WORKING PAPER 317

The China Shock 2.0, Trump Tariffs, and Industrial Policy:

The Case for the Europe-India-Japan-Korea Alliance (EIJ-KA)

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Abstract: *Two megatrends, namely the China Shock 2.0 and the Trump Tariffs, defined the global trade landscape in 2025, causing a lot of disruption in the industrial sector across the world, including factory closures and widespread job losses. Governments worldwide have taken policy measures to protect affected sectors and are considering anti-dumping actions to prevent damage from cheap imports driven by excess capacity flooding markets. The paper makes a case for a Europe-India-Japan-Korea Alliance (EIJ-KA) to coordinate such action to be more effective. Bringing together their shared values, complementary capabilities, resources, and endowments, the EIJ-KA partners could not only protect their common stakes in the ongoing disruptions, but also help to build alternative and resilient supply chains. Furthermore, by coordinating their actions in the global policy discussions, the EIJ-KA could help to restore the credibility of and rebuild multilateral institutional architecture in trade, finance, climate action, sustainable development, and global security, turning the alliance into an important platform for inclusive and sustainable development not only for their own people but the world at large!*

Keywords: *International Trade, China Shock 2.0, Trump Tariffs, anti-dumping, supply chain resilience, Europe-India-Japan-Korea Alliance*

JEL Classification: *F1, F5, F6, O1, O3*

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The China Shock 2.0, Trump Tariffs, and Industrial Policy: The Case for the Europe-India-Japan-Korea Alliance (EIJ-KA)

Nagesh Kumar [*]

1. The Context

Two megatrends defined the global trade landscape in 2025, namely the China Shock 2.0 and the Trump Tariffs. Although the China Shock 2.0 had been building up over the past few years, it became much more visible amid an unprecedented US$1.2 trillion trade surplus, with manufacturing activity around the world feeling the pinch of a flood of cheap Chinese exports, as well as other restrictive trade practices adopted to suppress competition. On the other hand, with the Trump tariffs and other trade barriers, the US started to weaponise access to its large market, disrupting trade and supply chains around the world. Therefore, the world's two biggest superpowers were flexing their muscle on their unsuspecting partners, creating widespread economic disruption and job losses, especially in developing economies.

It is important to take stock of these megatrends and the global nature of their impact, particularly from the perspective of an emerging economy like India, which has been one of the worst affected, to identify the way forward to minimise their effects. Against that backdrop, this paper overviews the megatrends, their implications and explores possible policy options at the national and global levels to deal with them. The paper is structured as follows: Section 2 summarises the trends and patterns in China's trade policy and restrictive business practices (RBPs) that are affecting the partner countries. Section 3 summarises how the Trump Tariffs are affecting partner countries. Section 4 discusses the policy responses by different countries and makes a case for coordinated responses by like-minded affected countries and proposes the Europe—India—Japan Alliance (EIJA) to

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coordinate their actions. It also summarises the possible contours of EIJA responses for building a more inclusive and sustainable global economic order. Section 5 concluded the paper with a few remarks.

2. The China Shock 2.0 and Its Implications

The China Shock 2.0 is an important megatrend referring to the flooding of international markets by heavily subsidised, low-priced goods emanating from huge underutilised manufacturing capacity in China. The first China shock in the early 2000s followed China's accession to the WTO and comprised low-value items like apparel. The current trend covers high-tech, strategic sectors such as electric vehicles (EVs), renewable energy equipment, electronics, and advanced machinery, besides traditional goods like steel and apparel, resulting from massive production capacities created in China through huge state subsidies.

High Concentration of Global Supply Chains in Traditional and Sunrise Industries

The global supply chains of both traditional and sunrise industries have come to be dominated by China (Figure 1). China today produces over 30 per cent of the world's manufactured goods — more than the United States, Germany and South Korea combined. Amongst traditional industries, China has 53% of global crude steel capacity, 60% of aluminium, 51% of cement, 50% of float glass, 40% of global chemical sales, 30% of thermal power equipment, 80% of room air conditioners, and 35% of automobile capacity in the world. Amongst labour-intensive industries, China dominates toy manufacturing with a 70% share, and accounts for 38% of furniture, 55%–60% of footwear, 44% of textiles, and 32% of apparel production.

Figure 1: Concentration of Global Manufacturing Capacity in China, 2024

In Traditional Sectors	In New Green and Sunrise Industries
• 53% of global crude steel capacity, • 60% of aluminium, • 44% of lead, • 51% of cement, • 50% of float glass, • 40% of global chemical sales, • 46% of global petrochemicals sales • 33% of plastics • 30% of thermal power equipment • 80% of room air conditioners • 35% of automobiles • 70% of toys • 38% in furniture • 55-60% of footwear • 43.6% of textiles • 32% of apparel	• 80% of all stages of solar PV panel manufacturing • 76% of Li-Ion batteries, • 60% of global wind turbine capacity and • 62% of global electric vehicle (EV) production. • 75% of the global output of smartphones and laptops. **In Critical Minerals** • over 85% of the world's rare earths, • 60 per cent of the world's germanium, • 80 per cent of global gallium production • 70% of lithium refining • 78 per cent of antimony

Source: Kumar (2025), based on a variety of industry sources listed therein.

In green sunrise sectors, China's domination is even more complete, with over 80% of all stages of solar photovoltaic (PV) panel manufacturing, 76% of lithium-ion batteries, 60% of global wind turbine capacity, and 62% of global electric vehicle (EV) production. China also accounts for 75% of the global output of mobile phones, smartphones, and laptops.

China holds a dominant position in the global critical minerals supply chain, processing over 85% of the world's rare earths, including about 60% of the world's germanium, 80% of global gallium production, 70% of lithium refining, and 78% of antimony. Gallium is used in semiconductors, germanium in both semiconductors and infrared technologies, and antimony in the production of everything from bullets to missiles, while lithium is critical for electric batteries.

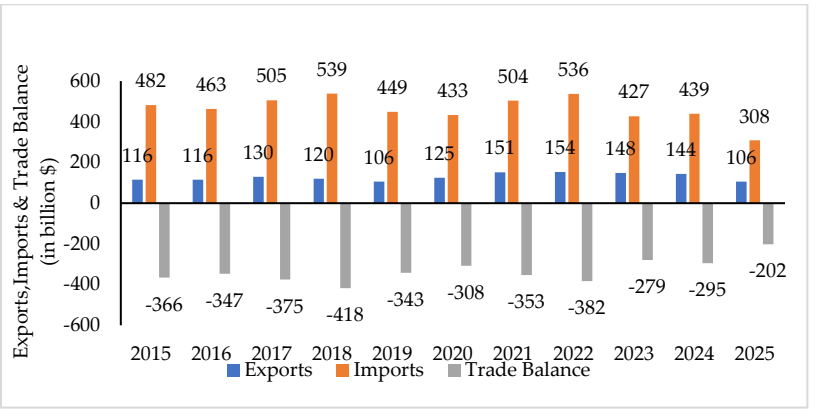
The massive buildup of industrial capacity is a result of industrial policy pursued over the past decades in a coordinated manner by the government at all levels, providing subsidies (as summarised later) and policy support, state-owned enterprises, private firms, financial institutions and other stakeholders in a strategic and coordinated manner. Watanabe (2025) notes that China's industrial policy, comprising the Catalogues of Industrial Guidance prepared by the National Development & Reform Commission (NDRC), is a recipe for overcapacity. Because China continues to account for the bulk of global productive investments, e.g. 62% of global investment in machinery in 2024 (McKinsey 2026), China's domination of global productive capacities will continue to rise. As domestic demand in China for industrial products remains subdued and the share of consumption in GDP has actually declined, the capacity creation will mean a more aggressive export push, especially in countries that are still open to them after the US imposed high tariffs.

