

hinrich foundation
advancing sustainable global trade

India's Reckoning

How shifts in geopolitics and trade are testing
India's development strategy

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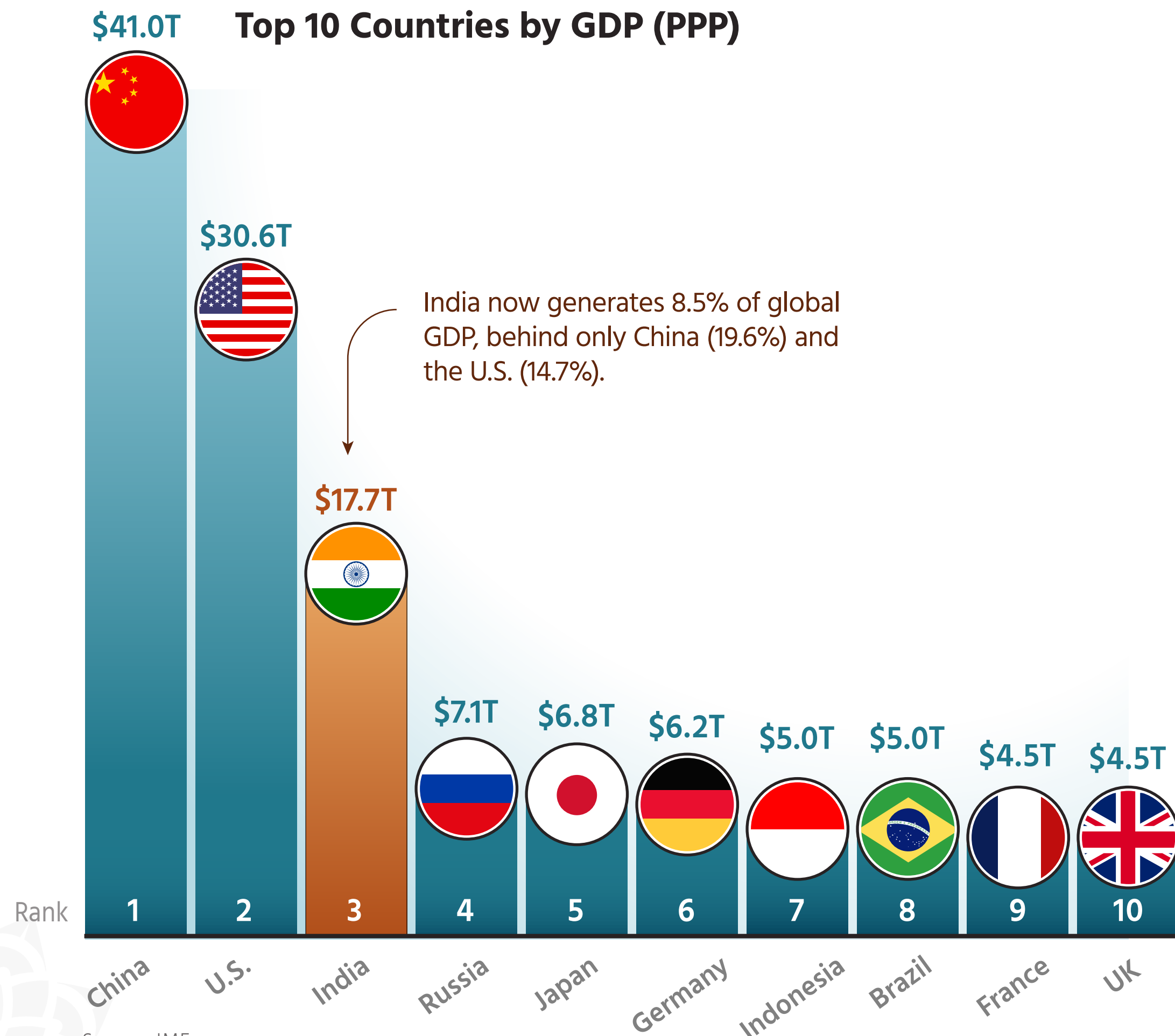
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01 India's Position in the Global Economy

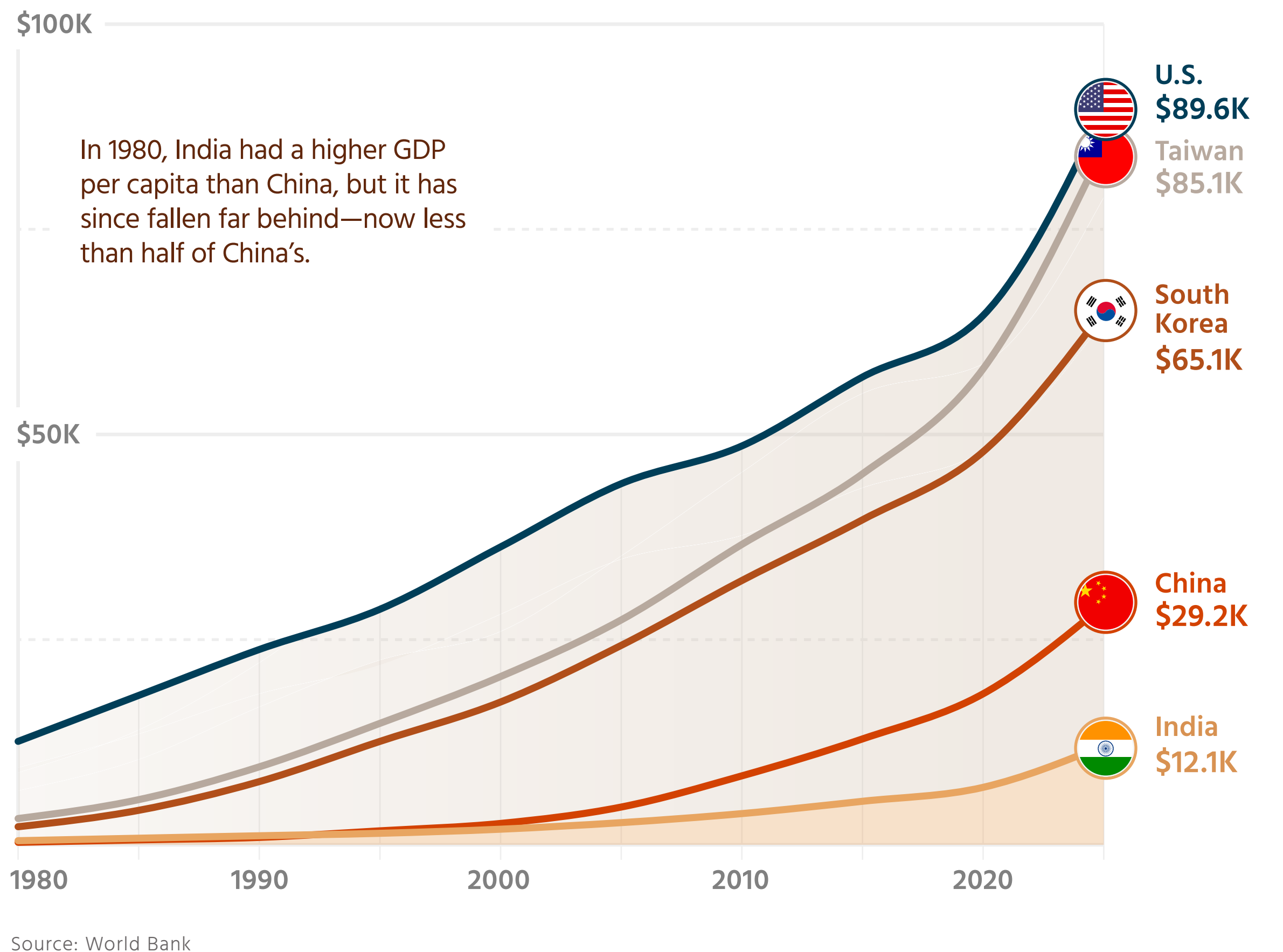
India's economic ascent has elevated it into the ranks of the world's major powers, reshaping its role in the global system. Its scale, strategic geography, and large working-age population make it a pivotal actor in global growth, yet it still lags in economic development.

Economic Scale Lacking Shared Prosperity

India is now the world's third-largest economy on a PPP (Purchasing Power Parity) basis, underscoring its rapid rise as a major global power. Yet this scale masks a stark income gap: despite its size, India ranks just 126th globally in per capita income, with development lagging far behind comparable economies.



GDP Per Capita Over Time: India Plays Catch Up on a Lost Opportunity



India's Pivotal Role in Global Growth Ahead

Looking ahead, India's prospects are strengthening, with forecasts showing it will post the highest real GDP growth among major economies in both 2025 and 2026. As global growth slows elsewhere, India is increasingly emerging as a key player in the expansion of the world economy.

