

Economic Ringfence Amid the West Asia Crisis

**A Three-Point Agenda
for Export
Competitiveness,
Import Discipline and
Trade Defence**

By

Think Change Forum
www.thinkforum.in

MAY 2026

STRATEGIC STRUCTURAL ALIGNMENT

A Policy Blueprint for Macroeconomic Resilience amidst Global Geopolitical Volatility

1. Executive Summary

The global economic landscape faces a profound stress test. Geopolitical volatility in West Asia is driving structural cost-push inflation across essential sectors—energy, agriculture, and manufacturing. The traditional fiscal response—relying on open-ended subsidies to buffer these shocks—is no longer sustainable. It creates a moral hazard: by shielding firms from global volatility through perpetual subsidies, the policy disincentivizes the structural efficiency and vertical integration necessary for global competitiveness. This white paper proposes a strategic pivot: replacing blunt subsidy led interventions with a precise, three-pillar framework of structural tax moderation and defensive trade alignment. By dismantling inverted duty structures, calming tariffs dynamically, and restricting non-merit imports, India can secure its domestic industrial base while maintaining fiscal discipline. This is a transition from reactive relief to proactive macroeconomic fortification.

2. The Geopolitical Catalyst

The contemporary global economy is no longer governed by predictable trade flows; it is dictated by the strategic deployment of supply chains and geopolitical friction points. As the crisis in West Asia deepens, India's macroeconomic stability is caught between two simultaneous pressures: rising domestic cost-push inflation and severe external trade distortions.

This duality necessitates a paradigm shift in the policy playbook. Historically, the state has relied on fiscal subsidies to cushion domestic consumers from global shocks. However, this mechanism has reached its mathematical limits. Channeling trillions of rupees into perpetual subsidies creates an artificial market equilibrium that obscures structural weaknesses. India requires an immediate transition to a selective fiscal doctrine: deploying targeted tariff recalifications to absorb supply shocks at the port of entry, while erecting defensive trade barriers against non-merit luxury imports to preserve national foreign exchange reserves.

3. The Transmission of Global Shocks & The Subsidy Trap

Volatility in West Asia acts as a regressive tax on the Indian economy. Reliance on imported crude oil (approximately 85%) and structural dependencies on fertilizer feedstocks—100% of Potash, up to 90% of Phosphates—expose domestic industry to external price shocks. Disruptions in transit corridors escalate freight and insurance costs, cascading directly into the domestic price index.

The limitations of current subsidy-heavy defenses are three-fold:

- **Fiscal Drag:** Capital is locked in consumption buffers rather than being directed toward productive assets like rural infrastructure.
- **Market Distortions:** Subsidies disincentivize efficiency, delaying necessary innovations in energy and nutrient consumption.
- **Inflationary Pressures:** Prolonged deficit financing to fund these subsidies risks expanding the fiscal deficit, creating secondary inflationary cycles that negate the intended relief.

4. Addressing Intermediate Distortions: Targeted Value-Chain Rationalization

To neutralize external shocks without triggering a fiscal crisis, India must aggressively leverage its border tariff and domestic levy architecture. Instead of back-ended subsidies, the state must offer front-ended cost mitigation by removing structural anomalies.

Pillar I: Dismantling the Inverted Duty Structure

An inverted duty structure arises when the customs duty on a raw material or input is higher than the duty on the finished good it produces. The result: importing a finished product becomes cheaper than manufacturing it domestically. The state inadvertently penalises domestic value addition.

This is not a theoretical anomaly—it is widespread across India’s manufacturing sector:

Sector	Input / Raw Material	Approx. Duty on Input	Finished Good Duty	Effect
Chemicals & Pharma	Specialty chemical precursors	7.5–10%	5–7.5%	Discourages domestic synthesis; incentives finished imports
Electronics / EMS	PCB components	10–15%	0% (ITA-1 bound)	Assembly economics distorted; FDI flows to duty-free zones
Agri-Processing	Food-grade packaging	12–18%	5–10% (processed food)	Raises domestic food manufacturing cost vs. imported ready-to-eat
Textiles & Apparel	Specialty synthetic fibers	5–12%	0–5% (garments, FTA)	Hollows out fiber-to-fabric value chain domestically

Source: CBIC tariff schedules; industry representations to DGTR and Ministry of Commerce, FY2024-25. Duty ranges illustrative of structural bands.

