TAKSHASHILA INSTITUTION

Faultlines & Fallouts

Workshop Report on Impact of a Taiwan Strait Crisis on Indian Economy

Manoj Kewalramani, Anushka Saxena, Amit Kumar

Takshashila Report 2025-28
Version 1.0, December 2025

Report detailing conclusions of a workshop on the impact of a conflict over Taiwan on India's economic and technological ecosystems, based on discussions conducted between a host of stakeholders across banking, industry, venture capital, and policy research.

Recommended Citation:
Manoj Kewalramani, Anushka Saxena, Amit Kumar, ``Faultlines & Fallouts'', Takshashila Report 2025-28, Version 1.0, December 2025, The Takshashila Institution

Contents

1 Executive Summary

1.1 Objective of the Workshop

The goal of this Workshop was to analyse the macroeconomic and technological fallout of a major crisis in the Taiwan Strait. The discussion focused on the impact of such a conflict on global trade, finance, and technological and industrial supply chains. Participants analysed the systemic implications of three, distinct conflict scenarios involving the People's Republic of China (PRC) and Taiwan, focusing on both immediate disruptions and long-term structural effects, for India and the world:

- PRC Blockade of Taiwan
- Full-Scale PRC Invasion & Prolonged Conflict
- Swift PRC Victory

Participants included stakeholders from the semiconductor sector, banking and finance professionals, academics and policy analysts, and venture capital specialists.

1.2 Key Takeaways

Participants overwhelmingly agreed that:

- Stockpiling of semiconductor chips in the event of a Taiwan Strait Crisis is not a strategy, as it is only viable for raw materials. For India, resilience and responsiveness would hence be enabled by timely diversification and development of domestic capability, and not inventories.
- India may need two sovereign funds to deal with the techno-industrial implications of a Taiwan Strait crisis. First, a flexible sovereign fund for startup rescue, foreign acquisitions, and emergency stabilisation. Second, a backstop fund for MSME credit guarantees and sector-wide liquidity.
- India should further pre-negotiate agreements to access Taiwanese fabrication facilities in Germany and the US, and to secure rare-earth supply contracts.
- The government must be proactive, not reactive. Every scenario shows that a reactive approach will likely lead to substantial losses for Indian businesses and investors.
- A crisis in the Taiwan Strait is not only an economic issue; it is a political one. Especially in Scenario III, India will likely be faced with tough choices given the shifting balance of power in the region.

2 Scenario 1: PRC Blockade of Taiwan

2.1 Key features of the Scenario:

- Ambiguous "grey zone" operation: coercion without full-scale conflict.
- Global insurers suspend coverage for East Asian shipping lanes.
- Semiconductor exports from Taiwan fall sharply due to halted maritime traffic.

2.2 Key Observations by Participants

In scenario I, China may not consider semiconductor dependence as a constraint if it decides to deploy force. Potentially, the idea that "TSMC might not be a factor for Beijing" in its decision to launch a campaign against Taiwan holds, because Beijing assumes it can extract TSMC capacity post-conflict, or force re-shoring. This scenario is also the most likely one the world may witness in the next 5 years, given that China prefers the use of force below the threshold of war, and a blockade fits this category. China also benefits if the crisis triggers global diversification away from Taiwan, thereby reducing the island's strategic relevance without sustained warfighting.

Stockpiling of semiconductor chips is not a viable solution in case of disruptions in trade with Taiwan. This is because chips change rapidly, and automotive and industrial chips are multi-component dependent. Therefore, stockpiling may not solve for multiple supply chain disruptions at once. Further, Indian industry's stockpile capacity is estimated to be very limited; a blockade and its repercussions may last much longer than what a stockpile can serve.

In India's case, the blockade is most likely to harshly hit vendors, Electronics Manufacturing companies, and Original Equipment Manufacturers (OEMs) simultaneously.

2.3 Detailed Implications for Indian Industry and Government

India imports ~15% of its semiconductors by value from Taiwan, and ~55% from China and Hong Kong combined. In light of this fact, the supply chain impact of a blockade of Taiwan by the PRC may be three-fold:

- Maritime insurance suspensions will likely increase costs, even as maritime logistics and energy prices may rise sharply.
- In the case of legacy chips in particular, India may have to rely on its limited domestic alternatives. Still, it will require a massive mobilisation of alliances, given the sustained use of legacy chips in everyday gadgets.

- Further, in terms of advanced nodes (7nm and below), there are negligible non-Taiwan options available. Consequently, their replacement in the situation of a blockade will likely be implausible, requiring affected economies to wrangle and negotiate with China.

2.4 Boardroom behaviour in India

It is expected that the immediate response of companies and businesses would be to contact the Government of India, particularly, the Ministry of Electronics and Information Technology (MeitY), to seek emergency support with alternative supplies.

