



# Delhi Policy Group

Advancing India's Rise as a Leading Power

## ECONOMIC SECURITY AND RESILIENCE REVIEW

JANUARY 2026

*Author*

V.S. Seshadri

Volume IV, Issue 1



**Delhi Policy Group**

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### ABOUT US

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*The views expressed in this publication are those of the author and should not be attributed to the Delhi Policy Group as an Institution.*

### Cover Images:

Indian Prime Minister, Narendra Modi welcomed the President of the European Council, António Costa, and the President of the European Commission, Ursula von der Leyen for the 16<sup>th</sup> EU-India Summit, in New Delhi, on January 27, 2026. Source: [European Commission](#)

Indian Prime Minister, Narendra Modi and German Chancellor, Friedrich Merz, participates in the International Kite Festival, in Ahmedabad during the latter's official visit to India, on January 12, 2026. Source: [Prime Minister of India](#)

Indian Prime Minister, Narendra Modi met the President of the United Arab Emirates, Mohamed bin Zayed Al Nahyan, in New Delhi, on January 19, 2026. Source: [Prime Minister of India](#)

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## Contents

Introduction .....	1
India-EU Agreements .....	2
Joint Comprehensive Strategic Agenda.....	3
India-EU FTA .....	4
Overall assessment .....	7
MOU between RBI and ESMA.....	8
India-US trade deal announcement.....	8
President of UAE visits India .....	9
Visit of German Chancellor Merz .....	10
India and Japan hold strategic dialogue.....	10
India invited to join the Pax Silica Initiative .....	10
Economic Survey 2025-26.....	11
Union Budget gives push to strategic manufacturing .....	12
Indian electronics industry to cut import dependence .....	13
CEA Nageswaran identifies areas for immediate indigenisation .....	14
Embraer and Adani Group to set up aircraft unit in India .....	14

# Economic Security and Resilience Review

by  
V. S. Seshadri

## Introduction

This issue focusses on the outcomes from the joint visit of the President of the European Council Antonio Costa and the President of the EU Commission, Ursula Von der Layen, to India, as chief guests of India's Republic Day celebrations, that resulted in some path breaking agreements. Topping the list was the India-EU bilateral FTA that has been under negotiation from 2007 onwards, even as talks had remained paused from 2013 to 2022. This report points to the key provisions in the agreement and also makes a broad assessment about its benefits.

Other outcomes from the visit included the five-year bilateral strategic agenda till 2030 and the India-EU Defense Security cooperation, both of which when fully implemented could further consolidate the FTA benefits. This report flags the key elements relating to economic resilience and economic security addressed in the strategic agenda. The signing of an MOU between the Reserve Bank of India and the European Securities and Markets Authority (ESMA), which is the EU's financial markets regulator and supervisor, could also enhance regulatory cooperation between the two sides in this important area.

Another major trade-related announcement briefly outlined in this issue is the conclusion of a framework trade deal between India and the US announced on February 2, that has been arduously negotiated by the two sides over the last one year. While full details are awaited, it appears Indian products will now face a reduced 'reciprocal tariff' rate of 18% as against the cumulative tariffs of 50% (25% reciprocal tariff plus 25% tariff imposed on account of Russian oil purchases) that were in force from August 2025.

This issue also covers outcomes of two other high-level visits during the month, by Chancellor Merz of Germany and the President of UAE Sheikh Mohamed bin Zayed Al Nahyan, both of which had a substantive focus on economic security related matters.

Other developments covered in this ESRR include the strategic dialogue between India and Japan during Japanese FM Motegi's visit, India's inclusion in the Pax Silica Initiative, and the Adani Group-Embraer deal on building passenger aircraft in India.

On the domestic front, this issue looks at the Economic Survey for 2025-26 that was presented on January 29. The Survey expects economic growth to attain 7.4% during the current financial year and also assesses the growth for the coming year at around 7%. Of particular interest in the Survey is its analysis and recommendations on what it terms as the 'swadeshi' policy towards promoting industrial development in the present complex international situation.