China's Mercantilism Entered a Structural Shift Post-Covid

An important aspect of China Shock 2.0 is the rising penetration of subsidised Chinese manufactured goods in markets around the world, resulting in a growing trade surplus for China. An important exception to this trend is the United States, which has reduced its dependence on China through very high tariffs imposed on imports from China. As a result, the trade deficit of the US with China has come down over the years, particularly after peaking in 2022 at US$382 billion to $202 billion in 2025 (Figure 2). It has been pointed out that moderating exports from China to the US, bringing down the trade deficit, has not helped in reducing the global imbalances. Chinese exports have found their way to the US markets through third countries, especially Vietnam, Mexico, among others. Baldwin (2026a) therefore terms it a trade detour, not a trade divorce. US companies still source low-cost Chinese inputs to remain globally competitive, but those parts are now forced to take the long way around, through Vietnam, Bangladesh or Mexico, among other countries.

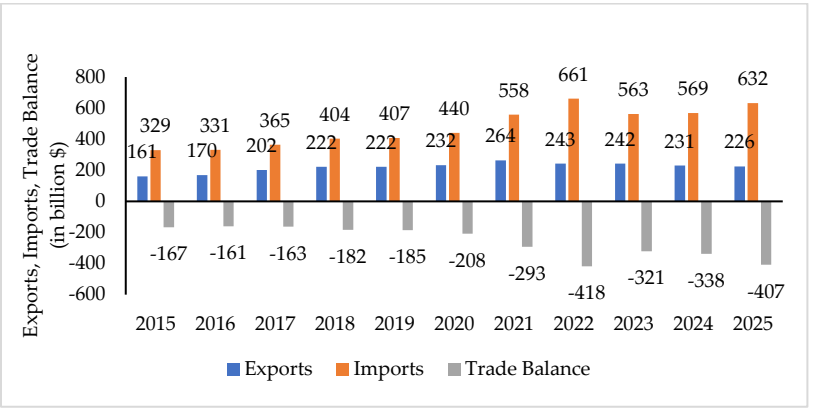
The trade deficit of the EU with China has grown over the years, but the big jump came in 2022 when it increased from $293 billion in 2021 to $418 billion in 2022 before moderating slightly to $407 billion in 2025 (Figure 3). Similarly, Japan's trade deficit with China doubled from $22 billion in 2021 to $44 billion in 2022 and rose to $53 billion in 2025 (Figure 4).

Figure 2: The United States' Trade with China, 2015-25 (in billion US$)



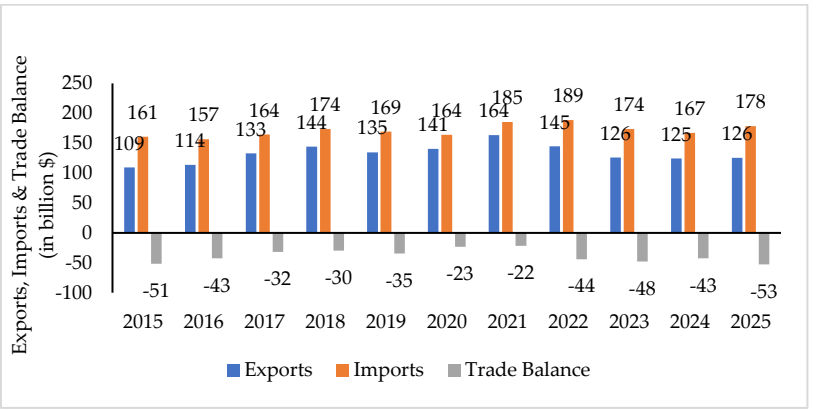
Source: ISID compiled from IMF International Trade in Goods (IMTS)

Figure 3: The European Union's Trade with China, 2015-25 (in billion US$)



Source: ISID compiled from IMF International Trade in Goods (IMTS)

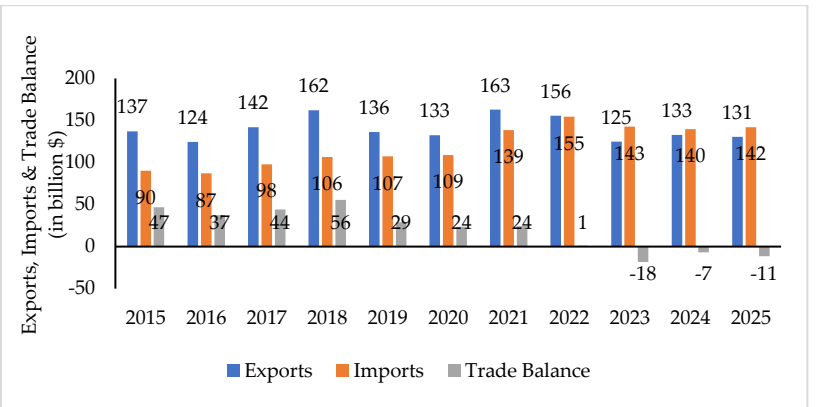
Figure 4: Japan's Trade with China, 2015-25 (in billion US$)



Source: ISID compiled from IMF International Trade in Goods (IMTS)

The case of the Republic of Korea is slightly different in one respect that till 2021, it ran a trade surplus with China because of its large exports of electronic components, machinery, and other equipment (Figure 5). However, as with other countries, China substituted imports from Korea from US$163 billion in 2021 gradually to $125 billion by 2023 before picking up marginally to $131 billion in 2025. On the other hand, China's exports expanded rapidly from US$109 billion in 2020 to $139 billion in 2021 and $155 billion in 2022 before declining to $142 billion in 2025. Hence, the trade surplus of $24 billion that Korea had with China in 2021 turned into a deficit of $18 billion in 2023 and was slightly lower at $11 billion in 2025. Thus, the post-COVID structural shift applied to China's trade with Korea as well, turning its surplus into a deficit!

Figure 5: South Korea's Trade with China, 2015-25 (in billion US$)

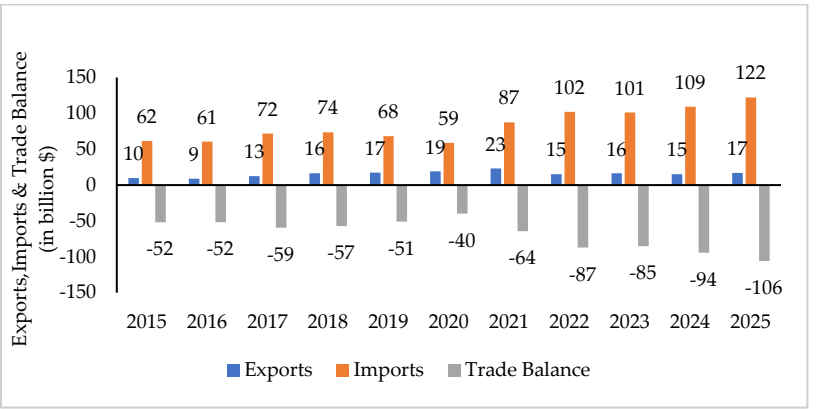


Source: ISID compiled from IMF International Trade in Goods (IMTS)

The emerging and developing economies have seen their trade deficits with China expand consistently over the years. Figure 6 shows that India's trade deficit with China has more than doubled from $52 billion in 2015 to $106 billion in 2025. Important to note is the fact that India's exports to China declined in absolute terms after peaking at $23 billion in 2021 to $15 billion in 2024 before increasing slightly to $16.7 billion in 2025. Imports have steadily increased from $61.5 billion in 2015 to $122 billion in 2025. However, big jump took place in 2021 when India's imports from China increased from $58.7 billion in 2021 to $87.4 billion and further to $102 billion in 2022, finally to $122.3 billion in 2025.

