

India at the Crossroads of Global Trade

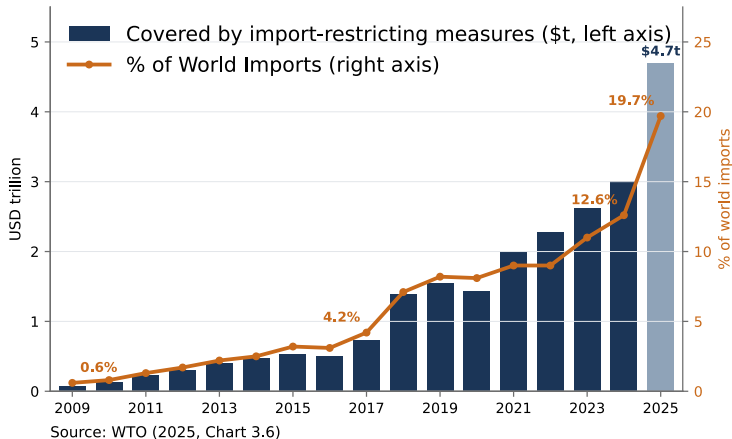
Amit Khandelwal
Yale University

2026 Khemka Distinguished Lecture

The Return to Protectionism

Since mid-2010s

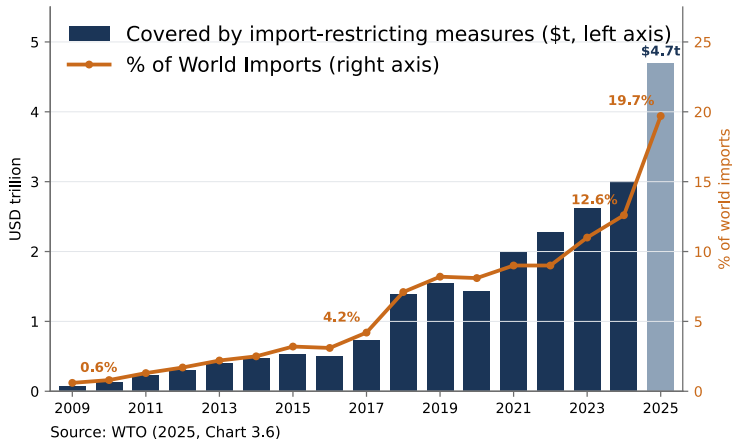
- ▶ Brexit, US tariffs, WTO gridlock, shipping chokepoints, Covid, regional conflicts
- ▶ Subsidies, investment restrictions, export controls/bans, Made in _____
- ▶ Increased restrictions on temporary and permanent immigration



The Return to Protectionism

Since mid-2010s

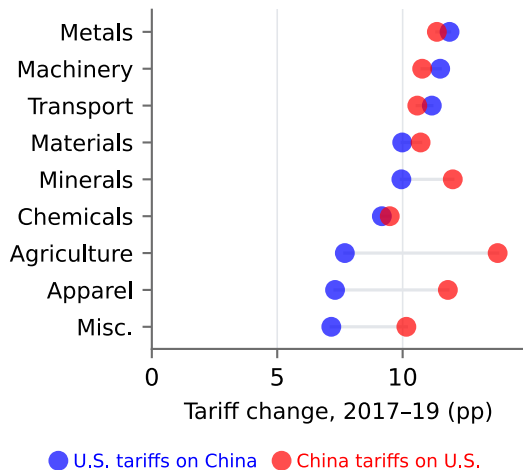
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A Crossroad for Global Trade

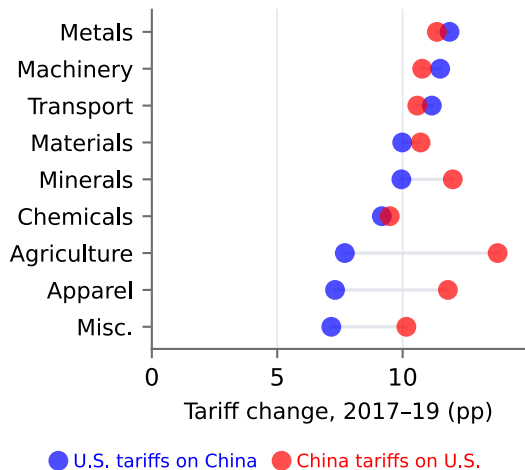
- ▶ Post WW2, global integration has been a major growth engine developing countries
- ▶ Countries face choices in how to respond