This correction functions as a zero-subsidy stimulus, restoring the economic rationale for domestic manufacturing while marking a transition from protectionism to policy neutrality. By eliminating tax penalties on domestic value-addition, the government restores a level playing field previously eroded by distorted slabs.

However, because correcting duty inversion increases protection for intermediate manufacturers, implementation must be sequenced to prevent passing costs to end-consumers. Time-bound phase-ins will allow the ecosystem to scale capacity and capture economies of scale, ensuring this structural realignment delivers long-term price stabilization without triggering short-term inflationary pressure.

Pillar II: Dynamic Tariff Calibration

Static tariff schedules, set in annual budget cycles, are structurally ill-suited to the current era of commodity price volatility. When global crude or fertilizer prices spike in response to West Asia developments, a fixed import duty amplifies the domestic price impact rather than buffering it. Dynamic Tariff Calibration proposes that import duties on a defined basket of essential intermediaries be linked to a pre-announced price trigger: when a global benchmark exceeds a defined threshold, duties automatically scale down within a statutory band, reducing landed costs at the border without requiring a legislative amendment.

While this approach risks short-term revenue fluctuations, it ensures industrial continuity. The fiscal cost of this “revenue sacrifice” is significantly lower than the alternative: the massive, open-ended fiscal burden of bailing out distressed industries via direct subsidies when margins collapse.

Pillar III: Integrating Core Energy into the Tax Net

The exclusion of petroleum products and natural gas from the GST framework is the single largest structural anomaly in India’s indirect tax architecture. It is not an accounting inconvenience—it is a compounding cost burden embedded into every stage of domestic production. Producers cannot claim input tax credit (ITC) on fuel and energy costs, which constitute a substantial share of operating expenditure. The embedded tax on diesel, furnace oil, and natural gas accumulates as an unrecoverable cost, passed forward through the value chain as inflation or absorbed as margin compression.

Indirect Tax Reform: Comparative Impact Summary

Pillar	Mechanism	Who Most	Benefits	Implementation Speed	Revenue Impact
I: Inverted Duty Correction	Customs classification, re-input duty reduction	Manufacturers in chemicals, electronics, agri-processing, textiles		Medium (6–12 months)	Minimal forgone input duty offset by higher domestic value-add & GST receipts
II: Dynamic Tariff Calibration	Formula-linked duty on essential commodities	Farmers, MSMEs, downstream manufacturers		Fast (3–6 months for statutory framework)	Temporary dip during high-price episodes; self-correcting
III: Energy/GST Integration	ITC restoration or phased GST inclusion for petroleum & gas	Logistics, fertilizers, food processing, construction		Slow (GST Council); interim refund faster	Short-term gap; long-term competitiveness dividend

Analysis: First Partners. May 2026

5. Strategic Import Substitution: Eliminating Non-Merit Strains

As Prime Minister Narendra Modi recently emphasized, reducing the import of non-essential goods is no longer an austerity measure—it is a cornerstone of national security and foreign exchange resilience. Data from Ministry of Commerce and Industry reveals that India’s merchandise imports reached \$774.98 billion in FY2025-26 against exports of \$441.78 billion, leaving a staggering trade deficit of over \$333 billion.

To defend the rupee and maintain economic sovereignty amidst global turmoil, India must actively weed out non-merit and low value-addition imports where robust domestic ecosystems already exist.

Imported Commodity Group	Import Value (USD)	Domestic Context / Alternatives
Bakers' Wares (Biscuits, Cookies, Wafers, Cakes)	\$81.70 Million	India exported \$373.4M of sweet biscuits & wafers in FY2024-25—proving complete domestic capability.
Chocolates & Cocoa Preparations	\$135.90 Million	Domestic FMCG processing market exceeds \$2.5 Billion; highly organised sector.
Beauty & Personal Care Products	\$393 Million	Hyper-growth sector expanding at 16% CAGR with massive domestic brand equity.
Tobacco & Manufactured Substitutes	\$116.20 Million	India is the world's second-largest tobacco producer; domestic manufacturing ecosystems for cigarettes, biris, and processed tobacco are fully mature, rendering imports unnecessary for domestic consumption.
Hair Clippers	\$27.52 Million	Rapid domestic adoption; strong local manufacturing capacity.
Toothbrushes	\$11.50 Million	High-volume, low-tech consumer good; India is globally competitive.

Source: Trade Stat/Ministry of Commerce and Industry (FY2025-26, Apr-Feb).