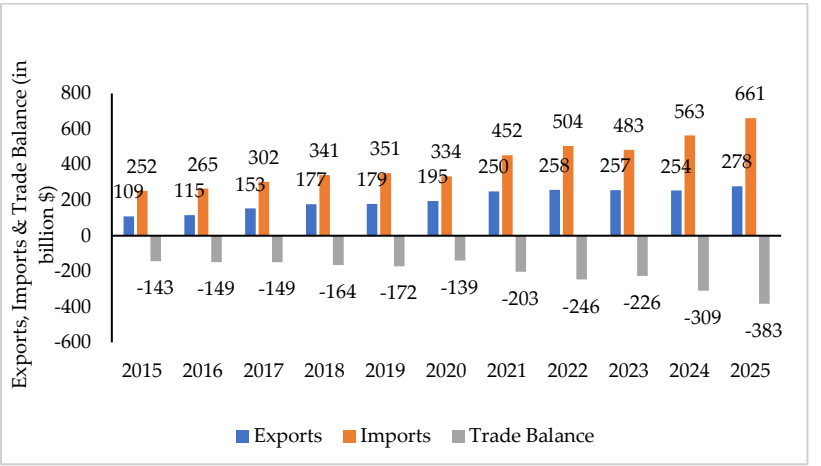
As with India, China's thrust on exporting to emerging and developing Asian countries in view of their growing markets is clearly visible, with the trade deficit of the region with China rising from $142.5 billion to $383 billion over 2015-2025. Like in India's case, here too the big break came in 2021 when the region's imports from China increased from $333.98 billion in 2020 to $452 billion in 2021, then to $661 billion by 2025 (Figure 7).

Figure 6: India's Trade with China, 2015-25 (in billion US$)



Source: ISID compiled from IMF International Trade in Goods (IMTS)

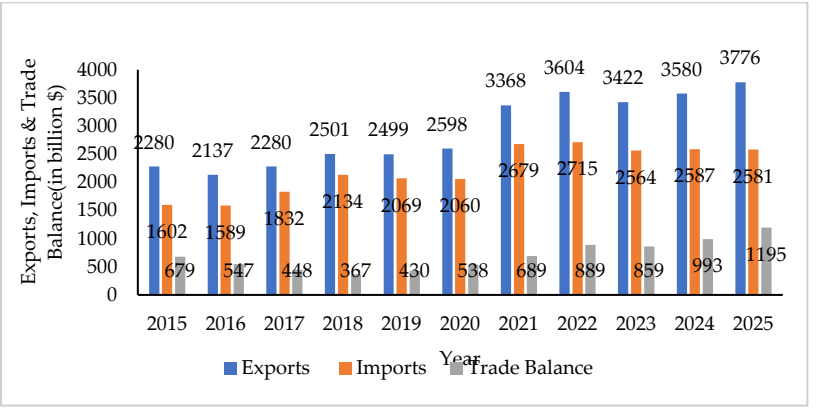
Figure 7: Emerging and Developing Asia's Trade with China, 2015-25 (in billion US$)



Source: ISID compiled from IMF International Trade in Goods (IMTS)

The trends observed above are reflected in China's global trade patterns. Responding to the restrictions on imports from China imposed by the US since the beginning of this decade, China has enhanced its thrust on exports, deepening penetration in emerging and developing countries, especially since 2021. Figure 8 shows a big jump in China's merchandise exports from $2.598 trillion in 2020 to $3.36 trillion in 2021, which has been sustained over the years to climb to $3.776 trillion in 2025. However, China's imports, although they rose from 2.07 trillion in 2020 to $2.678 trillion in 2021, have since moderated to $2.587 trillion in 2025, as China has consistently substituted imports. As a result, China's trade surplus with the world has grown steadily from $537.7 billion to nearly $1.2 trillion (over 6% of GDP) in 2025. The manufacturing trade surplus is higher at $1.8 trillion, or 9% of China's GDP. China's manufacturing trade surplus is equivalent to 15% of the world's MVA in 2025!

Figure 8: China's Global Trade, 2015-25 (in billion US$)



Source: ISID compiled from IMF International Trade in Goods (IMTS)

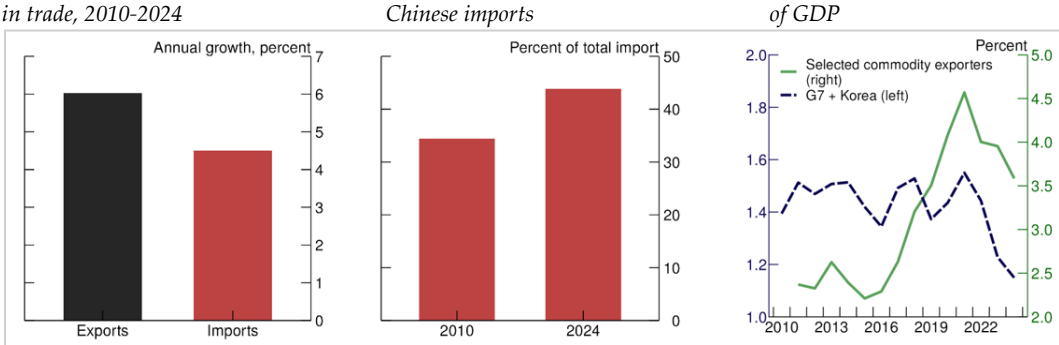
Growing exports while moderating imports indicates that China substitutes imports alongside an aggressive export push as corroborated by other studies. De Soyres et al. (2026) show that average annual growth of China's exports during 2010-2024 is much higher than its imports (Figure 9a). Furthermore, China's imports have become even more concentrated in commodities and commodity-intensive inputs, now accounting for 44% of all Chinese imports (Figure 9b). This divergence points to a change in the geography of China's growth spillovers, away from manufacturing exporters and toward commodity producers (Figure 9c).

Figure 9: Growth of China's Exports and Imports and Commodity Share

a. Chinese average annual growth in trade, 2010-2024

b. Commodity share of Chinese imports

c. Exports to China as share of GDP



Source: de Soyres et al 2026

Baldwin (2026b) argues that China's rising export share masked the rest of the world's decline. Since 2008, the advanced economies' share in manufactured exports (relative to world GDP) fell, China's rose, and the other emerging economies have been roughly flat. Therefore, slowbalization is an accurate description only for them. Excluding China, real world manufactured exports fell from 15% of world GDP in 2008 to 12% in 2024, back to their 2003 level.

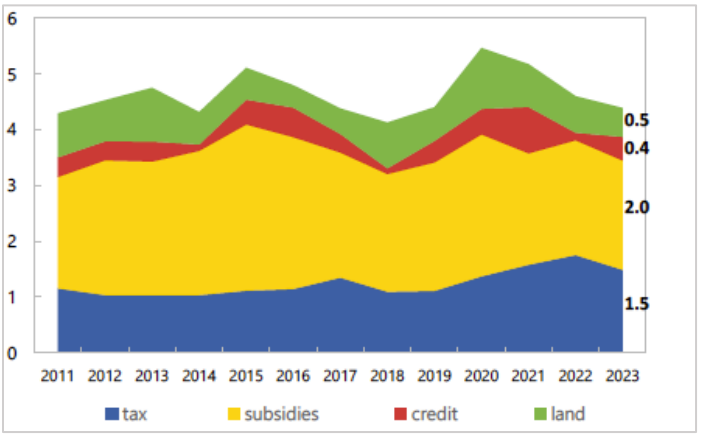
New Evidence on Massive Chinese State Subsidies Driving Export Penetration

The domination of industrial capacities across sectors and deeper export penetration across markets by Chinese enterprises have been sustained through heavy subsidisation by the central, provincial and local governments. The subsidisation of industry in China has been a widely held fact. However, the documented evidence has not been available due to an opaque system. In recent times, two respected intergovernmental organisations, namely the IMF and the OECD, have produced evidence that can be considered credible.