Real GDP Growth Forecasts

Year-over-year percent change



India's Global Roles

India's influence in the global economy is spurred by but extends beyond its growing economic heft, shaped by the multiple roles it plays across trade, diplomacy, and geopolitics. Rather than aligning with any single bloc, India operates across institutions and alliances that reflect both its development priorities and its push for strategic autonomy.

Dealbreaker at the World Trade Organization

India has been one of the most consistent opponents of new WTO proposals for multilateral trade rules.

Pivotal Actor in the Global South

Serves as a bridge between advanced economies and emerging markets, particularly on development and trade equity.

Founding Member of BRICS

Helps steer alternative economic forums outside Western-led institutions, even as internal tensions persist.

Swing Player Between the U.S. and China

Deepens strategic ties with Washington while maintaining economic links and geopolitical balance with Beijing, resisting formal alignment.

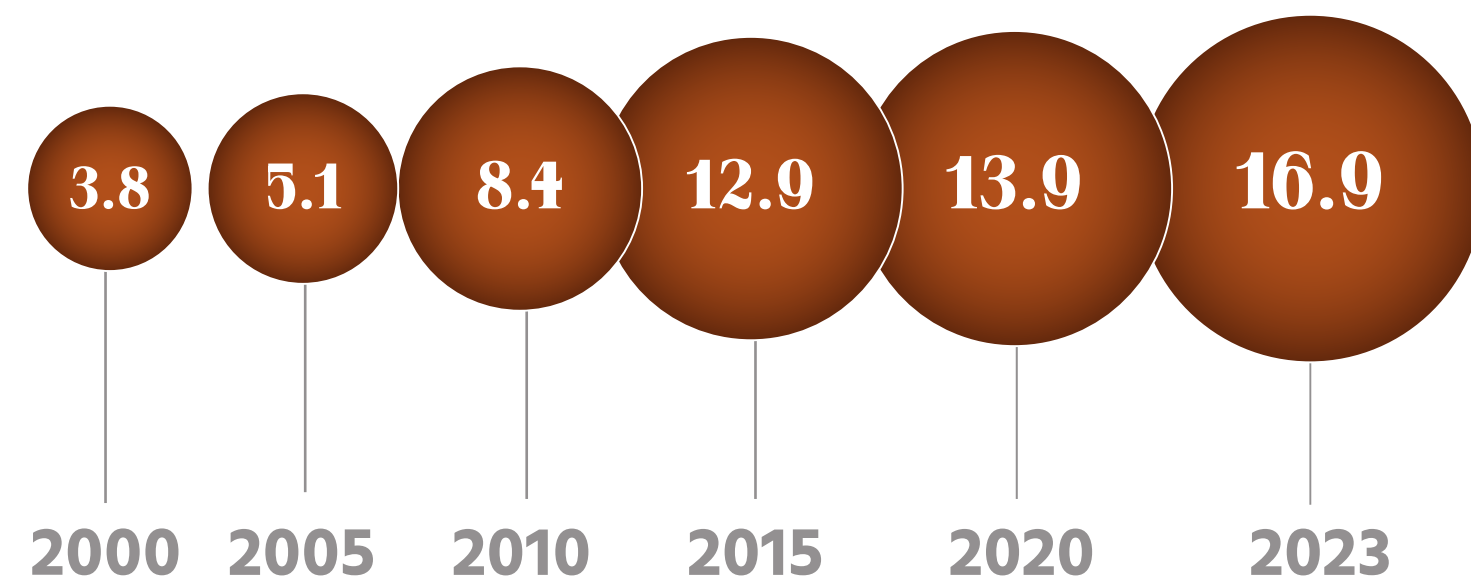
Critical for Russia's Energy Exports

Absorbed discounted Russian oil flows, giving India leverage despite unconfirmed commitments to the U.S. that it would desist from such imports.

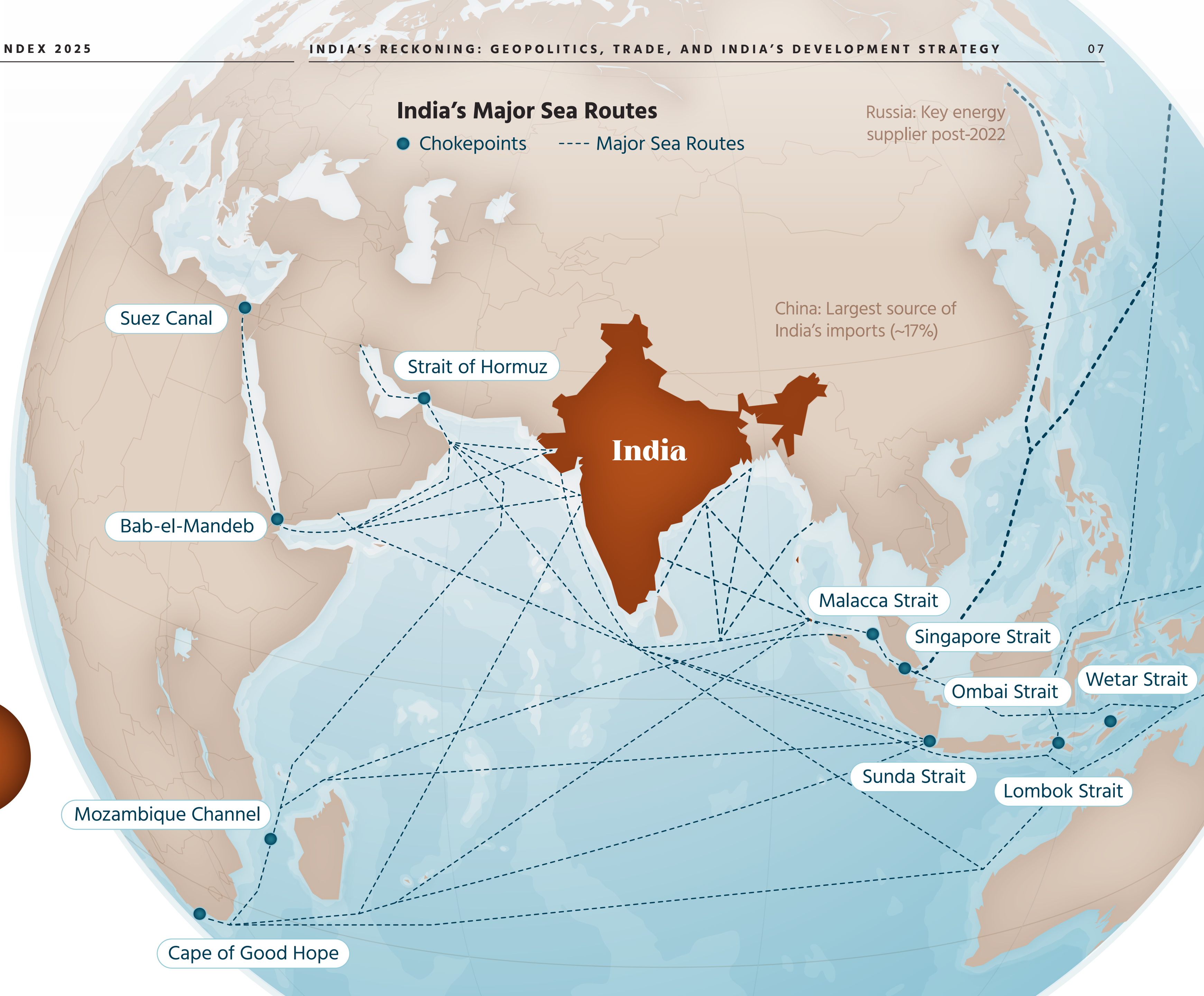
India's Trade Geography

India's trade relationships are shaped by its geographic realities, from maritime access and energy dependence to its location between major economic powers. Yet its ability to wield such influence in the global economy is hampered by capacity constraints at older ports, inadequate infrastructure, poor connectivity, and high logistical costs.

India's Net Energy Imports Millions of terajoules (TJ)



Source: Carnegie, IEA



02

The Long Road to India's Development

Economic History & Structural Shifts

India's present economic structure is deeply shaped by its colonial legacy, early embrace of protectionism, and long resistance to an export-led growth model. Decades of import substitution, heavy regulation, and delayed liberalization slowed its transformation relative to other fast-growing Asian economies.

A Timeline of India's Economic Turning Points

1947

Independence

India gains independence with a fragile economy and limited industrial capacity.

