

Canada and South Asia: Engaging to Enhance Economic Security Amidst Disruptive Global Trade

*Amitendu Palit*¹

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Executive Summary

Trade policies driven by security and geoeconomic motivations are changing global trade patterns and trade relations. New U.S. trade deals involve large strategic trade-offs from partners. This is challenging for the Global South as it lacks capacities for responding to the new paradigm of trade rulemaking. South Asia epitomizes these challenges and their impact on economic security. This paper identifies economic insecurities for South Asia caused by disruptive trade policies. The insecurities are significant in terms of stunted progress on decarbonization and enlarging skill deficits. In this context, the paper identifies knowledge gaps and suggests research to help Canada develop its strategies for engagement with South Asia. South Asia includes India, Pakistan, Bangladesh, Sri Lanka, Bhutan, Nepal, Afghanistan and Maldives. The region relies heavily on the U.S. and EU for exports, and on China and the Middle East for imports. The dependencies contain risks for regional and national economic security, especially for smaller economies facing higher costs from trade disruption. India's efforts to reduce sourcing dependency include China+1 diversification initiatives like the Indo-Pacific Economic Framework (IPEF). The U.S. Administration's lack of interest in engaging with regional frameworks spell dim prospects for such efforts. India and the rest of South Asia are struggling to address implications of the U.S.-China trade rivalry with both powers demanding strategic loyalty for accessing their markets and resources.

Unilateral U.S. tariffs have adversely impacted key export industries like textiles and leather that employ many workers, especially women. South Asian economies have bilaterally negotiated with the U.S. for getting lower tariffs in exchange for various concessions, like purchasing more U.S. energy and agricultural imports. These imply additional expenditure for fiscally stressed countries like Bangladesh, Pakistan and Sri Lanka. India faces the highest U.S. tariffs for purchasing energy from Russia and is yet to reach a deal with the U.S. Weak prospects for labour-intensive exports along with more import spending enhances economic insecurities. The region's decarbonization efforts linked to the region's energy security and affordability, as well as air pollution and health issues have been significantly set back. Diversifying from the U.S. can push regional exports to markets with low emission standards, reducing incentives to decarbonize production. U.S. efforts to control trade flows of critical minerals and rare earths can limit the region's access to these resources and impair its ability to develop adequate capacities in renewables and clean technologies. The setbacks come at a time when South Asia is struggling to adjust to transitional requirements of the EU's carbon border tax. The region's skills deficit is rapidly enlarging with several entrants to national workforces unequipped for new jobs. Many technically trained workers are struggling to adapt to the AI-driven transformative challenges while other low-skilled ones, in industries like garments, leather and

¹ Dr Amitendu Palit is Senior Research Fellow and Research Lead at the Institute of South Asian Studies (ISAS) in the National University of Singapore. He can be reached at isasap@nus.edu.sg and amitendu@gmail.com. The views expressed in the paper are the author's own and do not reflect those of the institute he works for.

jewellery, are hit by the damage to exports from U.S. tariffs. Labour market prospects are worsening from new restrictions on mobility of skilled workers, especially H1B visa applicants in the U.S.

The challenging context for South Asia provides Canada the opportunity to work together to address shared challenges and build regional resilience. The engagement could be significantly focused on India given the latter's regional prominence and strategic heft. Canadian efforts to deepen trade and economic links with the Indo-Pacific region includes the resumption of negotiations for concluding a Comprehensive Economic Partnership Agreement (CEPA) with India. Both countries are global middle powers committed to using rules-based trade architectures and can advance an inclusive 21st century Indo-Pacific trade agenda. India's entry in the CPTPP backed by Canada can be an enabling factor in this regard. Furthermore, Canada's potential roles in boosting capacities for renewables and clean technology, building 'green' shipping corridors, and fostering carbon credit trading mechanisms, are noteworthy. Upgrading skills of regional workforces through effective Canadian partnerships for skill development is another purposeful strategy. Canada's strategic engagement with South Asia requires more nuanced understanding. Greater research is necessary on Canada's use of its capacities in becoming a critical partner for India and South Asia. The learning will inform Canada's larger engagement agenda with the Global South. This paper identifies some issues for future research in this regard. These include roles of global middle powers like Canada and India in advancing inclusive rules-based trade architectures; economic and regulatory requirements for green shipping corridors; improving capacities of firms for adapting trade-related emission standards; increasing AI adoption for enhancing digital trade without compromising sustainability; utilizing barriers to mobility of talent and skills in U.S. and other countries for increasing presence in global trade; and reducing deficits in AI-enabled and green skills for increasing comparative advantages in global trade.

1. Introduction

World trade is reeling from shocks to the global rules-based trade order. Use of security and geoeconomics in determining the direction and pattern of trade has shifted world trade by concentrating it among geopolitically aligned country coalitions. New trade deals are driven by strategic interests stemming from national security, including military. This new paradigm of trade governance creates new challenges for many in the Global South for various reasons. South Asia epitomizes the dilemmas and difficulties of the Global South arising from disruptive developments. Comprising some of the world's most populous economies (e.g. India, Pakistan, Bangladesh), least-developed countries (e.g. Afghanistan, Bangladesh, Nepal) and environmentally fragile small economies (e.g. Bhutan, Maldives, Nepal, Sri Lanka), it is afflicted by significant economic, social and environmental vulnerabilities. The latter impacts regional economic security, which is further affected by pushbacks of global trade rules and security-driven trade policies.