In tandem, businesses across the world, including in India, would rapidly demand dual-sourcing and/ or non-China flows. Essentially, this would mean either sourcing from two locations—Taiwan, for one, and a domestic or international facility—while sustainably shifting away from reliance on any Chinese alternatives, or maritime supply routes passing the Taiwan Strait.

Investors are likely to panic, as they would anticipate weakened global market sentiment. As a result, the valuations of hardware-dependent Indian startups will likely be significantly hit. There will likely be calls from industry for government support in facilitating procurement. Such support may also be requested in the form of emergency credit lines and stimulus packages.

2.5 Recommendations

2.5.1 For the Indian Government

Government of India must pre-emptively activate a Semiconductor Emergency Taskforce under the dual leadership of MeitY and the Ministry of Commerce and Industry. The Ministry of External Affairs shall also have to negotiate emergency access to non-China/non-Taiwan foundries across countries like Singapore, Japan, the US, France, and South Korea. The Government must also plan to establish a sovereign emergency fund for startups and MSMEs dependent on Chinese inputs. Preparing a logistics backstop to ensure the supply of critical components with the Navy and major shippers today, may help in the event of a future naval blockade of Taiwan. In this regard, incentives for maritime traders can be created via insurers, who may guarantee war-risk coverage for select lanes under governmental guidance.

2.5.2 For Industry

The industry must immediately set out to create non-China/non-Taiwan supply chains, especially viable local supply chains for legacy components. Investors must also take note of the emerging market and the inevitable risks, and

create the conditions of possibility for domestic manufacturers to sustain operations. Establishing long-term resilience partnerships with businesses and fabrication facilities in the US, Japan, and Singapore is also a viable option. Industry must also continue engaging with the government to build pre-approved crisis procurement channels.

3 Scenario 2: Full-Scale Invasion & Protracted Conflict

3.1 Key features of the Scenario:

- Widespread sanctions against the PRC and reciprocal embargoes.
- Global energy and commodity prices spike; supply chains fragment.
- Multinational corporations withdraw from China or suspend operations.
- Asian and global financial markets experience severe turbulence.

3.2 Key Observations

This would be the worst-case scenario among the three, as it would be economically devastating for China, Taiwan, and the world.

Because of China's deep integration with global supply chains and financial markets, potential application of sanctions from Western economies on China, and any countersanctions that may follow from Beijing, shall potentially result in:

- Dumping of Chinese forex in global markets;
- Sharp depreciation in the renminbi; and
- Massive capital flight from China.

3.3 Global and Indian Macroeconomic Effects

Global GDP may fall by ~10%, according to Bloomberg's January 2024 assessment, and global trade could fall by one-third. There would be some turbulence in the global payments systems and banking transactions. As supply lines shall remain consistently disrupted in the short-term (~1 year), oil, energy, and commodity prices may spike, creating an "import bill shock" for India. Both China and the world may also consequently face protracted stagflation.

3.4 Sectoral Effects on India

3.4.1 Banking & Finance

Asset freezes and sanctions on Chinese banks may cause disruptions in the settlements of Letters of Credit, which may lead to delays in payments for trade. There may be a shift in preferred means of financing toward Government-backed Central Bank Digital Currencies, alternative payment systems, gold, and the USD. It is possible that India's trade dependence on China reduces, and investment ties witness breaks, which may create second-order impacts surrounding disruptions in Joint Venture investments, or even the import of raw materials and technologies.

3.4.2 Technology & Semiconductor Supply

It is likely that foreign investors may flee emerging markets to seek stability and assured returns on investment. In India, it is plausible that Venture Capital may halt investments in supply-chain exposed Indian startups. China is likely to weaponise its dominance in rare earths, critical minerals, and manufacturing inputs as a countermeasure, which may further discombobulate supply chains. Alternatively, to sustain economic growth, China may offer its products at lower prices, flooding markets. Multinational firms are highly likely to begin a mass withdrawal from China, but as re-allocation will be slow and returns sought may be high, India may not be the first choice as a re-shoring destination.

3.4.3 Shipping & Logistics

U.S. and China may enforce inspection regimes, reducing throughput across Asia.

3.5 India's Position

Some capital may exit China due to asset freezes and sanctions on transactions by Chinese banks. Capital may also become non-liquid due to conversions of forex to gold. A part of the exiting capital may come to India, but:

- Global risk aversion may push capital to gold and USD.
- India's benefits may be limited unless it shows early proactive readiness.

3.6 Recommendations

3.6.1 For Government

The Government of India must create a large sovereign "Strategic Industries Stabilisation Fund" to rescue semiconductor-dependent MSMEs and startups and provide a loan backstop (building on the COVID precedent). Activating non-traditional financing and credit guarantee schemes, and investing in strategic procurement

of critical minerals and materials from Australia or Africa may be useful. Strengthening cyber and port security, including alternative payment rails, will be crucial to avoid further disruption costs to trade and critical infrastructure.