IMF's recent study on industrial subsidies in China (Garcia-Macia et al 2025) has also been quoted widely (see *The Economist* 2025a). Through a systematic analysis of corporate accounts of listed companies included in China's WIND Database, the study has computed the extent of industrial subsidies, covering cash subsidies, income tax breaks, credit subsidies and land subsidies, and finds them adding up to 4.4% of GDP in 2023 (Figure 10). The cash subsidies have the largest share at 2.0% of GDP, followed by tax benefits adding to 1.5% of GDP, with land subsidies and subsidised credit covering roughly 0.5% each. The study does not capture subsidies given in the form of VAT and social security contributions. While the bulk of the subsidies are directed to technology-intensive sectors, consumer durables and apparel received significant cash subsidies, adding up to between 1.5 to 3% of value added (Garcia-Macia et al 2025). Furthermore, the study finds that industrial subsidies in China are nearly three times as high as those given by European countries. Considering that the manufacturing sector accounts for roughly 27% of GDP, the subsidies amount to nearly 16% of the manufacturing value added!

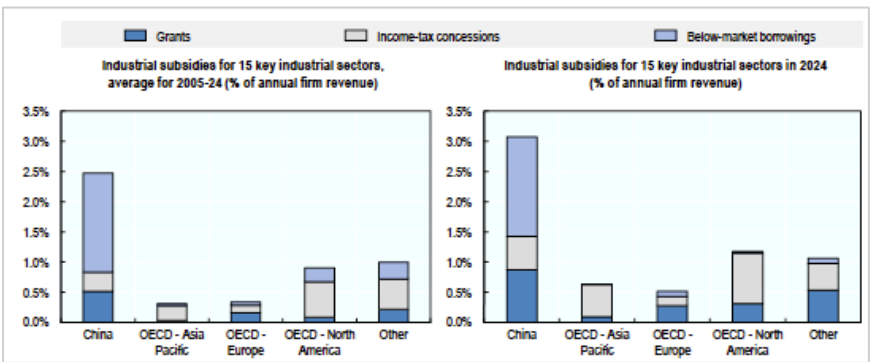
OECD (2026) provides evidence on subsidies provided to the 15 industrial sectors, from its Manufacturing Groups and Industrial Corporations (MAGIC) database, drawing upon the corporate financial statements of the 525 largest manufacturing groups. The MAGIC database finds that between 2005 and 2024, Chinese firms received on average three to eight times more government support than firms based in the OECD, a conservative estimate. These subsidies were also considerably higher than the support received by firms based in non-OECD economies such as Brazil, India, and Indonesia. Industrial subsidies for 15 key sectors accounted for more than 3% of the revenue of Chinese firms in 2024 (Figure 11).

Figure 10: China State Subsidies to Industry, as % of GDP



Source: Garcia-Macia et al (2025)

Figure 11: Industrial Subsidies in 15 Industrial Sectors



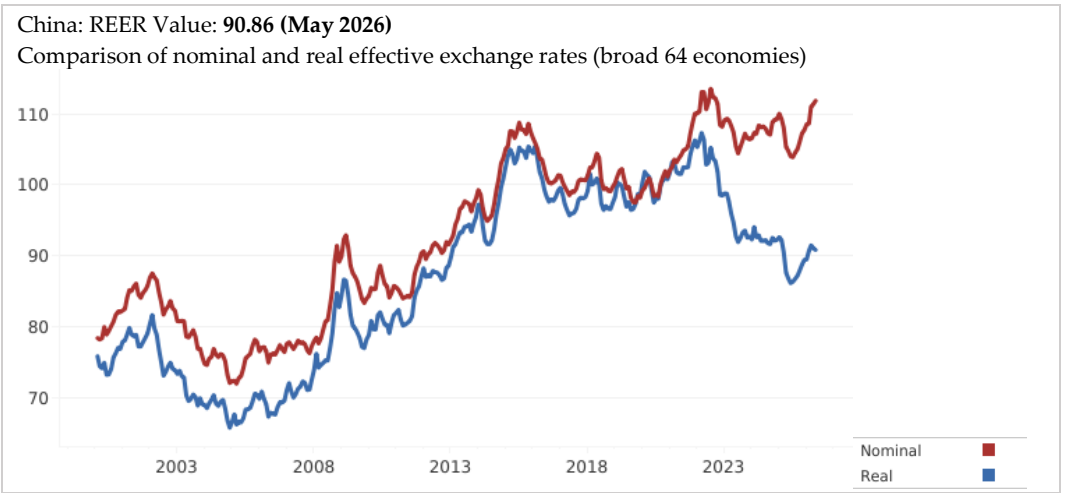
Note: The values are averaged by geographical grouping using firms' revenue as weights. Geographical groupings are based on the lacation of firms' headquarters or main place of production, which does not always correspond to where companies receive their subsidies.

Source: OECD 2026

A depreciated real exchange rate also enhances the competitiveness of Chinese exports

Another aspect of China's industrial policy for boosting the competitiveness of its products in global markets is to keep the yuan undervalued in real terms. For a country that has been running rising trade surpluses year after year for the past three decades, with the magnitude of surplus growing exponentially from $50 billion in 2004 to $1.2 trillion in 2025, its exchange rate should have been appreciating substantially, which would have helped to correct the imbalances. However, as Figure 12 shows, the index of the nominal exchange rate of the yuan has appreciated moderately since 2018, given the policy of limiting movements within a ±2% band since 2014 (earlier limited to a ±1% band). The index of the broad effective exchange rate has tended to depreciate from 100 in 2020 to 90.86 in May 2026. A 10% depreciation in real terms within a few years is significant for enhancing the competitiveness of Chinese exports.

Figure 12: Exchange Rate of Chinese Yuan Renminbi in nominal and real terms



Source: Extracted from BIS Database; https://data.bis.org/topics/EER/tables-and-dashboards

Subsidies and Exchange Rate Management are driving the China Shock 2.0

OECD research shows that almost 60% of Chinese firms' global market share gains between 2005 and 2023 can be explained by the subsidies they received (OECD 2026). But more evidence is now available corroborating that the recent export push by Chinese enterprises is driven and sustained by the subsidies and exchange rate management. A detailed quantitative study by Jean (2026) finds that the increase in China's net exports is 'spectacular' for products supported by a high level of intervention (an increase of 6.2 percentage points of rest-of-the-world imports). The study also finds that the Chinese industrial policy intervention is associated with a 9–18% decline in imports, three years down the road, as it seeks to substitute imports while promoting exports in a typical mercantilist approach**.** Taken together, these two sets of estimates are consistent with a significant impact of domestic subsidies on Chinese net exports. The evidence also suggests that domestic subsidies led to a decline in China's export prices, relative to world export prices, enhancing their competitiveness. De Soyres et al (2026) also find econometric evidence that sectors with more policy interventions experienced faster export growth over 2017-2024 period. This relationship was more pronounced in motor vehicles and battery-related products, where extensive policy support coincided with rapid export expansion.