This report also focusses on the economic security related elements in the annual budget for 2026-27 presented by Union Finance Minister Nirmala Sitharaman on February 1. Proposals put forward include those aimed at scaling up manufacturing in seven strategic and frontier areas including biopharma, semiconductors, critical minerals and magnets, electronic components, capital equipment, chemicals and textiles. The 21-year tax holiday announced for establishment of data centres by foreign companies marks a new approach towards attracting foreign investors in this hi-tech sector. Some customs sops have also been announced for incentivising investments and production of Li-ion batteries, nuclear power generation and other areas.

## India-EU Agreements

The joint visit of the President of the European Council, Antonio Costa, and the President of the EU Commission, Ursula Von der Layen, to India, as chief guests of India's Republic Day celebrations, resulted in a rich harvest of agreements and announcements that will significantly boost ties between India and the European Union in the coming years, including by enhancing the economic security of both partners. These included, apart from a joint statement, the following:

1. Towards 2030: A Joint India-European Comprehensive Strategic Agenda.
2. Announcement on the conclusions of the negotiations of India-EU FTA.
3. MOU between Reserve Bank of India and the European Securities and Market Authority (ESMA).
4. Security and Defense Partnership that is expected to deepen cooperation inter alia in defence industry and technology.
5. MOU on a comprehensive Framework on cooperation on mobility.
6. Constitution of a green hydrogen task force.

Details in respect of some of the foregoing agreements are provided below to the extent they relate to trade, resilience and economic security.

## Joint Comprehensive Strategic Agenda

This extensive agenda<sup>1</sup> up to 2030 is set out in terms of broad action plans across five pillars covering prosperity and sustainability, technology and innovation, security and defense, connectivity and global issues, and an enabler pillar that covers expanding skills mobility, involving business community and reinforcing institutional architecture.

The pillar relating to prosperity and sustainability in turn focusses on boosting trade and investment, strengthening supply chains and economic security, and advancing the clean transition and resilience. Here the action plan urges not only the timely implementation of the just announced FTA but also calls for conclusion of a bilateral Investment Protection Agreement and an Agreement on Geographical Indications, on both of which negotiations are ongoing. On strengthening supply chains, it foresees specific types of cooperation in a number of areas including semiconductors, critical minerals, active pharmaceutical ingredients (APIs) and all energy sectors. The list of action items on the clean transition front is the longest in the agenda, covering the whole host of energy technologies and their application areas.

The technology and innovation pillar in turn focusses on supporting critical and emerging technologies, advancing a conducive digital environment and promoting research cooperation. Promoting collaborative research, start-ups and industrial deployment have received particular focus in the areas of artificial intelligence (AI), quantum, advanced semiconductors, clean tech and biotech.

On the digital side, there is, inter alia, a call for creating a trustworthy, secure, fair, and interoperable digital ecosystem, including by strengthened regulatory collaboration. There is also provision for collaboration on digital public infrastructure (DPI), leveraging experience in e-governance solutions, policies and standards and large-scale platforms to support financial inclusion, digital identity, and efficient public service delivery, as well as to promote deployment of joint DPI solutions in third countries.

Of interest on the connectivity pillar is the call for deepening strategic collaboration under the India-Middle East-Europe Economic Corridor (IMEC) to diversify trade routes, reduce strategic dependencies, promote regional integration, and future-proof supply chains, including support to infrastructure development, maritime, rail, digital, and energy. And within this framework it also seeks advancing the

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<sup>1</sup> [https://www.mea.gov.in/bilateral-documents.htm?dtl/40616/Towards\\_2030\\_A\\_Joint\\_IndiaEuropean\\_Union\\_Comprehensive\\_Strategic\\_Agenda](https://www.mea.gov.in/bilateral-documents.htm?dtl/40616/Towards_2030_A_Joint_IndiaEuropean_Union_Comprehensive_Strategic_Agenda)



EU-Africa-India Digital Corridor including through the Blue Raman submarine cable system to provide ultra-high-speed, secure, and diversified data connectivity resilient to disruptions caused by natural disasters or acts of sabotage.