Crises Create Opportunities: Trump 1.0 Tariffs on China

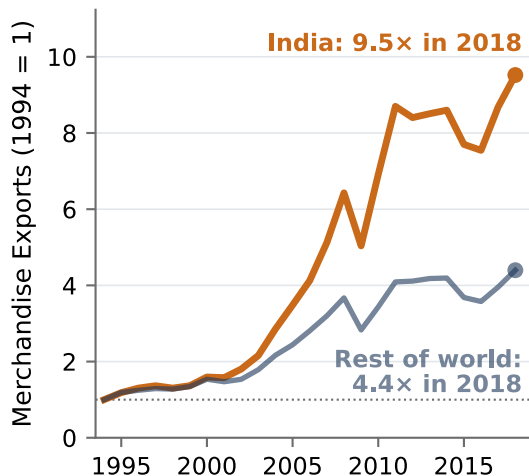


Source: Fajgelbaum, Goldberg, Kennedy, Khandelwal, Taglioni (AERI 2024)

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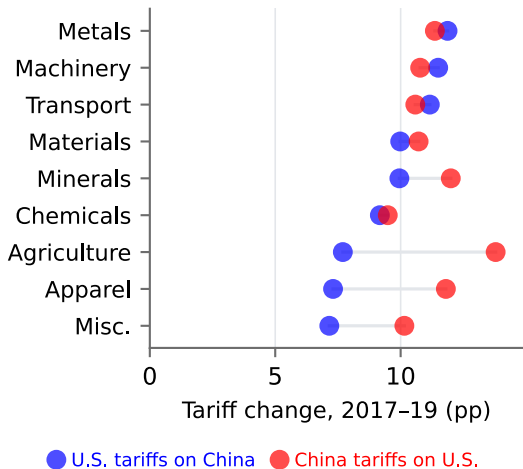


Source: Fajgelbaum, Goldberg, Kennedy, Khandelwal, Taglioni (AERI 2024)



Source: UN Comtrade; Chatterjee and Subramanian (IPF 2023)

Crises Create Opportunities: Trump 1.0 Tariffs on China



Source: Fajgelbaum, Goldberg, Kennedy, Khandelwal, Taglioni (AERI 2024)

Can India Win the US, China Trade War?

26 July 2018 · Posted by [India Briefing](#) · Written by [Rohini Singh](#)

Indian economy

India vies to fill Chinese commodities gap created by trade war

New Delhi sees tariff battle as opportunity to break into China's vast agricultural market

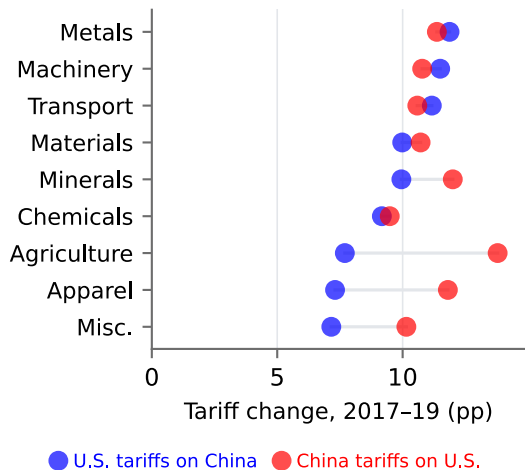
Published JAN 12 2019

THE TIMES OF INDIA

'US-China trade war an opportunity for India'

Agencies / Aug 2, 2019, 06:40 IST

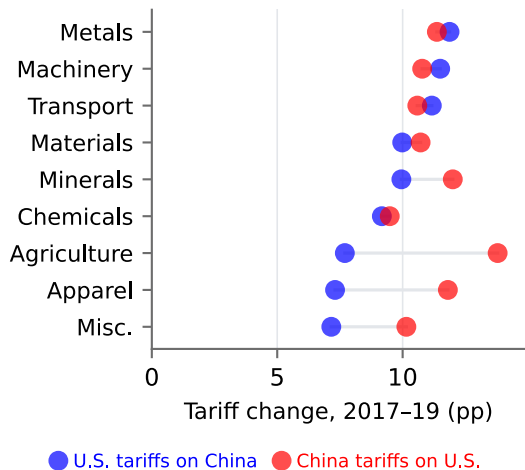
Crises Create Opportunities: Trump 1.0 Tariffs on China



But not clear India would capitalize...

