



India's Pursuit of Economic Resilience in the Age of Trump

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KEY TAKEAWAYS

- As India recognised the need to diversify its economic partnerships, particularly to reduce its dependence on Chinese imports, the United States has been seen as a critical economic partner.
- With the uncertainty now created by the Trump administration's tariff policy, India is looking to leverage its partnerships with other major powers but such a realignment faces a number of challenges.
- Ultimately, India would need to engage with the United States, given that it is a critical partner not just in the economic domain but also in pursuing India's foreign policy objectives in general.

COMMENTARY

The India-US partnership, arguably India's most critical relationship, is experiencing a low point not seen in almost two decades. US President Donald Trump has imposed a 50% tariff on Indian goods for India's failure to make concessions in the ongoing trade negotiations and as a penalty for purchasing Russian oil. Moreover, he has drawn [closer](#) to Pakistan following the clashes between India and Pakistan in May 2025.

Against this background, Indian Prime Minister Narendra Modi's visits to China and Japan were aimed at creating some space for India to manoeuvre. In Japan, Modi sought to [boost](#) an already deep economic partnership. In China, he [aimed](#) to resume the path of normalisation that had [begun](#) in October 2024. Both visits came at crucial moments in Indian foreign policy.

With the US-India relationship facing headwinds, India is turning towards middle power partners like Japan and possibly France, Australia and South Korea. At the heart of this realignment is India's search for economic security. But such a realignment faces challenges of its own, and India's engagement with the United States hinges on more than bilateral dialogue.

India's Post-COVID Economic Realignment

For most of the post-Cold War era, India saw the economic and security realms as distinct and separate. China has grown in recent years to become the second-largest trade partner and the largest source of imports for India. India-China trade [amounted](#) to US\$127.1 billion in 2024–2025, with India's deficit being [nearly](#) US\$100 billion. While concerns were raised in New Delhi as the trade deficit widened, the Indian establishment saw economic and trade links as a stabilising factor in India's relations with China.

That view changed radically after the India-China clashes in the Galwan Valley in June 2020 and the disruptions to supply chains arising from the COVID-19 pandemic. The Indian government recognised that it was economically dependent on China for imports as well as investments, which left it vulnerable to Chinese economic coercion. Thus, there was a need to diversify India's economic partnerships.

India began by [restricting](#) the entry of Chinese companies and Chinese investments in critical sectors of the Indian economy, especially in emerging technologies. The Indian government also aimed to take advantage of the global supply chain relocation in the wake of the COVID-19 pandemic to bring manufacturing capacities to India. It believed it could leverage the drive to "friend-shore" supply chains and position itself as a reliable partner to countries pursuing this goal.

On the trade front, India aimed to diversify its import sources, a view that developed in several Western capitals as well. Thus, India capitalised on this growing political convergence with its major partners to ink a series of free trade agreements (FTAs). Less than three years after withdrawing from the Regional Comprehensive Economic Partnership (RCEP) negotiations, India concluded FTAs with [Australia](#), the [United Arab Emirates](#) and the [United Kingdom](#) while negotiations with the [European Union](#) are ongoing.

In its efforts to diversify its economic partnerships and import sources, the United States has been a major partner for India. Under the Biden administration, India featured prominently in the United States' efforts to relocate supply chains. The United States has also been a key member in most minilateral initiatives where supply chain security has been a goal. These include the Quad (involving the United States, India, Japan and Australia), the India-US-South Korea trilateral and India's cooperation with the US-Japan-South Korea trilateral. On trade, India attempted to negotiate an FTA under the first Trump administration, but the negotiations stalled, and a deal could not be reached. But the United States has [remained](#) India's largest trading partner. More significantly, the United States is the largest market for Indian goods. [Goods trade](#) between the two countries stood at US\$128.9 billion in 2024, with India enjoying a trade surplus of nearly US\$45.8 billion.

Where Does India Go from Here?

