity.

C. *Impact on Employment*

- Direct Impact (Negative in Exposed Sectors):

Export-Oriented Manufacturing: Job losses or stagnation are likely in sectors facing export headwinds—e.g., steel, aluminum, textiles, and seafood processing—due to tariffs and CBAM.
Fisheries and Agriculture: Stricter global fisheries subsidy rules could limit government support to small-scale fishers, affecting coastal livelihoods. Agricultural trade volatility impacts farm labor demand.

- Indirect & Long-Term Impact (Mixed):

Import-Substitution Jobs: Policies driving self-reliance could create jobs in protected domestic industries (e.g., electronics assembly, chemical manufacturing) over time.
Formal vs. Informal: Most trade-dispute-affected jobs are in the formal, organized sector (manufacturing, IT). The vast informal sector is impacted more indirectly via inflation and changes in input costs (e.g., higher priced Chinese components for small retailers).

D. *Impact on Inflation*

- Direct Impact (Upward Pressure):

Cost-Push Inflation: Retaliatory tariffs on critical imports (e.g., US apples, pulses, certain electronics components) make them more expensive for Indian consumers and industries.
Supply Chain Disruptions: Non-tariff barriers on Chinese imports (quality checks, bans) can disrupt supply chains for electronics, APIs (Active Pharmaceutical Ingredients), and auto parts, leading to shortages and price rises.

- Indirect Impact (Mixed/Controlled):

Protection as a Tool: Tariffs on imported goods (e.g., mobile phones, toys) are designed to shield domestic producers from competition, which can keep prices stable for their goods but may reduce quality/choice.

Food Security vs. Global Prices: India's agricultural policies (bans, subsidies) prioritize domestic food price stability. While this controls inflation, it often comes at the cost of farmers' potential export earnings and can exacerbate global price volatility.

V. THE NET ECONOMIC EFFECT

The overall impact is a complex trade-off:

1) Short-Term Cost: There are clear direct costs—reduced export earnings, higher import costs, sectoral disruptions, and inflationary pressures—which act as a drag on GDP and employment in specific, trade-exposed sectors.
2) Long-Term Strategic Gambit: The government views these costs as an investment in strategic autonomy. The indirect aim is to reshape the economy by:

- Forcing industrial upgrading (e.g., greening steel for CBAM compliance).
- Building resilient domestic supply chains less vulnerable to global shocks.
- Strengthening bargaining position in future FTAs.
- Securing policy space for welfare and development objectives (food, fisheries subsidies).

VI. INDIA'S STRATEGIC RESPONSE AND POLICY ADAPTATION

The Indian government's strategic response to trade disputes has evolved into a multi-pronged, proactive framework that blends defensive legal tactics with assertive diplomacy and long-term domestic restructuring. Here's a breakdown of the key strategic responses:

A. *Legal & Institutional Responses (Defensive & Offensive)*

★ Aggressive Litigation at WTO: India actively uses the WTO's dispute settlement mechanism, both as a respondent and a complainant. It has built significant legal capacity to defend its subsidy programs (like public stockholding) and challenge measures it deems unfair (e.g., US steel tariffs, EU's carbon tax/CBAM).

★ Utilization of "Peace Clauses": For its food security programs, India strategically invokes the WTO's peace clause to legally shield its Minimum Support Price (MSP) operations from challenge while buying time to negotiate a permanent solution.

★ Domestic Legislative Shields: Enacting laws like the "India-made" public procurement policies and Quality Control Orders (QCOs) for imports. While framed as quality/safety measures, they act as non-tariff barriers to protect domestic industry from cheaper imports (notably from China).

B. *Domestic Policy & Industrial Restructuring (The Core Long-Term Strategy)*

★ Atmanirbhar Bharat (Self-Reliant India): This is the overarching doctrine. The goal is to reduce import dependency in critical sectors (electronics, APIs, defense, energy) through:

★ Production Linked Incentive (PLI) Schemes: Offering massive financial incentives to attract global and domestic firms to manufacture in India (for sectors like semiconductors, solar modules, electronics, textiles).

★ Phased Manufacturing Programs (PMPs): Used in sectors like mobile phones to mandate increasing local value addition over time.

