WHITEPAPER

Global Trade in Flux:
U.S. Protectionism, China's Diplomacy & India's Balancing Act

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Abstract

This paper analyses the United States' adoption of a sweeping reciprocal tariff regime under President Donald Trump during 2024–2025, a policy that signals a significant departure from prior multilateral trade norms. Focusing on the macroeconomic and geopolitical ramifications, the study assesses the impact of elevated U.S. tariffs on key trade partners—including China, India, Japan, South Korea, the European Union (EU), the United Kingdom (UK), and others—while evaluating the broader implications for global supply chains and market stability.

The analysis highlights growing concerns over recessionary pressures within the United States, triggered by inflationary shocks, retaliatory tariffs (particularly from China), and disruptions to industrial production. Corporate responses, including public warnings from firms such as Tesla, underscore the real-time impact of the tariffs on American manufacturing and employment.

Particular attention is paid to India's position within this evolving trade landscape. The paper explores U.S.–India bilateral trade negotiations, including the formulation of a prospective Bilateral Trade Agreement (BTA) and India's $23 billion tariff concession aimed at de-escalating tensions. In parallel, the study introduces the concept of "China's Adaptive Diplomacy," examining China's efforts to recalibrate its regional strategy through diplomatic overtures to India—referred to as the "Dragon-Elephant Tango"—and its re-engagement in trilateral Free Trade Agreement (FTA) negotiations with Japan and South Korea.

The final section evaluates India's strategic positioning in the current tariff environment and outlines key policy recommendations. These include the introduction of a narrowly defined negative list to protect vulnerable sectors, a comprehensive policy reset to enhance the global competitiveness of micro, small, and medium enterprises (MSMEs), the promotion of investment parity between domestic and foreign players, and the use of bilateral trade agreements to secure technology transfer and market access.

Introduction

For over 75 years, the post-war global trading system has been predicated on progressively lowering tariffs and other barriers, but recent U.S. trade policy has taken a sharply protectionist turn. In April 2025, U.S. President Donald Trump declared a national economic emergency over what he termed unfair foreign trade practices and chronic U.S. trade deficits. Citing the principle of "reciprocity," President Trump announced a sweeping tariff strategy aimed at partners he accused of disadvantaging the United States. This strategy imposed a universal 10% tariff on **all** imports into the U.S., with additional country-specific surcharges on nations running large trade surpluses or maintaining higher barriers against U.S. goods. These "reciprocal tariffs" as the Trump administration calls them, range from moderate to punitive: for example, imports from the EU now face a 20% tariff, Japan 24%, South Korea 25–26%, and India 26%, compared to the 10% baseline applied to most other countries. China, the largest U.S. trade deficit partner, was hit with a 34% duty (on top of a prior 20% levy) reaching an effective 54% tariff on Chinese goods which after a fresh imposition of tariffs now stands at a **staggering 104% on all Chinese imports, that take effect on April 9, 2025** (Reuters, Trump's latest tariffs kick in, deepening global trade war; China hit with massive 104% duties, 2025)**.**

Trump unveiled this tariff package on what he dubbed "Liberation Day" for U.S. trade, framing the measures as a long-overdue defence of American industry. "For decades, our country has been looted, pillaged by nations near and far," he proclaimed, arguing that U.S. goods face far higher foreign tariffs and non-tariff barriers than what the U.S. imposes in return (Trump hits UK with 10% tariffs as he ignites global trade war, 2025).

By invoking emergency powers under the International Emergency Economic Powers Act (IEEPA), the administration bypassed Congress to unilaterally reset tariff rates. The White House asserted that these steps were necessary to counteract practices such as currency manipulation and "exorbitant" foreign VAT taxes, bolster U.S. manufacturing, and reduce a $1.2 trillion annual trade deficit.

The tariffs took effect in two stages: a 10% blanket tariff on all imports beginning April 5, 2025, followed by additional "individualized" tariffs on specific countries beginning April 9, 2025. Certain critical imports — such as pharmaceuticals, semiconductors, and key minerals — were exempted to mitigate supply shocks. Additionally, countries with special trade relationships like Canada and Mexico retained zero tariffs under the USMCA agreement.

Nonetheless, the policy marks one of the most aggressive turns toward protectionism by a major economy in recent history, jolting allies and rivals alike and raising fundamental questions about the future of the open trading order (Singh, US markets on edge as Trump's sweeping new tariffs spark economic fears, 2025).

This paper provides an academic examination of the impacts and reactions provoked by Trump's reciprocal tariff policy. We first analyse the consequences for major affected economies – notably China, India, Japan, South Korea, the EU and the UK – and the broader ramifications for global trade patterns. We then assess the domestic economic risks facing the United States, including recessionary pressures, inflation, and corporate fallout, especially in light of retaliatory moves by China and warnings from U.S. industries.

Next, we turn to the case of **India**, a key U.S. trading partner and one of the prominent targets of the new tariff regime, to examine how these tariffs intersect with ongoing U.S.–India bilateral trade negotiations. In particular, we document India's ongoing discussions with the United States for a Bilateral Trade Agreement (BTA) and highlight New Delhi's extraordinary **$23 billion tariff concession**, offered as a goodwill gesture to prevent a deeper trade rift.

We also include a dedicated section on **"China's Adaptive Diplomacy,"** which explores Beijing's strategic efforts to navigate the fallout from U.S. tariffs by reaching out to India in a bid to repair strained ties- the so-called "Dragon-Elephant tango." This section also discusses China's engagement with **Japan and South Korea** through trilateral cooperation and revived free trade agreement (FTA) negotiations aimed at stabilizing regional trade flows (Trump's reciprocal tariffs: How much will each country be hit?, 2025).

Finally, we evaluate India's strategic position in the evolving tariff war and offer a set of policy recommendations tailored to India's long-term trade resilience. These include establishing a targeted "negative list" to shield vulnerable sectors such as agriculture and MSMEs, revamping policies to enhance the global competitiveness of India's MSME sector, ensuring equitable treatment for domestic investors relative to foreign capital, and leveraging bilateral trade agreements not just as defensive tools but as proactive instruments to expand India's market access and attract technology transfers.

Image 1: The full list of proposed US tariffs (Source: [Reuters])

Chapter 1: Trump's Reciprocal Tariff Policy: An Overview

Trump's reciprocal tariff initiative represents a radical realignment of U.S. trade policy. At its core, the policy imposes **two tiers** of import tariffs: a **flat 10% tariff** on all countries and an **additional penalty tariff** on dozens of specific countries deemed to maintain unfair trade practices or large trade surpluses with the U.S. The higher country-specific rates vary widely. According to the Executive Order and annex released, 57 countries and trading blocs are subject to elevated tariffs beyond the 10% baseline. The European Union faces a 20% tariff, and close U.S. allies like **Japan** and **South Korea** are hit with roughly **24–26%** duties on their exports to America. Major emerging economies have been targeted even more aggressively: **India** is assigned a **26% "reciprocal" tariff** (initially announced as 27%, later revised down slightly), while **Vietnam** faces 45-46% and **Taiwan** ~32%. The most punitive rate, however, is reserved for China. Effective April 9, 2025, all Chinese goods entering the United States are subject to a 34% tariff, in addition to a pre-existing 20% tariff imposed earlier in the year over unrelated trade and geopolitical disputes **(after China imposed a retaliatory 34% tariff on U.S. goods, Trump escalated the situation by raising tariffs on China to 104%)**. This brings **China's total tariff burden to 104%**, a level that **goes beyond the 60% rate** President Trump had publicly floated during his re-election campaign (Singh, US markets on edge as Trump's sweeping new tariffs spark economic fears, 2025).

Notably, some countries were spared any surcharge beyond the 10% universal tariff. Nations such as **Brazil, Australia, Singapore**, and others — many of which run trade deficits with the U.S. or maintain relatively open markets — remain at the baseline 10%. President Trump's rationale for these differential tariffs is to "match" or counteract foreign trade barriers: in theory, nations with higher tariffs or restrictive policies (e.g. stringent regulations, weak labour and environmental standards, currency manipulation) have been met with commensurately higher U.S. import taxes. For example, U.S. officials pointed out that India has historically imposed very steep tariffs on certain American products (reportedly 100% on some agricultural goods). The new policy responds by "reciprocating" with a 26% U.S. tariff on Indian exports. In President Trump's words, "If you're charging the U.S. high tariffs, expect payback". In practice, however, the tariff assignments do not strictly mirror foreign tariff rates — several countries, including China and many developing nations, are being tariffed at rates **higher** than what they levy on U.S. imports. This underscores that the policy is as much about **pressuring countries to change broader trade practices** as it is about enforcing simple reciprocity (What are Trump's new reciprocal tariffs and how will they impact trade?, 2025) (Kaushik Basu calls Trump's reciprocal tariffs 'baffling', warns of risks, 2025).