- ▶ Demand: Are India's exports good substitutes for Chinese and U.S. products?
- ▶ Supply: Would India's exports to U.S. and China reduce exports elsewhere?
- ▶ Competition: All countries gain the same advantage, market share up for grabs

Crises Create Opportunities: Trump 1.0 Tariffs on China



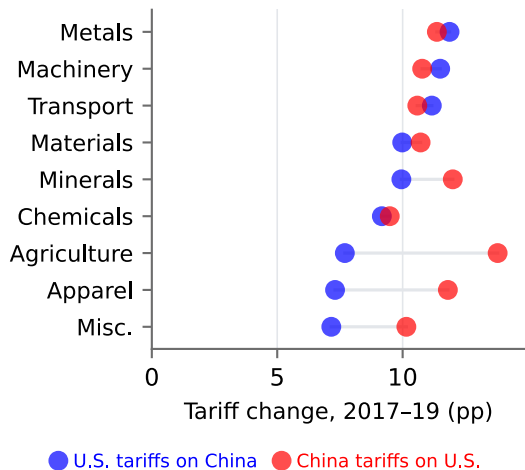
Data

- ▶ India's exports of 5,000 products
- ▶ Destinations: U.S. (19%), China (6%), RoW (75%)
- ▶ Responses from 2017 to {2019, 2024}

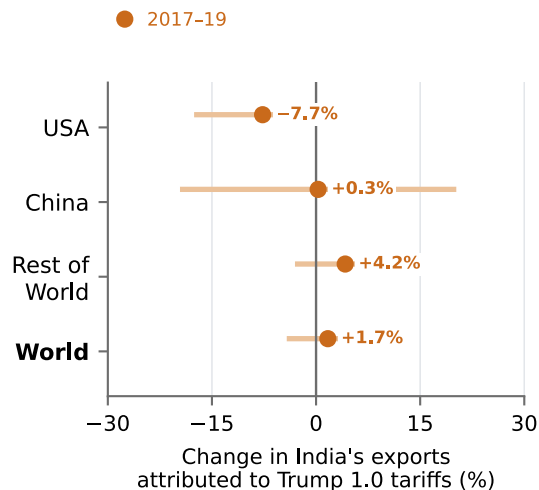
Statistical Test

- ▶ Did India's exports grow faster in the products where the U.S. and China hit each other hardest?

Crises Create Opportunities: Trump 1.0 Tariffs on China

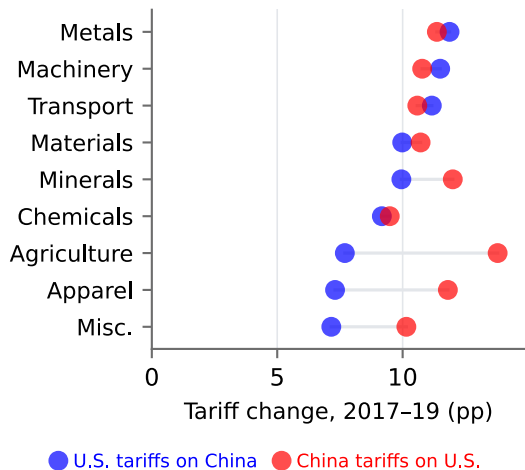


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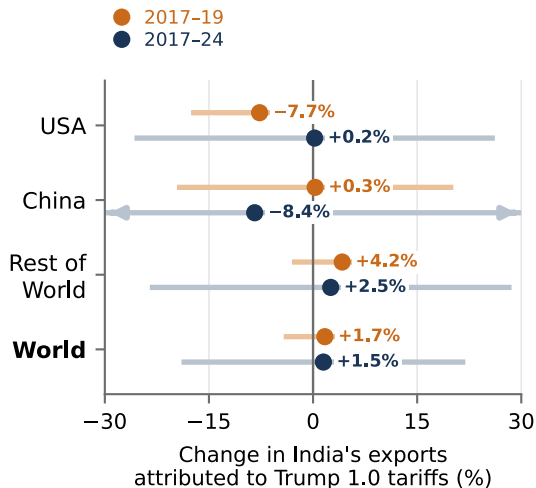


Source: Khandelwal (IPF 2023, NBER 2025)