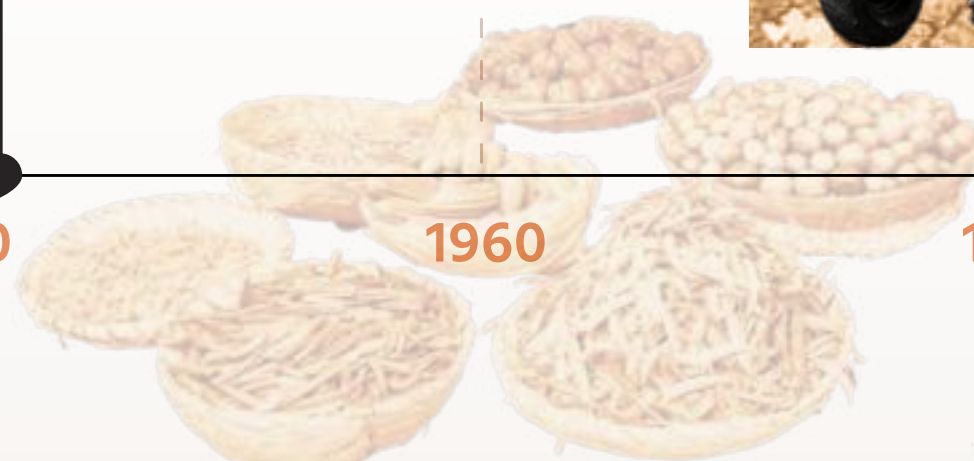


1940

1951

First Five-Year Plan

A state-led, planned development model is formally adopted.



1950

1960

1970

1950s–1970s

Import Substitution Era

Protectionism and self-sufficiency shape decades of inward-focused growth.



1965–1972

Agricultural & Fiscal Strain

Food shortages and wars strain public finances and economic stability.



Late 1970s–1980s

Early Deregulation

Incremental reforms begin easing state control over the economy.

1980



1990

1991

Balance-of-Payments Crisis

Foreign reserve collapse forces a dramatic policy reset.

2000s

IT & Services Boom

Technology and services emerge as core growth engines.



2000

2010s

GST, Digital India, & Manufacturing

Reforms target market integration, digitization, and industrial expansion.



2010

2020s

Geopolitics & Self-Reliance Strategy

Global shocks accelerate a focus on resilience and strategic autonomy.

1992–1997

Liberalization Reforms

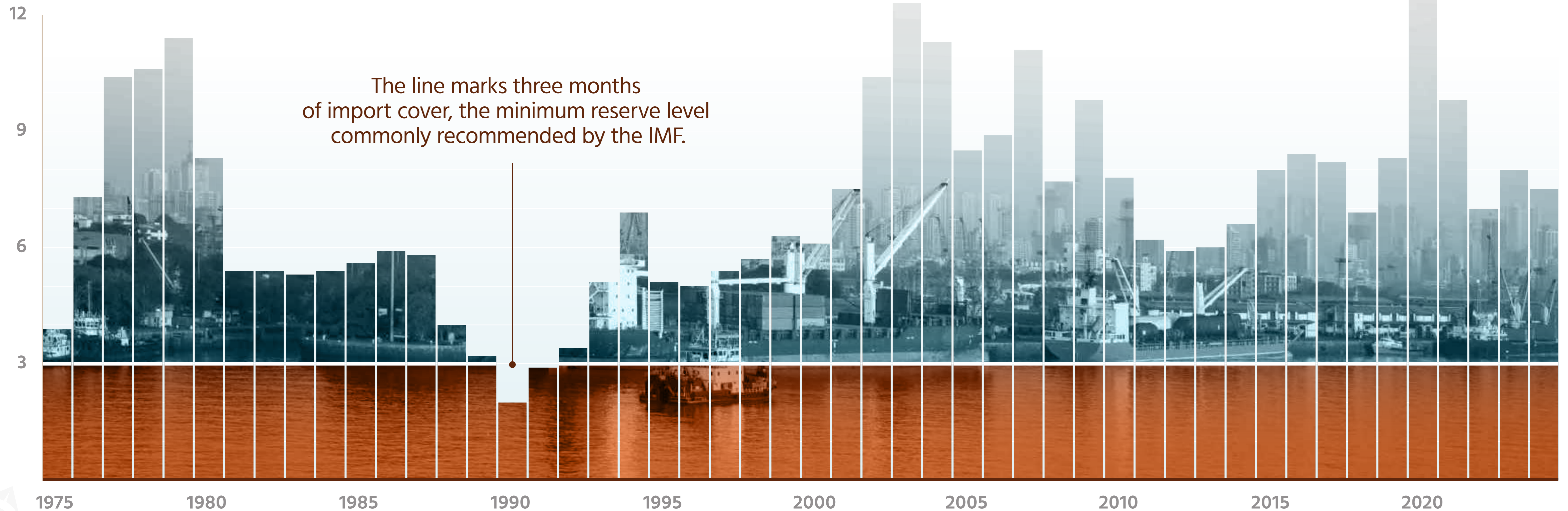
Markets open as trade, investment, and licensing rules are overhauled.

सत्यमेव जयते

A Closed Economy Meets Global Reality

India's import substitution strategy insulated domestic industry but strained balance of payments through persistent currency overvaluation and declining foreign currency reserves. An economic crisis in 1991, largely caused by a balance of payments deficit due to excessive reliance on imports, marked a turning point, forcing India to abandon inward-looking policies in favor of export-led reform.

India's Foreign Currency Reserves
Number of months



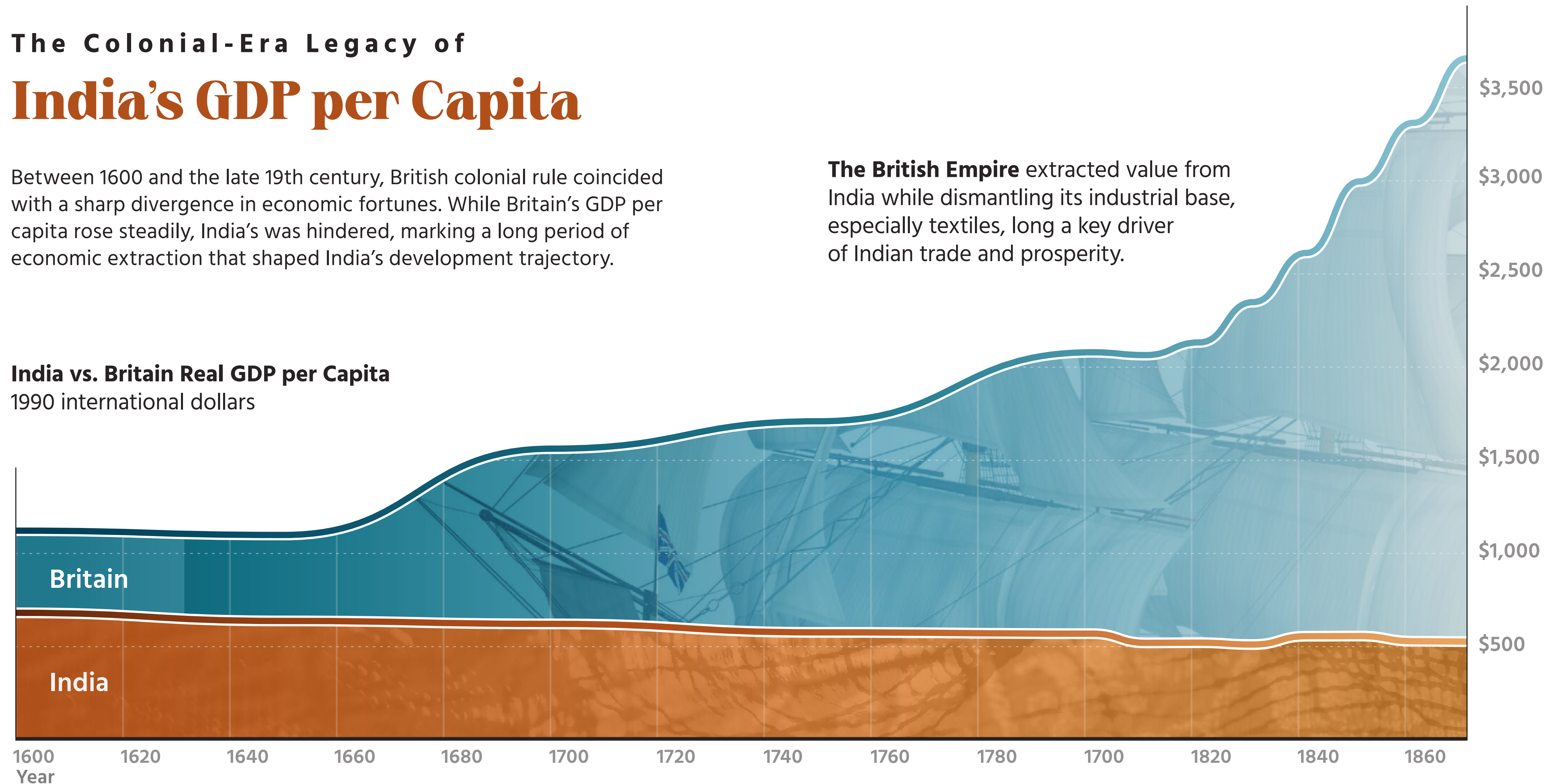
Source: World Bank

The Colonial-Era Legacy of India's GDP per Capita

Between 1600 and the late 19th century, British colonial rule coincided with a sharp divergence in economic fortunes. While Britain's GDP per capita rose steadily, India's was hindered, marking a long period of economic extraction that shaped India's development trajectory.

