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Will India Benefit from the US-China Tariff War?

By Sarosh Bana

SYNOPSIS

The tariff confrontation between the world's two largest economies is wreaking havoc on the global economy, and India can take advantage of the situation.

COMMENTARY

With his tariff showdown of 2 April 2025, US President Donald Trump is knowingly inciting China into a new Cold War and veering the world into recession. J. P. Morgan raised its forecast from 40 to 60 per cent that the global economy will enter a recession by end 2025.

Trump's unfettered move will also shatter the American Dream, hurting Americans more than any other country. His punitive taxes on all imports will escalate costs for domestic businesses, inflating prices for US consumers, and consequently edging his country into a sustained economic decline and eventual recession.

If American importers opt to absorb the tariff costs, their profitability will decline, coercing them to downsize operations and lay off workers. If they pass on the tariff costs to consumers, which is more likely, consumer demand will collapse, hitting manufacturing and again throwing workers out of jobs.

The US dollar has also been sliding against other major currencies, which is a clear signal that investors may be starting to shun what has long been the safest haven in global financial markets.

On 9 April, Trump suddenly announced the pausing of reciprocal tariffs for 90 days to give his administration time to work out trade deals with 75 countries, which he said

had reached out to the White House to offer concessions. He later acknowledged that the pause was also driven by volatility in the stock and bond markets.

But he singled out China, not only excluding it from the 90-day concession but also upping his absurd 145 per cent tariff on Chinese imports to an incredible 245 per cent, as retaliation against Beijing's retaliation in hiking tariffs on all US goods from 34 per cent to 84 per cent to 125 per cent, starting 12 April.

China's Response

China termed the Trump administration's actions a "joke", stressing that they no longer considered them worth matching. Trump has tried to soften the impact by exempting US\$100 billion worth of tech imports, but tensions prevail as Washington contemplates a national security probe on electronics.

Chinese President Xi Jinping is expected to do all he can to counter Trump's excesses. Indeed, the 2022 US *National Security Strategy* cites China as the "only competitor with both the intent to reshape the international order and, increasingly, the economic, diplomatic, military, and technological power to do it".

China has halted exports of six rare earths, cutting off the US and other countries from these minerals vital for the tech, auto, aerospace, defence, and manufacturing industries. It has also ordered Chinese airlines not to take further deliveries of the Seattle-based Boeing Company's aircraft. China is Boeing's largest customer and is in line to receive deliveries of 9,000 airplanes – 20 per cent of Boeing's production – over the next two decades.

It is a fact, though, that the US suffers a massive trade deficit with China that exceeded US\$295.4 billion last year; its exports were worth US\$143.5 billion to China in comparison with US\$438.9 billion worth of imports from China.

The US' overall trade deficit in goods and services was US\$918.4 billion in 2024, a 17 per cent increase from 2023, even as China's overall trade surplus surged to a record US\$992.2 billion in 2024, its exports climbing 5.4 per cent. This helped tide over the sluggish growth at home as it gradually recovered from a crisis in its property market and the persisting effects of the COVID-19 pandemic.

Trump's Use of Tariffs Denounced

However, a brutal slugfest was certainly not expected of the world's largest economy, which the US clearly is, with its 2024 GDP of just under US\$29 trillion far outshining the US\$18.6 trillion GDP of China, the world's second-largest economy. A calibrated approach to trade rectification would have been more acceptable, even welcomed, by the international community. It would have expected Trump to seek mutually compatible trade agreements with countries and blocs, rather than wield a sledgehammer to structure an economic order pandering to his whims.

Banking giant, UBS, expects China's exports to the US to drop by two-thirds in the coming quarters, with overall Chinese exports declining 10 per cent in US dollar terms in 2025, factoring in weaker American and global economic growth. In a report on April

15, the bank also downgraded China's GDP growth forecast to 3.4 per cent in 2025, assuming current tariff hikes will remain, and that China rolls out additional stimulus.

On 14 April, legal advocacy group The Liberty Justice Center, urged the US Court of International Trade to block the President's sweeping tariffs, contending that he exceeded his authority. Arguing that only Congress can set tax rates, including tariffs, Center counsel Jeffrey Schwab said, "No one person should wield such power". White House spokesman Harrison Fields defended the tariffs, calling them essential to US interests.

China's Counter Moves

President Xi has embarked on a diplomatic outreach to contain the United States' influence. When he recently hosted Spanish Prime Minister Pedro Sánchez in Beijing, he urged the European Union to embrace a "fair international trade environment and jointly resist unilateral and intimidating practices". He added that "China and Europe should fulfil their international responsibilities... and jointly resist unilateral bullying practices".

Xi also reached out to Southeast Asian countries, warning that a "trade and tariff war will produce no winner, and protectionism will lead nowhere". He visited Vietnam, Cambodia and Malaysia in a bid to "resolutely safeguard the multilateral trading system, stable global industrial and supply chains, and open and cooperative international environment". The three countries have been imposed tariffs of 46, 49 and 24 per cent respectively by the US, although they have been similarly suspended for 90 days.

Xi presented China as a reliable partner, unlike the US, and said his country is ready to fight a trade war if Washington continues to act "recklessly".

In a rare gesture, Beijing also sought to galvanise New Delhi to "stand together". In a post on X, Chinese Embassy spokesperson Yu Jing said: "China-India economic and trade relationship is based on complementarity and mutual benefit. Facing the US abuse of tariffs, which deprives countries, especially Global South countries, of their right to development, the two largest developing countries should stand together to overcome the difficulties".

Her post followed a congratulatory message by the Chinese President himself on 1 April to his Indian counterpart, President Droupadi Murmu, on the 75th anniversary of the establishment of China-India diplomatic relations, that India and China should work together, as two major neighbouring countries that are home to one-third of the world's population. "A stable, predictable and friendly bilateral relationship will benefit both countries and the world", he added.

India did not respond to this statement, though External Affairs Minister S. Jaishankar said the bilateral relationship was moving in a "positive direction".

India-US Trade Talks

Prime Minister Narendra Modi walks a tight rope. Nevertheless, he is positioning India

to capitalise on any advantage coming out of the tariff war so as to emerge as a net beneficiary.

Even as Finance Minister Nirmala Sitharaman was pacing through her conciliatory five-day visit to the US to engage with officials on another round of talks on a Bilateral Trade Agreement (BTA), the first phase of which she hopes will be finalised by “autumn” (September-October), Modi was hosting US Vice President J. D. Vance as he started his four-day visit to India.

India enjoyed a trade surplus of US\$36.8 billion over the United States in 2023-24, with US\$77.5 billion of exports in the two-way trade worth US\$118.2 billion. New Delhi is now anticipated to bend backwards in complying with Trump’s call to narrow the US’ trade deficit.

Even as the two governments announced the finalisation of the Terms of Reference for negotiations on the BTA, Vance took off from when Trump cornered Modi during their 13 February meeting at the White House. He was quick to affirm that America wanted greater access to Indian markets, and urged India to buy more oil, gas and defence hardware from the US, and to lower non-tariff barriers for US businesses.

US Trade Representative Jamieson Greer also issued a statement in Washington welcoming “India’s constructive engagement” but declared: “There is a serious lack of reciprocity in the trade relationship with India. These ongoing talks will help achieve balance and reciprocity by opening new markets for American goods and addressing unfair practices that harm American workers”.

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