China is NOT vacating labour-intensive sectors with rising wages

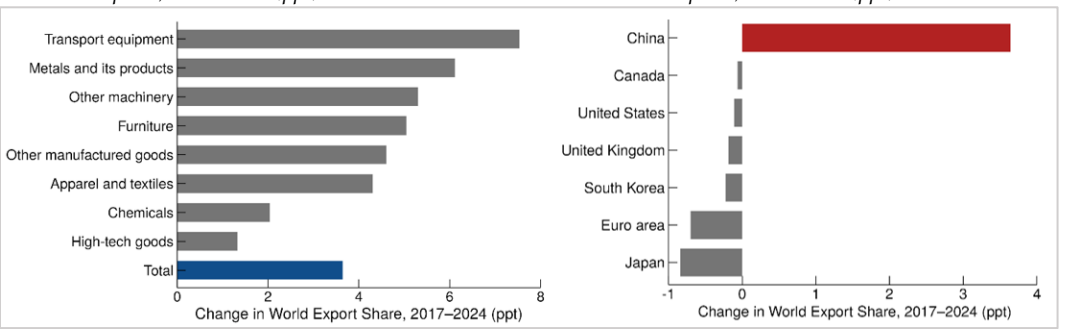
A misconception that is being spread is that with rising wages, China is vacating the labour-intensive industries such as textiles and apparel, footwear, among others, which may provide industrialisation opportunities to other developing countries. The pattern of countries vacating some sectors with erosion of competitiveness as wages rise has been described as 'flying geese' and was practised by Japan and later Korea. However, the analysis shows that China is entering the new technology-intensive industries such as

electronics, semiconductors, EVs, and solar PVs, but is not vacating the labour-intensive ones. Figure 12b shows that China has gained share in global exports significantly, while major industrialised countries including Japan, the Euro area, and the US have all lost their share during 2017-2024. Furthermore, China has gained share in the global market in nearly all manufacturing sectors over the past decade, including in low-value-added consumer goods, such as apparel and textiles, as well as advanced products including automobiles (Figure 13a).[1] Therefore, China has expanded into higher-value sectors without ceding market share in lower-value industries (de Soyres et al 2026). The heavy state subsidies and a supportive exchange rate, besides their massive scales of production, have helped to make Chinese firms formidable players in virtually all sectors.

Figure 13: China's Expanding Shares of Global Exports in Capital as well as Labour-Intensive Sectors

a. Change in China's sectoral share of world exports, 2017-2024 (ppt)

b. Change in countries' share of world exports, 2017-2024 (ppt)



Note: Ppt denotes percentage points. Sector definitions use SITC codes: Chemicals (5); Furniture (82); High-tech goods (75-77); Apparel and textiles (61, 65, 83-85); Metals and its products (67-69); Other manufactured goods (62-64, 66, 81, 86-89); Transport equipment (78-79); Other machinery (71-74). Trade excludes commodities.

Source: de Soyres et al (2026) https://www.federalreserve.gov/econres/notes/feds-notes/chinas-trade-dominance-and-the-role-of-industrial-policies-20260323.html

Chinese 'mercantilist squeeze' is hollowing out developing country industries

China's continued dominance in global exports in labour-intensive sectors such as apparel and footwear has become a source of concern in low- and middle-income countries (LMIC) like India, Thailand and Indonesia. Chatterjee and Subramanian (2026) find that a large share of China's manufacturing surplus, between $700 billion and $1.4 trillion (out of about $2.2 trillion), is concentrated in low-skill-intensive sectors such as apparel and footwear sectors in which LMICs compete. They find evidence that 'a larger share of value-added embedded in labour-intensive goods like apparel is now being created inside China by Chinese labour and capital.' Terming it 'China's Mercantilist Squeeze,' Chatterjee and

[1] When the rising share of global exports of China in Apparel and textiles apparent from the figure 12 is disaggregated further between textiles and apparel, one finds that while that of textiles has increased, share of apparel exports has marginally dipped from 30.9% to 29.7%, still larger than the combined share of the next 6 exporters. As observed earlier, some of the exports to the US are processed in the third countries to escape the high tariffs imposed on China's exports.

Subramanian (2026) find that this is happening in spite of the fact that Chinese manufacturing wages are roughly four times higher than India's, alongside declining labour productivity growth in China, which points to declining China's unit cost advantage. It can only be explained in terms of rising industrial subsidies and exchange rate management, as summarised earlier. Not only does the China Squeeze cost LMICs hundreds of billions of dollars in forgone exports, closing off the traditional manufacturing-led development path, it also operates through rising Chinese import competition in their own markets, hollowing out the local industry. Cheap Chinese manufactured imports outcompete local industries within developing economies. China absorbs very few low-skill consumer goods from poorer nations in return.

Xue (2026) corroborates that China is defying the logic of comparative advantage, competing with advanced economies in capital-intensive industries and developing countries in labour-intensive industries like textiles. Yasheng Huang (2026) calls China an Absolute Advantage Economy: 'it competes with America and with Africa at the same time. At the top of the market, it goes up against the United States in artificial intelligence, electric vehicles, and electronics. At the bottom, it goes up against the poorest countries in Africa, in textiles, clothing, and cheap household goods.'

Another aspect of the division of labour practised by China is to import commodities and export all manufactured goods in a classic centre-periphery trade pattern associated with Raúl Prebisch. Brotto (2026) notes that although China is also a leading producer of commodities, it tends to keep them within its borders. Chinese exports to Brazil, Russia, India and South Africa (BRIS) mainly consist of manufactured products such as low-tech durable consumer goods (e.g. household appliances, televisions and clothing). On the other hand, BRIS countries' exports of manufactured products to China face discriminatory trade policies. China creates barriers to the entry of manufactured goods; it also imposes more export restrictions on critical minerals than any other member.

Subbaraman & Chen (2026) mapped the share of imports from China in manufacturing production across 45 countries at a detailed product level using 2025 data, and found stronger evidence that Chinese imports impacted economies over the previous year. Countries that experienced large increases in their shares of imports from China are usually also the ones that faced the sharpest slowdowns in manufacturing growth. Thailand and Indonesia have faced closures of thousands of garment factories, among other labour-intensive goods, over the past couple of years and are taking action against Chinese dumping (Nikkei Asia 2024; *The Economist* 2025b).

India has similarly faced a surge of imports of consumer goods that have become sizeable. Around US$ 7–8 billion worth of textiles & garments are being imported per annum, including finished products like men's cotton shirts sold under popular local brands. It is a similar story in other labour-intensive sectors like the leather & footwear sector, where 20% of domestic demand for cheap non-leather shoes is met by imports, or imitation jewellery, where the 60-70% of domestic consumption is imported, as in the case of home decoratives,

including idols of gods or decorative lights and so on. Unlike the cheaper imports of capital-intensive industries such as steel or machinery, where Indian companies seek contingent protection, e.g. antidumping duties from the government, affected producers in labour-intensive industries such as garment manufacturers are either unorganised MSMEs not in a position to lobby for antidumping. The larger ones, on the other hand, find it a commercial opportunity to make more profit and happily subcontract their production to cheaper Chinese producers, becoming just traders, as some of the well-known Indian brands have become in recent times, having closed their own production units (ISID 2025).