From a legal and institutional standpoint, the tariffs break new ground. Prior to 2025, IEEPA emergency powers had never been used to impose across-the-board tariffs- IEEPA was intended for sanctions in national security crises. Trump's order reframes certain economic behaviours (chronic trade imbalances, alleged unfair barriers) as a national security emergency. This move has raised debates about its WTO legality and precedent. The administration argues the step is defensive and remedial, aimed at "strengthening the international economic position of the United States and protecting American workers". To blunt criticism, the order built in flexibility: if targeted trading partners "take significant steps" to remedy what the U.S. views as non-reciprocal trade arrangements, the President has authority to dial tariffs back down. Conversely, if partners retaliate, the U.S. can increase tariffs further. This carrot-and-stick mechanism is intended to coerce concessions – effectively using the threat of lost access to the U.S. market (still the world's largest) as leverage to extract lower foreign tariffs or other policy changes abroad. (What are Trump's new reciprocal tariffs and how will they impact trade?, 2025)

Indeed, well before the April 2 launch, Trump pointed to signs that countries were already relenting. He claimed that India would "very substantially" cut its tariffs in anticipation of the U.S. measures, and that "a lot of countries will drop their tariffs because they have been unfairly tariffing the United States for years". As later sections will discuss, India did in fact move to lower certain duties as a goodwill gesture, and other nations opened talks. However, others have chosen to retaliate in kind, and the ultimate efficacy and costs of Trump's reciprocal tariff gambit remain hotly debated.

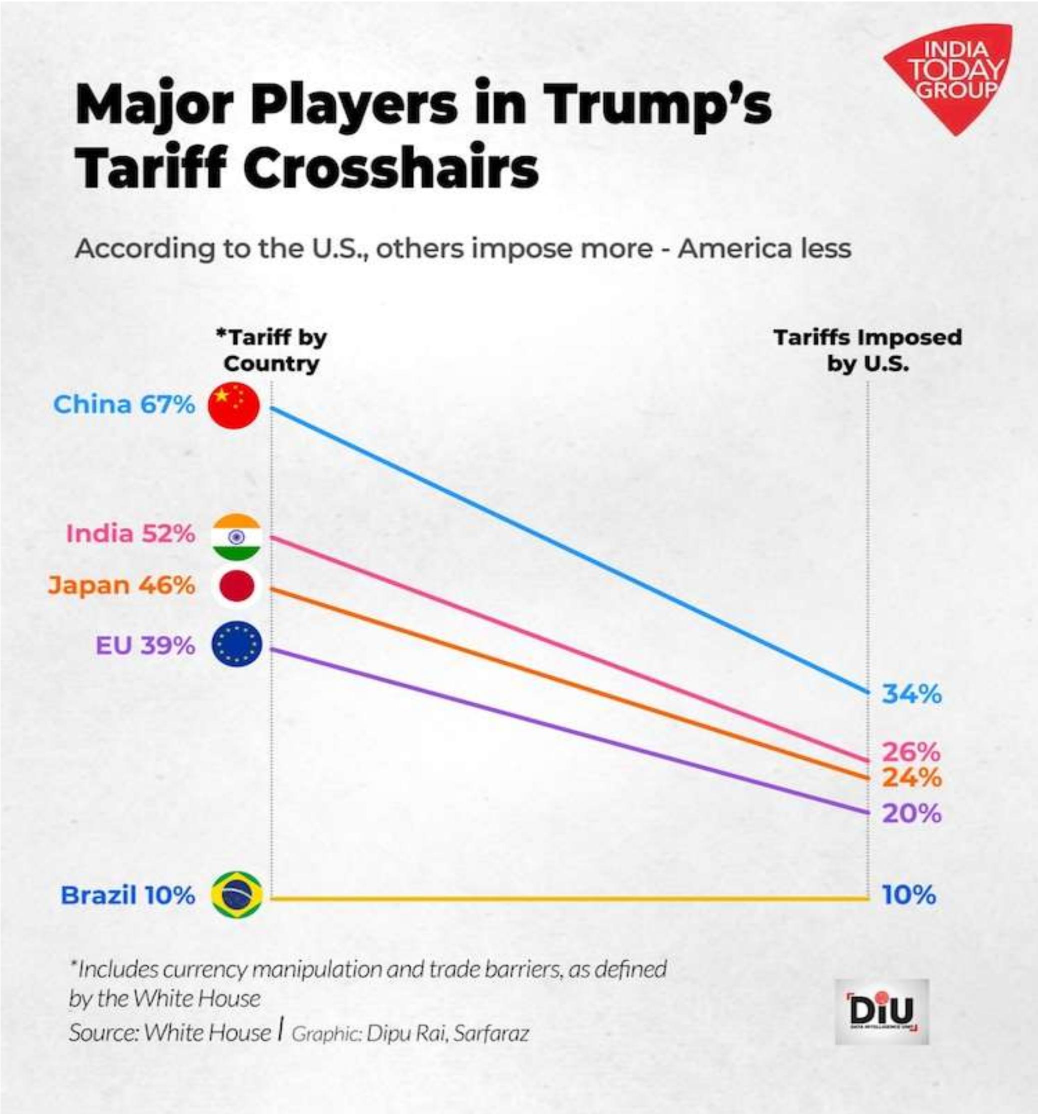

Image 2: Major Players in Trump's Tariff Crosshairs (Source: India Today)

Chapter 2: Impact on Major Economies and Global Trade

Trump's tariff offensive has sent shockwaves through the global economy. Targeted nations have reacted with a mix of retaliation, diplomatic negotiation, and efforts to deepen trade ties with alternative partners. This section examines the impact on key economies – **China, India, Japan, South Korea, the EU, and the UK** – as well as broader implications for global trade flows and the multilateral system.

2.1. China: Retaliation and Economic Countermeasures

China, as the primary focus of Trump's trade grievances, has been hit hardest and has responded in kind. Beijing views the 104% combined tariff on its exports as an economic attack and has retaliated forcefully. Within days of the U.S. announcement, China imposed additional tariffs on U.S. goods effective April 10, 2025, targeting a broad range of American exports.

This escalation, coming on top of China's existing duties from the earlier trade war, has in effect launched a full-fledged trade war between the world's two largest economies. In parallel, China announced export controls on critical materials, including **curbs on shipments of certain rare earth elements** vital to high-tech industries, and added several U.S. companies to its "unreliable entities" blacklist. (Singh, US markets on edge as Trump's sweeping new tariffs spark economic fears, 2025)

These steps are designed to squeeze U.S. supply chains – for example, restricting rare earth exports could hinder U.S. electronics and defence manufacturers, raising the stakes beyond tariffs. Financial markets immediately registered the strain: U.S. technology stocks with heavy China exposure tumbled – Tesla's share price fell approximately 5%, and Apple's declined about 4%, amid investor fears of supply disruptions and collapsing demand. (Reuters, Tesla, chip stocks Intel, Qualcomm tumble as China's retaliation stokes fears of widening trade war, 2025)

Analysts noted that companies like **Tesla and Apple**, which manufacture in China, may face **margin pressures and cost increases** as Chinese tariffs make imported U.S. components more expensive.

Chinese officials have also signalled a willingness to endure short-term economic pain in what they anticipate could become a protracted trade confrontation. By leveraging China's vast domestic market and strategic resources — including control over the global supply of rare earth minerals — Beijing aims to pressure U.S. industries and incentivize American exporters to lobby against Trump's tariffs. (Singh, US markets on edge as Trump's sweeping new tariffs spark economic fears, 2025)

At the same time, China is pursuing diplomatic channels to mitigate economic damage. Notably, it has moved to stabilize relations with key trade partners, such as India, Japan, and South Korea — efforts detailed in the *China's Adaptive Diplomacy* section of this paper.

Despite the tariff shock, early economic indicators suggest China's overall growth has remained stable, largely due to the size of its domestic market and ongoing stimulus measures. However, Chinese leadership has acknowledged that prolonged uncertainty in U.S. trade policy poses significant downside risks to the country's economic outlook.

Should the trade war intensify or continue for an extended period, China is expected to accelerate its strategy of promoting domestic consumption and pursue import substitution, especially in **high-tech sectors such as semiconductors**, to reduce dependence on the U.S. for critical technologies.