The import of premium confectionery and personal care products—specifically Bakers' Wares, Chocolates, and Beauty Preparations—constitutes a persistent leakage of foreign exchange. These sectors have witnessed a surge in domestic maturity, with Indian manufacturers now achieving global-scale production and export competitiveness. Maintaining these items under an unrestricted import regime creates an artificial dependency on foreign brands for goods where domestic alternatives are not only available but are rapidly capturing market share. Re-aligning import policy for these categories serves a dual purpose: it incentivizes deeper domestic value-addition and protects the local FMCG landscape from unnecessary international exposure.

Furthermore, the import of essential grooming and hygiene tools—specifically Hair Clippers and Toothbrushes—highlights an unnecessary reliance on foreign sourcing for high-volume, low-complexity consumer goods. These items, which collectively constitute a recurring, non-trivial leakage of foreign exchange, are already being produced by both established and emerging domestic brands that leverage India's massive manufacturing scale. Continuing to allow unrestricted imports of these everyday commodities effectively subsidizes foreign production lines at the expense of India, robust MSME ecosystem. Re-classifying these categories will provide the necessary impetus for domestic players to capture this remaining market share, ensuring that our forex reserves are utilized for strategic industrial needs rather than basic household utility imports.

Moving these items from the Open General Licence (OGL) list to restricted channels forces a shift toward domestic consumption, bolstering local employment without disrupting essential industries.

Tobacco

The import of tobacco and manufactured tobacco substitutes represents a recurring drain on foreign exchange reserves that lacks a compelling macroeconomic justification. The breadth of these imports—ranging from raw varieties like Flue Cured Virginia, Burley, and Hookah tobacco to finished consumer goods including various cigarette categories, cigarillos, smoking mixtures, biris, chewing tobacco, and cut tobacco—highlights an area where India’s domestic self-sufficiency is already well-established. Tightening these import lines represents an easy win for both capital preservation and public health, effectively discouraging discretionary consumption without disrupting industrial operations.

6. Defensive Trade Policy: Enforcing Trade Remedies

On one side, the Prime Minister is calling for reduced dependence on avoidable imports. On the other, domestic industry continues to face large-scale dumping across sectors such as steel, chemicals, aluminium products, PVC resins, synthetic fabrics, paper, pharmaceutical intermediates and industrial raw materials.

The Execution Gap

Between 1991 and 2020, only 5 out of 1,052 DGTR anti-dumping recommendations were rejected—a rejection rate of just 0.5%. But in recent years, rejections rose sharply: 70% in the second half of 2020-21, 59% in 2021-22, 62% in 2022-23, and as high as 81% between November 17 and December 31, 2025.

This is not a procedural detail. DGTR recommends duties only after investigating dumping, injury to domestic industry and the causal link between the two. Once injury has been established through this process, recommendations should be notified with urgency. Delays weaken domestic manufacturers precisely when they are expected to invest in quality, innovation, employment and capacity creation. The same data shows that 72% of recent non-imposition cases involved China either as the only or one of the subject countries.

Period	Rejection Rate (%)	Context
1991–2020	0.5%	Standard adherence to DGTR findings
2020–21 (H2)	70%	Initial shift in fiscal priority
2021–22	59%	Sustained divergence
2022–23	62%	Institutionalized friction
Nov–Dec 2025	81%	High-water mark of non-imposition

Source: Data from the Ministry of Commerce and Industry (DGTR notifications, FY 1991–2025)

The current 81% rejection rate suggests a fundamental disconnect between the DGTR's 'investigative mandate' (focusing on injury to domestic industry) and the Ministry of Finance's 'macroeconomic mandate' (focusing on headline inflation). A 'comply-or-explain' mechanism bridges this by forcing a transparent, data-driven reconciliation between these two competing objectives.

Global Benchmarking

India's approach is, in fact, more restrained than many major economies. The average duration of anti-dumping duties in India is 6.97 years, compared to 16.26 years in the US, 11.76 years in the EU, 14.77 years in Turkey and a global average excluding India of 11.19 years. Indian exports face 189 anti-dumping duties imposed by other jurisdictions, of which 164 are currently in force.