This paper explores various tenets of economic insecurity in South Asia caused by disruptive global trade policies. These include implications of de-risking and diversifying for reducing sourcing dependencies; downsides of U.S.-China rivalry; and the economic pressures being faced by the region. It distinguishes between India – the largest regional economy – and the rest of the region in this regard. India's large economic size and greater strategic clout make it more capable of responding to geoeconomic policy effects than others. In the context of US tariffs enhancing regional economic insecurities, the paper explores two critical issues that can exacerbate these insecurities: the inability to decarbonize and the gaping skills deficit. Setback for decarbonization impacts progress on sustainable industrial transformation and capacities for tackling adverse effects of climate change. While these effects enhance livelihood and environmental insecurities, skills deficits accentuate economic insecurities by lowering job prospects and household incomes.

The paper suggests a forward-looking research agenda to help inform Canada's prospective future engagement with South Asia. This could include study of the abilities of middle power coalitions; ways to enhance South Asia's access to clean finance and boost green trade; and an exploration of ways to enable upskilling for the regional youth in a global economy rapidly adopting AI as a foundation technology. The research priorities identified are for addressing existing gaps in academic and policy-driven research knowledge and capacities. The rest of the paper is organized as follows. Section 2 discusses the impact of global trade developments on regional economic security. Sections 3 and 4 describe adverse effects on decarbonization efforts and accentuation of skills deficit. Section 5 provides ideas for Canada's engagement with South Asia. Section 6 concludes and suggests a future research agenda.

2. Global Trade Developments and Economic Security in South Asia

South Asia's external trade relations reveal a broadly uniform pattern for India, Bangladesh, Pakistan and Sri Lanka - the four major regional economies. The EU and the U.S. are the main markets for exports, while China is the main source of imports. High energy-dependence of the economies makes the Middle East, notably United Arab Emirates (UAE), and Saudi Arabia, major sources of imports as well. External trades of the smaller economies – Afghanistan, Bhutan, Maldives and Nepal - are mostly within the region with India, and externally with China and the Middle East. Import dependencies on China and the Middle East exposes the

region to risks from disruptions in supplies from these locations. India and South Asia are net importers with their trades comprising more imports - finished capital goods, consumer goods and intermediates – than exports. With exports of goods and services having lower shares in national GDPs compared with imports, economic costs are higher if imports are disrupted, especially for smaller economies, for which imports are much larger proportions of GDPs than exports.

India - currently the world's 4th largest economy and poised to become the 3rd largest by 2030 with a projected GDP of more than US\$7 trillion (PIB, 2025a) - exported around US\$825 billion goods and services in FY2024-25. While goods exports exceed services, the latter are catching up fast (PIB, 2025b). India's major exports include refined petroleum products, pharmaceuticals, gems & jewelry, leather products, textiles and garments, steel, automobiles, electronics and agricultural products. Financial services, business process management, consulting and IT are its strongest service exports. It is noteworthy that India runs a surplus in its external services trade, while being a net importer of goods.

Bangladesh's exports are almost entirely concentrated in readymade garments and apparels, whereas Sri Lanka is noted for exports of tea, garments and spices. Textiles and apparel are Pakistan's leading exports as well, along with leather products. Low broad-basing of exports makes these economies vulnerable to access limits in major markets. The U.S. has utilized these vulnerabilities through reciprocal tariffs and getting the countries to agree to trade deals suiting its own economic interests. The deals have consequences for economic securities of these countries as discussed later. Economic insecurities originate from low intra-regional trade, which increases dependencies on major external markets, like the U.S. Intra-regional trade is just about 5 per cent of South Asia's total trade compared with around 25% for Southeast Asia (World Bank, n.d). High trade costs disincentivize more intra-regional trade with fragile political relations making prospects for such trade more difficult.

Import dependencies and sourcing risks are affecting long-term prospects of the region's exports. Even for India, most supply chains are not 'in-shore', except some agriculture and processed food supply chains. India's leading exports, like refined petroleum exports (e.g. petrol, diesel, aviation turbine fuel) and pharmaceuticals depend greatly on external sourcing of imported inputs. The dependencies necessitate diversifying sourcing. The imperative for de-risking struck hard during the COVID19 pandemic. India begun actively prospecting country coalitions for diversifying sourcing and increasing resilience of supply chains. The idea of economic security became implicitly embedded in its trade policy efforts from this time. It was vindicated by evidence pointing to around a fifth of global exports with large market shares depending critically on limited supply sources (Ossa, 2023). For India, and South Asia, supply chains of critical exports like energy, pharmaceuticals, and automobiles demonstrate high 'backward participation' underscoring reliance on sourcing imported raw materials and inputs for further processing and manufacturing of final product exports.

2.1 India's diversification efforts

India was prominent in the US's global strategy to de-risk from China. The Biden era's signature initiative in this respect was the Indo-Pacific Economic Framework for Prosperity (IPEF). Comprising the U.S., India and several major economies from the Indo-Pacific, IPEF focused on rules for making supply chains resilient (The White House, 2022). It formalized a supply chains agreement for identifying critical sectors and industries and managing crises in these sectors (US Department of Commerce, 2023). Efforts to identify critical sectors - those

engaged in production and supply of goods and services critical to national security and whose shortages generate widespread economic disruptions (US Department of State, 2024) - made economic security central to rulemaking of IPEF. India's active participation in IPEF highlighted its intentions of safeguarding critical supply chains for enhancing economic security. It also demonstrated its geopolitical alignment with the U.S. and its regional allies in 'reshoring/friendshoring' of supply chains for localizing sourcing among 'like-minded' countries.

