Vajiram & Ravi

India’s Trade Dilemma: China vs US – Risks, Challenges, and Opportunities

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India-China Trade Challenges Latest News

- With the end of the Modi-Trump camaraderie and the US imposing steep tariffs on Indian goods, New Delhi is redirecting diplomatic focus.
- Prime Minister Modi will visit Tianjin for the 2025 SCO Summit and meet Chinese President Xi Jinping to strengthen bilateral ties.

India-China Relations: From Conflict to Cautious Recalibration

- India–China relations deteriorated sharply after the **June 2020 Galwan Valley clashes**, which fueled strong public sentiment in India to cut trade ties with China.
- In response, the Indian government banned several Chinese apps and imposed restrictions on Chinese FDI.

Trade and Economic Concerns

- India has resisted deeper economic integration with China, most notably by pulling out of the Regional Comprehensive Economic Partnership (RCEP) in late 2019.
- Policymakers feared Chinese imports would flood Indian markets, undermining domestic industries.

India as a "China +1" Alternative

- Post-Covid, India has sought to position itself as a viable "China +1" investment destination for Western businesses.
- However, competition from countries like Vietnam, Mexico, and Poland has limited India's success.

Security and Strategic Tensions

- Beyond trade, Indians increasingly view China as their primary strategic adversary.
- Even during conflicts with Pakistan, such as after the April 2025 Pahalgam terror attack, India perceived Chinese weaponry in Pakistani hands, deepening security concerns.

Trump's Tariffs Push India and China Closer

- The sharp rise in US tariffs has forced both India and China to explore closer cooperation.
- India now faces 50% tariffs — the second-highest after Brazil — while China, which earlier endured 145% tariffs before seeing them reduced to 30%, has already begun outreach to multiple nations.
    - The US's "reciprocal tariff" approach, aimed at balancing trade deficits, made such measures predictable.
    - Reports reveal that China approached India in March 2025, but New Delhi responded only in June.
- Recently, China criticised US tariff hikes on India, echoing PM Modi's own past remarks by calling India and China "double engines" of Asia's economic growth.

Challenges of Deepening India-China Trade Ties

- Amid rising US tariffs on Indian goods, China's offers of closer trade ties may appear attractive. However, experts warn that relying more on China could pose long-term risks for India.
- **Trade Deficit Concerns –** India enjoys a **$40+ billion trade surplus with the US**, but faces a **$100 billion trade deficit with China**, highlighting structural imbalances in bilateral trade.
- **China's Manufacturing Dominance –** China has emerged as the **world's sole manufacturing superpower**, capturing a massive share of global exports, making it difficult for India to compete directly.
- **India's Manufacturing Weakness –** Since 2019-20, **manufacturing GVA has grown only 4% CAGR**, slower than agriculture (4.7%), underscoring India's struggle to build competitive manufacturing strength.
- **Impact on India's "China +1" Position –** If India aligns too closely with China, it may lose credibility as a **viable alternative to China** for Western businesses seeking to diversify supply chains.
- **China's Overcapacity Challenge –** China's **deflation and industrial overcapacity** may push it to dump cheap goods in other markets, including India, intensifying pressure on Indian producers.
- **Geopolitical Mismatch –** While both nations are economic powerhouses, **India's democratic, transparent, private sector-led model contrasts with China's state-driven system**. Moreover,

China’s support for Pakistan complicates trust-building.

India’s Trade Dilemma Between the US and China

- India’s reluctance to embrace free global trade stems from its **deep-rooted structural weaknesses**.
- For years, coalition politics was seen as a hurdle to reforms, but even a decade of single-party majority governments since 2014 has not delivered significant structural reforms.
- Instead, India has drifted towards greater **protectionism**, while its growth momentum has slowed.

China’s Rise and Risks

- During this time, China has expanded its manufacturing dominance, becoming so large that it poses a challenge to the United States.
- However, China now faces **industrial overcapacity and deflation**, pushing it to dump cheap goods in foreign markets — a risk that could further hurt Indian industries if India opens up excessively to Chinese imports.

US Challenges

- Meanwhile, the United States appears as a superpower seeking to reassert its global dominance, using tariffs and “reciprocal” trade measures under President Trump.
- However, such policies are often viewed as arbitrary and counterproductive, creating friction even with traditional allies.

India’s Strategic Dilemma

- India’s growing tensions with both Washington and Beijing place it in a diplomatic and economic dilemma.
- While China offers market opportunities, its export strength and strategic rivalry with India pose dangers.
- Conversely, the US remains India’s largest export market, despite current tariff disputes.

Source: IE