The British Empire extracted value from India while dismantling its industrial base, especially textiles, long a key driver of Indian trade and prosperity.

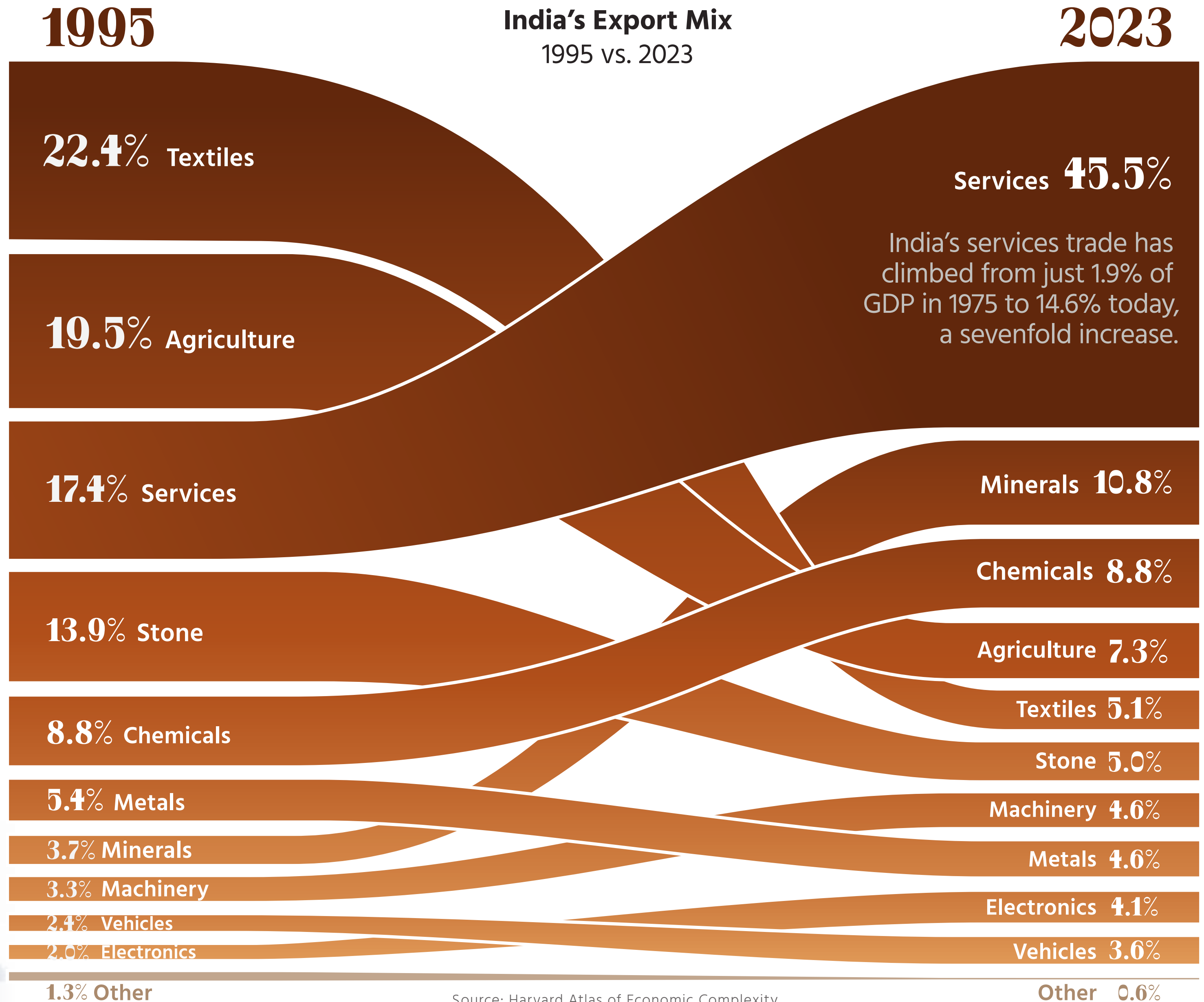
India vs. Britain Real GDP per Capita
1990 international dollars



How India's Export Basket Evolved

India's export mix has steadily modernized, with a rising share of higher-value sectors and more diversified output, yet the overall transformation remains incomplete.

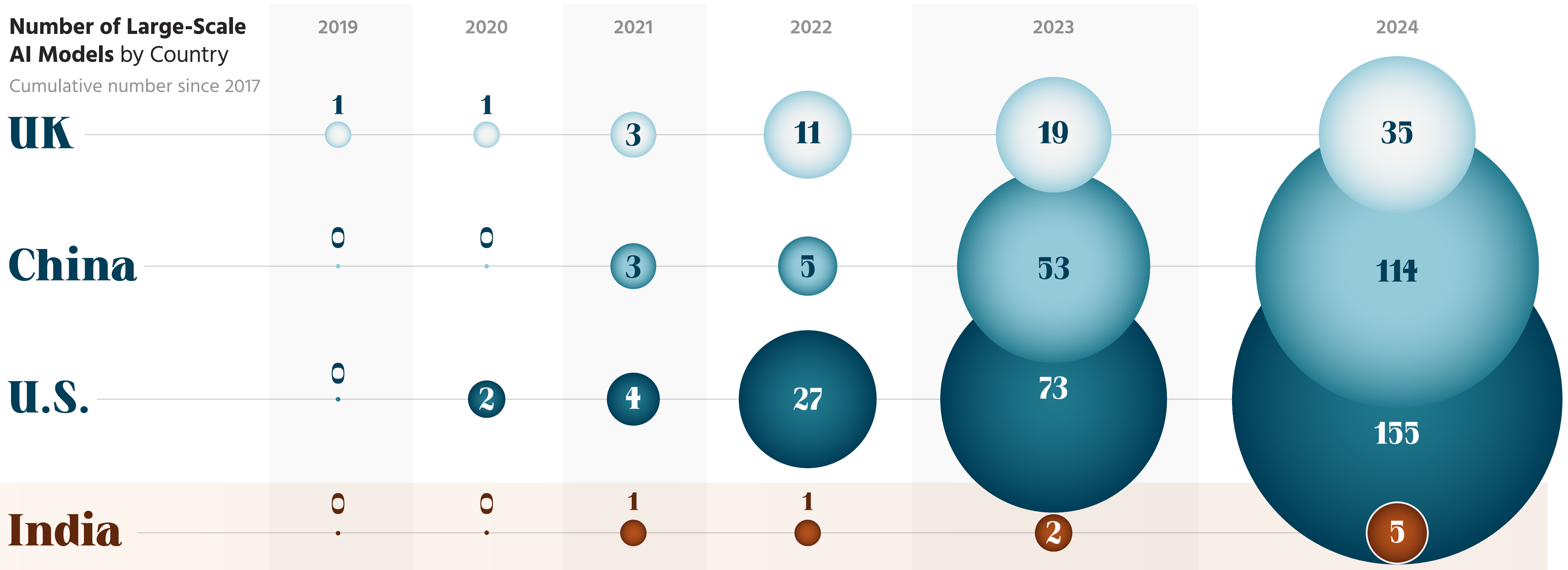
The economy's heavy reliance on services and agriculture has clear limits: weak job creation, dependence on foreign digital platforms, and the weight of low-productivity sectors that slows the shift toward more complex, higher-value products, and manufacturing-driven growth.



Digital Swaraj:

India's Push for Digital Sovereignty

India's push in some quarters for "Digital Swaraj", a movement among some in India's intelligentsia toward greater self-reliance in tech ("swaraj" means self-rule), reflects a growing drive for digital sovereignty and reduced reliance on imports. The country has prioritized expanding domestic tech, AI, and cybersecurity, both to strengthen national security and to insulate its supply chains from geopolitical risks.



Source: Our World in Data

With 500+ million smartphones running on foreign platforms, India's plan pushes for domestic OS, sovereign cloud, and full migration to Indian software by 2030.