## India-EU FTA

Both sides also announced the conclusion of the long negotiated and much awaited India-EU FTA that was lauded by PM Modi as not just a trade agreement but a new blueprint for shared prosperity. The EU Commission President Ursula Von der Layen stated 'We delivered the mother of all deals. We are creating a market of two billion people'.

The deal involving a closer trade partnership between the world's second largest economy, the EU, and the world's fourth largest economy, India, is also the largest FTA concluded by either side. It was also the eighth FTA concluded by India after the resumption of its FTA-making efforts that began with a comprehensive agreement with Mauritius in 2021 (the last FTAs concluded before this resumption were with Japan and Malaysia in 2011). Other FTAs concluded subsequently have been with the UAE, Australia, EFTA, UK, Oman and New Zealand. When the EU FTA comes into force, India's total FTA portfolio would cover around 50% of India's exports and 45% of imports.

While the text of the FTA with the EU has not been made available since it still has to go through the process of legal scrubbing and signing, after which it also needs ratification by both sides that may take a year or so, details put out by both sides<sup>23</sup> officially indicate the following as comprising the key features:

### Market access for goods

India will receive duty free access from day 1 of implementation for 70.4% of tariff lines which account for 90.7% of its exports to the EU. These include marine products, gems and jewellery, electronics, leather and footwear, textiles and garments, chemicals, rubber and toys. An additional 20.3% of tariff lines get zero duty in three to five years, which include select marine and processed items and these cover another 2.9% of exports. Furthermore, 6.1% of tariff lines, covering around 6% of exports, get partial tariff cuts or quotas that include poultry items, preserved items, bakery, cars, steel and select shrimp. EU has excluded beef, sugar, rice, poultry, honey, bananas and ethanol from any tariff cut. In all, almost 99% of

<sup>2</sup> <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2219146&reg=6&lang=1>

<sup>3</sup> [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india/eu-india-agreements/memo-eu-india-free-trade-agreement-chapter-chapter-summary\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india/eu-india-agreements/memo-eu-india-free-trade-agreement-chapter-chapter-summary_en)

India's exports (that stood at USD 75.85 bn in 2024-25) get covered by tariff eliminations or reductions.

The EU in turn will receive tariff free entry for 49.6% of tariff lines on entry into force covering 30.6% of its exports. Another 39.7% of tariff lines with a trade value of 63.1% of its exports will see phased elimination in 5, 7 and 10 years. There will be only duty cuts on 3% of tariff lines for sensitive items. There will also be specified tariff rate quotas for some agricultural items and cars.

The tariffs on cars will fall from 110% to 10% for a quota set at 250,000 units. Also in respect of tariff cuts on alcoholic beverages, the present tariff level of 150% will get reduced to 20% for premium wines, 30% for mid-range wines, 40% for spirits and 50% for beer. India has excluded dairy, cereals, poultry, soymeal, select fruits and vegetables from any tariff reduction even as tariff elimination has been given for olive oil, chocolates and confectionery, and sheep meat.

Overall, India's tariff offers to the EU relate to 92.7% of tariff lines covering 97.5% of EU exports. (Import of goods from EU in 2024-25 amounted to USD 60.7 bn).

### **Market access for trade in services**

India will benefit from commitments made by the EU across 144 sub-sectors including IT and IT enabled services, professional, education and business services. India in turn has offered concessions on 102 sub-sectors including telecom, financial, environmental and maritime services. There are also ease of mobility provisions for business visitors, intra-corporate transferees, contractual service providers (37 sub-sectors) and independent professionals (17 sub-sectors).

In the financial services sector, India has provided 100 percent FDI commitments in the insurance sector and 74 percent for banking services. India has also provided market access for bank branches to the EU numbering 15 branches over a 4-year period.

Both sides have also agreed to engage and identify professional services for negotiating mutual recognition or similar agreements. Further, commitments on the recognition of qualifications, experience, and certifications have been made so that, if the EU enters into an agreement or arrangement on recognition with any third party, it will open negotiations with India to conclude a similar arrangement.

