A deep dive into the US-China trade war. Will India gain from it?

BY
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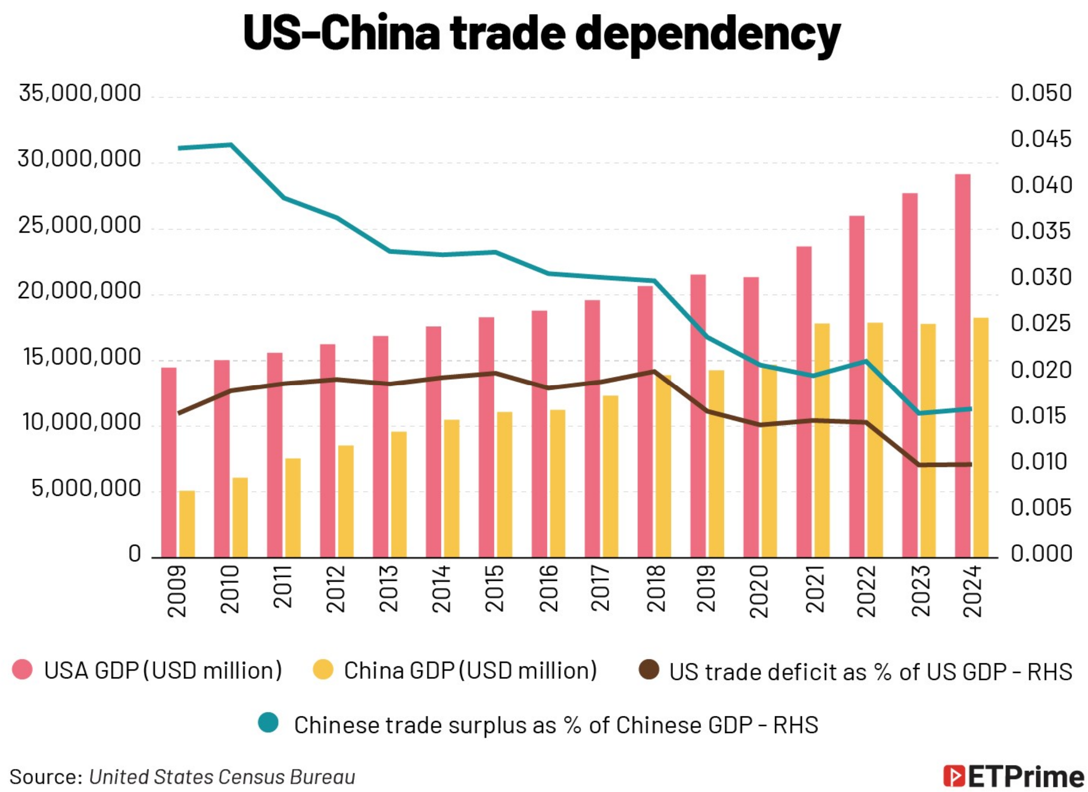
The US needs India not only to counterbalance China's military influence but also as a key economic powerhouse. Trump wants India to increase its purchases of defence equipment, and oil and gas. At a time when advanced economies are adopting protectionist measures to re-shore manufacturing, India should seize this opportunity.

Nilanjan Banik

The US-China trade war has been a focal point of economic discussions for a significant period, as the world's two largest economies have imposed tariffs on each other's goods. The Trump administration imposed 10% tariffs on Chinese imports, while China, in turn, levied 15% tariffs on US liquid natural gas (LNG) and coal, as well as 10% tariffs on oil, farm equipment, and some automobiles.