Restrictive Business Practices are also adopted to undermine competition

Besides resorting to dumping cheap products in the Indian market, China has adopted restrictive business practices and weaponisation of its position as a dominant supplier through several policy actions. These include restrictions on exports of rare earth magnets and critical materials to India that affect India's fledgling electric vehicle (EV) industry, withdrawal of technicians from Foxconn plants in India to disrupt mobile phone assembly in India, refusal to provide technology for EV batteries, and challenging India in the WTO on PLI incentives for Solar PV manufacturing, all in 2025. Kantha (2026) corroborates that 'China has shown itself more inclined to slow India's manufacturing ambitions, through mineral export curbs and informal delays on equipment exports, than to accelerate them.' Chinese automaker BYD and mobile phone makers, Vivo, Oppo, and Xiaomi, have been under investigation by Indian customs over allegations of evading tariffs by intentionally mis-declaring finished goods as components.[2]

China now requires top artificial intelligence (AI) and strategic technical professionals at private and state-backed firms to obtain government approval before travelling overseas. The scope of these restrictions includes researchers, founders, and executives working on advanced AI and sensitive tech sectors like rare earths. Under updated Exit and Entry Administration Provisions taking effect on September 15, 2026, border authorities gain expanded legal power to issue exit bans of up to 3 years to prevent technology and industrial security leaks.[3]

To sum up the foregoing discussion, China Shock 2.0 represents a major challenge to the manufacturing sector of most economies across the world. With heavy state subsidies, exchange rate undervaluation in real terms and their massive scale, Chinese firms are disrupting production processes in both advanced and emerging economies. The European economies and also Japan, for instance, are bearing the shock as their core industries such as automotive, chemicals, and machinery are losing market share globally and facing underpriced competition at home. Emerging and developing countries like

[2] https://www.reuters.com/business/autos-transportation/chinese-carmaker-byd-faces-indian-tax-investigation-sources-2023-08-02/; https://www.pib.gov.in/Pressreleaseshare.aspx?PRID=1847927&reg=48&lang=2

[3] https://www.bloomberg.com/news/articles/2026-05-26/china-expands-travel-curbs-to-top-ai-talent-at-private-firms

India, Indonesia and Thailand, on the other hand, are experiencing a surge of cheap imports, facing factory closures and hollowing out of their local domestic manufacturing, particularly in labour-intensive industries, causing job losses while their efforts to build productive capacities in sunrise sectors are being stymied by restrictive practices. Having erected high protective tariffs, the U.S. is less directly exposed to flooding of cheap goods from China, although they may often be transhipped through third countries.

3. The US Exploiting its Buying Power with Trump Tariffs

Another megatrend of recent times is the US exploiting its buying power or monopsony. The emergence of the US as a major importer globally over time, accounting for nearly 14% of global merchandise imports (2024) is also an important trend. The US has been consistently running growing trade deficits, e.g. $1.06 trillion in 2023, rising to $1.2 trillion in 2024. Some major countries and regions have a very high share of their exports absorbed by the US, e.g. 56% of exports of both Canada and Mexico and 21% of the EU's exports are destined for the US (Figure 14). After high tariffs were imposed on its products, the US share in China's exports has come down gradually from around 20% to 15%. In India's case, 19% of its merchandise exports are destined for the US market; the dependence on the US market for labour-intensive exports such as textiles & garments is much higher, at around 33%.

Figure 14: Share of the United States in Exports of Select Countries

Region/ Country	*Percentage share of the US*	*Region/ Country*	*Percentage share of the US*
EU	21%	Ecuador	26%
Bahamas	59%	El Salvador	30%
Barbados	43%	Grenada	37%
Mexico	56%	Guatemala	34%
Canada	56%	Guyana	28%
China	15%	Haiti	31%
Colombia	26%	Honduras	47%
Costa Rica	39%	India	19%
Dominica	51%	Jamaica	36%
Dominican Republic	44%	World	14%

Source: ISID compiled from IMF Trade Statistics

Easy access to the US market, often on a non-reciprocal preferential basis under the Generalised System of Preferences (GSP), during the years of hyper-globalisation was primarily responsible for the success of the export-led growth strategy pursued by China and other East Asian countries. However, this has changed over the past decade amid rising protectionism, trade wars, and the restructuring of supply chains and reshoring, as globalisation has turned into 'slowbalisation'. In particular, the aggressive manner of adoption in recent times of industrial policy by the United States is an important trend. The

US has defined its industrial policy with the US$280 billion CHIPS and Science Act, the US$737 billion Inflation Reduction Act, and the US$550 billion Infrastructure Investment and Jobs Act, 2022, seeking to foster local manufacturing and innovation. These Acts were also accompanied by high tariffs and anti-dumping duties on select imports (ISID 2025).

In a huge blow to the multilateral trading system and its bedrock Most-Favoured Nations (MFN) treatment that the members of the WTO accord to each other, President Donald Trump of the United States announced high reciprocal tariffs on imports from most countries of the world. India had received particularly harsh treatment from the Trump Administration, with 25% reciprocal tariffs imposed on Indian imports (much higher than 15-20% imposed on some of India's Asian peers). In addition, an additional 25% penal tariffs were imposed on India for importing Russian crude oil from August 2025. In particular, the exports of labour-intensive goods such as textiles & clothing (T&G), gems & jewellery (G&J), leather and footwear (L&F), and food products, especially shrimp, were among the worst affected given their high exposure to the US market. However, the Supreme Court of the US invalidated the reciprocal tariffs imposed by the Trump Administration in February 2026. On the same day, the US Administration imposed 10% global tariffs under Section 122 of the Trade Act. The US has imposed a 10% tariff on account of forced labour, after the Section 122 tariffs lapsed in July 2026. Furthermore, the US Administration initiated Section 301 investigations against 16 countries, including India, creating further uncertainty about the tariff policy directed at India's exports. A 100% tariff has been imposed on generic drugs imported from 2028 and 200% from 2029.

To sum up, the US, under the Trump presidency, is weaponising access to its market in return for preferential access to the markets in the partner countries, besides commitments for investments in the US. Japan has committed to invest US$500 billion, Korea, $350 billion, and the EU, $600 billion, besides $750 billion in US energy purchases.

4. Responding to the Trade Mega-trends: Beyond National Actions?

In the foregoing, two highly disruptive trade megatrends have been summarised. One concerns the dumping of highly state-subsidised goods by China, which are particularly affecting labour-intensive industries in emerging economies like India, besides using its dominance of new sunrise technologies through restrictive business practices that affect their efforts to build productive capacities in new sunrise industries such as solar PV and EVs, batteries, mobile phones and electronics, etc. The second megatrend is the US weaponising its buying power through imposing high tariffs on its trade partners, including developing and emerging economies like India, and adversely affecting exports of their labour-intensive products.

India's Policy Responses

The Indian Government's policy responses have included the reduction of GST rates from 22 September 2025 on several consumer goods to boost local consumption. The

government also announced in November 2025 a Rs. 25,060 crore Export Promotion Mission (EPM) for 6 years, focusing on priority sectors of textiles, leather goods, gems & jewellery, marine products, and engineering goods, covering both promotion of exports as well as their diversification. The government also announced a Rs. 20,000 crore Credit Guarantee Scheme for Exporters (CGSE). Furthermore, in November 2025, the government withdrew several QCOs which had been affecting the ability of MSMEs to import raw materials and intermediates for their production processes, especially in the T&G sector. Also in November 2025, the government notified the four labour codes, as part of a major reform to bring down the compliance burden for enterprises and provide some minimum standards of social security to all workers, which are insisted upon by some of India's trade partners, e.g. the EU in the T&G sector.