India and the EU have an ongoing trade in services which totalled USD 83.1 bn in 2024. (As per EU figures, EU's exports were Euro 26 bn and imports Euro 33.8 bn in 2024)



## Other highlights of the India-EU FTA

1. Rules of origin (ROO) in the FTA will have product-specific rules for a substantial set of products.
2. Provision for self-certification of ROO by the exporters.
3. Provisions that will enable trade in traditional Indian medicine to grow
4. The FTA provides for a three-tiered Rapid Reaction Mechanism (RRM) that can address any concern arising from the implementation of the FTA. The first tier is at specialised committee level, second at joint committee of senior officials and third at the ministerial level.
5. Interestingly, government procurement does not appear to have been covered by the agreement. It is not clear if there is an in-built agenda to negotiate this later.
6. The digital trade chapter includes protection from mandatory disclosure of source code. It does not, however, appear that the issue of 'data secure' status for Indian companies has been covered.
7. The Trade and Sustainable Development chapter appears extensive, as in earlier FTAs signed by the EU, covering areas like environment and climate, labour and gender. While the EU Commission's website calls the commitments in these areas legally binding and enforceable, it appears that they will be only subjected to a dedicated consultation mechanism and not the FTA's dispute settlement mechanism.
8. Unlike India's FTAs with EFTA and New Zealand, there appears to be no commitments by the EU side on the level of investments that will be made by EU based companies in India.

## CBAM not fully addressed

One area of disappointment for the Indian side is that the EU has made no concession for Indian exporters from the application of its carbon border adjustment mechanism for high carbon products like steel, aluminium, fertilisers, cement etc., that has come into force from January 1 this year.

What has, however, been agreed is that any flexibility that may offered by the EU to any of its other partners will also apply to imports from India. It also provides for a rebalancing of rights if EU measures under the regulation impair the benefits of the pact for Indian firms, or if the EU fails to establish adequate grounds for such measures (presumably these apply to only future extensions of CBAM and not to those already in place).

The EU has also announced that the two sides will sign an MOU on a bilateral platform for cooperation and support on climate action, to be launched in the first half of 2026. A sum of Euro 500 m is expected from the EU over the next two years for such technical cooperation covering carbon pricing, recognition of verifiers and financial and technical assistance to reduce emissions.

### **Next steps on the FTA**

The FTA text is expected to undergo legal vetting by the two sides after which it has to be ratified. From the EU side, this will also involve approval by the European Parliament. The general expectation is that these processes may not find much internal opposition in the EU, unlike in the MERCOSUR case, since the FTA excludes sensitive agricultural items. The general expectation is that the FTA is likely to become operational in 2027.

### **Overall assessment**

1. There can be little doubt that this mega FTA could be a game changer and potentially boost bilateral trade, investment and other economic ties. Buttressed by the prevailing level of economic complementarity and strategic political convergence relating to the Indo-Pacific region, it could also help forge trusted supply chains, catalyse newer trade routes (IMEC), promote deeper technology cooperation and enhance defense industrial cooperation.
2. There needs to be an element of caution, however, from the Indian side. While the market access achieved through the FTA, particularly for labour intensive items, is substantial, since several of them also have peak duties in the EU market, the FTA would still only be providing a level playing field for Indian exporters considering that the EU has the largest FTA portfolio in the world (around 45 with a coverage of over 76 countries and more are in the making) that include very competitive exporting nations like Vietnam who already have a very strong presence in labour intensive goods sectors in that market. LDC countries like Bangladesh also receive zero duty access for several items. Partially at least, they may also be only replacing the GSP scheme extended by the EU to India whose coverage was, however, steadily declining and now terminated from January 1 this year.
3. Our exporters would therefore be well advised to use this one-year period when the ratification process is underway to build their export strategies, scale up volumes, upgrade quality and mount promotional efforts to benefit from the enhanced market opening provided by the FTA. Efforts to meet the CBAM criteria by a good number of Indian firms will also be essential in the metals sector.

4. For EU exporters, the FTA offers exceptionally deep access given by India that has not been extended to the same degree to any other partner. The best offer extended thus far has been to UK, which received tariff concessions up to 90% of tariff lines extending up to 92% of imports. So, EU will have the first mover advantage in a number of areas.
5. It is also relevant to note that EU's non-agricultural MFN tariffs average only 4.1%, even as it has tariff peaks in certain labour-intensive areas like garments. India's industrial tariffs on the other hand average 13%. So, in relative terms, EU products would secure greater gains, particularly as the staging periods for them come to an end. Competitive products on the Indian side, including in the automotive sector, would therefore need to be alert to develop their own strategies to meet the competition.