In sum, China's response to the reciprocal tariffs is two-pronged: on one hand, it has retaliated to impose symmetric pain on the U.S.; on the other, it is recalibrating its trade and diplomatic strategies to withstand what it sees as a more adversarial global trade environment. (Reuters, Tesla warns it could face retaliatory tariffs, 2025)

2.2. India: Caught in the Crossfire but Seeking Opportunity

India, the world's fifth-largest economy, finds itself in a precarious position — penalized by U.S. tariffs even as it seeks to deepen strategic and economic ties with Washington.

The U.S. reciprocal tariff on Indian goods, set at 26% (down from a previously suggested 27%), represents a significant escalation. Most Indian exports to the U.S. previously entered nearly duty-free under normal trade status. Now, an estimated 87% of India's $75 billion in exports to the U.S. will face higher tariffs, threatening India's competitiveness in its largest export market (Reuters, Tesla warns it could face retaliatory tariffs, 2025).

Industries most affected include pharmaceuticals, textiles, and IT services — historically strong pillars of India's export economy. In response, India's government conducted an economic impact assessment and concluded that the new U.S. tariffs could **shave 30–50 basis points off GDP growth** in the upcoming fiscal year.

Despite the pressure, India has opted for a diplomatic route rather than retaliatory escalation. In sharp contrast to China's tit-for-tat approach, New Delhi "held fire" and refrained from raising tariffs on American imports. Commerce Ministry officials publicly stated that this measured response is "not a setback", but a strategic choice that keeps "room for negotiation" open, suggesting India is prepared to address some of the U.S.'s trade concerns in exchange for relief.

Indian policymakers have seized on the crisis as an impetus to enact trade reforms and tariff reductions of their own. In the 2025 Union Budget, announced shortly before Trump's tariffs, India **pre-emptively slashed some of its high import duties** — the **peak tariff rate was cut from 150%**, and the **average applied tariff fell below 11%** (Singh, Will Trump's 27% tariff on India lead to lower prices or spark retaliation?, 2025).

These cuts were part of a broader strategy to signal openness and to prevent a deeper trade rift with the United States, particularly as the Modi government engaged in bilateral negotiations to limit the fallout of the reciprocal tariff policy. These cuts, amounting to a $23 billion concession on over half of India's imports from the U.S., were aimed at demonstrating goodwill and averting the full brunt of Trump's measures. Sectors like automobiles, alcoholic beverages (e.g. bourbon whiskey), and certain electronics saw Indian tariffs lowered, making U.S. products more competitive in India. This was a "high-stakes move by the Modi government aimed at averting a potential trade war and protecting $66 billion worth of exports" to the U.S. In response to the Trump administration's reciprocal tariff policy, India made a significant concession package, including a proposed $23 billion reduction in tariffs on U.S. imports.

U.S. officials acknowledged these efforts — President Trump himself noted he'd "heard that India is going to be dropping its tariffs substantially" — recognizing India's attempts to address American concerns. Nonetheless, the administration pressed ahead with the reciprocal tariff, indicating that India's concessions were not sufficient to earn a complete exemption under the new U.S. tariff framework (Singh, US markets on edge as Trump's sweeping new tariffs spark economic fears, 2025).

While India's export industries grapple with the new U.S. tariffs, there is a potential *silver lining* in the shifting trade landscape. Because Trump's policy hits some of India's competitor countries even harder, Indian exporters could capitalize on displaced demand in the U.S. For instance, China's exports now carry far higher tariffs (104%), and countries like Vietnam (46%) and Bangladesh (37%) are also heavily penalized. Indian goods may become relatively more attractive to U.S. importers than Chinese or Vietnamese goods subject to steeper duties. Business analysts noted that India might even enjoy a *"first mover advantage"* among emerging markets, since it was already in trade deal talks with Washington while others were caught off guard. Sectors such as Indian textile and apparel manufacturers, for example, could potentially gain U.S. market share at the expense of Chinese or Bangladeshi rivals facing higher U.S. tariffs (though this depends on capacity and cost differentials). However, Indian firms also face the risk of trade diversion in the opposite direction: goods that can no longer easily enter the U.S. (especially Chinese products) could flood other markets like India. Indian authorities are "keeping a watch" on inbound shipments, as Trump's tariffs have *"intensified the threat of dumping of Chinese products into the Indian market"*. India has considered implementing safeguard measures to prevent a surge of cheap imports from third countries rerouted by the U.S. import barriers (Business Standard, 2025). With the U.S. market becoming more difficult to access due to high tariffs, there is a growing risk that exporters from countries like China or Vietnam might divert excess goods into India, undercutting local industries. Indian authorities have indicated that they are "keeping a watch" on inbound shipments and may introduce targeted safeguard duties or non-tariff measures to protect vulnerable sectors.

India is adversely affected by the U.S. tariffs but is responding with restraint and reform. It is pursuing a dual-track approach: on one hand, engaging in negotiation with the U.S. to secure a bilateral trade deal and reduce tensions, and on the other, lowering its own tariffs and bolstering domestic competitiveness rather than resorting to confrontation (Singh, Will Trump's 27% tariff on India lead to lower prices or spark retaliation?, 2025). The long-term outcome for India will depend on the success of these strategies and whether the U.S. tariffs are temporary bargaining tools or evolve into a lasting trade barrier.

2.3. Japan and South Korea: Collateral Damage Amidst U.S. Tariff Surge

America's East Asian allies Japan and South Korea have been drawn into the fray despite their close security alliances with the United States. Both countries now face U.S. tariffs in the mid-20% range. Japanese exports – including automobiles, electronics, and high-end manufacturing goods – are subject to a 24% tariff, while South Korean exports face duties of approximately 25–26%.

These surcharges pose a significant threat to two of Asia's most export-dependent economies. The automobile industry, in particular, is a critical sector for both Japan and South Korea. Trump's trade measures have explicitly targeted this industry, especially after the **25% auto import tariff** introduced separately in late March 2025.

Japan and South Korea are the second- and third-largest vehicle exporters to the U.S., after Mexico. Thus, these tariffs strike at the very heart of their trade with America. Industry analysts warn of a "rough ride" ahead for automakers, with companies potentially seeing reduced U.S. sales or being forced to absorb the tariff costs, which would eat into profit margins and hurt competitiveness (Kumar, 2025) (Singh, Will Trump's 27% tariff on India lead to lower prices or spark retaliation?, 2025).

Politically, Tokyo and Seoul have expressed strong objections to being penalized alongside nations that the U.S. accuses of unfair trade practices. The European Union's position—that it prefers dialogue but has "all instruments on the table"—is shared by Japan and South Korea, who likewise signalled readiness to retaliate if necessary (Kumar, 2025).

Rather than act unilaterally, however, **Japan and Korea have coordinated closely with each other and with China** in responding to the U.S. measures. In an **unprecedented show of regional solidarity**, China, Japan, and South Korea agreed to jointly address the challenge posed by the U.S. tariffs. According to Chinese state media, the trade ministers of the three countries held urgent consultations and "agreed to coordinate their response" (IndexBox, 2025).

This culminated in the first Trilateral Economic and Trade Ministers' Meeting in five years, held in Seoul at the end of March 2025, just ahead of the U.S. tariff implementation. There, the three export powers discussed measures to bolster regional trade and cushion the impact of the U.S. trade policy. In a joint statement, South Korea, China, and Japan vowed to "closely cooperate" to advance a trilateral free trade agreement (FTA) among themselves and to promote both regional and global trade.

South Korea's Trade Minister Ahn Duk-geun emphasized strengthening the existing Regional Comprehensive Economic Partnership (RCEP)—a large Asia-Pacific trade pact that includes all three countries—and accelerating the Korea-China-Japan FTA negotiations as a way to create "a framework for expanding trade cooperation" among the three economies (Padmanabhan, 2025).

Such cooperation is notable given historical frictions; it signals that facing U.S. protectionism, Northeast Asian rivals are finding common cause.

In the short term, Japan and South Korea will seek exemptions or adjustments from the U.S. through diplomatic channels. Both countries initially hoped that the U.S. might relent for treaty allies, but no such carve-outs have been granted so far. They have so far been cautious about direct retaliation.

For example, South Korea has ruled out immediate counter-tariffs, likely because it recently modernized its KORUS free trade agreement with Washington and hopes to preserve that progress. Instead, Seoul is emphasizing dialogue and regional cooperation to manage the fallout from the tariffs. This focus on dialogue has been echoed by the U.S., with President Trump stating on April 8 that he had initiated trade negotiations with South Korea and expressed confidence in the possibility of a "great deal" between the two nations (Chambers, 2025).

Japan, too, has not imposed retaliatory duties, with officials stressing the need for a "comprehensive and high-level" diplomatic resolution. Japanese authorities continue to express hope that close security ties with the U.S. will be taken into account in future negotiations. (Nandi, 2025) (Singh, Will Trump's 27% tariff on India lead to lower prices or spark retaliation?, 2025).