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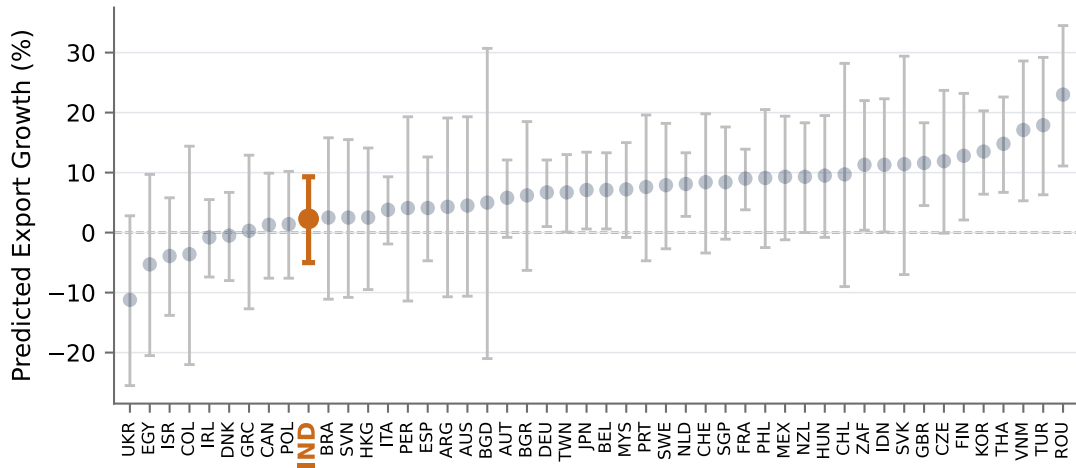


Source: Fajgelbaum, Goldberg, Kennedy, Khandelwal, Taglioni (AERI 2024)



Source: Khandelwal (IPF 2023, NBER 2025)

Winners from Trump 1.0 Tariffs on China



Source: Fajgelbaum, Goldberg, Kennedy, Khandelwal, Taglioni (AERI 2024)

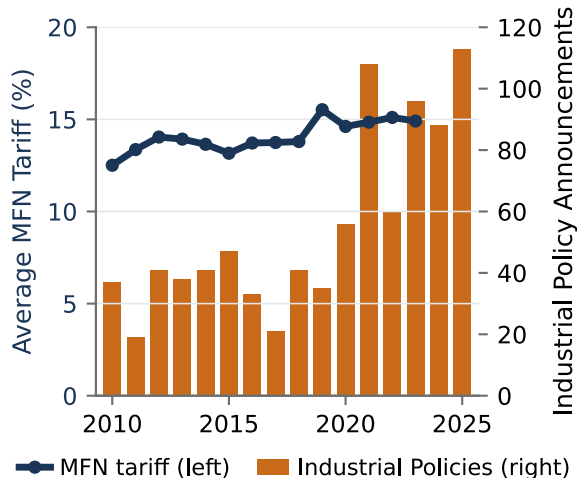
Potential Factors

● Drift Back towards Protectionism

- ▶ trade barriers (Chatterjee and Subramanian 23)
 - higher MFN tariffs
 - quality control orders
 - production-linked incentives
 - “Make in India”
- ▶ Skipped RCEP, largest-ever bloc (Krishna 21)

● Persistent Factor Market Distortions

- ▶ Reduce firms' export competitiveness



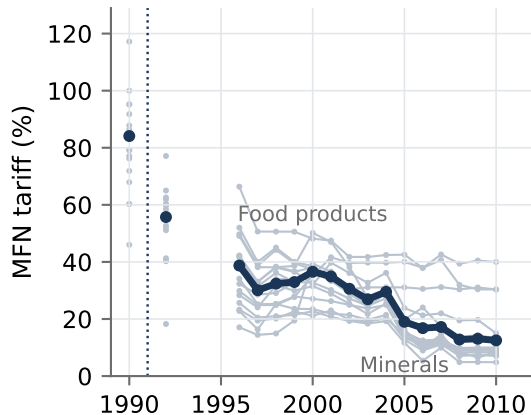
Sources: Global Trade Alert, classified with the Juhasz et al (2025) model; WITS

$$Q = A \times F(\text{labor, capital, materials})$$

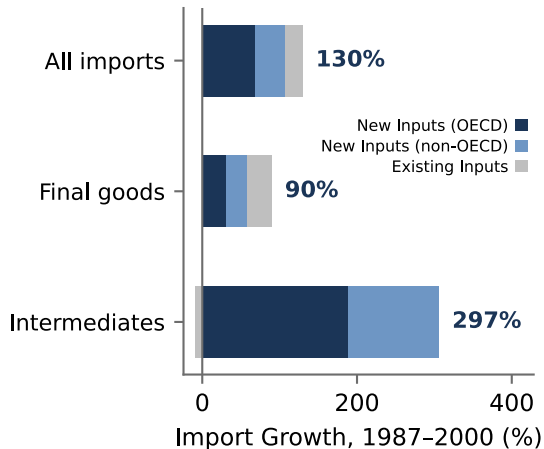
In the case of India, lower tariffs have been shown to:

- ▶ Improve access to inputs
 - direct access to more varieties, and to higher-quality inputs
- ▶ Improve firm productivity
 - increased competition reduces 'slack'
 - knowledge embodied in imported inputs and foreign buyers
- ▶ Changes the set of viable firms
 - efficient firms rewarded
 - leveled the playing field, eroding political rents

India's Tariff Liberalization and Import Surge in New Inputs



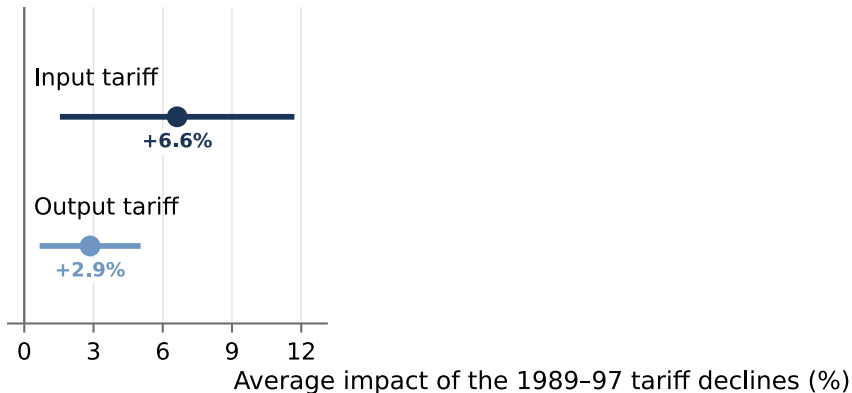
Source: WITS (UNCTAD TRAINS / WTO IDB).
MFN simple average. Gaps are years with no reported schedule.



Source: Goldberg, Khandelwal, Pavcnik & Topalova (AERPP 2009).

Higher Productivity, Lower Costs and Prices, More Products

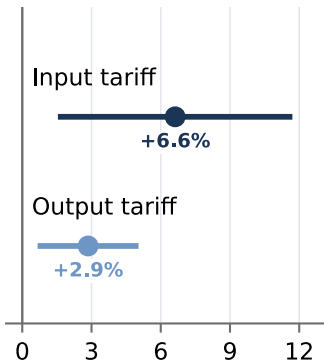
Firm productivity



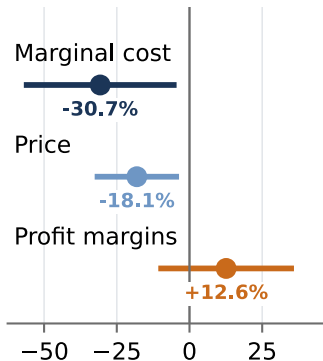
Sources: Topalova & Khandelwal (REStat 2011)

Higher Productivity, Lower Costs and Prices, More Products

Firm productivity



Costs, prices & margins



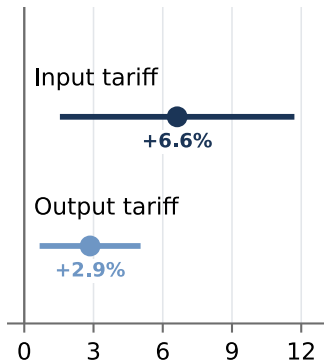
Average impact of the 1989-97 tariff declines (%)

Sources: Topalova & Khandelwal (REStat 2011)

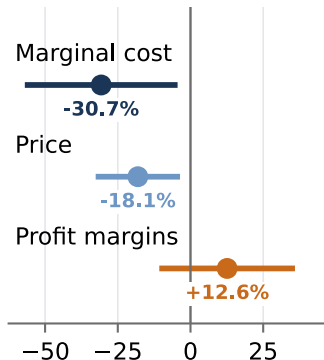
De Loecker, Goldberg, Khandelwal & Pavcnik (ECMA 2016)

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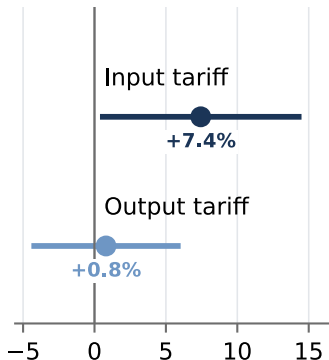
Firm productivity



Costs, prices & margins



Number of products



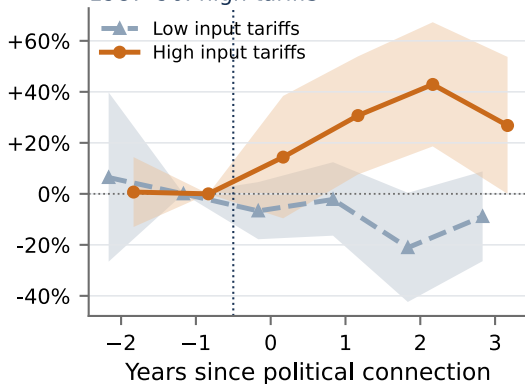
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Liberalization Eroded Political Connections and Professionalized Firms

