India may emerge stronger from trade wars

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The US-China trade war is now in a full-blown economic standoff. The global effects are starting to affect economies far beyond Washington and Beijing, including India's.

In April, US President Donald Trump declared a national emergency, citing the country's widening trade deficits and invoking the International Emergency Economic Powers Act. He imposed a flat 10% tariff on nearly all imports into the USA. Reciprocal tariffs against 57 countries, including a 26% duty on exports from India, soon followed. While these duties were later suspended for a 90-day period for negotiations, tariffs against Chinese imports rose generally to 145% and, on select items, to an unprecedented 245%. In response, Beijing imposed duties of up to 125%.

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There is some respite, as both sides have agreed to a 90-day pause, during which the US has lowered tariffs on Chinese exports to 30%, and China has reduced the tariffs on US goods to 10%, bringing much relief to both countries. This temporary reduction should be enough for resumption of trade, as neither side was ready for a complete decoupling. However, the reduction is not adequate to restore trade to its earlier levels. Instead, the 30% tariff remains high enough to hinder trade and push the US economy towards a recession.

The trade war will have serious global consequences. JP Morgan Research has raised the likelihood of a recession in 2025 to 60% from its earlier 40%. The United Nations Conference on Trade and Development anticipates a slowdown across key economies. India's GDP growth is projected to ease from 6.9% in 2024 to 6.5% in 2025, China's from 5% to 4.4% and the USA from 2.8% to just 1%.

A global recession will severely affect India, particularly its IT exports, which form a major part of export earnings. According to the Ministry of Commerce and Industry, the services sector is the largest contributor to India's GDP, accounting for 8% of GDP and 52% of the global outsourcing market. A prolonged slowdown may significantly affect the growth of service exports with reduced outsourcing demand, tighter client budgets and delays in project approvals. This especially concerns US-based companies, the largest consumers of Indian IT services.

China has responded with measured, long-term strategies. As well as imposing counter tariffs, China is erecting non-tariff barriers such as customs delays, stricter inspections and new compliance requirements for American goods. This is particularly so for technology, food and agriculture items.

China's Ministry of Commerce has imposed export restrictions for seven critical rare earth elements and magnets essential for the defence, energy and vehicle sectors. Because of China's near monopoly, this may have serious implications for US manufacturing and defence.

China is trying to boost domestic consumption by offering subsidies, tax relief, easier mortgage terms and targeted welfare measures. Achieving a meaningful structural shift will be challenging in the short term, but this trade conflict is now a question of national pride. The message is clear. China will not bow to external pressure.

India is in a sensitive position. Annual bilateral trade with the US is some USD124 billion, and with a trade surplus of USD37 billion, the stakes are high. A 26% tariff on Indian exports, even if suspended, could severely impact key sectors such as chemicals and vehicle parts.

The government has adopted a pragmatic approach. India has recently concluded a free-trade agreement with the UK, which will give greater market access to Indian goods in the UK. It is negotiating a bilateral trade agreement with the US, reportedly offering tariff concessions for more than 50% of US imports, valued at some USD23 billion. India is also working to expand its trade partnerships by strengthening ties across Asia, Africa and the Middle East, and by pursuing free-trade agreements with the EU and the UK.

Although India's services sector is not directly affected by tariffs, it is vulnerable. Stricter visa rules, particularly for H-1B and L-1 categories, make it more difficult for Indian professionals to work in the US. Data localisation and restrictions on cross-border digital services may further hinder, putting pressure on the competitiveness of IT and clean energy and transport innovators.

The shifting global trade situation does offer opportunities. Because China, Vietnam and Bangladesh face steep US tariffs, Indian exporters in sectors such as electronics, textiles and seafood may capture market share. This will depend on how swiftly and strategically businesses can adapt to changing supply chains.

Changes in global trade allow India an opportunity to position itself as a dependable and competitive link in global value chains. Navigating the current situation needs a clear vision, well-coordinated policies and a focus on long-term structural reforms. A consistent approach may not only cushion India from external shocks but also enable it to become a resilient and influential global trade player.

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