India's activism in de-risking sourcing from China contrasted with the lack of such proactivity elsewhere in the region. Other regional economies with political ties with China ranging from stable to robust were hesitant to engage in initiatives like IPEF that could be perceived as anti-China. The non-India part of South Asia preferred staying non-committal in U.S.-China power competition. This was the least costly geoeconomic tactic given their high economic dependencies on both China and the U.S. coupled with relatively small economic size and strategic clouts. The China+1 strategy influenced relocation of some critical supply chains, like smartphones and electronics, in South Asia. India is now a key hub for production of iPhones (SCW, 2025). Its prominence in Apple's supply chain has been driven by multiple factors including high U.S. tariffs on Chinese exports; mounting U.S.-China geopolitical tensions; and the previous administration's push on the 'China+1' strategy. The U.S. being India's largest export market also enabled India in becoming a key assembler of iPhones sold to the U.S. (TOI, 2025). New capacities for making iPhones in India increased exports, generated livelihoods, and raised household incomes. However, the conditions are changing with high US tariffs dampening India's attractiveness as a location for producing and exporting to the U.S. The tariffs also impact India's significance in the China+1 reshoring strategy. For India, disruption in smartphone exports to the U.S., and less significance as a reshoring destination, adversely affects economic security.

2.2 Strategic downsides of U.S.-China competition

Both the U.S. and China are demanding 'loyalties' from trade partners, ranging from economic concessions to military support. Recent trade deals of the U.S. include trade partners agreeing to deep tariff cuts for U.S. exports; buying U.S. energy, agriculture and defense products; and committing to invest in the U.S. China, on the other hand, through investments in the Belt and Road Initiative (BRI) projects, and also otherwise, has demanded easier host country rules for strategic investments in security-related infrastructure (e.g. seaports, telecom) and on purchase of Chinese goods for various construction projects. For India and other South Asian economies, the price for not aligning closely with the U.S. or China, involves getting excluded, partly or significantly, from critical supply chains dominated by the two major powers. Supply chain realignments will further concentrate trade in critical and strategic products (e.g. energy products including renewables, rare earths, electric vehicles, pharmaceuticals and health products, semiconductors) among geopolitically aligned countries. The impact of being 'left out' can be significantly adverse for national economic securities.

Given its large economy and greater strategic heft, India can shield itself more from negative externalities of the U.S.-China competition, while engaging opportunistically with both. Others from the region have less capacities for doing so. Major power rivalry for controlling markets and resources doesn't bode well for wider regional economic security. Except India, the rest of the region is hardly engaged in bilateral/regional trade agreements with external partners. Lack of trade agreements, especially with G7 and large emerging markets, makes it difficult for these

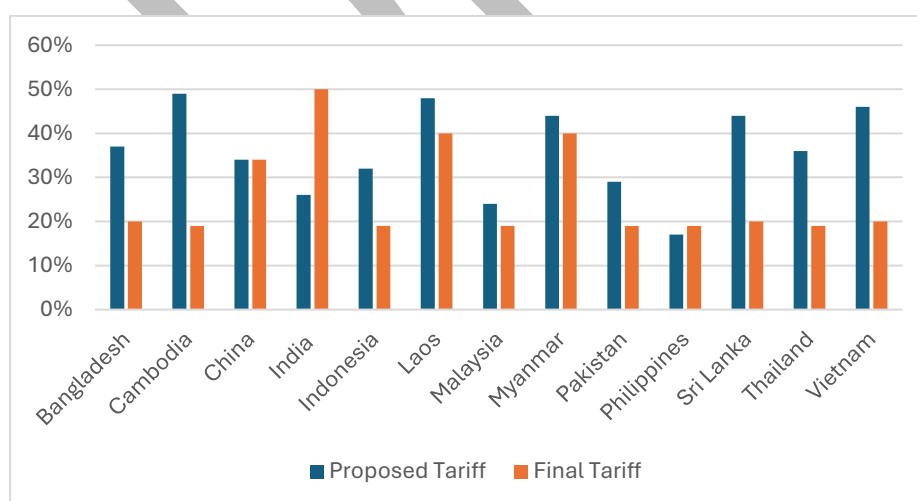
countries to diversify trade, making them rely more on linkages with the U.S. and China, deepening their strategic vulnerabilities.

2.3 Tariffs and economic coercion

The U.S. reciprocal tariffs announced since April 2025 have created significant economic insecurities for South Asia. These are due to their potential adverse impacts on exports to the U.S. Several of these exports are labour-intensive, employing large numbers of workers, including women. Textiles and apparels are major exports to the U.S. from all major regional economies. The tariffs announced on 2nd April 2025 (FR 2025a) generated heavy panic among the region's garment exporters. This was especially visible in Bangladesh, whose economy depends significantly on garment exports. Adverse prospects for these exports meant income and job losses for workers. The garment industry in Bangladesh employs several millions of women workers and is the major source of formal wage employment for women workers in the country (Uekat, 2023). Women workers are also significant in apparel supply chains in Sri Lanka and India. Dire prospects for apparel exports and the concomitant impact on the domestic labour force and women workers were instrumental in making South Asian economies negotiate with the U.S. for cutting tariffs.

Economic insecurities from U.S. tariffs looked ominous in relation to comparative disadvantages for South Asian exports vis-a-vis competitor regions like Southeast Asia. U.S. reciprocal tariffs set off a race among countries whose economies depend critically on exports to the U.S. to compete against each other for securing the best tariff cuts. The competition between South and Southeast Asia was evident in this regard. Initial tariffs for Bangladesh, Pakistan and Sri Lanka announced on 2nd April 2025 were not much different from their competitor Southeast Asian economies (Figure 1). It was imperative for the former, as well as their competitor economies – Vietnam, Indonesia, Cambodia, Malaysia, Philippines and Thailand – to ensure that the final tariffs to be levied after the 90-day pause from 2nd April 2025 maintain a 'level playing field'. This is what eventually happened.

Figure 1: U.S. tariffs on select South Asian and Southeast Asian economies (proposed and final).



Source: FR 2025; Lowell, et. al, 2025.

