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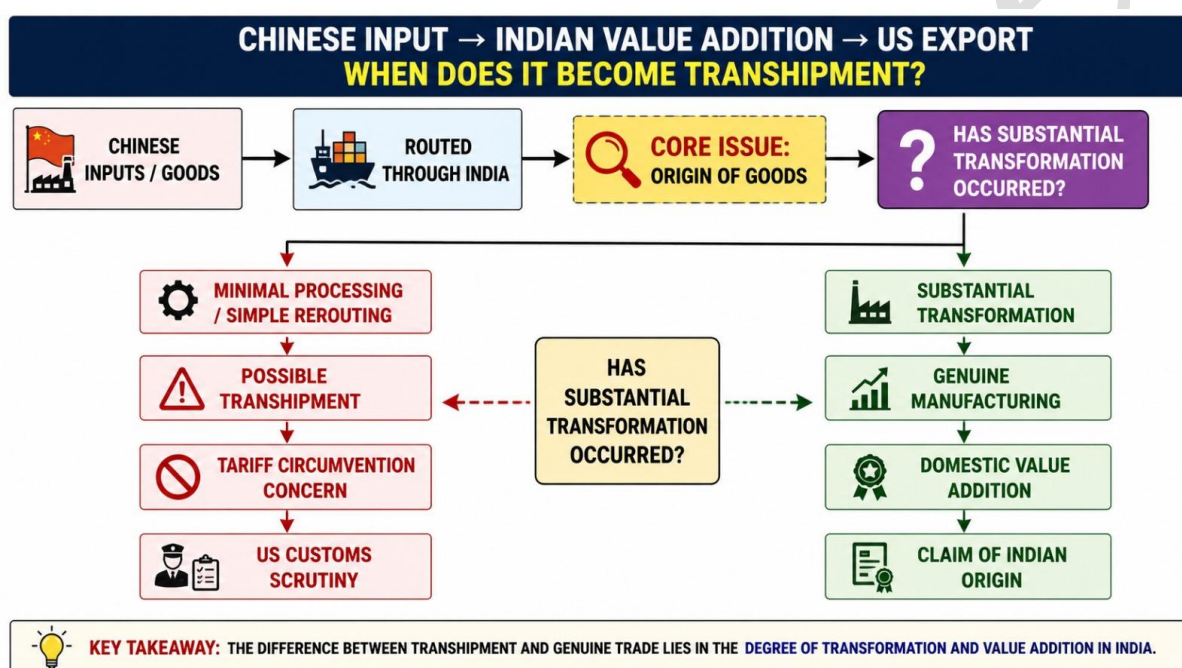
GS Paper II: International Relations

1. US Allegations of Chinese Transshipment Through India

a. Introduction

A White House report has placed India in a high-risk “shadow transshipment network”, alleging that Chinese goods are being routed through third countries to evade US tariffs. India, Mexico and Vietnam were identified as major hubs in this alleged network, raising concerns for ongoing India-US trade negotiations.

Transshipment, in this context, refers to routing goods through another country to disguise their true origin and avoid tariffs. This must be distinguished from legitimate manufacturing based on imported intermediate inputs and genuine domestic value addition.



b. Core Issue: Origin of Goods

Modern manufacturing increasingly operates through global value chains:

Chinese inputs → Indian processing/value addition → Export to US

The legal question is whether the transformation in India is sufficient to confer Indian origin, or whether goods are merely being rerouted with minimal processing.

This makes Rules of Origin (RoO) central to the dispute.

c. Analysis/ Observations

India could face greater trade scrutiny

India's Tier-1 categorisation may lead to:

- stricter US customs checks;
- more documentary requirements regarding origin;
- investigations into selected Indian exports;
- higher compliance costs; and

- potential anti-circumvention or additional tariff measures.

This could particularly affect sectors with substantial dependence on Chinese intermediate goods.

Implications for India-US trade negotiations

The US could seek provisions requiring India to:

- tighten enforcement against tariff circumvention;
- share customs and supply-chain information;
- strengthen certification of origin; and
- reduce dependence on Chinese inputs in sensitive sectors.

Thus, what appears to be a customs issue may become part of the wider strategic effort to de-risk supply chains from China.

Risk of conflating transshipment with legitimate value addition

A major concern is that genuine Indian manufacturing may be treated suspiciously merely because it uses imported Chinese components.

Modern production rarely requires every input to originate domestically. The appropriate test should therefore be substantial transformation and domestic value addition, not simple dependence on imported inputs.

Overly restrictive rules could disrupt legitimate global value chains and undermine countries such as India that are seeking to emerge as alternative manufacturing locations.

Opportunity for India's manufacturing strategy

The dispute also exposes India's continued dependence on China for:

- components;
- capital goods;
- electronics;
- chemicals; and
- intermediate industrial products.

Reducing such dependence through domestic supplier development can:

- strengthen India's claim to genuine origin;
- increase domestic value addition;
- reduce vulnerability to foreign trade actions; and
- improve India's position in China+1 supply-chain diversification.

Thus, origin compliance and industrial policy are increasingly interconnected.

Wider Trade Governance Concern

The controversy reflects an emerging shift in global trade:

Traditional trade policy: Tariffs based mainly on where final goods originate.

New trade policy: Scrutiny of entire supply chains, inputs, ownership and economic links with strategic competitors.

Trade is therefore becoming increasingly intertwined with geopolitics and economic security.

d. Challenges for India

- Complex rules of origin can significantly increase compliance costs for MSMEs.

- Supply-chain diversification away from China cannot occur immediately.
- Overreaction by India could unnecessarily disrupt efficient imports.
- Weak traceability systems can expose genuine exporters to allegations of circumvention.
- Unilateral US measures may raise questions regarding compatibility with established international trade rules.

e. Way Forward

- Strengthen customs intelligence and digital traceability to identify genuine tariff circumvention.
- Develop transparent rules for proving substantial domestic transformation and value addition.
- Contest unsupported allegations through bilateral engagement and, where appropriate, multilateral trade mechanisms.
- Accelerate domestic production of critical intermediate goods under a broader supply-chain resilience strategy.
- Negotiate any anti-transshipment provisions carefully so that legitimate Indian exporters are not penalised.
- Help MSMEs meet increasingly demanding origin certification and compliance standards.

Conclusion

The US transshipment allegations illustrate how global trade disputes are moving beyond tariffs towards supply-chain provenance and economic security. India must prevent genuine tariff evasion while firmly distinguishing it from legitimate domestic manufacturing. The long-term response lies in greater domestic value addition, stronger origin verification and diversified supply chains, rather than merely defensive trade diplomacy.

Reader's Note — About This Current Affairs Compilation

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While every effort has been made to balance depth with brevity, please keep the following in mind:

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This compilation is curated primarily from the UPSC Mains perspective — with emphasis on conceptual clarity, analytical depth, and interlinkages across GS papers.

However, the PrepAlpine team is simultaneously developing a dedicated Prelims-focused Current Affairs Series, designed for:

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- data recall
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- objective pattern analysis

This Prelims Edition will be released separately as a standalone publication.

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