Both Tokyo and Seoul are undoubtedly alarmed that their exports now face what is effectively a non-tariff barrier (violating the spirit of free trade agreements like the WTO's MFN principle). If the U.S. tariffs remain in place for an extended period, these countries could explore WTO dispute proceedings or targeted retaliation on politically sensitive U.S. exports, but such actions are on hold pending negotiations. In the interim, Japan and South Korea are doubling down on **regional economic integration** as a buffer. The fact that the long-stalled three-way FTA talks (dating back to 2012) are being revived is a telling consequence of Trump's policy. Japan and South Korea while enduring damages because of U.S. trade offensive – are leveraging their strong trade ties with each other and with China to mitigate the impact and send a message of unity against protectionism. Faced with steep U.S. tariffs, the three East Asian powers have recognized the need to deepen regional economic integration. Their joint efforts at the Trilateral Economic and Trade Ministers' Meeting, where they agreed to accelerate negotiations for a long-stalled trilateral free trade agreement (FTA), represent a strategic pivot aimed at strengthening their collective resilience amid global trade tensions (Kumar, 2025).

2.4. Europe and the United Kingdom: Defiance and Concessions

The **European Union (EU)**, collectively one of the largest U.S. trading partners, was swift to condemn Trump's tariff hikes. The EU now faces a 20% U.S. tariff on its exports—a sharp increase from the near-zero tariffs under prior arrangements.

European leaders argued that the U.S. action violates World Trade Organization (WTO) rules and undermines the transatlantic alliance. European Commission President Ursula von der Leyen urged a negotiated solution but warned that the EU is *"ready to use all instruments… on the table"* to defend its economic interests (Kaushik Basu calls Trump's reciprocal tariffs 'baffling', warns of risks, 2025).

In practice, Brussels prepared a list of potential counter-tariffs targeting iconic American products (much as it did during the 2018 steel/aluminium tariffs episode). However, the EU has also signalled a preference to avoid an escalating trade war. Given the EU's own economic challenges – including an energy price shock and slowing growth – policymakers tread carefully. They issued a formal complaint at the WTO and hinted at retaliation if no progress is made, but also opened channels for dialogue with Washington. Behind the scenes, U.S. and EU negotiators are exploring a limited agreement to address some American concerns, such as reducing European tariffs on key U.S. agricultural exports (like dairy and meat products), in exchange for potential tariff relief on EU goods.

Whether this diplomacy will bear fruit remains uncertain, but it reflects the EU's balanced approach—combining firmness with strategic patience—to avoid escalation while defending its economic interests.

The **United Kingdom (UK)**, no longer part of the EU, has found itself somewhat more exposed. The UK was initially relieved to receive only the baseline 10% tariff on its exports- *"comparatively lightly"* in the words of one report- whereas it had braced for a possible 20% rate. Prime Minister Keir Starmer's government saw this as vindication of a conciliatory approach toward Trump (Starmer had actively engaged the White House to argue Britain's case). Nonetheless, a 10% across-the-board tariff is no trivial matter for the UK economy. The UK Treasury's Office for Budget Responsibility and private forecasters like KPMG warn that Trump's tariffs could deal a "material hit" to the UK, potentially *halving GDP growth to ~0.8%* for 2025. Sectors like British autos, aerospace, and luxury goods that rely on U.S. sales face billions in lost revenue. London has pointedly not retaliated – Starmer ruled out any *knee-jerk* response that might jeopardize the prospect of a future UK-U.S. trade deal. Instead, UK ministers are urgently seeking carve-outs and exemptions for specific British industries. They are hopeful that ongoing talks (the UK is pursuing an "Economic Enhancement Agreement" with the U.S.) could yield relief or at least prevent further tariff escalation. In essence, the UK has remained aligned with the U.S. diplomatically while quietly absorbing the short-term pain, in the hope that its goodwill will be rewarded by Washington. This stance contrasts with the EU's more robust posture, highlighting the UK's post-Brexit vulnerability – it can no longer leverage collective EU power and must negotiate one-on-one with the far larger U.S. economy.

From a broader perspective, Europe's export-driven economies are alarmed that Trump's tariffs could tip the global economy toward fragmentation. Germany, France, and other EU member states worry about supply chain disruptions and higher input costs. Early projections indicated that Europe's GDP growth for 2025 might dip by a few tenths of a percent due to reduced exports, though an expected recovery could follow if stability returns.

European officials have also noted the dangerous precedent: if the U.S. can justify sweeping tariffs on "national security" grounds, other countries might do the same, eroding the rules-based trade system. This has galvanized European support for the WTO and for forging trade alliances elsewhere (the EU is accelerating trade talks with partners like India, Mercosur, and revisiting the Comprehensive Agreement with China). In summary, the EU and UK – while hit by Trump's tariff broadside – are handling it through a mix of diplomacy and strategic patience. The EU has drawn a line against unilateral U.S. actions but stopped short of immediate retaliation, whereas the UK has adopted an accommodating stance hoping for bilateral concessions. Both remain watchful as the situation unfolds, aware that a protracted U.S.-initiated trade war could seriously impair Europe's economy. Policymakers in Brussels and London are especially concerned about long-term disruptions to supply chains, investor confidence, and export competitiveness. With global alliances shifting, their response strategies will be key in maintaining economic resilience. Trump's reciprocal tariffs have injected intense uncertainty into the global trade landscape, raising fears of a cascade of protectionist measures and a breakdown of the multilateral trading order. With roughly 90 countries targeted either directly or via the baseline tariff, virtually every corner of the world is touched by these U.S. import barriers. Immediate reactions from many non-major economies have ranged from dismay to opportunism. Countries like *Canada, Mexico, Brazil, Australia, Turkey,* and others that escaped the higher country-specific tariffs still face the flat 10% duty, which is a significant new hurdle for exporters in those nations. Many developing countries in Africa, Latin America, and Asia – some of whom had duty-free access to the U.S. under preferential schemes – now confront 10% tariffs or more, potentially undermining their export industries. This comes at a time when global trade growth was already slowing. The International Monetary Fund (IMF) and World Bank have voiced concerns that these tariffs could "fragment global supply chains" and reduce world trade volumes (Singh, US markets on edge as Trump's sweeping new tariffs spark economic fears, 2025).

Early estimates from S&P Global suggested that U.S. import demand would decline, creating spill over effects across the global economy. In response, S&P revised world trade growth downward for 2025, explicitly citing the negative impact of U.S. tariffs and the knock-on effects of retaliatory measures from affected countries. One major risk is the erosion of the WTO framework. Multiple countries have filed disputes at the WTO against the U.S. tariffs, but the WTO's dispute mechanism is weakened (the Appellate Body crisis) and any resolution could take years. In the meantime, the precedent of unilateral tariffs justified by national emergency opens the door for copycat actions. There is concern that if these U.S. tariffs persist, other nations might invoke their own "security" or "public interest" justifications to raise tariffs outside WTO limits, potentially leading to a free-for-all. For example, China and India could cite food security or rural livelihoods to raise agricultural import barriers, while the European Union could invoke environmental reasons to restrict imports — all citing the U.S. example as justification (Reuters, S Korea, China, Japan agree to promote regional trade as Trump tariffs loom, 2025).

This situation has prompted what some observers call a **"race to the bottom"** in trade policy, unless agreements are reached to roll back the measures. As former **World Bank Chief Economist Kaushik Basu** noted, **no country is immune to the negative shock waves of such beggar-thy-neighbour policies**, and a tariff wall in the U.S. will ultimately **slow global growth**. Basu characterized the U.S. move as a **policy mistake that would primarily hurt the U.S. itself**, while creating **opportunities for other countries to deepen trade linkages among themselves** (Reuters, S Korea, China, Japan agree to promote regional trade as Trump tariffs loom, 2025).

Indeed, a notable global response has been realignment and new trade partnerships. Countries disadvantaged by lost access to the U.S. market are increasingly turning to each other. For example, China, Japan, and South Korea are reinvigorating regional Free Trade Agreements (FTAs) to reduce dependence on U.S. trade. Likewise, **Canada and the EU have expressed interest in strengthening their Comprehensive Economic and Trade Agreement (CETA)** to offset uncertainties in U.S.-EU trade ties. In **South America, Mercosur nations are exploring greater intra-regional trade, while in Africa, the Continental Free Trade Agreement (AfCFTA)** is gaining momentum as a framework for **boosting trade among African countries** amid a tougher U.S. export climate.