Securing parity with competitors in accessing the U.S. market has come with prices that all economies have paid. The U.S.’s ‘weaponization’ of tariffs as a geoeconomic tool for making trade partners commit to various policy concessions has involved significant economic pressure.

Table 1: US Tariffs on South Asian countries

	Country	Current Tariff	Details	Trade Deal with US
1.	Afghanistan	15%	Reciprocal tariff	No
2.	Bangladesh	20%	Reciprocal tariff, revised from 37% announced on 2 April 2025.	Yes
3.	Bhutan	10%	Reciprocal baseline tariff	No
4.	India	50%	Reciprocal tariff of 25% and secondary tariff of 25% for buying Russian oil. Initially imposed reciprocal tariff of 26% on 2 April 2025.	Negotiating
5.	Maldives	10%	Reciprocal baseline tariff	No
6.	Nepal	10%	Reciprocal baseline tariff	No
7.	Pakistan	19%	Reciprocal tariff, revised from 29% imposed on 2 nd April 2025.	Yes
8.	Sri Lanka	20%	Reciprocal tariff, revised from 44% imposed on 2 nd April 2025.	Yes

Source: Lowell, et al 2025. Note: All countries are subject to an additional transshipment tariff of 40%.

The economic pressure is evident from the U.S.’s deals with Bangladesh, Pakistan and Sri Lanka (Table 1). Bangladesh will purchase U.S. wheat at prices higher than what it currently imports at from the Black Sea region. It will also buy several Boeing aircrafts. Similarly, the deal with Pakistan involves buying large amounts of energy products and developing domestic untapped energy reserves, including rare earths, to be shipped to the U.S. (ET, 2025b). Lower tariffs have also been enabled by the Pakistan Crypto Council entering into an agreement with World Liberty Financial – belonging to the Trump family – for faster blockchain adoption in the country (Jones, 2025). Sri Lanka will also buy large amounts of crude oil and gas from the U.S. (Gunadasa, 2025).

All purchase commitments will squeeze strained fiscal resources of these economies since most of these purchases were not planned and come with higher prices than if sourced elsewhere. These economies are struggling to stabilize through financial support of the IMF. Bangladesh and Sri Lanka have also witnessed significant political unrest in recent years. Their fledgling national governments are trying to balance internal governance and social discontent with economic management. Pakistan is also grappling with similar challenges. These contexts highlight their structural and circumstantial vulnerabilities, which can accentuate from their purchase commitments. In addition to purchase commitments, access to the U.S. market has arguably been conditional on military trade-offs (Washington Post, 2025) with reports of Bangladesh and Pakistan experiencing more U.S. military engagements (Moneycontrol 2025, ET, 2025a).

India is in an exceptional situation with 50% tariffs (Table 1). Apart from reciprocal tariffs, it has been imposed a 25% additional tariff for buying Russian oil. The high tariffs have serious

implications for some of its industries, such as electrical machinery, gems & jewelry and apparels. The much greater weight of the domestic economy in its overall market size and contribution to GDP insulates India economy from a major impact on its GDP. Nevertheless, it is struggling to protect its affected sectors that are employment intensive. Unlike the rest of the region, it is yet to strike a deal with the U.S.

With regional economies struggling to cope with the U.S. tariffs, they might also be caught in economic tactics employed by China, in retaliation to U.S. tariffs. China has signaled that the deals struck by various countries with the U.S. do not adversely impact its own trade and economic engagements with these countries. China has made it clear that such possibilities will not go unheeded, as seen from its unhappiness with Mexico, for raising tariffs on Chinese vehicle imports (Guardian, 2025). China is also expanding restrictions on rare earth exports to other countries on national security grounds (Bloomberg, 2025). This has implications for growth of global critical industry supply chains given China's dominance in production and distribution of rare earths.

The U.S.-China competition is at a stage where exogenous actions by both countries for neutralizing the other's strategic influence is being coupled with actions for 'punishing' trade partners for placating the other. In this regard, India, ironically, might be better placed than others in South Asia that have cut deals with the U.S. These other countries are on China's close 'watch' for detecting trade actions that might act against Chinese interests. China's rare earth export curbs aim to ensure that South Asian countries 'allying' with the U.S. don't get to figure prominently in supply chains using these rare earths. On the other hand, China has granted greater preferential access to exports from other regions, such as Africa, and like the U.S., it is using domestic market access as a geoeconomic tool. Except India, none of the other South Asian economies have the economic size and strategic heft to walk the tightrope between the U.S. and China without taking occasional false steps. For India too, there are costs to strategic decisions with episodic impacts on economic security. Economic pressure from U.S.-China competition is deeply impacting the region's vulnerabilities – a situation unlikely to change in the foreseeable future.

3. Setback for Decarbonization

Very few regions of the world are experiencing climate catastrophes like South Asia. Heatwaves are commonplace in various parts of India, Bangladesh and Pakistan, as are cloudbursts and flash floods. Such occurrences result in loss of human lives, damage to property and resources, and displacement from livelihoods. The calamitous impacts from climate change are exacerbated by ecological imbalances, lack of adequate drinking water and fatalities from air and water pollution. Available research points to increase in extreme weather events in the region leading to decline in labour productivity and loss of jobs (Sharma, 2025). Tackling climate change is an onerous challenge for South Asia. All countries from the region have pegged their own programmes and targets in this regard. These include accelerating efforts to decarbonize industrial production for achieving 'net zero' status and enhancing green transition through adaptation. The region lacks financial and institutional resources to effectively meet decarbonization goals. The turbulence in global trade and geopolitics is exacerbating the situation.