03 Geoeconomic Tightrope

How India navigates the U.S.–China rivalry, Russia ties, and trade politics.

India sits at the center of a complex trade triangle: it conducts nearly \$400 billion in total trade annually with both the U.S. and China, even as it competes strategically with Beijing and deepens ties with Washington. At the same time, India has expanded its economic relationship with Russia, capitalizing on discounted energy flows during the post-2022 sanctions era to meet its growing fuel needs.

India's Balancing Act in Global Power

India maintains elevated trade relationships with both the U.S. and China, but the balance has shifted over time. While the U.S. was long India's dominant trading partner, total India-China trade surpassed India-U.S. trade in 2009, reflecting India's deepening import dependence relationship with China.

The U.S. is India's top export destination, taking 18.5% of all Indian exports while China is its largest import source, supplying 17.9% of India's total imports.

Total Trade (Exports + Imports)
China vs. U.S. \$ billions

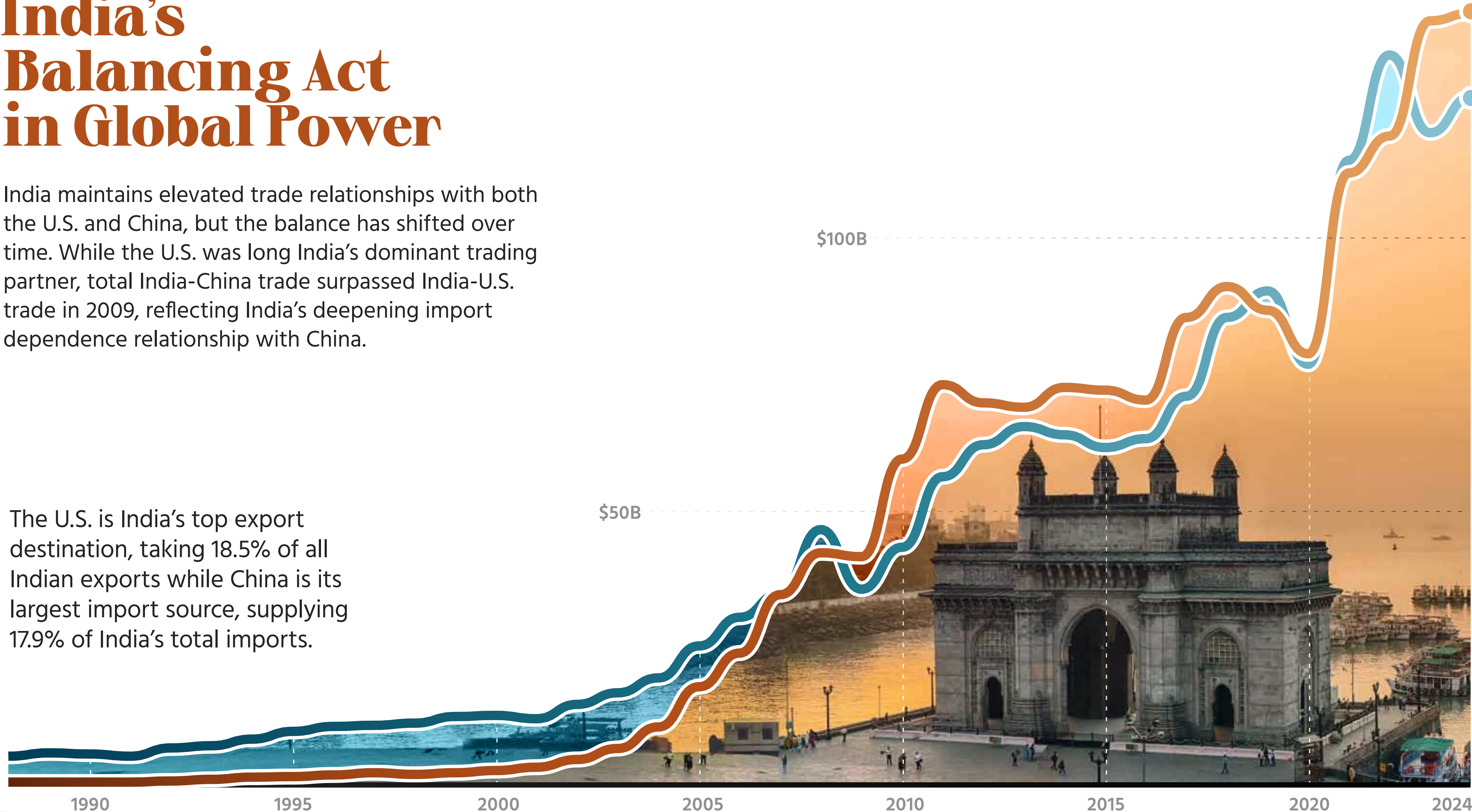
Total Trade in 2024

\$139.6B

China-India

\$124.4B

U.S.-India

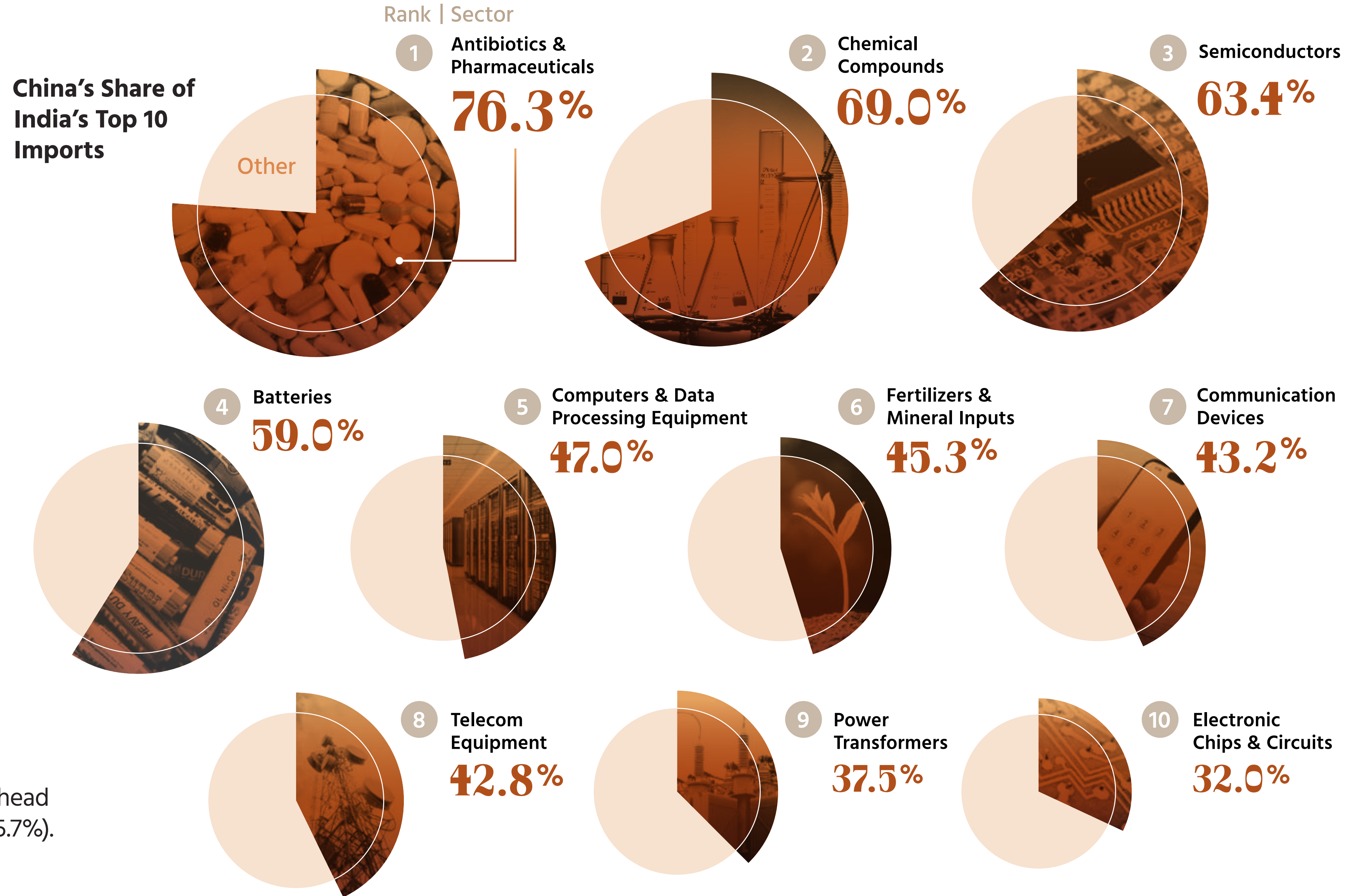


Sources: World Integrated Trade System, The Observatory of Economic Complexity

China: Strategic Rival, Economic Anchor

India's relationship with China is defined by concerns over deep economic dependence alongside strategic rivalry. China's outsized share of India's most important imports reveals how difficult it is for India to unwind this reliance, even as geopolitical tensions persist.