Country/Bloc	Average Anti-Dumping Duty Duration
United States	16.26
Turkey	14.77
European Union	11.76
Global Avg (excl. India)	11.19
INDIA	6.97

Source: WTO Trade Policy Reviews

The Path Forward

India has already notified 142 Quality Control Orders covering 721 products, showing that standards can be used to protect quality and safety without disrupting supply chains. The next step must be sharper: restrict non-essential imports, move avoidable goods from the Open General Licence list to the restricted list where required, and immediately notify DGTR recommendations where injury has been proven.

7. Navigating the Friction Points of Policy Realignment

Transitioning to this synchronised macroeconomic model requires overcoming three specific friction points:

- 1. Institutional Disconnect:** The execution gap between DGTR findings and Ministry of Finance implementation requires a 'comply-or-explain' mechanism.
- 2. Federal Tax Gridlock:** States protect local fuel revenue streams. Overcoming this requires an innovative fiscal compensation architecture—a guaranteed, front-ended revenue-sharing formula.
- 3. Trade Circumvention:** High tariffs trigger supply chain rerouting. Implementation must be backed by technological upgrades, including blockchain-verified Rules-of-Origin tracking.

8. Conclusion: A Selective Economic Doctrine

India's pathway through the mid-2020s demands governance that is simultaneously open, strategic, and decisive. The Selective Economic Doctrine advanced in this paper is not a retreat from globalization—it is its intelligent management.

Three pillars define this doctrine:

- Openness where global integration feeds essential technology, energy, and raw materials.
- Intervention via immediate trade-remedy enforcement where foreign dumping distorts domestic markets and destroys capacity.
- Protection and Tax Relief where domestic capability holds strategic value—supported by indirect tax moderation rather than addictive dependence on fiscal subsidies.

Every billion dollars of foreign exchange saved on non-merit imports is a billion dollars available for critical technology, green energy, or infrastructure. Every percentage point of capacity utilization recovered in steel, pharma, and chemicals is a percentage point of employment, private investment, and industrial sovereignty restored.

This doctrine moves India from a 'price-taker' in global supply chains to a 'resilience-builder,' turning the current geopolitical crisis into a catalyst for permanent industrial hardening.

9. Key Recommendations

- Substitute the fiscal crutch of subsidies with an agile, defensive, and cost-efficient trade architecture.
- Conduct a systematic inverted duty correction across chemicals, electronics, agri-processing, and textiles within 12 months.
- Move luxury confectioneries, premium personal care imports, and Demerit goods such as cigarettes, cigars, cigarillos, smoking tobacco and cut tobacco from OGL to restricted licensing based on quality compliance standards.
- Mandate a parliamentary review of the DGTR recommendations-to-imposition pipeline within 90 days; adopt a 'comply-or-explain' mechanism.
- Legislate a dynamic tariff calibration framework for crude oil, fertilizer feedstocks, and steel with pre-announced price triggers and a 90-day review cycle.
- Implement a ring-fenced ITC refund mechanism for natural gas used as fertilizer feedstock as an interim step toward full GST energy integration.

About The Author

Ms Shraddha Sawhney

Shraddha Sawhney is an Indian market research economist, public policy professional and entrepreneur with over two decades of experience in macroeconomic research, market entry strategy and industrial policy analysis. An economics postgraduate from the prestigious Delhi School of Economics, she has authored and led numerous research-led policy and market intelligence assignments across sectors. A regular commentator on macroeconomic and developmental shifts, her work tracks several key pillars of the Indian economy, including trade, investment, industrial growth, competitiveness and policy reform.

About Think Change Forum:

Think Change Forum (TCF) is an independent, New Delhi-based policy think tank committed to generating ideas, research and solutions for navigating India's rapidly evolving economic and policy landscape. TCF focuses on the dynamic interplay between domestic priorities and global economic shifts, with a particular emphasis on taxation, revenue mobilisation, fiscal reform, economic competitiveness and governance.

Through expert-led panel discussions, policy dialogues, seminars and research publications, TCF seeks to contribute meaningfully to India's public policy discourse. Over time, TCF has propagated progressive taxation ideologies such as the **F.L.A.T. framework** — Fewer and Lower rates, Litigation reduction, an All-inclusive base, and Tax without withholding — along with reform-oriented positions on tax simplification, moderation, compliance-led revenue growth and a broader, more inclusive tax base. TCF has also produced important studies on issues such as the illegal offshore betting economy and developed sharp pre-budget policy recommendations aimed at strengthening India's fiscal and economic policy framework.

For feedback on this white paper please write to contact@thinkforum.in

THINK
CHANGE
FORUM