3.1 U.S. withdrawal from climate change efforts

U.S. withdrawal from financial commitments to facilitate the global green transition means significant difficulties for South Asia in accessing climate finance. The previous U.S. administration had committed majorly to global decarbonization efforts. This was visible from multilateral commitments at the COP and through regional initiatives like the IPEF (Palit, 2025b). India was looking forward to engaging with the U.S. initiatives on clean energy at the IPEF, especially resources made available through the IPEF funding mechanism, including encouraging clean economy start-ups. This does not appear feasible anymore. The U.S.'s current reluctance to support global decarbonization efforts suggests its commitments to the IPEF are likely to stay unfulfilled. This has major implications for private investments in renewables in India.

US tariffs further complicate prospects for India and the region. For India, the tariffs underscore the urgency to diversify trade, which can lead to a rush to enter into new FTAs. Such diversification might not necessarily happen in a manner encouraging green trade. In the rush to locate alternative markets, Indian exports might zero in on markets with low environmental standards for exports, thereby reducing the motivation for exports to imbibe clean standards. Shifting to green trade by encouraging firms to adopt global sustainability standards involves incurring significant costs, especially through greater use of renewables and other emission-friendly measures. With U.S. investments in renewables unlikely to materialize, adopting such standards will get tougher.

Trade deals entered with the U.S. by South Asian economies overlook climate management issues. Industries in Bangladesh, Pakistan and Sri Lanka can be hampered in securing sustainability due to lack of adaptation funds and urgency of protecting exports to the U.S. that don't insist on climate standards. India's expectations from the 'clean energy' initiatives at the IPEF were for complementing those it had with the U.S. bilaterally, such as the strategic clean energy partnership (US Department of Energy, 2024). Clean energy manufacturing, and resilient supply chains for ensuring stable supplies of clean energy products, were important parts of the partnership. These prospects, as well as those in the IPEF, are uncertain.

The U.S. administration has been investigating imports to the U.S. that might impair national security. These investigations are under Section 232 of the U.S. Trade Expansion Act of 1962 that empowers the U.S. President to impose tariffs for safeguarding national security. Currently, semiconductors; processed critical minerals and derivative products using them (e.g. batteries, wind turbines); and polysilicon for manufacturing solar panels, are being investigated (O'Neil et al, 2025). New tariffs will further fragment these supply chains. Strategic shifts in critical supply chains like rare earths and semiconductors can weaken South Asia's ability to develop adequate capacities in renewables and expand clean transitions, such as greater adoption of electric vehicles as public transport. The worries increase from the U.S. government's plans to invest in domestic critical mineral capacities for reducing dependency on imports. With the U.S. looking to secure critical mineral supply chains from a military security perspective through efforts like the Pentagon becoming a stakeholder in American rare earth mining businesses (Kimball, 2025), such chains will spatially evolve entirely on U.S. military and geopolitical priorities. Decarbonization will suffer as a result as countries unaligned to U.S. national security interests will be excluded from these supply chains.

The U.S. Administration has also not indicated its views on the Minerals Security Partnership (MSP), which aims to secure diverse and sustainable supply chains by committing to

environmental and sustainability standards for developing global capacities for clean energy (Wauters and Hertel, 2024). India, along with Canada is a member of the MSP. Progress on MSP would have brought for India opportunities for growth of clean energy supply chains and pursuing ‘net zero’ goals. These prospects are uncertain now. India’s ties with the U.S. right now have deteriorated over the last few months. Its ties with China are showing a thaw. As mentioned earlier, China is expanding restrictions on its rare earth exports for ensuring that the rare earths are not re-exported to the US or its close allies or used as raw materials in making other products in production facilities located in US ‘friendly’ countries. It is seeking similar guarantees from India (TOI, 2025c). India needs steady supplies of rare earths for making semiconductors and expanding supplies of domestic electric vehicles. It is important to see if these needs and the current geopolitical conditions enable India to ‘transactionally’ access rare earths from China and position itself in critical mineral and renewable supply chains.

3.2 Carbon border tax

A significant development with long-term implications for India and several other developing economies, is the carbon border adjustment mechanism (CBAM) of the EU. Studies examining the impact of the CBAM on India’s exports and GDP point to negligible declines in GDP following carbon tax outflows. Major exports exposed to CBAM, such as cement, steel and aluminum are expected to decline, along with reduction in output (Ghosh and Verma, 2025). There has been considerable unanimity among large economies from the Global South – China, India and Brazil – as well as the U.S., in criticizing the EU’s efforts to tax imports at the border based on their embodied carbon content. For India though, there is relief with the EU agreeing to integrate India’s carbon credit trading scheme within the CBAM. This means that Indian exporters of carbon-intensive products to the EU are unlikely to be taxed further if they have already paid the carbon tax at home (EC, 2025). Given the imminent finalization of the EU-India FTA, the announcement on carbon pricing should reduce anxieties of Indian exporters in accessing the EU market at a time when they are looking to diversify; and, in strengthening the domestic emission trading scheme (ETS) scheme and carbon market. It will also provide a fillip to decarbonizing domestic production of CBAM-targeted exports, such as steel, cement and aluminum.

Though not announced as an official policy yet, the Foreign Pollution Fee Act – aiming to tax at the border imports from countries using ‘dirty’ production methods - has been introduced in the U.S. Congress. If the bill does become a legislation, it might become another tool for reducing market access for imports from China, as well as from South Asian countries, if they are found using polluting techniques in production (Yormolenko, 2025). While the U.S. is looking at the issue less from the idea of fighting climate change, and more from the point of constraining errant trade partners, for India, collaborating with the EU and other global powers help in progressing on decarbonization. This could be seen as an opportunity arising from the disruptions caused by U.S. trade policies. The vacuum created by U.S. withdrawal from a globally responsible and proactive role in encouraging green trade can be substituted by similar efforts from the EU. This might also be an opportunity for Canada, especially in collaboration with a large economy from the Global South like India. More on this is discussed later.