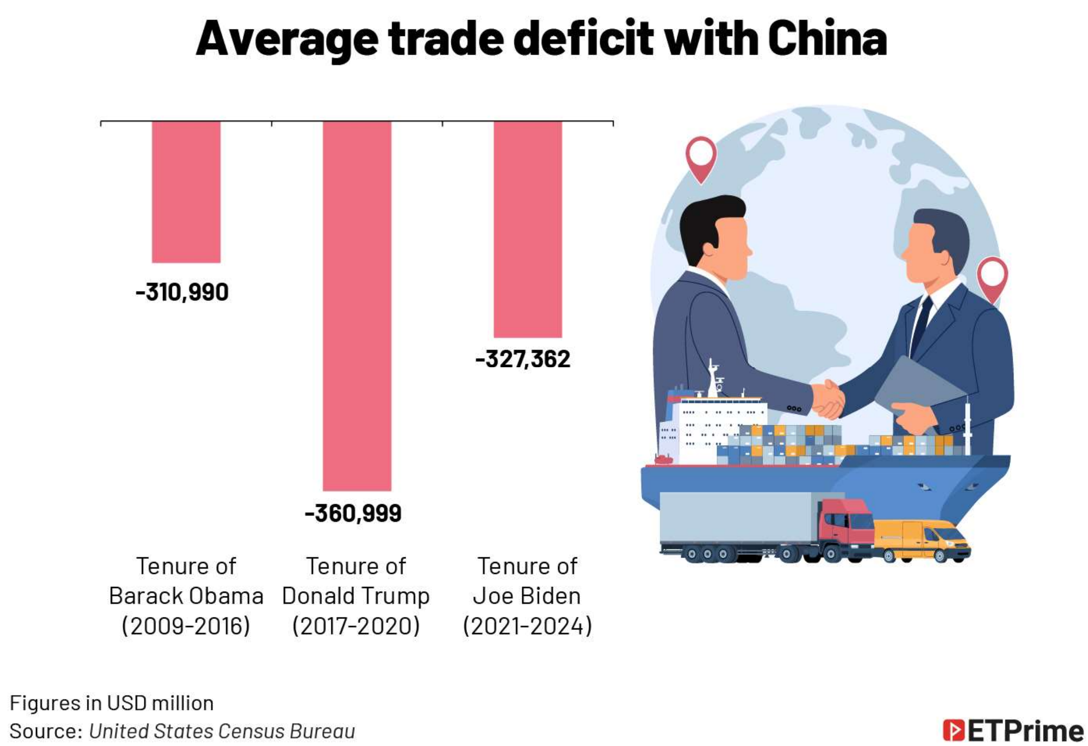
Trump's idea of imposing tariffs is built around the narrative of "Make America Great Again." He believes tariffs will reduce the trade deficit by encouraging foreign companies to invest in the US, leading to job creation and an increase in income within the country. In 2017, when Trump took office for his first term the US had trade deficit with 116 countries. In 2024, the US has its largest trade deficit with China, totalling around USD300 billion, followed by Mexico with over USD200 billion, and a deficit of approximately USD40 billion with India.



Contrary to the wishful thinking that tariffs would make a difference, data shows otherwise, as the US trade deficit with China continued to rise even after the major tariff announcement against China in 2020. The average annual trade deficit with China was USD311 billion during Barack Obama's tenure (2009-2016), rose to USD361 billion during Donald Trump's first term (2017-2020), and decreased to USD327 billion under Joe Biden (2021-2024).

Tariffs may not be effective, as trade interdependence between the US and China has decreased over the past decade. Data reveals that China's reliance on the US has declined at a faster rate. In contrast, the US continued to remain dependent on China. Between 2009 and 2024, China's GDP grew at a compound annual growth rate (CAGR) of 9.01%. Excluding China's trade component with the US, the Chinese economy grew at a slightly lower pace of 8.62%. In contrast, the US economy grew at a CAGR of 4.78% during the same period, and without China, the US economy's growth rate drops to 4.07%. These small changes in growth rate numbers are significant in absolute terms, especially when considering the two largest economies in the world — the US at USD29.16 trillion and China at USD18.27 trillion in 2024.