★ Green Strategic Alignment: In response to the EU's CBAM, the government is accelerating its National Green Hydrogen Mission and promoting green steel initiatives. The aim is to decarbonize exports to maintain market access, turning a trade barrier into a driver for green industrial policy.

★ Digital Sovereignty Framework: Pushing forward with the Digital Personal Data Protection Act, IT rules, and promoting an indigenous digital stack (UPI, ONDC). This establishes India's own regulatory standards for the digital economy, challenging the dominant US/EU models.

C. *Diplomatic & Negotiation Strategies*

★ Coalition-Building at the WTO: India leads the Global South bloc on issues like agriculture (public stockholding) and fisheries subsidies. It partners with countries in Africa and Asia to present a united front against developed nations' demands, increasing its bargaining power.

★ Revival of FTA Negotiations with a New Template: After a long hiatus, India is aggressively pursuing FTAs with the UK, EU, GCC, and others. The new template focuses on:

★ Access for Services & Professionals: Demanding easier visas for Indian skilled workers (Mode 4).

- ★ Balanced Agreements: Resisting demands that hurt domestic agriculture (dairy, wheat) or manufacturing (automobiles) without commensurate gains.
- ★ Issue-Based Alliances: Engaging in minilateral forums like the Quad (with US, Japan, Australia) on supply chain resilience to reduce dependency on China, and the IPEF (Indo-Pacific Economic Framework) to shape new rules on trade, clean economy, and supply chains.

D. Trade Diversification & Supply Chain Resilience

- ★ "China +1" Policy Push: Actively encouraging companies to diversify supply chains away from China by offering PLI incentives and improving infrastructure. Trade disputes with China are met not just with tariffs but with strategic bans on apps and restrictions on investment.
- ★ Exploring New Markets: Actively promoting exports and signing trade agreements with regions like Latin America, Africa, and the CIS countries to reduce over-reliance on traditional Western markets.

E. Strategic Retaliation & Calibrated Escalation

- ★ Mirror Measures: India has not hesitated to impose retaliatory tariffs (e.g., on US products in response to steel tariffs) as a tool of credible deterrence and to signal it will not concede unilaterally.
- ★ Diplomatic Leverage: Using its large and growing consumer market as leverage in negotiations. Foreign companies and governments are keen to access the Indian market, which gives India significant negotiating capital.

VII. SYNTHESIS: THE GRAND STRATEGY

The Indian government's approach is not merely reactive but is part of a grand strategy of "strategic autonomy." It accepts short-term friction and litigation costs as a necessary price for:

1) Securing Policy Space: To subsidize farmers, fisherfolk, and nascent industries.
   Building Domestic Capacity: Using protection and incentives to create a competitive manufacturing base.
2) Positioning as a Rule-Shaper: Moving from a passive rule-taker to an active participant in shaping new global rules on digital trade, climate, and subsidies.
3) Managing Geopolitical Rivalry: Using trade tools to reduce strategic dependencies, particularly with China, and align more closely with partners where interests converge.

In essence, India's strategy is to balance integration with insulation—engaging deeply with the global economy on its own terms while building domestic resilience to withstand external shocks and disputes. The success of this strategy hinges on the effective implementation of domestic reforms and the ability to attract global capital and technology into its new industrial framework.

VIII. FINDINGS AND DISCUSSION

1) Synthesis of the analysis showing that trade disputes have been a net negative in the short run, creating headwinds for export-led growth.
2) Discussion on how these disputes have acted as a catalyst for much-needed structural reforms and a strategic rethinking of India's economic policy.
3) The paradox of pursuing self-reliance while seeking deeper integration into global trade networks.

IX. CONCLUSION

The disputes are not merely economic friction but are intrinsic to India's chosen development path. The net effect on GDP growth is marginally negative in the short run due to trade and investment friction. However, the government anticipates that the long-term benefits of a more self-reliant, vertically integrated, and strategically independent economy will outweigh these initial costs. Success hinges entirely on the effective implementation of domestic industrial and agricultural reforms to boost productivity and competitiveness.

Trade disputes represent a significant challenge but also a critical inflection point. India's ability to navigate this complex landscape will be a key determinant of its ambition to become a $5 trillion economy and a global manufacturing hub. The future lies in strategic integration, not isolation.