### **MOU between RBI and ESMA**

The Reserve Bank of India and the European Securities and Markets Authority (ESMA), which is the EU's financial markets regulator and supervisor, signed<sup>4</sup> an MOU to facilitate cooperation and exchange of information for the recognition of central counterparties (CCPs) established in India and supervised by RBI. This will allow the Clearing Corporation of India Ltd (CCIL), a CCP established in India and supervised by RBI, to re-apply for recognition under EMIR. This could bring to an end a prolonged regulatory standoff since March 2022 that had disrupted cross-border clearing between India and the EU. The agreement now establishes a framework for regulatory cooperation, supervisory reliance and information sharing, enabling ESMA to place reliance on RBI's oversight of Indian clearing houses while safeguarding the European Union's financial stability.

### **India-US trade deal announcement**

Following a telephonic conversation between PM Modi and President Trump on February 2, the two sides announced a breakthrough in their arduously negotiated trade deal that has been in the making since PM Modi's visit to Washington DC in February 2025.

While the details reported so far<sup>5</sup> are brief, it appears that Indian products will henceforth attract a "reciprocal tariff" of 18% as against the earlier reciprocal tariff of 25% that was coupled with a penal tariff of another 25% on account of purchases of Russian oil.

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<sup>4</sup> <https://www.esma.europa.eu/press-news/esma-news/esma-signs-memorandum-understanding-reserve-bank-india>

<sup>5</sup> <https://www.reuters.com/world/india/trump-says-agreed-trade-deal-with-india-2026-02-02/>

Trump's Truth Social post<sup>6</sup> talked of India committing to reducing its tariff and non-tariff barriers to zero, buying more than USD 500 bn dollars of US goods, halting the purchase of Russian, and instead buying much more oil from the US and, potentially, Venezuela. It further stated that with immediate effect, the US will charge a reduced reciprocal tariff from 18%, but it made no specific mention of the rescinding of the 25% penal duty on account of Russian oil.

PM Modi's post<sup>7</sup>, thanking President Trump, was briefer on the details but conveyed that Made in India products will now face a reduced tariff rate of 18%.

What would be of interest to also know is whether this 18% will be in addition to the MFN duty applicable in the US on each product, or it will be in the form of 'MFN duty or 18% whichever is higher', which is the dispensation agreed by the Trump administration with partners like the EU and Japan in whose case however the tariff fixed was 15%.

## **President of UAE visits India**

The President of the UAE, Sheikh Mohamed bin Zayed Al Nahyan, paid a brief visit to New Delhi on January 19 and held discussions with PM Modi. Key among the outcomes<sup>8</sup> of relevance to economic security was the signing of a 10-year LNG Supply Agreement between Hindustan Petroleum Corporation Limited (HPCL) and ADNOC Gas for the delivery of 0.5 million tonnes per year of liquefied natural gas, beginning in 2028. Second, a Letter of Intent on Investment Cooperation was also exchanged between the Government of Gujarat, Republic of India and the Ministry of Investment of the United Arab Emirates for Development of Dholera Special Investment region. The proposed partnership would include the development of key strategic infrastructure, including an international airport, a pilot training school, a maintenance, repair and overhaul (MRO) facility, a greenfield port, a smart urban township, railway connectivity, and energy infrastructure. The two sides have further agreed to explore partnership in advanced nuclear technologies, including development and deployment of large nuclear reactors and Small Modular Reactors (SMRs), as well as cooperation in advanced reactor systems, nuclear power plant operations and maintenance and nuclear safety.