In effect, Trump's tariffs are accelerating the emergence of a **multipolar trade world**, where nations diversify their economic partnerships to reduce reliance on the U.S. market. Reflecting this trend, India's Commerce Ministry officials commented that *"countries would have even larger deficits with the U.S. if their trade policies were more equitable"* (Reuters, S Korea, China, Japan agree to promote regional trade as Trump tariffs loom, 2025), implying that a shift toward greater South-South cooperation may be a better response than bilateral concessions to U.S. pressure. Economist Kaushik Basu echoed that sentiment, advising India and other developing economies to *"expand trade among themselves"* and seek new bilateral and regional trade agreements in response to growing U.S. protectionism.

Another effect of the tariff-driven disruptions is the reconfiguration of global supply chains. Companies around the world are re-evaluating sourcing and production strategies to mitigate the costs of higher U.S. import tariffs. For instance, some

U.S. importers are shifting procurement from heavily tariffed countries like China or Vietnam to alternatives such as Bangladesh or Cambodia, though these countries also face tariffs, their rates may be relatively lower. On the other hand, manufacturers in affected countries are considering strategies like trans-shipment or final assembly in third countries to bypass the tariffs. U.S. Customs, however, is actively working to monitor and restrict such practices.

There have also been reports of Chinese firms exploring relocation of final assembly to Mexico or Canada, both of which benefit from zero tariffs under the USMCA agreement. This move is intended to leverage favourable trade access to the U.S. while avoiding direct tariffs, although the rules of origin provisions under USMCA could limit this workaround (Reuters, China's Qiang praises 'restart' of engagement with Japan, South Korea, 2025). All these adjustments increase inefficiencies and raise costs globally. Financial markets have reacted to the turmoil with volatility: stock indices worldwide saw declines on tariff announcement days (with exporters' stocks sinking), and currency markets fluctuated as investors gauged which economies might be hit hardest. For instance, the U.S. dollar initially **fell about 1% against the euro** when the tariffs were unveiled, reflecting concerns over U.S. growth.

The global trade environment in 2024–25 has been upended by the U.S. reciprocal tariffs. The policy has introduced significant friction in international commerce, threatened the norms of the WTO system, and prompted both defensive retaliations and proactive new partnerships among other countries. While some nations might seize opportunities to capture market share from more affected rivals, the aggregate impact is widely feared to be negative-sum – potentially dampening trade and output worldwide. Whether this trajectory can be arrested depends on diplomatic resolutions in the coming months, as well as the U.S. domestic situation as discussed next.

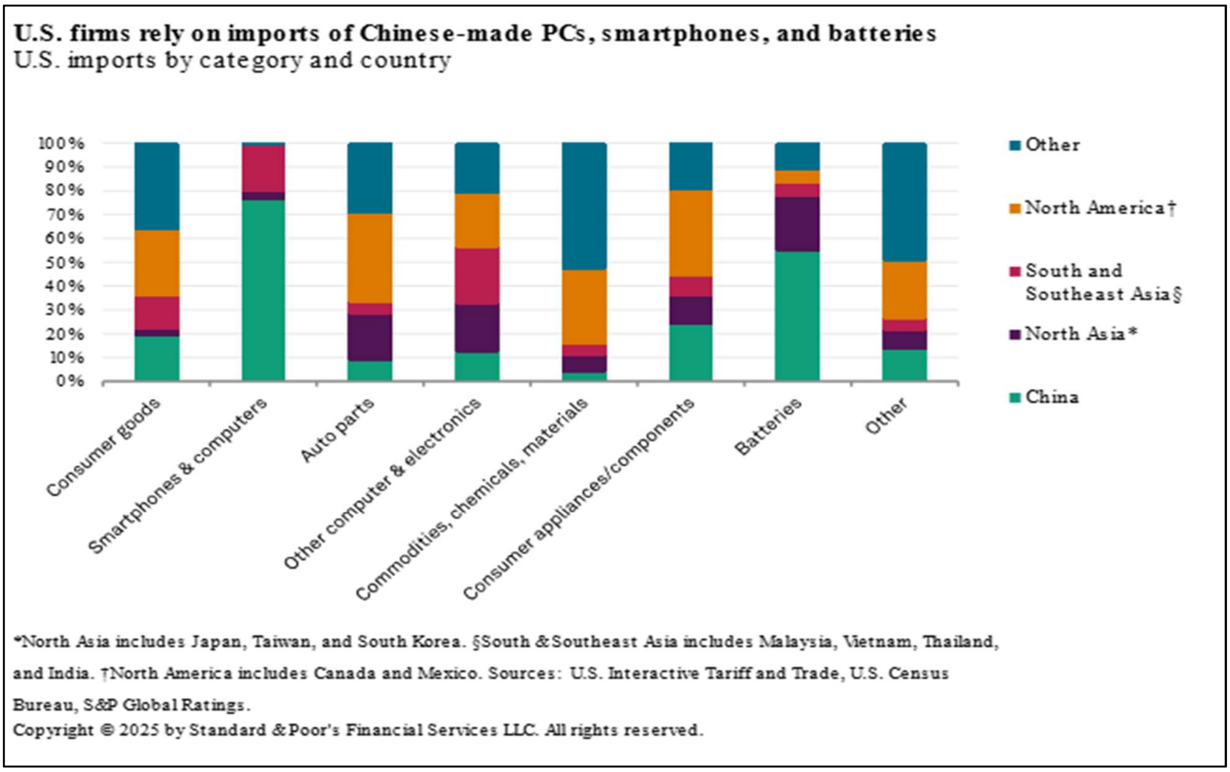

Image 3: Global Tech Sector at Risk (Source: S&P Global)

Chapter 3: Domestic Economic Risks for the United States

While President Trump asserts that tariffs will strengthen the U.S. economy, many economists and financial experts warn that the aggressive tariff regime carries significant recession risks for the United States itself. The tariffs function effectively as a tax on U.S. consumers and businesses that rely on imported inputs, raising costs across various sectors. In addition, retaliation abroad is already hurting key American export sectors, particularly agriculture and manufacturing, which are heavily reliant on foreign markets (Trump's reciprocal tariffs: How much will each country be hit?, 2025).

This section examines the evidence emerging in 2025 regarding U.S. economic growth, inflation, and business sentiment in the wake of the new reciprocal tariffs. Early indicators suggest slowing GDP growth, rising consumer prices for imported goods, and growing concern among U.S. businesses about competitiveness and supply chain disruptions.

Major financial institutions quickly sounded alarms about the tariffs' impact. Goldman Sachs revised its U.S. economic forecast, **doubling the probability of a recession in the next year from 20% to 35%** following the tariff announcement. Goldman cited the tariff shock and resultant policy uncertainty as key factors for the downgrade. It also slashed its 2025 GDP growth projection for the U.S. to a meagre **1%** (from a prior estimate of ~2%) and modestly raised its inflation forecast, reflecting expectations that costlier imports would push prices upward. The investment bank projected higher unemployment as well – estimating the jobless rate could tick up to around 4.5% by year-end, versus earlier forecasts around 4.2%. Similarly, S&P Global warned of a clear growth slowdown. In S&P's analysis, U.S. GDP was likely to see *"downward revisions"* due to the tariffs, with the drag becoming more pronounced as both the direct effects (higher consumer prices, disrupted supply chains) and indirect effects (a decline in business confidence and investment) take hold. By contrast, S&P noted that Europe might recover in 2026 and China's growth appeared stable for now, implying the U.S. could bear the brunt of the self-inflicted damage in the near term. A CNBC survey of economists reinforced this gloomy outlook: it found U.S. growth expectations for early 2025 had fallen to their lowest post-pandemic level, with experts describing a **"stagflationary" scenario** of stagnant growth coupled with rising prices due to the tariffs.

Real economic data began to validate these concerns. Consumer Price Index (CPI) data from Q2 2025 showed clear price increases in categories such as electronics, appliances, and apparel — all goods that became more expensive to import due to the tariffs.

Even more troubling was the impact on U.S. exporters and the manufacturing sector. American farmers, already reeling from earlier Chinese tariffs on soybeans and other agricultural products, faced fresh barriers when China imposed a 34% retaliatory tariff in April 2025, further squeezing U.S. agricultural exports (Padmanabhan, 2025).

U.S. automakers were also unexpectedly caught in the crossfire. Canada, Mexico, and the EU all hinted at possible retaliatory tariffs on U.S. automobiles if the dispute escalated- a major threat, especially considering that Canada and Mexico were already grappling with the separate 25% Trump auto tariff. This development is especially worrisome for the Midwestern U.S., where auto manufacturing remains a key employer.