4. Aggravating Impact of Skills Deficit

South Asia's demographic dividend is taking a catastrophic turn. Increasingly educated youth are finding themselves lacking employable skills. The mismatch is impacting both employers and job aspirants, particularly new entrants to workforces.

Employers across a broad range of manufacturing and service industries are not getting enough workers trained in skills they require. Critical skills gaps are surfacing in enterprise workforces, forcing firms to outsource functions that have technologically upgraded and require more sophisticated technical human skills, to other local enterprises who might be able to provide the required skills. Such outsourcing is also not always able to locate desired skills, creating difficulties for firms in maintaining productivity and scalability. Several enterprises, especially small businesses, are forced to decline orders for delivering large volumes at short notice. The setbacks are most visible in labour-intensive industries like apparels that need to respond fast to changes in consumer tastes and preferences and cyclical spurts in demand. Bangladesh, which specialises in low-cost labour-intensive apparel production, is now facing the crisis. India has begun experiencing the crisis earlier with lack of adequate skilled labour forcing garment clusters to refuse more sourcing by global retailers (Pandya, et al 2025). The deterrent has prevented Indian apparel firms from responding wholeheartedly to efforts by global retailers to diversify sourcing from China.

Adverse consequences of insufficient skilled workers are exacerbated by U.S. tariffs, which are further forcing firms to cut back on production. Indeed, the skilled labour shortage and tariffs have combined to stall investments in new capacities - an outcome having consequences for long-term industrial capital formation in job-generating sectors. Furthermore, the lack of sufficient skilled workers also impacts abilities of Indian businesses to diversify from the U.S. market through new FTAs like those with the UK and EU (forthcoming). Demands from these markets might remain unmet with Indian firms unable to produce more due to skilled labour deficits.

The skills crisis has enlarged with the AI-driven transformation of multiple industrial processes and functions. Emergence and use of AI as a general-purpose-technology have significant implications for labour-abundant economies of India and South Asia lagging behind many countries in upgrading skills. The region, including India, suffers from inadequate domestic institutional capacities for upskilling, especially in tasks witnessing high use of AI, data analytics, and machine learning, in several manufacturing and service industries. Apart from textiles, lack of upskilling is impacting industries like automobiles, electronics, chemicals, logistics and hospitality, to mention a few. Many of these supply chains are applying AI and digitizing processes for greater efficiency, without entirely displacing human functions. Digital tools are being used for repetitive functions with appropriately skilled individuals determining use of such tools. With use of AI gaining ground, demand for people trained in deploying digital technologies in these supply chains has increased rapidly. Unfortunately, curriculums at schools, colleges, and technical training institutes have not adapted to the industrial transformation and demand for new skills. Graduates and entrants to the work force, as a result, are found woefully short on skills required for effective human-machine collaboration.

Policymaking in the region hasn't been as proactive in this regard as necessary. Warning signs on skills deficits becoming unmanageable should have been heeded sooner. The region lags behind most others in abilities of workforce 'ready' populations for 21st century jobs. UN estimates indicate around half of young South Asians entering the labour market daily,

equipped with basic skills qualifying them for joining workforces, are unfit for 21st century work (Unicef, 2019). As the world's most populous sub-region accounting for roughly a quarter of the global population, South Asia is unprepared for disruptions arising from a faltering global economic order, exacerbated by trade restrictive policies and their ripple effects. The alarming prospect of bleak futures and economic hardships are increasing economic insecurities of the youth, manifesting in anger on the streets, as seen in Sri Lanka, Bangladesh and Nepal.

It is in the context of the social unrest seen across the region, especially the anti-establishment outbursts of the Gen Z, that protective trade actions by the U.S. and other countries have serious implications. While significant sections of the workforces – technically well-trained ones are struggling to adapt to AI-driven transformative challenges – the relatively low-skilled ones, in industries like garments, leather and jewellery, are being hit hard by the damage to exports. Once displaced from their current jobs, especially the women, these workers will be left with few alternatives for re-employment. A similar scenario holds out for workers in industries switching from 'dirty' to 'clean', as job-intensive activities like mining and traditional refining stare at dark prospects, following institutionalization of environmental standards and their trade impacts.

The latest uncertainty for skilled workers in India, particularly in IT and technical consultancy, arises from increase in H1B visa fees by the U.S. administration (Palit, 2025c). The decision further complicates prospects of India and the U.S. reaching a trade deal. It also reduces possibilities of many skilled workers, across various technical sectors, from moving to the U.S. for better opportunities. H1B visas also enabled further upskilling of technically trained workers, which henceforth might not be available. The decision is a blow for the U.S. tech firms too, which have been recruiting skilled talent from India. However, the situation might also create new opportunities for Indian skilled workers, as discussed later. The skills deficit in South Asia is ostensibly due to structural deficiencies in capacities. The deficiencies and their economic costs can accentuate from inimical trade policies. The imperative to address the former is even greater now. If India and other South Asian nations put their act together in upskilling their workforce 'ready' youth, then adverse impacts of disruptive trade policies will be easier to manage.

5. Canadian Engagement with South Asia: Strategic Pathways

A significant part of Canada's strategic engagement with the region comprises its engagement with India. This is intuitively obvious given India's overwhelming economic and strategic presence in the region and prominence in the Indo-Pacific and the Global South. Greater engagement with India will create more scope for Canada's deeper engagement with the rest of South Asia.