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<sup>6</sup> <https://x.com/ANI/status/2018370102446706877>

<sup>7</sup> <https://www.instagram.com/p/DUQ650SEoWE/>

<sup>8</sup> [https://www.mea.gov.in/bilateral-documents.htm?dtl/40601/Joint\\_Statement\\_Visit\\_of\\_President\\_of\\_the\\_UAE\\_His\\_Highness\\_Sheikh\\_Mohamed\\_bin\\_Zayed\\_Al\\_Nahyan\\_to\\_India\\_January\\_19\\_2026](https://www.mea.gov.in/bilateral-documents.htm?dtl/40601/Joint_Statement_Visit_of_President_of_the_UAE_His_Highness_Sheikh_Mohamed_bin_Zayed_Al_Nahyan_to_India_January_19_2026)

## Visit of German Chancellor Merz

The visit to India by German Chancellor Josef Merz from January 12-13, 2026 yielded<sup>9</sup> several joint declarations of intent for cooperation in various critical and emerging technology sectors. The JDI on critical minerals aims to look for opportunities in the areas of exploration, R&D, value addition through processing and recycling, as well as acquisition and development of critical mineral assets in both countries and third countries. A JDI for cooperation in the area of telecommunications was agreed upon and the two sides emphasised the importance of collaboration on internet & data governance, AI, semiconductors and Industry 4.0, and emerging technologies. The two sides also welcomed the strong willingness on both sides to establish an institutional dialogue across the semiconductor value chain through a new Joint Declaration of Intent on Semiconductor Ecosystem Partnership. Fourthly, the two sides signed a Joint Declaration of Intent to develop a Defence Industrial Cooperation Roadmap to promote long-term industry-level collaboration, including technology partnerships, co-development and co-production of defence platforms and equipment.

## India and Japan hold strategic dialogue

The Japanese Foreign Minister Toshimitsu Motegi visited India from January 15-17, 2026 for the 18th India-Japan Strategic Dialogue co-chaired by EAM Dr. S. Jaishankar. Both sides were reported<sup>10</sup> to have reviewed matters relating to supply chain resilience in critical sectors, investment, trade, technology and innovation and defence cooperation. Both sides decided to convene the Joint Working Group on Critical Minerals under the Economic Security Initiative to advance collaboration in rare earth elements and critical minerals. They also launched the bilateral AI dialogue which was announced by the two Prime Ministers during their 15th annual summit in August 2025.

## India invited to join the Pax Silica Initiative

India has been invited to join the Pax Silica initiative of the Trump administration for which the first ministerial level meeting will be held on February 4, 2025 in Washington DC hosted by US Secretary of State Marco Rubio. The US State Department post on the meeting said, 'strengthening critical minerals supply

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<sup>9</sup> [https://www.mea.gov.in/bilateral-documents.htm?dtl/40581/India\\_Germany\\_Joint\\_Statement\\_January\\_12\\_2026](https://www.mea.gov.in/bilateral-documents.htm?dtl/40581/India_Germany_Joint_Statement_January_12_2026)

<sup>10</sup> [https://www.mea.gov.in/press-releases.htm?dtl/40596/Visit\\_of\\_Mr\\_Toshimitsu\\_Motegi\\_Minister\\_of\\_Foreign\\_Affairs\\_of\\_Japan\\_to\\_India\\_January\\_1517\\_2026](https://www.mea.gov.in/press-releases.htm?dtl/40596/Visit_of_Mr_Toshimitsu_Motegi_Minister_of_Foreign_Affairs_of_Japan_to_India_January_1517_2026)

chains with our international partners is vital to America's economic and national security, technological leadership and a resilient energy future'. The meeting is expected to be attended<sup>11</sup> by the External Affairs Minister Dr. S. Jaishankar.

### **Economic Survey 2025-26**

India's Economic Survey<sup>12</sup> for the ongoing financial year 2025-26, which was tabled by the government in the two houses of Parliament on January 29, expected the growth rate for the year to add up to over 7%, with the first advance estimate placing it at 7.4%. It also assesses that India's medium term growth outlook as strengthening to 7%, positioning the economy on a path of steady expansion amid global uncertainty. It further noted that inflation has moderated, financial sector balance sheets remain healthy, and fiscal policy continues to strike a balance between supporting growth and consolidation.