The stock market reflected these growing anxieties. Major indices such as the Dow Jones and S&P 500 dipped sharply on the tariff news, with shares of companies like Boeing, Caterpillar, and semiconductor firms falling significantly due to fears of shrinking global demand and lost foreign sales. Even large banking institutions saw their stocks decline, as investors braced for weaker economic activity, reduced loan demand, and heightened credit risk (Brinley, 2025).

American multinational companies have been vocal about the risks of Trump's tariff policy. Tesla, Inc., which depends heavily on global supply chains and the Chinese market, publicly warned that the new tariffs and the expected retaliation could "negatively impact our production and jobs." In a letter to the U.S. Trade Representative, Tesla explained that sourcing all components domestically was not feasible in the short term, and that sudden cost increases could disrupt its manufacturing operations (Brinley, 2025).

This warning is particularly significant considering Tesla CEO **Elon Musk has been one of Trump's few corporate allies**. That even Musk's camp is expressing concern underscores the economic fallout of these policies. Similarly, executives from **Intel, Qualcomm, and other semiconductor firms**, whose stocks declined sharply in April, highlighted that **China's countermeasures — including export controls on rare earth minerals and equipment — could raise input prices and delay U.S. production** (Reuters, Tesla, chip stocks Intel, Qualcomm tumble as China's retaliation stokes fears of widening trade war, 2025).

The U.S. Chamber of Commerce, along with powerful industry groups across retail, agriculture, and manufacturing, has ramped up lobbying efforts against the tariffs. They argue that the new policy amounts to a tax on American consumers and businesses, and warn that millions of U.S. jobs are at risk if foreign markets close off to American exports.

Meanwhile, the Federal Reserve has been placed in a difficult position. Its goal of containing inflation may now conflict with the inflationary pressures created by the tariffs themselves. Analysts, including V.K. Vijayakumar, have pointed out that the Fed is in a "tight spot" — as tariff-driven inflation could necessitate additional interest rate hikes, even as economic growth slows, creating a perilous economic trade-off (Padmanabhan, 2025).

Despite these growing concerns and warnings from multiple quarters, the Trump administration remains publicly committed to the policy, insisting that short-term economic difficulties will eventually produce long-term gains. According to White House officials, the tariffs are intended to incentivize the re-shoring of manufacturing to the U.S., thereby creating domestic jobs and reducing reliance on imports.

There have been some early signs of sectoral benefits. For example, domestic steel and aluminium producers — already protected under Section 232 tariffs and now further insulated by Trump's new tariff regime — have reported higher order volumes as competition from foreign imports weakens. However, most economists agree that these gains are limited and sector-specific, and that the overall economic cost outweighs these localized benefits.

Indeed, the consensus among 14 leading economists surveyed by CNBC was that U.S. **GDP growth in early 2025 hovered just above zero — with an annualized growth rate of only 0.3% in Q1, down sharply from 2.3% in Q4 2024**. This drastic slowdown suggests that the broader impact of tariffs may already be weighing heavily on the economy, undermining the administration's claims of eventual prosperity.

To put it succinctly, there is a real risk that the United States could talk itself into a recession by persisting with the aggressive tariff strategy. The combination of retaliatory hits to exports, higher costs for consumers and producers, and heightened uncertainty chilling investment forms a classic recipe for an economic downturn. As tariffs disrupt both supply chains and global demand for U.S. products, businesses across sectors are reassessing their capital expenditure and hiring plans.

While the full economic impact will take time to unfold, by mid-2025 the warning signs are already flashing across the board. Revised GDP forecasts, falling consumer sentiment, and corporate earnings guidance all point to a slowing economy.

Major firms are voicing concerns, stock markets have become volatile, and policy analysts are warning that without a course correction, the United States risks sliding into a self-induced recession.

Image 4: 10 Ways Tariffs Disrupt Supply Chain (Source: Supply Chain Today)

Chapter 4: U.S.–India Bilateral Trade Relations and Negotiations

Among the countries caught in Trump's tariff crosshairs, India occupies a unique position- it is simultaneously a target of U.S. tariffs and a potential strategic partner with which the United States is deepening economic ties. This has led to a nuanced approach in both New Delhi and Washington, where punitive measures and trade negotiations are unfolding in parallel. This section explores how Trump's reciprocal tariff policy is intersecting with U.S.-India bilateral trade relations, including ongoing trade deal negotiations and India's significant tariff concessions to the U.S. (Kumar, 2025).

Even as the U.S. imposed a **26% tariff** on Indian exports, officials from both countries were hard at work negotiating a **Bilateral Trade Agreement (BTA)**. Talks for a "fair, balanced, and equitable" trade deal began in early 2025, well before the tariff announcement. High-level exchanges underscored the urgency of the matter. India's Commerce Minister Piyush Goyal travelled to Washington, D.C. in March 2025 for talks intended to "avert tariff hikes and strengthen economic relations." While that immediate goal wasn't fully realized, the dialogue laid the groundwork for a broader pact.

By late March, negotiations led by Assistant USTR Brendan Lynch and Indian counterparts continued in New Delhi, with both sides reporting "progress towards a bilateral trade agreement." Officials publicly expressed the goal of signing the first phase of the deal by autumn 2025 (September-October) (Padmanabhan, 2025).

The scope of the BTA is wide-ranging. It aims to increase market access for goods and services, reduce tariff and non-tariff barriers, and deepen cooperation on investment, intellectual property rights (IPR), and technology standards. U.S. negotiators have urged India to reduce its historically high tariffs on agriculture, automobiles, alcoholic beverages, and ICT products. They've also pushed for removal of certain non-tariff barriers, such as streamlining product certification for U.S. medical devices and dairy goods.

Indian negotiators, on the other hand, are focused on securing greater access to the U.S. market for Indian exports- especially in textiles, pharmaceuticals, and IT services- and have emphasized the importance of assurances regarding immigration and work visas, which affect India's large service-exporting sectors. Both governments have expressed interest in **boosting bilateral trade to $500 billion by 2030**, a goal announced during Prime Minister Modi's visit to Washington, where he and Trump agreed to **double trade in the next five years** (Kumar, 2025).

A major development in these talks was India's offer of a $23 billion tariff concession package, presented as a goodwill gesture. According to Reuters, India agreed to cut or eliminate tariffs on more than half of its imports from the U.S., amounting to $23 billion in trade volume - a nearly unprecedented move by a country that has long maintained high import duties to protect domestic producers. The concessions reportedly included substantial cuts or complete elimination of duties on products like almonds, pistachios, select cereals (e.g., quinoa and oatmeal), and some high-end consumer goods.

However, India drew a firm line on **"essential" sensitive items**, choosing to exclude **meat, dairy, wheat, and maize** from tariff reductions, in order to **safeguard millions of Indian farmers** and protect national food security. These steps were partly formalized in India's February 2025 budget, which notably reduced tariffs on key U.S. products like bourbon whiskey- previously taxed at prohibitively high rates. These moves were designed to address longstanding U.S. complaints about

India's "uniquely burdensome" trade barriers and to demonstrate New Delhi's willingness to meet Washington halfway (IndexBox, 2025).

From the U.S. side, India's concessions were viewed as evidence that Trump's pressure tactics were working, with officials claiming that the threat of reciprocal tariffs was driving meaningful changes in partner behaviour. President Trump publicly praised India's steps — including the whiskey tariff cut — and White House officials reiterated that cooperative countries might see U.S. tariffs reduced if they "remedy non-reciprocal trade arrangements."

As a result, there is speculation that the U.S. could roll back or revise the 26% tariff on Indian goods once the BTA is finalized and implemented. A senior Indian government source remarked that India might have a "first mover advantage" among U.S. trading partners because of the ongoing dialogue, making it "better off than regional rivals like Indonesia or Vietnam," who were hit harder by the tariffs and are not currently engaged in similar negotiations (Nandi, 2025).

Despite this progress, significant challenges remain. The negotiations touch on highly sensitive sectors, guarded by powerful domestic lobbies on both sides. In India, dairy farmers and the automotive industry are pushing back against any increased competition from U.S. imports. In the U.S., labour unions have expressed concern about further outsourcing and loss of service-sector jobs to India.

Geopolitical issues further complicate the talks. While the U.S. sees India as a strategic partner in the Indo-Pacific, New Delhi is careful to maintain its autonomy and has not always aligned with Washington's positions — for example, on Russia sanctions or climate negotiations. Nonetheless, officials on both sides have struck an optimistic tone. A joint statement in March 2025 emphasized "efforts to expand India-U.S. trade and investment… to promote prosperity, security, and innovation" (Kaushik Basu calls Trump's reciprocal tariffs 'baffling', warns of risks, 2025).