3.6.2 For Industry

Industry must invest in a China+2 diversification model starting today. Such a model shall focus on some integration with Chinese supply chains, deliberate effort to also set up domestic alternatives in India, and engage with a third emerging market such as Vietnam, Mexico, or Singapore. Pre-arranging contingency design and fab agreements with global fabs, aside from those in Taiwan, may also help offset potential delays in supplies from the Strait. IP-sensitive work is a key impediment to enhanced technological ties with China. Hence, industry may want to diversify such work away from Taiwan to US/EU partners to offset rising IP risks in China. Stockpiling of non-perishable critical inputs (chemicals or rare earth elements), which have durability for longer times than chips, is essential.

4 Scenarion 3: Swift PRC Victory

4.1 Key features of the Scenario:

- PRC asserts control over Taiwan's semiconductor industry and major ports.
- Western sanctions are targeted but less severe than those in Scenario 2.
- Markets initially panic but stabilise as trade realigns under new conditions.
- Beijing moves to integrate Taiwan's industries into its national supply chains.

4.2 Potential Strategic Consequences

It seems to be the least economically damaging situation in the short term, but drastically alters geopolitics and geoeconomics, and is systemically the most revolutionary and disruptive. Because of the potential acknowledgement of the limitations of American power as a consequence, there will most likely be a worldwide realignment of partnerships and priorities. There is a further high likelihood that South Asia and countries in the Indian Subcontinent will want to create closer ties with Beijing. China's self-perception and willingness to use power shall also likely enhance, and have direct security and economic repercussions for India.

4.2.1 Resilience & Realignment

- As countries hedge or even bandwagon with China, national industrial policy may increasingly focus on self-reliance or

diversification away from US-led, West-reliant supply chains.

- From New Delhi's perspective, the key question to answer would be: What concessions (economic) could be made to China without political compromise? How can it leverage its "trusted-tech" advantage, which pertains to its established status as a global provider of expert IT services?

4.2.2 Semiconductor Industry-related Consequences

It is undeniable that China would wish to establish control over TSMC and assert dominance over the most advanced and cutting-edge chip processes, equipment, materials and technologists. Even though TSMC has independent branches in Germany and Phoenix, Arizona, the nature of their boardrooms may change dramatically. Nonetheless, Western pressure against Chinese dominance will likely continue, and as a result, firms and governments may have to choose between access to China and Taiwan, or compliance with democratic norms/sanctions. It is also highly likely that, as Taiwanese talent flies abroad, the island proper's "Semiconductor Shield" will dissolve due to internal sabotage. Discussions noted that TSMC Chair Mark Liu is on record saying that TSMC facilities may be rendered inoperable in case of an invasion by Taiwan.

4.3 Impact on India

India will likely be forced to make economic concessions to China in the region, given that territorial or political concessions will lead to a major loss of regional power and domestic capital. Concerns surrounding IP theft in China may intensify, as companies may be pushed to collaborate with Chinese partners in manufacturing and technological industries. As a result, companies may either avoid Chinese collaboration, or be coerced into sharing sensitive information. It is likely that diversification away from China may decelerate due to its proven military might, even if economically, the country witnesses a slowdown. Nonetheless, any capital moving out of China may seek alternative destinations such as India, and preparation to capture it shall be a must.

4.4 Recommendations

4.4.1 For Government

The Government of India must clearly articulate its long-term alignment, which could revolve around maintaining strategic autonomy while investing heavily in US-facing semiconductor and manufacturing ecosystems. Fast-tracking incentives to attract fabrication facilities relocating due to Western decoupling pressures will be essential. Expanding IP protection frameworks to court both foreign companies and domestic investors/ VCs may be vital. Strengthening national security screening for Chinese

tech partnerships may be desirable for Indian industry, and the Government must set up a transparent mechanism to do the same.

4.4.2 For Industry

The industry may focus on US-aligned semiconductor ecosystems for high-end chip access. It may also want to build long-term R&D partnerships with Taiwanese diaspora, American universities, and Japanese or South Korean semiconductor and technological firms. The same model may be replicated for Australian and African rare earth firms. Avoiding deep integration into China-controlled supply chains, as political risks grow, is vital. This may be achieved by VCs or investors by pushing for and enabling "China-agnostic" design ecosystems (EDA tools, OSAT, etc).

The Takshashila Institution is an independent centre for research and education in public policy. It is a non-partisan, non-profit organisation that advocates the values of freedom, openness, tolerance, pluralism, and responsible citizenship. It seeks to transform India through better public policies, bridging the governance gap by developing better public servants, civil society leaders, professionals, and informed citizens.

Takshashila creates change by connecting good people, to good ideas and good networks. It produces independent policy research in a number of areas of governance, it grooms civic leaders through its online education programmes and engages in public discourse through its publications and digital media.