While the survey covers an entire spectrum of issues and sectors, what is of interest to this report is how it positions<sup>13</sup> the 'swadeshi' approach to manufacturing as 'inevitable and necessary' on the one side while calling for it to be undertaken 'without undermining efficiency, innovation or global integration' on the other. 'Swadeshi' is seen as a defensive as well as offensive policy lever: a means to ensure continuity of production in the face of external shocks, and a pathway to build enduring national capabilities that reinforces economic sovereignty.

Terming the swadeshi strategy as a 'disciplined strategy and not a blanket doctrine' it noted that it becomes applicable in respect of products that act as general purpose intermediates across supply chains, or where inputs are critical for domestic industries. Import substitution in such cases is justified when domestic production is already feasible at reasonable cost and when time bound protection to an industry can facilitate learning, scale building and productivity gains. The survey has made it clear, however, that such protection should be conditional and not indiscriminate and subject to measurable benchmarks. It also presents a framework on how such an approach to indigenisation can be disciplined and to which categories of goods they are applicable as also to which types of products such intervention can be unwarranted.

Going further, the Survey calls for India to pursue its near, medium and long term policy priorities of import substitution, strategic resilience and strategic indispensability simultaneously.

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<sup>11</sup> [https://www.mea.gov.in/press-releases.htm?dtl/40647/Visit\\_of\\_External\\_Affairs\\_Minister\\_Dr\\_S\\_Jaishankar\\_to\\_the\\_United\\_States\\_of\\_America\\_February\\_0204\\_2026](https://www.mea.gov.in/press-releases.htm?dtl/40647/Visit_of_External_Affairs_Minister_Dr_S_Jaishankar_to_the_United_States_of_America_February_0204_2026)

<sup>12</sup> <https://www.indiabudget.gov.in/economicsurvey/>

<sup>13</sup> <https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap16-1.pdf>



Elaborating this further, it calls for moving towards an approach focused on scale, competitiveness and innovation which builds strategic resilience through diversification and creating depth of capabilities. MSMEs will have a crucial role here evolving from micro scale production towards deeper participation in formal and export linked supply chains.

The next stage of strategic indispensability will come when there is ability to integrate into global value chains as a high-tech, high productivity manufacturing hub, supported by stable and innovation friendly policies.

### **Union Budget gives push to strategic manufacturing**

Finance Minister Nirmala Sitharaman presented<sup>14</sup> the Union Budget for FY 2025-26 on February 1 in Parliament, which had several elements of relevance to economic security. She noted that keeping Aatmanirbharta as a lodestar, 'we have built domestic manufacturing capacity, energy security and reduced critical import dependencies. She also characterised the external environment as one in which trade and multilateralism were imperiled and access to resources and supply chains disrupted.

Among the several proposals she put forward to accelerate and sustain economic growth was scaling up manufacturing in seven strategic and frontier areas:

- Biopharma SHAKTI: To develop India as a global biopharma manufacturing hub with an outlay of Rs. 10,000 crores;
- India Semiconductor Mission 2.0: To further build on Mission 1.0 in this sector to produce equipment and materials, design full-stack Indian IP, and fortify supply chains;
- Electronics Component Manufacturing scheme: Scheme launched in April 2025 with an outlay of Rs. 22,919 crores will be expanded to Rs. 40,000 crores;
- Scheme for Rare Earth Permanent Magnets: Scheme launched in November 2025 will now see establishment of dedicated rare earth corridors to support the mineral-rich States of Odisha, Kerala, Andhra Pradesh and Tamil Nadu;
- Establishment of three dedicated Chemical Parks through challenge route on a cluster-based plug and play model;
- Strengthen capital goods capability by establishing two hi-tech tool rooms, launch of a scheme for enhancement of construction and infrastructure equipment and another scheme for container manufacturing (Rs. 10,000 crores) over 5-year period; and

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<sup>14</sup> [https://www.indiabudget.gov.in/doc/budget\\_speech.pdf](https://www.indiabudget.gov.in/doc/budget_speech.pdf)

- A five-part programme in the textile sector that will have a national fibre scheme, modernisation of textile clusters, a national handloom and handicraft programme, a Tex-Eco initiative to promote globally competitive and sustainable textiles and apparels, and Samarth 2.0 to modernise and upgrade the textile skilling ecosystem.