In order to facilitate the diversification of export markets to reduce the high dependence on the US market, the government concluded the long-pending FTA negotiations with the 27-member EU on 27 January 2026. Widely hailed as the 'Mother of all trade deals', the new FTA provides a level playing field to India's exports by eliminating tariffs on 99% of Indian exports to the EU market. It is widely expected to boost exports of labour-intensive products like textiles and garments by neutralising the duty-free access that Vietnam and Bangladesh enjoy in the EU. Along with the similar agreements concluded recently with the European Free Trade Association (EFTA) countries and the UK, the India-EU FTA will give Indian exports preferential access to practically the entire European market. Since 2021, India has also established a production-linked incentive (PLI) scheme to foster sunrise industries such as the mobile phone ecosystem, white goods, solar PV, advanced chemistry batteries, EVs, active pharmaceutical ingredients, special steels, technical textiles, among 14 sectors, with a 4-6% incentive provided to firms on incremental output for a certain period (Kumar 2026)

While India has been regularly imposing anti-dumping duties on Chinese imports on the basis of complaints from the industry such as steel imports, so far such action has not been initiated to protect labour-intensive sectors from Chinese competition. LIIs are dominated by MSMEs that are not well organised, and hence they are not equipped to lobby the government for protection against cheap Chinese imports. The government may proactively institute an investigation to establish the injury to the domestic industry by Chinese dumping in labour-intensive industries and consider the anti-dumping duties as appropriate, as Southeast Asian countries like Indonesia are considering. Any steps aiming to impose anti-dumping duties on Chinese imports, however, would need to be accompanied by tightening of the rules of origin to prevent possible diversion of Chinese exports to India through India's FTA partners in ASEAN and SAARC regions. ISID (2025) has also recommended regulation of organised retail, which is a major conduit of consumer goods imports, and strengthening of labelling requirements.

Global Policy Responses

Several countries have acted to protect their domestic industries from a flood of cheap Chinese imports. While the case of the US is well publicised, not much is generally known about steps taken by other emerging countries. Mexico, for instance, has imposed up to 50% duty on Chinese imports of textiles, clothing, footwear, plastics, auto parts, appliances, and electronics from 1 January 2026. Brazil has imposed 25-35% anti-dumping duties on China's imports of iron & steel, fibre optics, and cables, and medical and industrial goods. Indonesia is contemplating 100-200% duties on a variety of imports, including apparel, textiles, footwear, ceramics, cosmetics, and electronics from China to protect MSMEs. Thailand has removed duty-free limits on e-Commerce packages of up to Bhat 1500 and has introduced a new 7% additional VAT on all parcels, in addition to standard tariffs ranging between 5-20%.

The European Union (EU) is responding to the onslaught of the China Shock with several policy measures, including more anti-dumping investigations, the potential for more tariff-quota instruments, and the abolition of the *de minimis* rule, which allowed low-value parcels from Chinese eCommerce firms like Temu and Shein duty-free. On the industrial policy side, it is considering an Industrial Accelerator Act, which is aimed at helping European industries reach scale in strategic industries, in addition to the EU's version of the CHIPS Act and the Critical Raw Materials Act. Now the EU is considering creating the so-called "overcapacity instrument" to deal with state-subsidised Chinese firms producing vast quantities of goods in strategic sectors, although the rhetoric remains very much in support of a rules-based trading system. The proposed EU "overcapacity instrument" is a conceptual cross-sector trade safeguard, designed to act as Europe's equivalent to Section 301 of the US Trade Act, allowing the EU to counter systemic, state-backed foreign overproduction—particularly from China—without requiring traditional, sector-by-sector injury proof that the WTO's anti-dumping or safeguard mechanisms require (Nardelli & Weber 2026; Arak 2026).

Japan's trade countermeasures to counter the China Shock 2.0 and protect its domestic industries focus on four primary pillars: a). Reforming EV Subsidies: instead of applying flat import tariffs, Japan has overhauled its domestic clean energy subsidy structures, which require automakers to maintain an extensive, nationwide network of fast-charging stations, localised maintenance centres, and parts-replacement infrastructure, effectively cutting off Chinese EV brands like BYD from receiving government incentives and increasing their prices. b). Multi-Nation Anti-Overcapacity Coalitions: Japan is coordinating with South Korea, the European Union, and the United Kingdom to create shared, sweeping anti-dumping and countervailing duties against Chinese products flowing out of Southeast Asia and the Middle East, where Chinese manufacturers have routed production to bypass direct trade barriers. c). Supply Chain "De-Risking" and Subsidisation: Japan's main response to the dumping of cheap Chinese legacy semiconductors and legacy electronics is to out-subsidise them at home. The government is incentivising companies through a US$ 2 billion fund to move active factories out of

China and relocate them back to Japan or to "friend-shoring" hubs like India and Vietnam. And finally, d). Critical Minerals security: Japan has prioritised joint G7 efforts to build massive, independent stockpiles of critical minerals, attempting to fully isolate its tech sector from Chinese supply shocks (Tong 2026, Kumar 2025).

South Korea is recalibrating its industrial and trade policies to counter the flood of high-tech Chinese exports in sectors like electric vehicles, batteries, and advanced robotics by moving away from heavy reliance on Chinese raw materials and inputs for critical tech, balancing South Korea's Policy Adjustments Under Trump 2.0 by locking in investment and manufacturing deals, and doubling down on high-end semiconductors and next-gen manufacturing to outpace low-cost pricing pressures. South Korea is navigating intense economic pressure by balancing strategic trade diversification, cautious diplomatic compromise with the U.S., and regional cooperation, including through relocating manufacturing and supply chains to Southeast Asia and the U.S. (e.g., major EV and battery investments), and countering heavy export reliance on the U.S. and China by seeking new markets. Korea is also aiming to become a top-tier global arms manufacturer by 2030 to build strategic autonomy. It is also reinforcing domestic semiconductor and high-tech supply chain resilience to maintain a competitive edge despite rising tech-war pressures.[4]

The Case for a Coordinated Action

While many governments have begun to react through trade defence measures, industrial policy, and efforts to de-risk supply chains, responses remain fragmented and largely uncoordinated. This risks amplifying trade diversion, duplicative investment, and intra-allied competition, while leaving underlying imbalances unaddressed. Without more coordinated action, China's industrial policy is likely to continue reshaping global markets, entrenching dependencies, and eroding industrial competitiveness across both advanced and emerging economies (Rhodium Group 2026). Hence, there is a case for coordinated international action that would be more effective than individual actions. Garcia-Herrero (2026) also makes a case for a more global response, arguing that China's overcapacity is not a bilateral issue; it is a global one. The same surge in low-priced green-tech exports that threatens European manufacturers is also destabilising markets in the United States, Japan, South Korea and emerging economies. Uncoordinated responses risk a fragmented trading system in which China plays divide-and-rule, punishing the most vocal critics while rewarding the more accommodating. Europe, lacking the single-market scale of the US or the raw-material leverage of others, would be particularly exposed to targeted retaliation. Hence, she feels that the G7 could be the appropriate forum for imposing it. While a more global instrument would be desirable than an individual response, the G7 may not be an appropriate forum as it does not include representation of emerging countries like India that are affected, and with the US being a leading G7 member itself, with interest and faith in the multilateral trade rules waning over the past years. A

[4] https://www.globalkoreapost.co.kr/news/articleView.html?idxno=91409

coordinated action by a group of like-minded countries would be more effective. A case for collaborative action has been made very forcefully by Prime Minister Mark Carney of Canada at Davos in January 2026 when he said, 'middle powers must act together because if we are not at the table, we are on the menu.'

