



# Delhi Policy Group

Advancing India's Rise as a Leading Power



## POLICY BRIEF

# China's Trade Disputes Against India and WTO Reform

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**Delhi Policy Group**

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*India's largest semiconductor fabrication facility ("Fab") is being built by Tata Electronics (TEPL) and Powerchip Semiconductor Manufacturing Corporation (PSMC) from Taiwan in Dholera, Gujarat. Source: [X/@gujarat\\_plus](#)*

*Dixon Technologies (India), India's leading Original Design Manufacturer (ODM), operates in-house facilities for designing, manufacturing, and testing a wide range of products, including washing machines, LED TVs, and LED bulbs. Source: [X/@DixonTech\\_India](#)*

*The Ningbo-Zhoushan Port in east China's Zhejiang Province handled more than 1.4 billion tonnes of cargo in 2025, ranking first globally in annual throughput for the 17th consecutive year. Source: X/[China Xinhua News](#)*

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**China's Trade Disputes Against India and WTO Reform**

by

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# China's Trade Disputes Against India and WTO Reform

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## Introduction

Through two successive dispute settlement initiations at the World Trade Organization (WTO), China has challenged several of India's Production Linked Incentive (PLI) schemes as being inconsistent with WTO disciplines. The first dispute<sup>1</sup>, initiated in October 2025, concerns India's PLI schemes for battery storage, automobiles and auto components, as well as incentives for the manufacture of electrically driven vehicles. The second dispute<sup>2</sup> dated December 23, 2025 targets India's PLI scheme for solar cells and modules, along with tariffs imposed on certain information technology products.

China alleges violations of provisions of the WTO Agreement on Subsidies and Countervailing Measures (ASCM) and the Agreement on Trade-Related Investment Measures (TRIMs). In the second dispute, China has also alleged breaches of India's tariff commitments under the Information Technology Agreement (ITA-1). At the core of China's complaints is the claim that the incentives under these schemes - being contingent on domestic value addition - accord less favourable treatment to imported goods than to like domestic products.

India is likely to respond, first, by contesting the applicability of ITA-1 to the products covered under the second dispute. Second, it may argue that the PLI schemes do not offer export-contingent subsidies, but are policy instruments designed to promote domestic manufacturing, employment, and technological capability in identified strategic sectors. Third, it may note that certain aspects of the second dispute - relating to mobile phones - are already the subject of appellate proceedings arising from disputes initiated by other members.

While outlining these developments, this brief does not seek to undertake a technical legal analysis of the merits of China's claims, nor does it attempt to predict the eventual outcomes of the two disputes.

## The Irony of China's Challenge

<sup>1</sup> <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=Q:/G/L/1588.pdf&Open=True>

<sup>2</sup> <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=Q:/G/L/1622.pdf&Open=True>

There is, however, a pronounced irony in China's decision to challenge India's efforts to strengthen domestic manufacturing in sectors where China itself has relied extensively on state support and industrial policy. China has long deployed a wide range of industrial policy instruments - particularly in what it designates as priority sectors - to promote domestic manufacturing and global market dominance. A key difficulty for other WTO members has been the opacity surrounding these measures, which has historically constrained effective multilateral scrutiny and dispute initiation.

Only in recent years have clearer estimates of the scale of Chinese industrial subsidisation begun to emerge. A recent International Monetary Fund study<sup>3</sup>, for instance, estimates the fiscal cost equivalent of China's industrial policy at approximately 4 per cent of GDP annually. It further observes that "among the most subsidised sectors are those often identified as priorities by the authorities," including semiconductors, high-technology manufacturing, and automobiles.

A growing body of literature also documents how China - already accounting for roughly 35 per cent of global manufacturing output - has pursued a strategy of creating persistent overcapacity and channeling it into export markets at depressed prices. This has had significant adverse effects on manufacturing activity and employment in many other economies. Structural features such as the dominant role of state-owned enterprises, pervasive state and party influence over market decisions, targeted subsidisation, and national champion-building are central to this model. Notably, China has neither meaningfully vacated lower-end manufacturing as it has moved up the value chain, nor rebalanced sufficiently towards domestic consumption. The result has been widening developmental asymmetries and record export surpluses, reaching approximately USD 1.2 trillion in 2025.

The WTO Secretariat document on Trade Policy Review<sup>4</sup> of China (November 2024) underscored these concerns, noting that China's subsidy notifications and responses "do not enable the Secretariat to have a clear picture of China's support programmes," particularly in sectors such as electric vehicles, solar modules, semiconductors, steel, aluminium, and shipbuilding - sectors with significant global spillovers.

<sup>3</sup> <https://www.imf.org/-/media/files/publications/wp/2025/english/wpiea2025155-source-pdf.pdf>

<sup>4</sup> <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/TPR/S458R1.pdf&Open=True>

In the very sectors implicated in China's disputes against India, China commands dominant global market shares: approximately 80 per cent of global solar panel and module manufacturing<sup>5</sup>; around 40 per cent of global electric vehicle exports<sup>6</sup> in 2024 (a share that appears to have risen further in 2025); and roughly 75 per cent of battery cell and storage exports<sup>7</sup>.