One notable outcome of this cooperative approach is that India has refrained from retaliating against the U.S. tariffs. When the reciprocal duties were implemented, India "held fire", opting not to impose counter-tariffs on U.S. goods. This restraint is likely due to the ongoing BTA negotiations and the belief that cooperative behaviour might earn tariff relief. Prominent economists like Kaushik Basu have also advised against retaliatory action, suggesting that India should instead deepen ties with alternative trade partners and ride out the storm (Kaushik Basu calls Trump's reciprocal tariffs 'baffling', warns of risks, 2025).

In line with this advice, India has been quietly strengthening trade with the EU, UK, Russia, and Middle Eastern nations, both to diversify imports and reduce over-dependence on the U.S. market. These steps reflect a broader Indian strategy of strategic hedging — balancing its relationship with Washington while remaining open to partnerships that serve its long-term economic interests.

U.S.-India trade relations in the 2024-25 period are a mix of confrontation and cooperation. The U.S. tariff on India is a significant irritant, but both sides are actively negotiating a resolution through a bilateral trade agreement. India's unprecedented offer of tariff reductions – about $23 billion worth, aimed at protecting ~$66 billion in exports – underscores the importance New Delhi places on stable access to the U.S. market. If the BTA talks succeed by late 2025, they could turn the reciprocal tariff episode into a pivot toward a stronger, more balanced trade partnership. Conversely, failure to strike a deal could see tensions resurface. For now, there is cautious optimism that the India–U.S. trade relationship could emerge from this period not only intact but improved, setting a model for how other countries might negotiate their way out of Trump's tariff maze.

Chapter 5: China's Adaptive Diplomacy: The Dragon-Elephant Tango and Regional Outreach

Confronted with unprecedented U.S. tariffs and a brewing trade war, China has embarked on a campaign of adaptive diplomacy to manage its external relationships. This section explores how Beijing is attempting to mend ties with India, engage regional neighbours Japan and South Korea through trilateral initiatives, and pursue ongoing free trade agreement (FTA) negotiations – all part of what could be viewed as a strategic recalibration in response to U.S. pressure.

5.1. Repairing China-India Relations: The "Dragon-Elephant Tango"

One remarkable overture has come toward a country with which China has experienced tense relations in recent years — India — especially following the border clashes in 2020. On April 1, 2025, marking the 75th anniversary of diplomatic relations between China and India, Chinese President Xi Jinping extended a conciliatory message to India.

In an exchange of formal congratulations with Indian President Droupadi Murmu, Xi called for a "Dragon-Elephant tango", invoking a powerful metaphor of the Chinese dragon and the Indian elephant dancing together in harmony. The message was widely interpreted as an attempt by China to reset and repair bilateral ties amid shifting global alliances and trade tensions driven by U.S. tariffs (Reuters, Xi says China and India should strengthen ties in 'Dragon-Elephant tango', 2025). Xi stated that China and India *"should work more closely together"* and strengthen cooperation, suggesting that peaceful coexistence and collaborative development are the *"right choice"* for the two Asian giants. He expressed readiness to "deepen communication and coordination in major international affairs" and to *"jointly safeguard peace in border areas"*. This message, coming directly from China's top leader, signalled a clear intent to reset the tone of China-India relations.

Indian leaders responded positively to the overture from Beijing. Alongside President Murmu's formal correspondence, Prime Minister Narendra Modi also exchanged messages with Chinese Premier Li Qiang, reaffirming the importance of maintaining stable and constructive bilateral ties (Reuters, Xi says China and India should strengthen ties in 'Dragon-Elephant tango', 2025).

Notably, this diplomatic outreach came just as Trump's reciprocal tariffs were escalating, prompting many analysts to argue that Beijing views improved ties with India as strategically advantageous. Economically, India represents a large and growing consumer market for Chinese goods and may serve as an alternative export destination to partially offset losses in the U.S. market caused by tariffs. India also has growing demand for consumer electronics, industrial inputs, and pharmaceuticals — areas where China has considerable export strength.

Geopolitically, warming relations with India may help prevent the solidification of a stronger U.S.-India strategic alliance aimed at countering China. The phrase "Dragon-Elephant Tango," which President Xi has used in past speeches, implies that cooperation between the two Asian giants can be a powerful force for global stability and economic growth. Chinese state media, including CGTN, published editorials emphasizing that realizing this "tango" is the right choice for both countries, and could contribute to a more balanced and multipolar world order (Reuters, Xi says China and India should strengthen ties in 'Dragon-Elephant tango', 2025).

Still, this diplomatic détente remains fragile. Longstanding disputes — including the Himalayan border tensions and India's unease with China's Belt and Road Initiative in South Asia — continue to pose obstacles to deeper cooperation. However, 2025 has seen some tentative but concrete steps toward normalization.

The two countries resumed confidence-building measures, such as reopening military hotlines and conducting personnel-level meetings along the border to reduce the risk of escalation. In addition, there are unconfirmed but credible reports that China has eased informal trade restrictions on certain Indian exports, including pharmaceuticals and agricultural products, as a gesture of goodwill (Trump's reciprocal tariffs: How much will each country be hit?, 2025). In turn, India has reciprocated by allowing limited re-entry for some Chinese tech firms. This includes reviewing post-2020 restrictions — such as the bans on dozens of Chinese mobile apps and delayed approvals for Chinese investment proposals. These shifts signal a cautious but intentional effort by both sides to improve trade relations and prevent further strategic divergence in the midst of broader global economic realignments.

All these moves suggest a tentative thaw – a "Dragon-Elephant tango" in the making – driven in part by shared interest in navigating the U.S. trade offensive. As one expert noted, with the U.S. retreating into protectionism, China and India expanding trade with each other could *"give a boost to growth"* for both. Indeed, China has hinted at inviting India to cooperate more in multilateral forums (China supported India's presidency of the G20 in 2025) and possibly even suggested that India consider joining an Asia-Pacific trade bloc in which China is influential (like RCEP, which India opted out of in 2019). While India's strategic tilt toward the U.S. won't vanish, it appears New Delhi is receptive to keeping communication lines with Beijing open, reflecting an understanding that maintaining a balance is in its interest.

5.2. Trilateral Engagement with Japan and South Korea

In addition to reaching out to India, China has actively engaged its Northeast Asian neighbours, Japan and South Korea, in a joint front to bolster regional economic cooperation. On March 30, 2025, trade ministers from China, Japan, and South Korea convened in Seoul for the 13th Trilateral Economic and Trade Ministers' Meeting – notably, the first such high-level economic dialogue in five years. This meeting gained urgency as all three nations faced Trump's tariff hikes and recognized a mutual incentive to respond collectively. The outcome was a public commitment to promote regional trade integration: the ministers agreed to *"closely cooperate for a comprehensive and high-level"* negotiation of a China-Japan-South Korea FTA. They emphasized that implementing the recently enacted RCEP agreement is necessary but not sufficient – *"strengthen the implementation of RCEP…and create a framework for expanding trade cooperation among the three countries through [trilateral] FTA negotiations"*, stated Minister Ahn of South Korea.

Image 5: Trade ministers of Japan, Yoji Muto, China, Wang Wentao and South Korea, Ahn Dukgeun in Seoul (Source: Outlook India)

This signifies a reactivation of a trade negotiation that had stalled since 2012. If realized, a trilateral FTA among Asia's three largest economies after China (i.e., excluding India) would be a game-changer: it would integrate roughly 24% of global GDP and could offset some losses from diminished access to the U.S. market. In the wake of the meeting, working-level talks resumed to outline the FTA's scope, covering goods, services, investment, and e-commerce. While a final deal may still be a long way off, the fact that Beijing, Tokyo, and Seoul have put it back on the agenda after a decade suggests that **Trump's tariffs have catalysed regional integration efforts** that were previously on the back burner. **However, India's exclusion from this alliance could pave the way for a Northeast Asian power bloc, potentially challenging India's rising influence in the region.**

Additionally, China joined Japan and South Korea in voicing support for the multilateral trading system. In their joint statement, they implicitly criticized unilateral tariffs and affirmed that *"regional and global trade"* should remain open. There was also discussion of practical cooperation: for instance, the three countries considered coordinating **supply chain resilience** measures (ensuring that if U.S. tariffs disrupt supply chains, the three can source from each other or create buffer stocks). They also agreed to meet more regularly – planning the next ministerial meeting in Japan – to maintain momentum.