China supplies **17.9%** of India's total imports, well ahead of Russia (9.6%) and the U.S. (5.7%).





2005

2010

2015

2020

2025

Mapping

India's U.S. Relationship

The U.S.-India trade relationship has been shaped by recurring cycles of cooperation and friction, spanning tariff disputes, stalled agreements, visa tensions, and growing strategic alignment.

2018 U.S. tariffs imposed; India retaliates

2019 India removed from GSP

2020 Mini trade deal collapses

2023-2024 WTO and digital trade disputes intensify

2025 Trump tariffs & visa restrictions strain bilateral relations

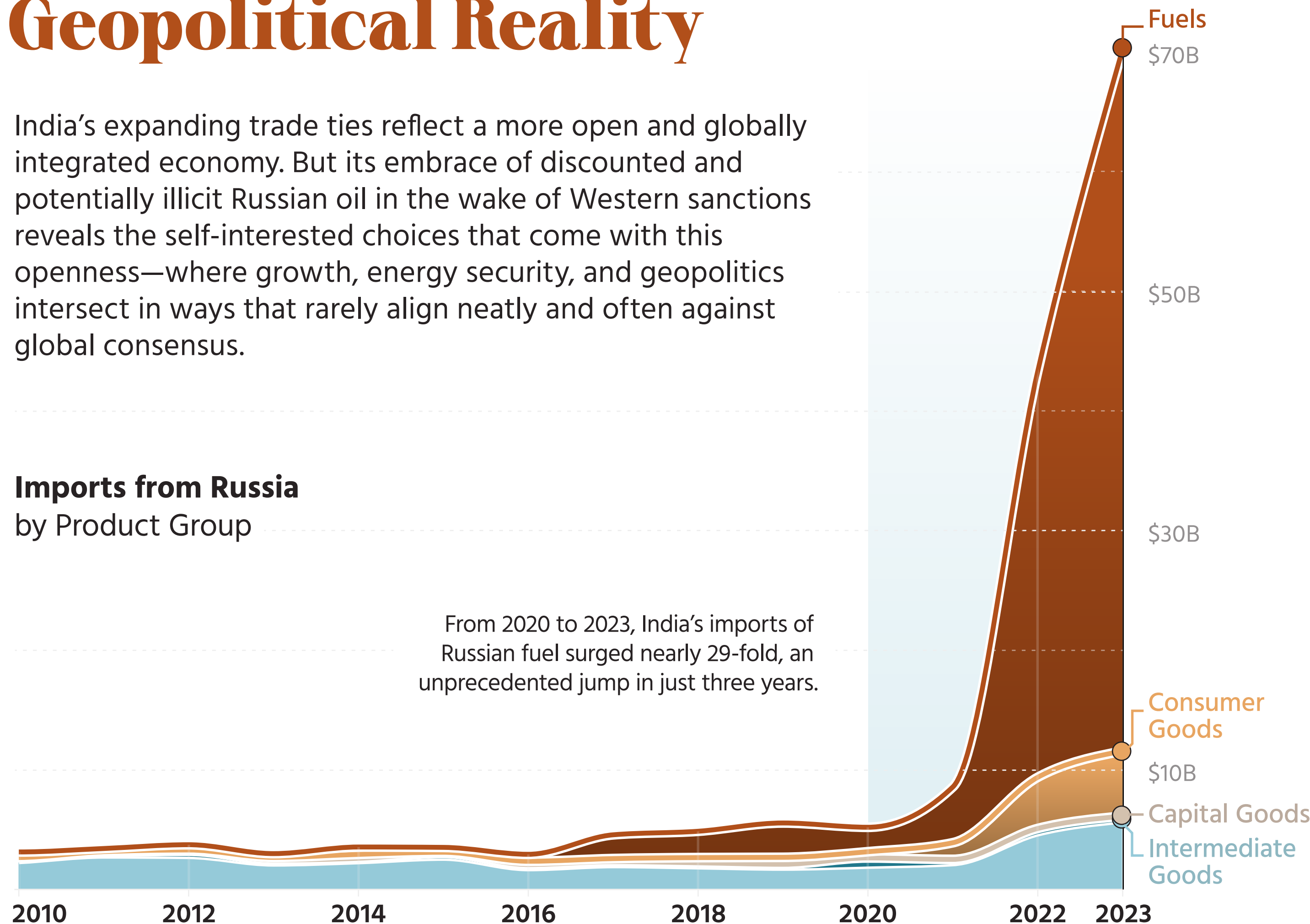
2026 India announces separate trade deals with the U.S. and the EU

Source: USTR; U.S. Department of State; Government of India; U.S. Department of Commerce; WTO; Reuters; White House; U.S. Department of Commerce; Council on Foreign Relations

Trade Openness Meets Geopolitical Reality

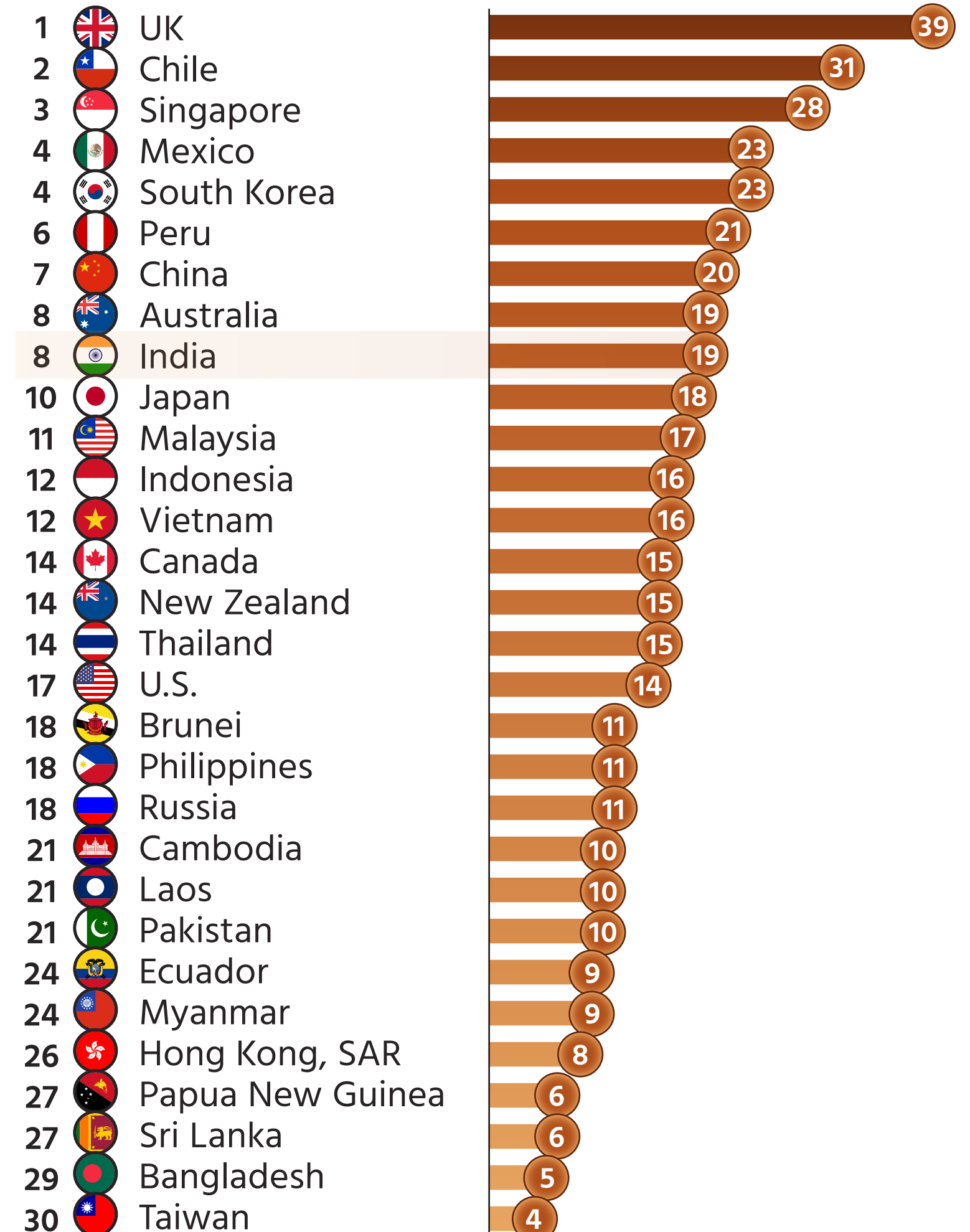
India's expanding trade ties reflect a more open and globally integrated economy. But its embrace of discounted and potentially illicit Russian oil in the wake of Western sanctions reveals the self-interested choices that come with this openness—where growth, energy security, and geopolitics intersect in ways that rarely align neatly and often against global consensus.