5.1 India engagement: The strategic context

Except India, other major economies from South Asia have got trade deals with the U.S. India and Canada in this respect share some similarities. Both countries continue to negotiate with the U.S. underscoring their intention of staying engaged with the U.S. notwithstanding the trade friction. The imperative for Canada to stay engaged is more salient given its much greater strategic and economic links with the U.S. Canada currently has 35% 'fentanyl' tariffs on exports to the U.S., except those qualifying for preferential treatment under the USMCA. Its energy and energy resource exports to the U.S. face 10% tariffs (FR, 2025b). Forty per cent

transshipment tariffs apply to its exports to the U.S., if they use origin rules for avoiding fentanyl tariffs, or don't qualify under the USMCA (FR, 2025b). India, on the other hand, has 25% reciprocal tariffs, and further 25% 'secondary' tariffs for 'directly or indirectly importing Russian Federation oil' (FR, 2025c). More tariffs on India can come for it being an importer of Venezuelan oil and a member of the BRICS. The latest Section 232 tariffs on branded and patented pharmaceutical exports can also harm several drugs and medicine exports from India to the U.S.

China is also a complex strategic challenge for both countries. India's relations with China soured sharply since 2020. Signs of a thaw are visible only recently. Canada too has had strained political ties with China in recent years. Nonetheless, China, along with the U.S., remain the largest trade partners for both countries making it necessary for them to deal cautiously with the major powers locked in intense competition. Both countries are not sparing efforts to diversify their external trade through economic cooperation agreements and FTAs. For Canada, these efforts include new frameworks with major trade partners, such as Mexico (PMC 2025a) and the FTA with Indonesia (PMC, 2025b). Canada's existing FTAs with the EU and the EFTA, the trade continuity agreement (TCA) with the UK, the FTA with Korea, and its Indo-Pacific Strategy, create opportunities for diversification. India is also pursuing multiple FTAs with its recent agreements including ones with the UK, EFTA, Australia, New Zealand, Oman and the UAE. It is about to conclude a FTA with the EU and has FTAs with Japan, Korea, Singapore, Malaysia and the ASEAN.

5.2 India FTA, CPTPP and middle power activism

The above context makes the ground ideal for advancing the Canada-India FTA that has been the subject of negotiations for several years. The deal was stalled at an advanced stage due to strains in diplomatic relations. Recommencing of talks on the FTA and an investment protection agreement are encouraging signs (Jagota, 2025). The FTA is now easier to conclude given India's successful FTAs with the EFTA and the UK. These FTAs, along with the upcoming one with EU, and the ones signed with Australia, New Zealand and the UAE, contain several new-generation trade issues (e.g. services, competition policy, government procurement, environment, digital trade, labour standards and intellectual property). Inclusion of these issues in India's latest FTAs brings India closer to the Canadian perspectives on 21st century issues in global trade making the task of finishing the deal easier.

Two more perspectives are decisive in Canada's future engagement with India with concomitant impacts on engaging with South Asia and the Indo-Pacific. These are the prospect of India joining the CPTPP and Canada and India working with 'like-minded' middle powers for upholding the global rules-based trade order. Both perspectives are congruent if the CPTPP is visualized as a grouping of global middle powers committed to advancing a forward-looking purposeful agenda on 21st century trade (Palit, 2025a). The CPTPP's current membership grows out of an APEC-centric identity to acquire a wider Indo-Pacific strategic identity (DFAT, 2025). With neither the U.S., nor China, in the CPTPP, while being in the APEC, the CPTPP is more amenable to the pursuit of a global trade agenda not directly impacted by the U.S.-China rivalry.

Six CPTTP members – Australia, Canada, Japan, Mexico, Singapore and the UK – have shares in global merchandise and commercial service trades that make them significant actors in global trade (Palit 2025a) and well-suited for advancing a middle-power agenda for global trade. India, a prominent representative of the Global South, can add considerable inclusivity

to the CPTPP. Both Canada and India can work towards the goal of India joining CPTPP. The possibility is far more realistic today given the ambitious commitments made by India in its new FTAs on 21st century trade issues. A broader CPTPP can effectively contribute to making supply chains resilient and sustainable and advance economic security of all partners.

5.3 Enabling Decarbonization

Canada has a long history of committing to the environmental needs of South Asia, through various initiatives, such as renewables capacity (e.g. solar power) and clean technology (GoC, 2024). There is no denying the need for these supports to continue. There are also other initiatives through which Canada can engage deeper with the region for enhancing decarbonization and contributing to greater economic security. A specific example that can be explored is development of cross-continental ‘green shipping’ corridors. Controlling emissions from shipping is a major global priority. Corridors encouraging containers to use clean fuel can significantly bring down emissions on shipping routes across the Indian and Pacific oceans. Canada’s ‘green shipping corridor’ programme has established a domestic rules-based framework in this regard (GoC, 2025b). The experience and capacity can be enhanced to the Indo-Pacific domain, including India, and subsequently to Bangladesh, Sri Lanka and other shipping hubs of South Asia.

India and Singapore are developing a ‘green and digital’ shipping corridor (MPAS, 2025) making India an active participant in growth of regional green shipping lanes and decarbonization of the maritime sector in the Indo-Pacific. Their respective capacities and interests make Canada and India well-poised to explore regional green shipping options, including development of bunkering facilities for clean fuel in their ports, or mutually decided third country ports. The collaboration can figure in the scope of the Canada-India FTA and can extend to development of green hydrogen capacities with green hydrogen and ammonia earmarked for use in the green shipping routes, bunkering and storage.

India has institutionalized a carbon credit trading scheme for encouraging growth of emission credit practices in India and discovering domestic price of carbon. As mentioned earlier, the EU has integrated the scheme within its CBAM. This paves the way for faster growth and wider adoption of the scheme in India and greater induction of clean finance investments. An active role of Canadian financial institutions in this regard will facilitate decarbonization investments in India. ‘Green’ projects often involve new clean technologies with uncertain financial prospects and require de-risking across financial sources. Blended finance – a mix of concessional finance from different donors - is ideal for ‘crowding-in’ private sector investments (IFC, 2023). Canadian financial institutions can enable blended finance with India by looking for public-private partnerships for sustainable and climate finance (Rao, 2025). This is a mutually win-win situation given the returns that Canadian green-tech firms and financial institutions can expect from India in the long-run. Canada’s global climate financing strategy focuses on blending grants with unconditionally repayable contributions (GoC, 2025a) and can incentivize clean private investments in the rest of South Asia also.