Under Trump 2.0, however, the United States is quickly emerging as an unreliable partner. The immediate [impact](#) of Trump's tariffs will be on India's labour market. As Indian exporters lose access to the US market, several enterprises will face tough choices, and unemployment is likely to rise. [Estimates](#) suggest that, over the long term, GDP growth could fall by one percentage point.

For now, India continues to diversify its economic partnerships. The joint statements issued following India's three summit meetings this year with [Indonesia](#), [Thailand](#) and the [Philippines](#) emphasised the need to expand bilateral trade. India also stressed the need to upgrade the India-ASEAN FTA and is still in the midst of negotiating the India-EU FTA. Stabilising the India-China relationship and pursuing expanded bilateral trade are part of this approach.

However, key challenges persist. India's ability to reduce the trade deficit with China by gaining better access to the Chinese market remains uncertain. India is also [attempting](#) to expand trade with Russia. But Russian [imports](#) from India stood at a meagre US\$4.88 billion for 2024–2025. As for the India-ASEAN FTA, it has [never been utilised](#) to its full potential. It is possible that the challenges that India now faces in its trade with the United States may help shift its positions and red lines to bring India and ASEAN closer to a deal. Nevertheless, India's abrupt withdrawal from RCEP negotiations in 2019 has likely left a negative impression in Southeast Asian memory.

On other fronts, there is some space for optimism. The India-UK FTA concluded in May 2025 is [expected](#) to boost trade by £25 billion annually. Whether this FTA along with the India-ASEAN and India-EU FTAs can offset the loss of the US market and India's US\$45.8 billion trade [surplus](#) remains an open question.

Meanwhile, India's tariff disagreement with the United States is spilling over into other domains. Recent news reports [indicate](#) that Trump will not be attending the Quad leaders' summit in India later this year. If the Quad is deprioritised by the Trump administration, its initiatives, including those for supply chain security, may lose impetus. This, in turn, may affect India's ability to fully capitalise on supply chain relocation efforts. For now, India remains committed to and optimistic about achieving the objective of leveraging third countries' supply chain relocation efforts, evidenced by recent [initiatives](#) with Japan.

However, the reality is that the United States remains central to India's efforts to improve its economic security, which hinge on, among other things, improving trade ties with the United States and partnering with Washington on supply chain security.

As for the United States, its approach will also depend on its relations with Russia and China. Trump is trying to reach deals with both countries – a trade [deal](#) with China and a [deal](#) on ending the Russia-Ukraine war. If trade negotiations between the United States and China collapse, it may open more space for India to engage with Washington. For now, there seems to be some distance between the Chinese and US positions. While the United States wants China to [increase](#) imports of farm products, particularly soybeans, China has already begun [diversifying](#) its import sources by looking to South America. A US deal on the Ukraine war also appears unlikely, which

could work to India's detriment. If Trump is unable to mediate a deal to end the war between Russia and Ukraine, India may continue to face criticism from Trump for its Russian oil imports. This may hamper efforts to improve relations between the two countries.

On the positive side, India and the United States have been [working to renew their 10-year defence agreement](#) and these negotiations are ongoing despite trade tensions. Since India's [purchase of Russian arms](#) was another point of contention raised by Trump, a promise to increase its defence trade with the United States may help ease some of the tensions. In the long run, however, India may have to diversify its sources of oil imports to reduce its dependence on Russian oil.



Despite trade tensions, the United States remains central to India's efforts to improve its economic security, with Indian Prime Minister Narendra Modi and US President Donald Trump recently adopting a more conciliatory tone. *Image source: Wikimedia Commons.*

At home, Modi has faced [criticism](#) from the political opposition for his handling of the trade negotiations with the United States. There is also [backlash](#) against Trump's tariffs from industry in India. However, Indian policymakers [appear willing](#) to continue with the trade negotiations. Recent [statements](#) from both Modi and Trump also adopted a more conciliatory tone. At the moment though, much remains up in the air for Indian policymakers.

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