Politically connected firms: sales

1987-96: high tariffs

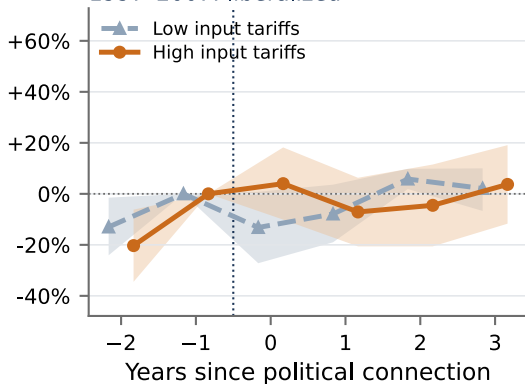


Source: Jävervall & Khoban (AEJ:Applied 2025)

Liberalization Eroded Political Connections and Professionalized Firms

Politically connected firms: sales

1997-2007: liberalized

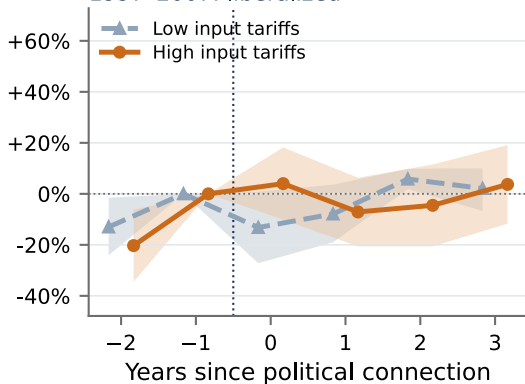


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Liberalization Eroded Political Connections and Professionalized Firms

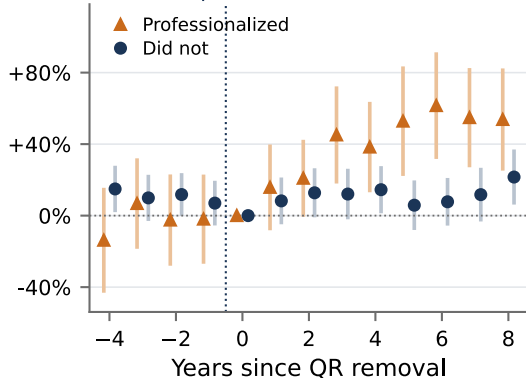
Politically connected firms: sales

1997-2007: liberalized



Family firms: productivity

1997-01 quota reforms



Source: Jävervall & Khoban (AEJ:Applied 2025)
Kotia (2026)

Distortions Blunt Trade Opportunities (Atkin and Khandelwal 20, Atkin and Donaldson 22, Khandelwal 25)

$$Q = A \times F(\text{labor, capital, land, energy, materials, information})$$

- ▶ **Labor:** migration barriers (Topalova 10, Munshi and Rosensweig 16), **informality, regulation** (Chaurey et al 26)
- ▶ **Capital:** misallocated credit (Bau and Matay 23, Finlay 26), **liquidity crunch** (Chaurey et al 25)
- ▶ **Land:** conversion and zoning (Rajagopalan et al 26), **industrial zones** (Garg 26)
- ▶ **Energy:** manufacturing firms cross-subsidize other sectors (Allcott et al 16, Abeberese 17, Burgess et al 20)
- ▶ **Materials:** weak contract enforcement distorts input choices (Boehm and Oberfield 20)
- ▶ **Information:** search frictions in finding buyers; management practices (Bloom et al 13, 21)

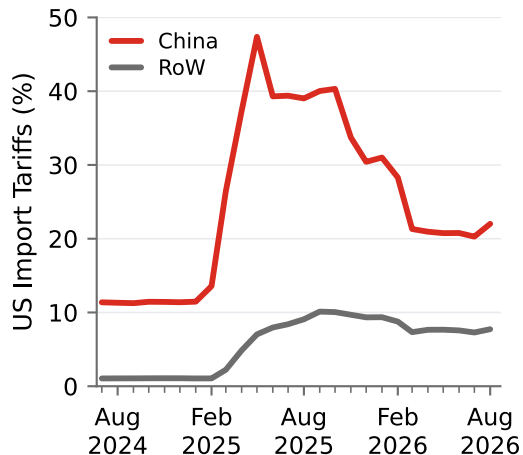
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- ▶ **Information:** search frictions in finding buyers; management practices (Bloom et al 13, 21)
- ▶ First-best policy acts targets the distortion directly (Bhagwati and Ramaswami 63)