There are two important takeaways from these numbers. First, trade is beneficial for any country's growth. Second, in the event of trade war, the US economy is likely to lose out more compared to China. The result remains unchanged even if we conduct the same analysis for the past five years. It's little wonder that Beijing's leadership is in such a defiant mood.



Apart from the growth aspect, tariffs negatively impact jobs. A study finds that job losses from trade retaliation surpass job gains from tariff protection. In 2019, the US exports to China supported 1.2 million jobs, while 1,97,000 people were employed by Chinese multinationals – both affected by tariff escalation. Another study points out, the job losses due to cheap imports are significantly less than the benefits to the US consumers in terms of lower price and income generation. Interestingly, after Trump took office in January 2025, jobless claims in Washington, D.C. surged to 1,780, with nearly 4,000 workers in the city filing for unemployment insurance.

The recent slowdown in China's GDP is not due to US tariffs, but rather a decline in consumption demand, caused by falling property construction, an ageing population, a hostile business environment, and the lingering effects of prolonged Covid-19 lockdowns.

How is China managing to grow?

China is no stranger to protectionism. The Global Trade Alert, a database tracking protectionist measures, reveals more than 17,737 measures have been initiated against Chinese exports. In response, Chinese policymakers recognised the need for a new approach and began heavily investing in Asia, Africa, Central America, and, to some extent, Latin America.

This strategy led to three key outcomes. First, as production costs are lower in these regions, Chinese firms are benefitting from shifting their production bases outside of China.

Second, Chinese firms were able to evade protectionist measures targeting their exports by exporting from countries outside China. Take for instance, Mexico. In April 2024, the US Trade Representative Katherine Tai accused China of disguising its steel products as Mexican steel to enter the US market. In 2023, US imports of Mexican goods totaled USD475 billion, approximately, USD20 billion more than in 2022. During the same time the US imports of Chinese goods amounted to USD427 billion, around USD10 billion less. An estimated USD3.7 billion Chinese FDI came to Mexico in 2023, significantly higher with an average flow of USD1.3 billion during past decade. At least 30 Chinese firms now operate out of Mexico including Chinese automobile giants such as BYD and Cherry International. Container traffic from China to Mexico has increased by 22% in 2024 in comparison to previous years.

Third, investing in Africa and Asia has helped reduce China's energy requirements, allowing Beijing to secure cheaper foreign energy sources (oil and power) and minerals. Chinese companies have built six hydropower plants and one thermal power station in Myanmar and have invested in power transmission and copper processing in Vietnam.

In countries like Sri Lanka (Hambantota port), Pakistan (Gwadar port), and throughout the Middle East, Africa, and Southeast Asia, Chinese investments are being used to develop port infrastructure.

India as a counterbalance to China

Now that China's actions are becoming more assertive, the US needs India not only to counterbalance China's military influence but also as a key economic powerhouse. Trump wants India to increase its purchases of defence equipment, and oil and gas. At a time when advanced economies are adopting protectionist measures — such as the US Inflation Reduction Act and CHIPS Act, and the EU's Net Zero Industry Act and Carbon Border Adjustment Mechanism — to re-shore manufacturing, India should seize this opportunity. The good news is that, despite concerns over potential trade restrictions, the impact of reciprocal US tariff on Indian exports is expected to be minimal. Even if the US imposes higher tariffs, ranging from 15% to 20%, the overall decline in Indian exports to the US is projected to be only around 3% to 3.5%. No matter what Trump says, imposing reciprocal tariff lines on certain items, like generic pharmaceutical products, will likely provoke backlash from his fellow countrymen. Ergo, India should adopt a more assertive stance.

While continuing to purchase military items that Trump aims to sell, India should include a caveat: joint production of defence equipment, enabling access to crucial technology as a key aspect of the trade. Gaining access to fifth-generation aircraft technology would be a significant boon for a country like India, which is still grappling with the challenge of manufacturing second-generation aircraft.

(*The author is professor at Mahindra University. Views expressed are personal.*)

(*Graphics by Sadhana Saxena*)