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A. Recommendations

1) For the Government of India: Accelerate FTA negotiations, focus on easing doing business to attract supply chain shifts, and ensure that self-reliance does not morph into isolationist protectionism.
2) For Indian Industry: Enhance competitiveness and quality to reduce reliance on policy support, and actively explore new export markets.
3) At the WTO: Continue to advocate for the interests of developing nations while engaging constructively to resolve disputes.

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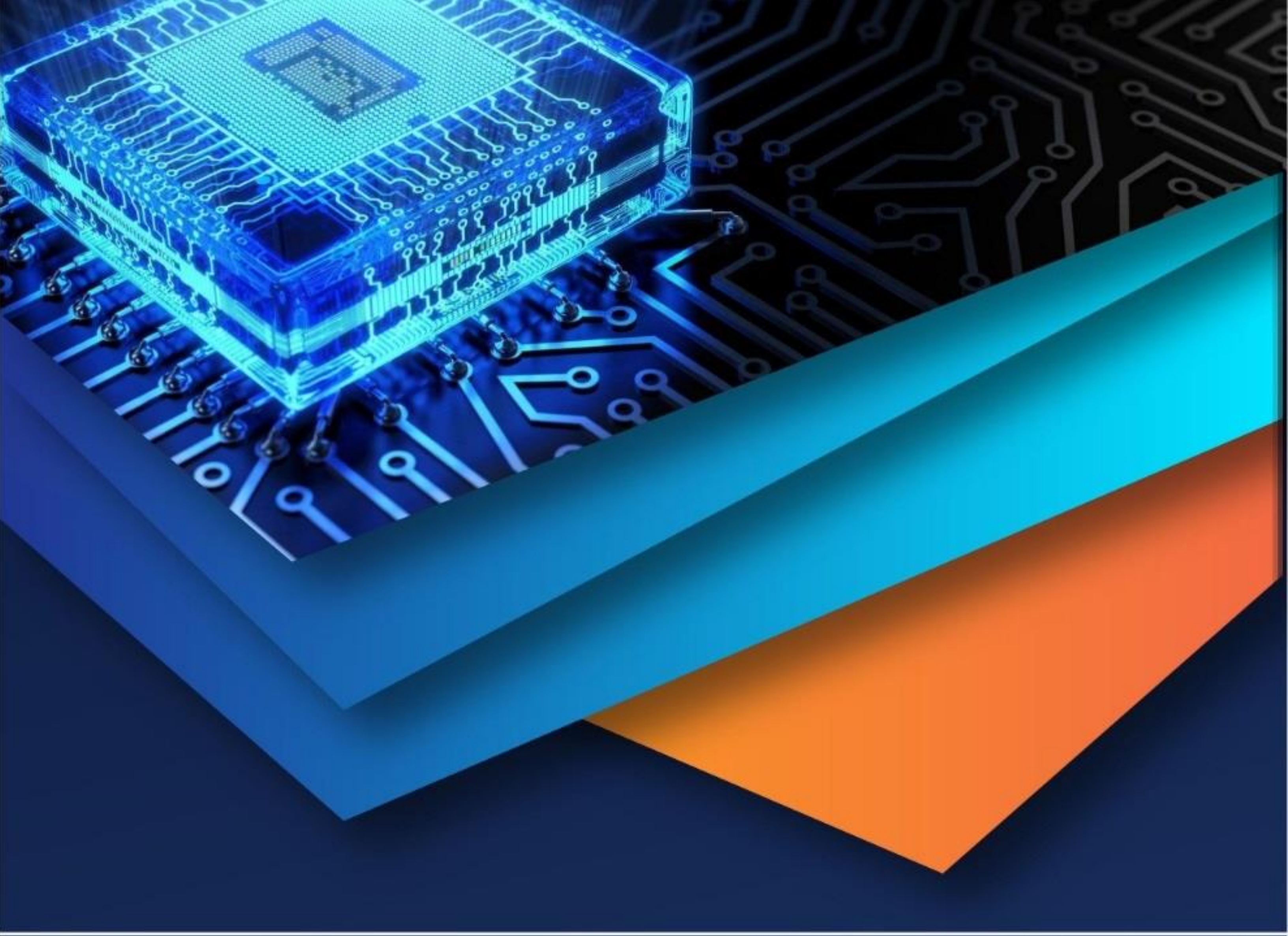

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