Europe-India-Japan-Korea Alliance (EIJ-KA): Strategic Partnership for Inclusive and Sustainable Global Economic Order

What is needed is to build alliances of like-minded partners affected by China Shock 2.0 and the trade policy uncertainties created by the Trump Administration in the US to build alternative supply capabilities and protect their hard-earned productive capacities. In this context, the Europe-India-Japan-Korea Alliance could help to achieve their collective economic security by building alternative supply chains drawing upon their complementary strengths in a win-win manner, as well as a coordinated anti-dumping action against the Chinese goods flooding their markets. Europe here refers to the EU members, the UK, and possibly EFTA member countries, depending on their interest.

The partners in the proposed EIJ-KA share some fundamental democratic values, complementary demographies, technological strengths, entrepreneurial resources, scale and dynamism of their markets. In particular, while Europe, Japan and Korea are facing population ageing, India brings to the table abundant endowments of a youthful, skilled workforce to complement the technological resources of Europe, Japan and Korea, besides a vibrant large market of 1.4 billion people that is growing at the fastest pace among the world's major economies.

Every pair of the EIJ-KA partners has concluded a strategic partnership and an FTA. India-Japan Comprehensive Economic Partnership Agreement (I-J CEPA) has been in force since August 2011 (Kumar 2025); the EU-Japan CEPA entered into force in February 2019 (followed by the Japan-UK CEPA in January 2021); and the EU-India FTA, signed on 27 January 2026, is likely to enter into force towards the end of 2026 (the India-UK FTA came into force in July 2026). Korea has had an FTA with the EU operational provisionally since 2011 and with the UK an upgraded FTA since December 2025. India-Korea Comprehensive Economic Partnership Agreement has been in operation since January 2010, while Japan and Korea are partners in RCEP. Their FTAs or CEPAs could be quadrilateralized through cumulative rules of origin to pursue coordinated industrial policy across the EIJ-KA grouping.

All EIJ-KA partners have been deeply affected by the two megatrends summarised above and have been taking steps to protect their economic security. But their coordinated anti-dumping action would be much more effective than their individual actions. All of them have faced energy security challenges in the aftermath of the two wars, given their heavy dependence on hydrocarbon imports. Together, they can build a much more powerful alliance to strengthen their access to new technologies, markets and opportunities, besides helping to restore faith in the multilateral trading system and rebuilding it with their collective efforts.

EIJ-KA need not be conceived as a closed group and should be open to accession by any FTA partners of the core partners with similar values and bringing complementary assets and strengths, based on a consensus among the partners. The likely future partners may include Canada, Australia, and New Zealand, among others.

The way forward to taking EIJ-KA off the ground would be Track II and/or Track-1.5 discussions followed by Senior Officials/ Trade Ministers/ Foreign Ministers Meetings culminating in an EIJ-KA Summit launching the Alliance. It could prepare a detailed roadmap for sectors chosen for cooperation and a policy framework. The obvious contenders for priority sectors would be EVs, EV batteries, Solar PV equipment including cells and wafers, critical minerals processing, rare earth magnets, wind turbines, electrolysers for green hydrogen, semiconductors, AI data centres, among others. Defence industrialisation, including advanced fighter jets and engines, shipbuilding, among others, could also be part of the cooperation to support ReArm Europe 2030, Japan's National Security Strategy, and India's defence indigenisation programme. EIJ-KA should also include R&D cooperation to develop a new generation of solar panels and batteries for the clean energy transition and circular economy approaches for enhancing ecological sustainability.

Among the collaborative actions that EIJ-KA could consider involving are the following:

- Building alternative and resilient supply chains and shared capabilities for critical minerals processing, rare earth magnets, semiconductors, AI data centres, quantum computing, clean energy technologies and equipment including solar, wind, thermal, small modular nuclear, green hydrogen value chains, advanced chemistry batteries and electric mobility, circular economy, defence industries, besides addressing energy security challenges, including through coordinated strategic reserves, refining capacities, and diversification of crude supplies.
- Develop a shared EIJ-KA understanding on the EU's "overcapacity instrument" or a shared anti-dumping instrument to be used for protecting local industrial capacities from subsidised Chinese imports, obviating the need for sector-by-sector injury proof. They could also develop a common approach to negotiations with China on an undervalued exchange rate (*à la* the Plaza Accord), and coordinate their possible response to the US tariffs, S.301 investigations and other coercive measures
- Integration and quadrilateralization of their mutual FTAs with cumulative rules of origin, along with strengthened rules for investment facilitation and protection, technology transfer and data protection
- Creation of a joint fund for incentivising companies to move active factories out of China for reshoring or friend-shoring within EIJ-KA (*à la* a Japanese initiative in that direction). Similarly, creation of a fund for fostering joint research harnessing the synergies among Europe, Japan, Korea and India for futuristic and sustainable technologies for shared deployment (*à la* Horizon Europe and other framework programmes for collaborative research)
- Coordinated approach to the reform of multilateral architecture covering the United Nations Security Council, the Bretton Woods institutions, G20, WTO/GATT and UNFCCC

- Coordinated approach to development across continents such as South Asia, the Pacific, the Caribbean, and Sub-Saharan Africa, following the example of India-Japan cooperation for the Asia-Africa Growth Corridor.

The case for an alliance between Europe, India, Japan and Korea to respond to the recent economic security challenges is gaining ground. For instance, a group of experts and researchers at a workshop organised by the Kajima Institute of International Peace, Japan and the Institute for Security and Development Policy, Sweden, also made a case for Japan, India and the EU (Sekiyama, Panda, and Shikata 2025):

> *In today's increasingly multipolar world, and with the Indo-Pacific region gaining strategic prominence, it is both natural and necessary for new alliances to form around shared goals of economic security. Japan, India, and the European Union (EU) are particularly well-positioned to lead such efforts. Their aligned interests, complementary capabilities, and shared values provide a strong foundation for cooperation. By strengthening their partnership, these actors can not only advance their mutual interests but also help fill the leadership void left by a more inward-looking United States.*

Sekiyama, Panda, and Shikata (2025) also provide recommendations for the trilateral partnership for economic security of the partner countries based on contributions by Bhatia (2025) on trade architecture, Okano-Heijmans and den Wijngaard (2025) on technology cooperation, Shinoda (2025) and Panda (2025) on economic security cooperation, among others.

5. Concluding remarks

In the foregoing, an attempt has been made to summarise the key megatrends in the global trade landscape, namely the China Shock 2.0 and the Trump Tariffs, which have caused a lot of disruption in the industrial sector across the world, led to factory closures and affected the job security of hundreds of thousands of workers. Concerned by the adverse effects on their economies and societies, governments in different parts of the world have been taking policy measures to protect the affected sectors as well as contemplating anti-dumping type of actions to prevent the damage from cheap imports from excess capacity flooding the markets. It has been argued here that such action would be more effective in a collaborative and coordinated manner by a group of affected countries. In that context, a proposal for the Europe-India-Japan-Korea Alliance (EIJ-KA) has been made. Bringing together their shared values, complementary capabilities, resources, and endowments, the EIJ-KA partners could not only protect their common stakes in the ongoing disruptions, but also help to build alternative and resilient supply chains. Furthermore, by coordinating their actions in global policy discussions, the EIJ-KA could help restore the credibility of, and rebuild, multilateral institutional architecture in trade, finance, climate action, sustainable development, and global security.

The time has come to leverage the strong strategic and economic partnerships at bilateral levels between the EU and India, the EU with Japan and Korea, Japan and Korea with India, and their shared democratic values, complementary resources and expertise and development priorities, and build EIJ-KA as an important platform for inclusive and sustainable development not only for their own people but the world at large!

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