Imports from Russia by Product Group



Source: World Integrated Trade System.

Number of Regional Trade Agreements by Country



Source: Hinrich Foundation Sustainable Trade Index 2025, World Trade Organization, Radha D. (2025). Analyzing Growth Patterns: A Historical Perspective on India's Foreign Trade.

04 The Barriers Constraining India's Rise

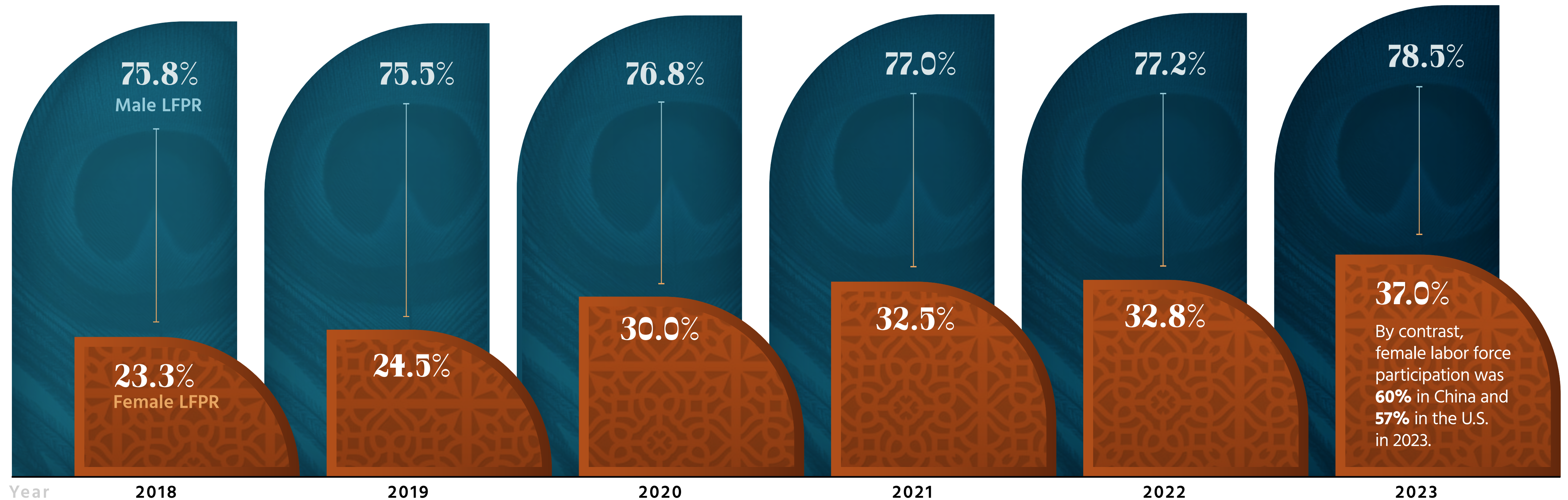
**Where domestic constraints collide
with India's global ambitions.**

Despite India's rise as a global economic power, structural challenges continue to threaten its growth trajectory. Persistent gaps in jobs, skills, infrastructure, and productivity threaten to limit the benefits of growth for much of the population. Understanding these fault lines is essential to seeing the real risks India must navigate to sustain its momentum.

India's Challenge with Women in the Workforce

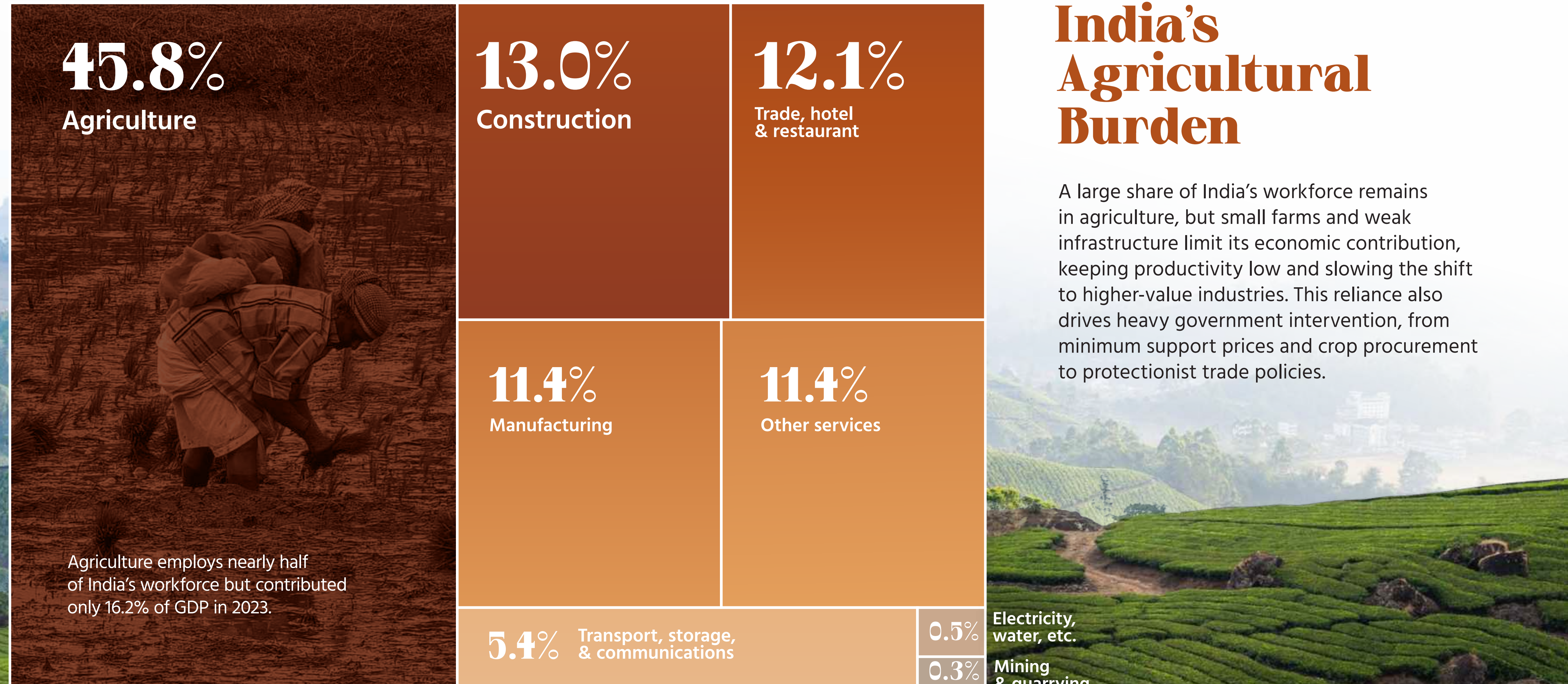
India's female labor force participation is among the lowest globally, representing a major structural drag on productivity and household income. Unlocking women's economic participation remains one of the country's greatest opportunities for broad-based growth.

Male vs. Female Labor Force Participation Rate



Source: Directorate General of Employment India

Distribution of Workers by Industry (%)



