Guest Column

India's China Policy Risks Missing a Golden Opportunity Amid Trumpian "Reciprocal Tariffs"

By Mao Keji



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In October 2024, **a breakthrough summit between Chinese and Indian leaders** finally eased longstanding border tensions, and by March 2025, **both nations issued positive remarks about their bilateral ties**—something unseen in years. **The warming of China-India relations** sparked hopes of **restarting long-stalled Chinese investment projects in India**. However, as Trump wielded his "reciprocal tariffs" stick in early April, the fragile thaw in Sino-Indian relations has been clouded by uncertainty.

On April 7, India's Commerce and Industry Minister Piyush Goyal **accused China of undermining the global economic order** through unfair trade practices. Four days later, Goyal doubled down, **claiming that allowing China into the World Trade Organization (WTO) was the root cause of today's global trade crisis**, while praising Trump's tariffs as necessary and beneficial to the world, presenting a golden opportunity for India's trade ambitions. Foreign Minister S. Jaishankar also joined the fray, alleging that **'Chinese dumping' has sparked widespread anger in India**.

These statements reveal the Modi government's haste to align with Trump's agenda on tariffs. This approach has once again cast a long shadow over Sino-Indian ties stalling the economic collaboration that had only recently begun to warm. More significantly, just as India misjudged the "China+1" trend in 2020, it seems poised to repeat the same miscalculation, missing yet another development window.

I. How Does India View Trumpian "Reciprocal Tariffs"?

India's think tanks, academics, and media have coalesced around two interpretations of Trumpian tariffs. Optimists argue that India's key exports to the US—pharmaceuticals and services—so far remain unscathed, and the US tariff rates for India are lower compared to those for Vietnam or Bangladesh, and certainly China, Trump's primary target. With China under immense pressure, they suggest, Beijing might seek cooperation with India, offering capital inflows and technology transfers in return. Thus, aligning with Trump would position India

advantageously, even allowing it to emerge as a major beneficiary.

Pessimists see the tariffs as a death knell for trade liberation, preventing India from following China's path into lucrative Western markets through manufacturing and exports. But India still risks sharing China's fate of punitive tariffs. Viewing the US as the decisive force in shaping India's prospects, they echo **Jaishankar's complaint about Western favouritism toward China**. By criticising China, they demonstrate conformity to Washington, hoping for exemptions or concessions.

Notably, both fundamentally overestimate current US strength and underestimate China's and other economies' ability to counterbalance. This explains the hawkish rhetoric from Goyal, Jaishankar, **and even Defense Minister Rajnath Singh**. As commentator Pranab Dhal Samanta observed, **"any chaos is an opportunity for new power centres to emerge."** These officials perhaps seek to leverage Trumpian chaos to counter China, and secure diplomatic and economic benefits.

Echoing these statements, Indian government agencies have sprung into action. The Bureau of Indian Standards (BIS), for instance, **relaxed quality control orders (QCOs) on automotive parts, synthetic fibres, and chemicals**—directly addressing US concerns—while maintaining stringent regulations specifically against Chinese products. While India lodged a WTO complaint against US tariffs on its steel and aluminium, **it limited the move to "procedural consultations" to avoid antagonizing Washington**. Meanwhile, India's Directorate General of Trade Remedies (DGTR) is reportedly **planning new anti-dumping investigations against China**. Most significantly, **India is pursuing a first-phase trade deal with the US**, in an open attempt to hedge against China's counterstrike.

II. Why Might India's Calculations Be Wishful Thinking?

India's optimism stems from two factors: its exports to the U.S. account for just 2.3 percent of its GDP, many of which (like iPhones) have low domestic value addition, and the belief that India is not a primary tariff target. Former IMF executive director Surjit S. Bhalla argued that **the true aim of the tariffs is not to balance trade deficits, but to suppress China**, presenting India with a historic opportunity. Yet, these assumptions underestimate the tariffs' risks, while overestimating India's chances of success.

India underestimates the destructive nature of tariffs. Even if China cedes market share in the US, manufacturing powerhouses like Vietnam and Malaysia, or countries closer to the US like Canada and Mexico, are better positioned to negotiate favourable trade terms. However, Indian service exports, particularly IT, could suffer greatly amid US economic turbulence. Financial risks are also significant—global market volatility typically drives capital flight from high-risk emerging markets, exposing India to

prolonged financial stress. Furthermore, profit margins for Indian firms could face severe pressure from diminished global demand coupled with redirected competition from Chinese goods originally bound for the US.