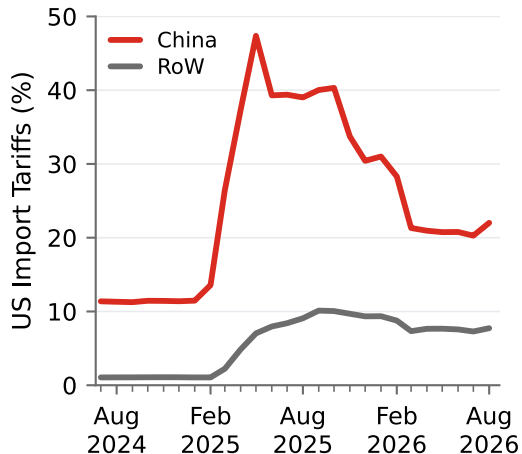
Domestic Policy is Trade Policy

New Crises Create New Opportunities? Evidence from Trump 2.0



Source: US Census; Fajgelbaum and Khandelwal (BPEA 2026)
Applied tariffs, 2024 fixed weights.

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Business Standard

When 2 elephants fight: India eyes opportunity in US-China trade war

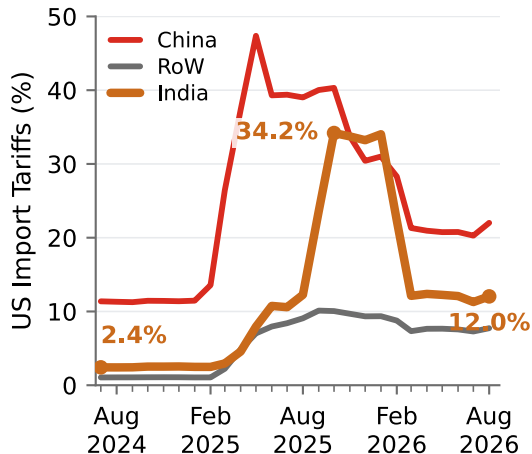
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THE WALL STREET JOURNAL.

India Has a Golden Opportunity to Capture U.S. Business From China

Updated April 19, 2025 at 12:00 am ET

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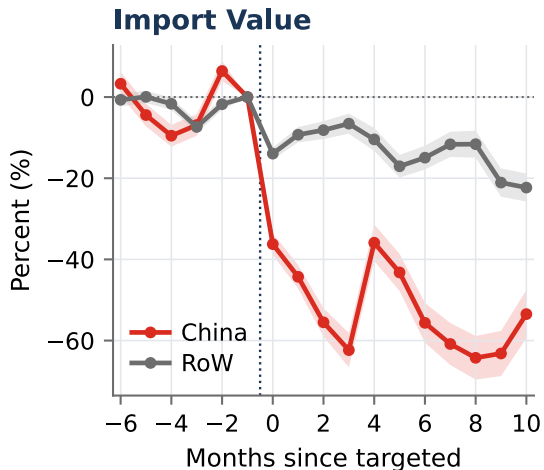
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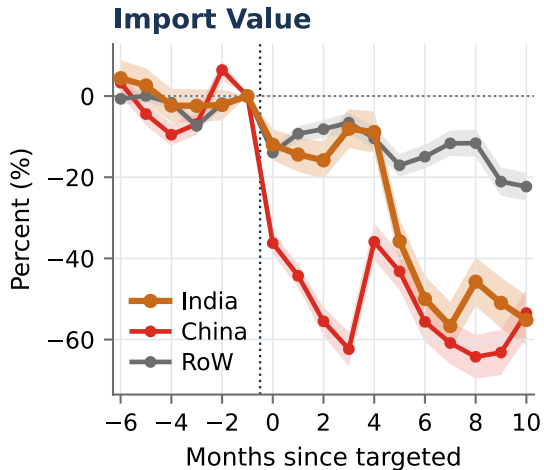
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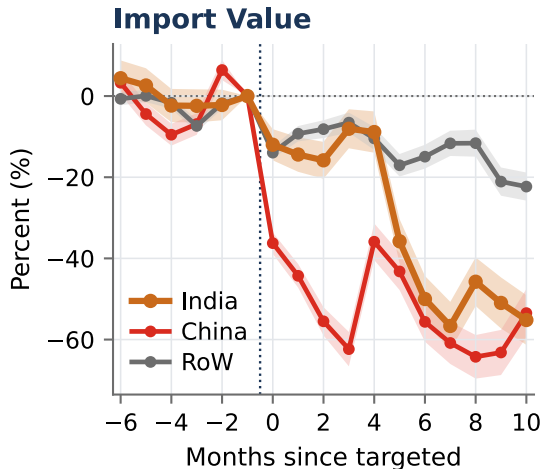
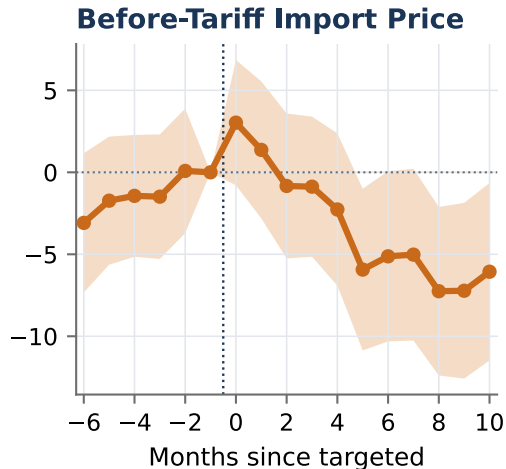
Source: Fajgelbaum and Khandelwal (BPEA 2026)