Additionally, carbon capture utilisation and storage (CCUS) technologies at scale are to achieve higher readiness levels in end-use applications across five industrial sectors, including, power, steel, cement, refineries and chemicals for which an outlay of ₹20,000 crore is proposed over the next 5 years.

On the taxation side, a major announcement in the budget, to boost investment in data centres, is to provide tax holiday till 2047 to any foreign company that provides cloud services to customers globally by using data centre services from India. It will, however, need to provide services to Indian customers through an Indian reseller entity.

Secondly, duty exemption has been provided on capital goods for lithium-ion cell/battery energy storage system (BESS) manufacturing, critical minerals processing equipment (extended up to 31.3.2028), all goods for nuclear power generation, goods for use in the manufacture of microwave ovens and components and parts for manufacture of aircraft, as also some pharmaceutical items.

### **Indian electronics industry to cut import dependence**

India's electronics industry is developing 16 products for domestic manufacturing by 2026, as part of a broader push to cut import dependence<sup>15</sup>. These include 11 intermediate products and five finished goods. The move reportedly follows PM Modi's call to the Centre and states to jointly identify 100 products that can be made locally when he addressed the Fifth National Conference of Chief Secretaries on December 28, 2025. The aim is to reduce imports, strengthen economic resilience and advance the Viksit Bharat vision. According to Indian Cellular and Electronics Association (ICEA), localisation efforts are underway for mobile phone and IT hardware enclosures, display and camera modules, and advanced printed circuit boards. These include high-density interconnect, modified semi-additive process and flexible PCBs. The roadmap also covers lithium-ion cells for digital devices and a broader ecosystem of parts and sub-systems.

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<sup>15</sup> [https://www.business-standard.com/industry/news/electronics-industry-targets-16-products-to-reduce-import-dependence-126010700956\\_1.html](https://www.business-standard.com/industry/news/electronics-industry-targets-16-products-to-reduce-import-dependence-126010700956_1.html)

## CEA Nageswaran identifies areas for immediate indigenisation

In a presentation made by Chief Economic Advisor (CEA) V Anantha Nageswaran<sup>16</sup> at the fifth national conference of state chief secretaries in late December 2025, seven sectors were identified as having both high urgency and high feasibility for immediate indigenisation in the country. These were pulses, edible oils and oilseeds, active pharmaceutical ingredients (APIs) and key intermediates, fertiliser inputs (such as NPK alternatives), critical industrial chemicals, telecom and networking equipment (including non-frontier semiconductor chips), and power electronics (such as IGBTs and MOSFETs). The CEA also identified three sectors that are critically urgent but currently have lower feasibility for immediate indigenisation:

- Rare Earth Permanent Magnets (REPM)
- Battery Cells and Cathode Materials
- Solar Wafers and Cells

The CEA reportedly indicated that due to trade tensions, supply chain reconfigurations, and foreign import licensing issues, India must prioritize domestic production.

## Embraer and Adani Group to set up aircraft unit in India

The Brazilian aircraft maker Embraer and Adani Defense and Aerospace signed an MOU<sup>17</sup> on January 27 for setting up a passenger aircraft assembly line in India and form a strategic partnership to develop, manufacture, and sustain the regional transport aircraft system in India. While the location of the facility has not been finalised, it was announced that this will be done in the next couple of months. There are nearly 50 Embraer aircraft and 11 aircraft types currently operating across commercial, defense, and business aviation in India.

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<sup>16</sup> [https://www.business-standard.com/economy/news/rare-earth-sector-may-have-low-to-medium-indigenisation-feasibility-cea-126010701150\\_1.html](https://www.business-standard.com/economy/news/rare-earth-sector-may-have-low-to-medium-indigenisation-feasibility-cea-126010701150_1.html)

<sup>17</sup> <https://www.embraer.com/media-center/en/?mediatype=NEWS&detail=24126-Embraer-and-Adani-Defence-&-Aerospace-announce-strategic-partnership-to-establish-regional-transport-aircraft-ecosystem-in-India>



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