5.4 Addressing skills deficit

The current disruptive conditions can provide opportunities to several workers, including women, for upgrading skills as they search for new jobs. This can be a key part of Canada’s ongoing collaboration with India in skill development. The Skills Council of Canada (SCC) has been collaborating with the National Skills Development Corporation (NSDC) in India to

train qualified workers from India in specific standards and skills, including technical and soft skills, for meeting Canadian industry requirements and provincial certification standards (SCC, n.d). The ostensible purpose is to address domestic labour shortages in Canada by utilizing surplus trained workers from India. The trade-related displacement provides a further opportunity to both countries in this regard, where workers trained in specific trades, including women, can be trained in more applied skills, for being re-engaged not just in India, but also Canada and elsewhere in the world. Upskilling workers for more productive and gainful employment can be an important element of the India-Canada FTA. The collaboration can be extended to similarly affected industrial workers in other parts of South Asia also.

Efforts to upskill relatively low-skilled workers can be complemented by a more actionable idea emerging from thoughts articulated by Canadian Prime Minister Mark Carney for attracting tech workers whose prospects for working in the US have been affected by the sharp increase in H1B visa fees (NDTV, 2025). The possibility of US-based businesses engaging affected and potential H1B professionals by locating them in Canada, UK, Germany, the Middle East, and India, is significant. Furthermore, Canadian tech businesses are eyeing the prospects of more workers from India and South Asia to be brought over to Canada. The outwardly mobile tech-skilled population from South Asia can emerge as a major pool of talent for Canada and be a great draw for global businesses looking to use them without worrying about complications in working conditions, such as the US H1B scheme.

6. Conclusion: Looking Ahead

The context for Canada's engagement with South Asia is challenging for both sides. Economic insecurities are growing for South Asia – a region grappling with multiple economic, socio-political and environmental challenges. Notwithstanding the grim outlook, the conditions present opportunities for Canada's meaningful engagement with the region. It is not clear how the U.S.-China competition will shape in the months to come. But South Asia will continue to be affected by the geoeconomics of the rivalry and the region must shield itself from the resulting adverse impacts by staying focused on its development priorities. This is imperative when social and political unrests among the youth are manifesting rapidly across the region.

South Asia stands to benefit extensively from deeper engagement with Canada as explained in the previous section. For Canada too, benefits are significant, following deeper economic and strategic footholds in the world's most populous region with enormous geoeconomic significance. As new trade diversification arises from distortions caused by tariffs, more trade and investments can flourish between countries and regions hitherto less economically engaged. Canada and South Asia can be an appropriate example. The strategic approach to Canada's engagement with South Asia needs nuanced understanding. These include deeper insights on Canada's use of its capacities in emerging economies as a critical strategic partner for India and South Asia in the 21st century. More research is necessary on specifics of Canada's bilateral and plurilateral trade engagement with India, and its engagement with the rest of the region on prominent issues, such as food security, healthcare, digital trade, green trade, skilled labor mobility and innovation. The research and insights need to be contextualized in the larger vision of Canada's role as a global middle power in promoting rules-based trade in the Indo-Pacific through trade compacts like the CPTPP.

From a wider vantage point of a forward-looking trade agenda involving Canada and the Global South, and global trade rules, some specific questions/themes for future research are as follows.

- With the WTO's systemic rigidities holding up global trade reforms, can Canada and India work with other middle powers for an inclusive 21st century rules-based trade architecture? Can an existing regional framework like CPTPP serve the purpose? What are the conditions necessary for India's entry in CPTPP? Will an expanded CPTPP complement the WTO or reduce its credibility?
- Green trade is a critical global imperative. Given the urgency of reducing maritime emissions in the Indo-Pacific region, what are the economic and regulatory requirements for a green shipping corridor in the Indo-Pacific?
- Growth of stringent emission standards in OECD states are affecting trade prospects of the Global South. Several major exports, such as steel, aluminum, mining and cement are adversely affected. How can enterprise capacities, i.e. abilities of firms to adopt clean manufacturing and industrial processes, be improved in this regard?
- Greater AI adoption through large data centers can increase India's productivity in tech and AI-based digitally delivered services and expand its capacity in global exports of such services. But this might entail high energy use. Can India enhance its comparative advantages in digital trade without compromising sustainability? It is important to understand this through specific case studies focusing on AI data centers.
- With the U.S. and some other OECD countries increasing barriers to skilled immigration, Canada can use talent and skills from other countries for enhancing its comparative advantages in global trade. While India and South Asia remain major sources of talent, so do several countries from Africa, South America, Southeast Asia and the Middle East. Entry barriers impact all these countries. Research could focus on how the barriers provide an opportunity for it to engage global talent in enlarging trade of goods and services.
- AI-enabled and green skills will decisively determine future comparative advantages in global trade. This is a critical policy imperative for South Asia as it adapts to domestic production of tradables requiring AI applications for higher productivity and global low-emission norms. Its skills deficits need to be addressed urgently in this regard by exploring how greater capacities in AI and green skill can increase the region's comparative advantage and greater participation in global trade. The role of skills partnerships between Canada and South Asia, as well as those between the region and other developed countries need to be studied closely in this regard.

All the above lack informed knowledge and require extensive research for shaping constructive policies. These are integral to an inclusive 21st century trade research agenda for Canada.

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