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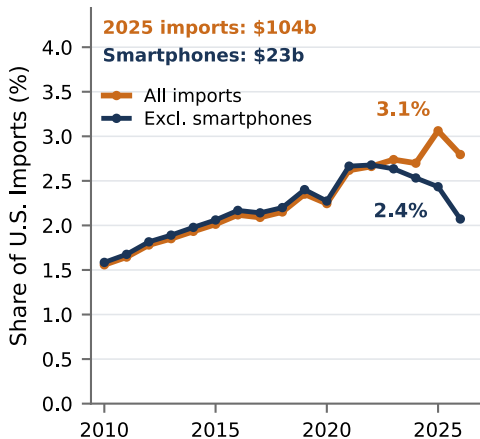
A Tale of Two Exports



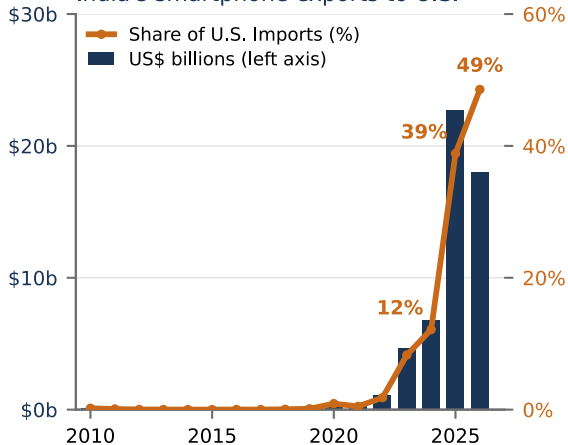
Source: US Census Data through 2026.08

A Tale of Two Exports

India's goods exports to U.S.



India's smartphone exports to U.S.



Source: US Census Data through 2026.08

India's Recent Economic Policy Reforms

FTAs Pursued

In force

Mauritius	2021
UAE	2022
Australia	2022
EFTA	2025
Oman	2026
UK	2026
New Zealand	2026

Concluded, not in force

EU	2027
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Negotiating

GCC, Qatar/Bahrain, EAEU, Peru
USA, Canada, Israel, Maldives

Factor Market Reforms

- ▶ **Labor:** Reforms of central labor laws, 2025
- ▶ **Capital:** Insolvency and Bankruptcy Code Amendment Act 2026
- ▶ **Materials:** GST rates simplified, many QCOs withdrawn, 2025
- ▶ **Infrastructure:** GFCF/GDP rising after trending down in 2010s
- ▶ **Energy:** SHANTI Act, Proposed Electricity (Amendment) Bill
- ▶ **Easing Business Regulations:** decriminalization of minor offences

● Reversing Course on Tariffs

- ▶ 1990s trade reforms showed that openness makes firms more productive and better run
- ▶ Pursuing new FTAs corrects the 2010s inward orientation, though MFN tariffs remain high

● Factor Market Reforms Encouraging

- ▶ “India’s mfg moment may finally have arrived” Economist 2026.10.08
- ▶ Smartphones promising demonstration case, but are those conditions unique?
 - geopolitics + guaranteed foreign demand
 - high profile anchor firm
 - zero tariffs on final product, zero-to-low tariffs on inputs
 - transfers of knowledge
- ▶ Domestic reforms matter even more when trade partners are unreliable

● Nevertheless, large challenges loom...

Thank You