India's Agricultural Burden

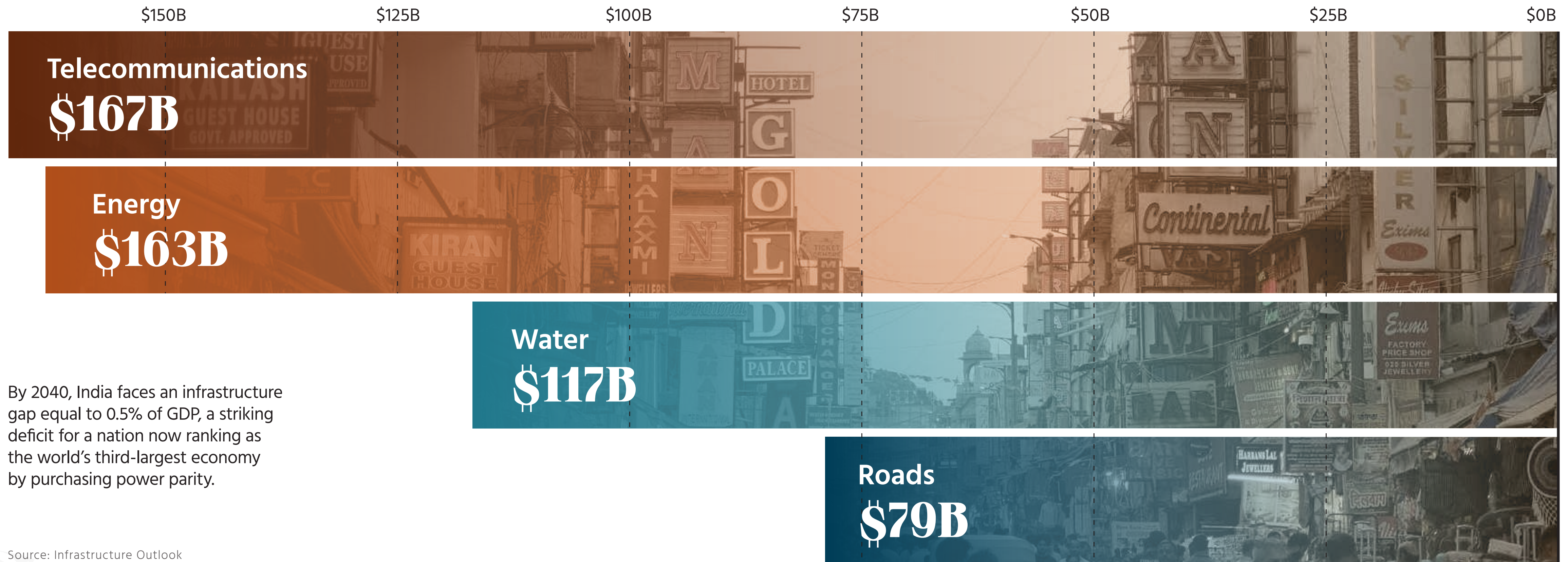
A large share of India's workforce remains in agriculture, but small farms and weak infrastructure limit its economic contribution, keeping productivity low and slowing the shift to higher-value industries. This reliance also drives heavy government intervention, from minimum support prices and crop procurement to protectionist trade policies.

Infrastructure Gaps & Investment Needs

India faces a \$526 billion infrastructure investment gap through 2040, a shortfall that threatens to constrain both productivity and economic opportunity. Without closing this gap, the country risks limiting the very foundations needed to sustain long-term growth.

Infrastructure Investment Gap to 2040 \$ billions

← Investment needed



By 2040, India faces an infrastructure gap equal to 0.5% of GDP, a striking deficit for a nation now ranking as the world's third-largest economy by purchasing power parity.

Source: Infrastructure Outlook

PAHARGANJ MARKET, NEW DELHI, INDIA

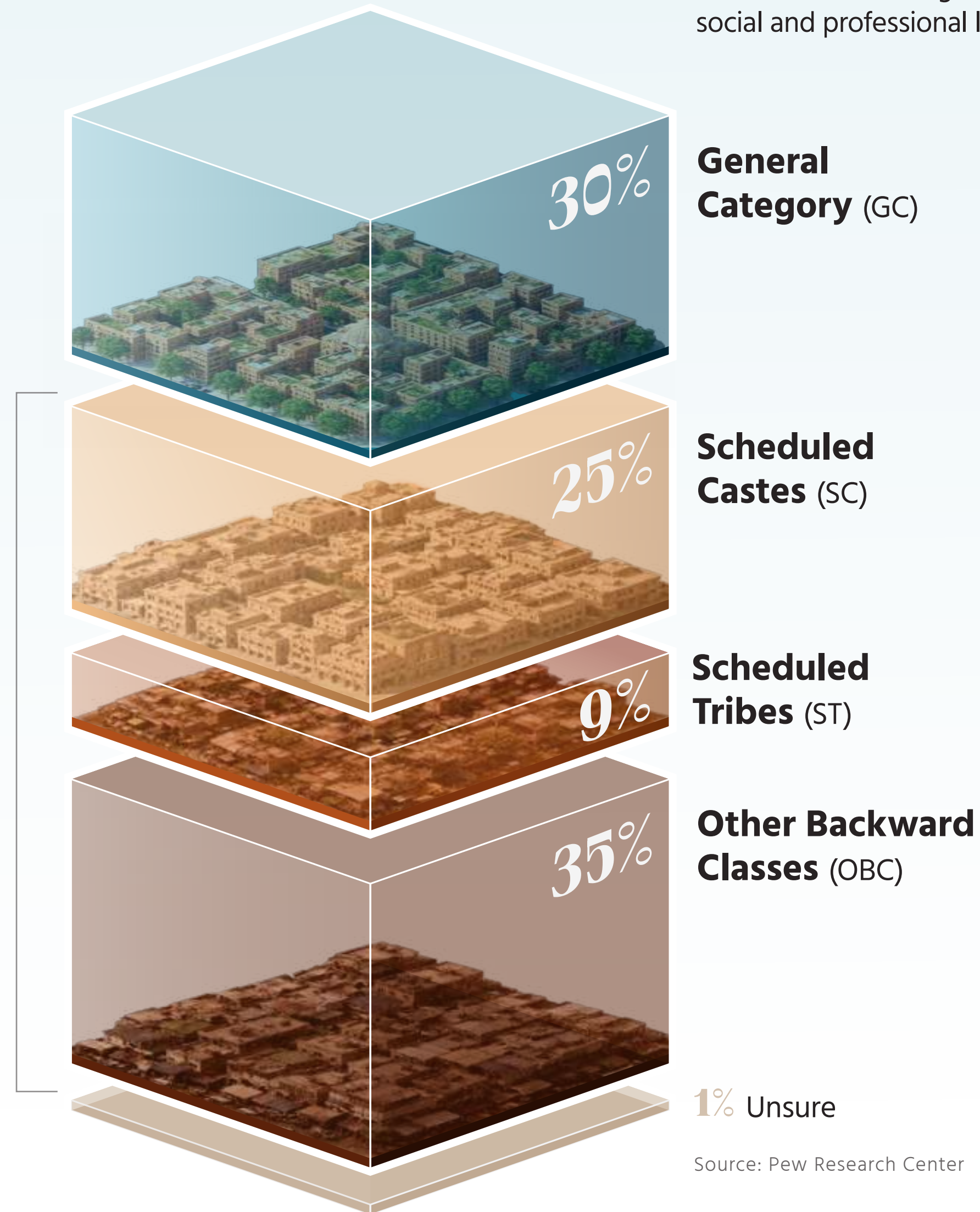
The Missed Economic Potential of Caste Legacy

Caste continues to influence access to education, jobs, and social mobility in India. The system historically divided society into “higher” castes (often referred to today as the General Category) and lower castes, including Dalits, once labeled “untouchables,” who faced severe discrimination.

Today, about 30% of Indians fall into the General Category, while roughly 70% belong to historically disadvantaged groups. These disparities contribute to underused talent, labor market inefficiencies, and a drag on long-term growth, even as many Indians say overt discrimination has declined.

SC, ST, and OBC categories reflect communities shaped by historical disadvantage, while the General Category includes groups that have not faced the same systemic barriers.

Caste population by group
% of Indians who identify as...



India's caste system historically divided Hindu society into four main groups, with a fifth group placed outside the hierarchy and subjected to severe discrimination. Though outlawed, caste still shapes social and professional life, including marriage.

General Category (GC)

Scheduled Castes (SC)

Scheduled Tribes (ST)

Other Backward Classes (OBC)

1% Unsure

Source: Pew Research Center

05 Conclusion: The Road Forward

Where domestic constraints collide with India's global ambitions.

India now sits at the center of the global balance of power, courted by major economies and indispensable to emerging ones.

Its next phase will depend on whether it embraces a more open, investment-friendly model to position itself for global leadership, or continues with a more inward, defensive approach shaped by post-colonial views, limited industrial capacity, and resistance to greater flexibility in multilateral trade rule-making.

About Us

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advancing sustainable global trade

The Hinrich Foundation is an Asia-based philanthropic organization that works to advance mutually beneficial and sustainable global trade.

It supports original research and education programs that build understanding and leadership in global trade. It provides thought leadership and analysis for policymakers, business, media, and scholars engaged in global trade.



Visual Capitalist delivers visually powerful, data-driven stories that bring clarity to a global audience—helping people see the bigger picture across the economy, markets, technology, and more. Its mission is to make the world's data more discoverable by transforming complex information into engaging visuals that capture attention and help readers build understanding.



The Hinrich Foundation Sustainable Trade Index was created to provide a framework to measure the relative capacity of economies to achieve sustainable growth through global trade and investment. The index uses indicators across economic, social, and environmental factors to rank participating economies. The STI provides a tool for policy, business, and academia to shape priorities in advancing the role of global trade in building sustainable economies.



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