The Modi government also overestimates India's leverage. Sharing US frustration over trade deficits with China and concerns about its rise, India has embraced Trumpian logic, fostering false confidence. **Trump's claim that "the more you import, the stronger your bargaining power" suggests that the US**, with its large imports from China, holds a stronger negotiating position—an advantage India believes it too possesses over China. However, this logic falters in practice. As a surplus nation, China's loss translates to loss of sales revenue, which is relatively easy to adjust. Meanwhile, India, a deficit nation, struggles to domestically substitute competitively priced imports. After all, shifting manufacturing capacity across borders is far more complex than simply redirecting orders.

III. Why Could India Miss Yet Another Development Opportunity?

Over the past two decades, India has missed two key opportunities for manufacturing growth. In the early 2000s, as China's low-end manufacturing shifted abroad due to rising costs, India, fixated on services, barely took notice. Later, amid U.S.-China tensions and the COVID-19 pandemic, multinational firms pursued a "China+1" diversification strategy. India took steps, but these ultimately backfired.

In early 2020, fearing "predatory foreign acquisitions" during the pandemic, **India issued Press Note 3**, restricting investments from China. Following the Galwan Valley clash in June 2020, **India began intensifying its scrutiny of Chinese firms, arresting several Chinese executives on accusations related to tax evasion and money laundering, imposing tariffs on Chinese imports**, and **banning hundreds of Chinese-linked mobile apps over "national security" concerns**. Despite expecting to benefit from the "China+1" strategy, India's policy moves have only led to significant disappointments.

Now, with Trump's tariffs offering a third chance, will India seize it? The prospects remain dim.

First, "political correctness" continues to distort economic rationality. India has yet to resolve a fundamental question: Does it want to cooperate with China? Goyal's rhetoric suggests that betting against China and singing its decline aligns with India's version of "political correctness." **Only during a brief window in February 2025, after Modi's US visit faltered, did India briefly consider improving ties with China**. With Trump's tariffs, India has eagerly followed Washington's lead in confronting China. Economic logic suggests that closer Sino-Indian cooperation would better position India to pursue its dream of industrial take-off, but domestic politics

stifle this possibility. As seen since 2020, rejecting Chinese capitals and talents, India cannot benefit from Chinese industries relocating under US pressure. This will be a failure of both economic wisdom and political courage.

Second, entrenched policy constraints remain formidable. Despite its vast low-cost labour force, India's exports are dominated by capital-intensive goods, reflecting severe distortions that prevent the country from leveraging its greatest comparative advantage. While Modi's first two terms pushed labour, land, and agricultural reforms, progress has been lacklustre. For instance, **India's efforts to consolidate labour laws into four codes have stalled due to the lack of implementation guidelines**, rendering the reforms toothless. In Modi's third term, with reliance on a coalition government, reform momentum has waned further. Even if New Delhi resolves to accommodate Chinese investment, longstanding barriers to manufacturing growth will not simply dissolve.

Third, competition within the region is fierce. Given India's restrictions on Chinese investment and sluggish domestic reforms, Chinese entrepreneurs—facing obstacles in securing FDI approvals, obtaining visas, or navigating compliance risks, and fearing hurdles in profit repatriation—often bypass India. Meanwhile, a supply chain network has been taking shape from China to Southeast Asia, South Asia, and the Middle East—Bangladesh handles **apparel**, Vietnam focuses on **consumer electronics**, Indonesia on **batteries and refined products**, and Malaysia on **automobiles, chips, and electronic manufacturing services**. More recently, China and Vietnam **signed a historic memorandum to strengthen supply chain cooperation in response to US tariffs**, with potential expansion to Bangladesh and Sri Lanka. As a result, India may face intensifying competition in its economic niche, further squeezing its development prospects.

India's missteps risk repeating history, squandering a critical moment to redefine its economic trajectory.

Mao Keji is an assistant researcher at the International Cooperation Center of the National Development and Reform Commission (NDRC), China. His research interests include Indian economic policies and Sino-Indian economic interactions. He holds a B.A. in International Relations from the University of Toronto, and a master's degree in International Relations from Tsinghua University and Johns Hopkins University. He is also a visiting fellow at Harvard Yenching Institute.

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