China has also demonstrated a willingness to leverage its manufacturing dominance in strategic sectors for non-trade objectives. Trade actions against Japan (2010 and more recently), the Republic of Korea (2016), Australia (2020), and Lithuania (2021) illustrate this pattern. More recently, China's export restrictions on critical minerals and magnets - affecting all trading partners - have heightened concerns about the vulnerabilities created by excessive dependence on a single supplier, even where such measures may have been triggered by reciprocal actions taken by the United States.

## Economic Security and the WTO Rulebook

Against this backdrop, a critical question arises: WTO rules should not be deployed in a manner that constrains the ability of countries - particularly developing countries - to pursue policies aimed at strengthening domestic production, securing supply chains, and reducing strategic dependencies. These objectives are increasingly central to national economic security.

The era of globalisation shaped primarily by considerations of economic efficiency and comparative advantage - principles that informed much of WTO rule-making - is giving way to one in which resilience, diversification, and risk mitigation are equally salient. Where the system is systematically exploited by a continental-scale economy, welfare gains for one set of countries can translate into welfare losses for others.

Major market economies have already begun recalibrating their trade and industrial policy frameworks accordingly. It is therefore imperative that WTO reform processes also take account of these shifts.

The United States' National Security Strategy released last month<sup>8</sup> explicitly identifies economic security - including resilient supply chains and re-

<sup>5</sup> <https://www.iea.org/data-and-statistics/charts/china-s-share-in-global-pv-manufacturing-capacity-2024-and-2030>

<sup>6</sup> <https://www.iea.org/reports/global-ev-outlook-2025/executive-summary>

<sup>7</sup> <https://www.iea.org/commentaries/the-battery-industry-has-entered-a-new-phase>

<sup>8</sup> <https://www.whitehouse.gov/wp-content/uploads/2025/12/2025-National-Security-Strategy.pdf>

industrialisation - as a core national priority. The US has imposed tariffs on a wide range of products on national security grounds under its trade law across a range of products including steel, aluminium, copper, automobiles, and auto parts, with additional measures under consideration. Earlier, in September 2024, it imposed a 100 per cent tariff on Chinese electric vehicles, citing subsidies, intellectual property concerns, and market-distorting practices.

The European Union, the United Kingdom, and Japan have similarly adopted industrial policy frameworks aimed at strengthening domestic capacity in strategic sectors. The EU's Critical Raw Materials Act<sup>9</sup>, for example, establishes explicit benchmarks for extraction, processing, recycling, and diversification of supply, including a cap on dependence on any single third country. The UK's modern industrial strategy<sup>10</sup>, announced in November 2025, explicitly links public finance deployment to economic and national security objectives, including supply chain resilience.

### **Economic Security as an essential part of WTO Reform**

With the 14th WTO Ministerial Conference scheduled for March this year in Cameroon, discussions on WTO reform are intensifying. While these discussions may not yet be mature enough to yield concrete decisions at Yaoundé, the Ministerial is likely to outline a reform agenda for further negotiation ahead of the 15th Ministerial Conference in 2028.

It is now high time that economic security be identified as a core area for discussion and negotiation as part of WTO reform. Existing trade remedies - anti-dumping measures, countervailing duties, and safeguards - are inadequate to address structural overcapacity and systemic concentration that call for sustained industrial policy responses. Notably, under the GATT, members had previously relied on bilateral arrangements with centrally planned economies to manage trade imbalances, an approach that reflected recognition of structural asymmetries.

Future WTO rules should allow greater policy space for supply chain risk mitigation and sourcing diversification. Members should have the flexibility to limit imports of designated strategic products beyond certain thresholds from a single source country, without being required to undertake protracted

<sup>9</sup> [https://single-market-economy.ec.europa.eu/sectors/raw-materials/areas-specific-interest/critical-raw-materials/critical-raw-materials-act\\_en](https://single-market-economy.ec.europa.eu/sectors/raw-materials/areas-specific-interest/critical-raw-materials/critical-raw-materials-act_en)

<sup>10</sup> <https://www.gov.uk/government/collections/the-uks-modern-industrial-strategy-2025>

investigations. Such disciplines could help discourage the deliberate creation of excess capacity by any single WTO member.

These issues are complex and economically sensitive, and this brief does not seek to underestimate that complexity. Rather, it underlines the urgency of initiating serious discussion, so that workable and balanced solutions can emerge.

The United States has argued in its WTO reform submissions<sup>11</sup> that problems such as overcapacity and over-concentration cannot be effectively addressed through multilateral rule-making unless the members benefiting from such practices undertake fundamental changes to their economic systems, an outcome it views as unlikely. While this argument has some merit, it should not serve as a justification for avoiding engagement on this issue altogether. Unlike the US, most WTO members lack the economic leverage to address these challenges unilaterally. For them, the absence of multilateral solutions risks a continued deepening of vulnerabilities, with limited avenues for remedial response.

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<sup>11</sup> See WTO document WT/GC/W/984 dated December 15, 2025



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