Chinese Premier Li Qiang praised the *"restart of engagement"* with Japan and South Korea, noting that restoring dialogue after years of tension (over historical and territorial issues) is an achievement by itself. From China's perspective, these trilateral endeavours serve multiple purposes: they help counter U.S. attempts to isolate China, they strengthen China's regional leadership image, and they potentially unlock new trade opportunities in Asia. For Japan and Korea, teaming up with China on trade (even as they remain U.S. security allies) is a pragmatic move to protect their economic interests. In effect, **East Asia is rediscovering internal cohesion** in response to external pressure, a development that aligns with China's vision of an Asia less dependent on Western markets. (Reuters, China's Qiang praises 'restart' of engagement with Japan, South Korea, 2025).

5.3. Pursuing Free Trade Agreements and Global Outreach

Beyond the immediate region, China is pushing ahead with other trade negotiations and diplomatic outreach as part of its adaptive strategy. One significant negotiation is the **Comprehensive Agreement on Investment (CAI)** with the European Union (though currently frozen over political disputes, China has recently signalled willingness to address EU concerns on market access in hopes of reviving it, especially if U.S.-EU trade relations sour due to tariffs). China is also accelerating efforts to conclude an updated **FTA with ASEAN** (building on the existing China-ASEAN FTA), offering ASEAN countries deeper market access in China – a carrot as they observe the U.S. raising barriers. Furthermore, China applied to join the **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)** in 2021; while its accession is not imminent (and politically complicated), China continues to lobby CPTPP members and align some domestic regulations in case an opening emerges to enter that high-standard trade pact.

In South Asia and the developing world, China is engaging through Belt and Road forums and bilateral deals. Interestingly, Chinese trade envoys have had discussions with countries like **Pakistan, Sri Lanka, and Bangladesh** – all facing new U.S. tariffs of 30–40+% – to assure them of China's support and to propose currency swap lines and trade facilitation so these countries can still obtain goods if the U.S. market becomes prohibitively expensive. This is part of a broader Chinese narrative positioning itself as a champion of the Global South's interests, in contrast to American protectionism.

China's diplomatic and economic outreach in the wake of Trump's tariffs can be seen as a **multi-front strategy to adjust and thrive in a more adversarial global environment**. By seeking warmer ties with India, collaborating closely with regional powers Japan and South Korea on trade initiatives, and pursuing FTAs and partnerships beyond, China is effectively hedging against U.S. decoupling. This adaptive diplomacy not only serves to blunt the impact of U.S. tariffs, but it also enhances China's global influence by portraying it as a proponent of free trade and stability. Whether this strategy will fully succeed remains to be seen, but early indications show that China has been adept at rallying other nations to a vision of greater economic cooperation in Asia and beyond – a vision that stands in contrast to the protectionist turn of the United States.

Chapter 6: India's Strategic Position and Policy Recommendations

As the tariff war unfolds, India must navigate a complex set of challenges and opportunities. It faces pressure from U.S. tariffs on one side and competition (and potential dumping) from other exporting nations on the other, all while trying to protect domestic interests and sustain economic growth. This section evaluates India's position in the evolving trade environment and offers strategic recommendations for India's trade and industrial policy response. These recommendations focus on shielding vulnerable sectors in the short term and boosting overall competitiveness and market access in the long term (Padmanabhan, 2025).

6.1. Define a Focused Negative List to Protect Key Sectors

India should establish a "short and sweet" **negative list** of products that will be protected from import competition, particularly in sensitive sectors like agriculture and certain MSME-manufactured goods (Padmanabhan, 2025). Rather than high tariffs across the board, this approach entails identifying a limited set of critical items – for example, specific crops (grains, dairy, etc.) that affect farmers' livelihoods, and select labour-intensive manufactured products from small enterprises – and ring-fencing them with tariffs and non-tariff measures. By keeping the negative list small and well-defined, India can shelter vulnerable communities without resorting to blanket protectionism. The items on this list would continue to enjoy tariff protection even in new trade agreements. Non-tariff tools like quality standards, import licensing, or quotas could complement tariffs to ensure these sectors are not swamped by imports.

This targeted protection is important because Trump's tariffs may trigger diversion of cheaper goods into India (e.g. surplus dairy from the EU or grains from the U.S.), so India needs defences for its farmers and tiny enterprises. At the same time, keeping the list limited prevents a rollback of broader tariff liberalization. It aligns with recommendations that India *not* respond to the U.S. by wildly raising tariffs generally – instead, maintain openness but fortify the most sensitive areas. In doing so, India should also guard against misuse of intellectual property (IPR) rules by trade partners as a form of non-tariff barrier. For instance, ensuring patents or brands are not used to unfairly block Indian generic products is part of protecting its negative list sectors (like affordable medicines in pharma).

6.2. Launch a Policy Reset to Make MSMEs Globally Competitive

India's **micro, small, and medium enterprises (MSMEs)** form the backbone of its economy – **contributing about a third of GDP and nearly half of exports** – yet they have long been handicapped by difficulties in accessing finance, technology, and by heavy compliance burdens. The trade turmoil is a wake-up call for India to "Make MSMEs Great" through bold reforms (Padmanabhan, 2025).

First and foremost is improving access to formal credit and investment. Despite various schemes, many MSMEs still rely on informal lenders at high interest, limiting their growth. Expanding credit guarantee programs, incentivizing banks to lend to smaller firms, and developing fintech solutions can ease this credit crunch.

Second, facilitate technology upgradation for MSMEs – perhaps via public-private partnerships that provide subsidized access to modern machinery, digital tools, and know-how (for example, extension centres that teach new manufacturing techniques or quality control processes). This will help MSMEs meet international standards and reduce costs.

Third, aggressively simplify regulations and compliance. As trade analyst T. S. Vishwanath notes, the sector has suffered from "regulatory overreach" and piecemeal support. Rationalizing GST tax slabs, speeding up refund processes, easing labour law compliance (without sacrificing worker welfare) – all contribute to an environment where MSMEs can thrive rather than be stifled by paperwork. By abandoning incremental tweaks and undertaking "big-ticket" policy moves for MSMEs, India can significantly enhance the global competitiveness of this sector. This is crucial in a tariff-war scenario: if Indian MSMEs become more efficient and innovative, they can better withstand external shocks and also capitalize on openings in global markets (for instance, exporting to countries looking beyond China). In short, India needs a comprehensive MSME uplift strategy – treating the tariff crisis as an opportunity, much like the 1991 reforms turned a crisis into a liberalization moment.

6.3. Level the Playing Field for Domestic vs. Foreign Investors

In its quest to attract foreign investment, India has sometimes created an uneven field where **foreign investors enjoy privileges not available to domestic entrepreneurs** (Padmanabhan, 2025). Policy should ensure "Domestic investors, hello!" – meaning the government must give equal if not greater emphasis to facilitating domestic private investment. For example, India often offers tax breaks, faster clearances, or ease-of-doing-business perks to foreign multinationals setting up factories (which can be important to draw in capital and jobs). However, domestic firms, especially smaller ones, struggle with bureaucratic hurdles and lack similar incentives.

Going forward, India should streamline business regulations for all investors in a non-discriminatory way. Simplifying the processes for starting a business, obtaining licenses, land acquisition, and contract enforcement will benefit home-grown firms and foreign companies alike. Ensuring that incentive schemes (like production-linked incentive programs) are accessible to domestic firms, not just global corporations, is key.

The goal is to improve India's overall ease of doing business ranking by addressing issues like construction permits, property registration, and legal dispute resolution – areas where domestic businesses often face friction. By levelling the playing field, India not only spurs domestic investment but also makes the environment more predictable and fairer for all, which in turn can attract more sustainable foreign investment. The current situation – whereas observers put it, *"the foreign investor is prioritised"* – should be rebalanced so that local businesses feel supported and confident to expand. This is particularly relevant in a time of global reconfiguration: many multinational companies are looking to diversify supply chains (the "China+1" strategy), and India can become a top destination if it demonstrates a uniformly investor-friendly climate. Treating domestic investors well is a strong signal to the world that India's economy is healthy and open.

6.4. Bilateral Trade Agreements to Expand Market Access and Secure Technology

Rather than turning inward, India should **"BTA the blues away"** – actively pursue bilateral trade agreements as a tool to open export markets and gain strategic benefits (Padmanabhan, 2025). In the current scenario, bilateral trade agreements (BTAs) are especially valuable. Unlike cumbersome multilateral talks, BTAs give India flexibility to negotiate tailored terms, including favourable concessions and cooperation clauses not possible in broader forums. For instance, through BTAs India can negotiate greater market access for its exports – such as lower tariffs for Indian textiles, leather goods, or pharmaceuticals in partner countries – helping to compensate for any loss of competitiveness in the U.S. due to Trump's tariffs.

Additionally, BTAs can incorporate elements like technology transfer, investment pledges, and skill development partnerships. India sorely needs advanced technologies (in manufacturing, green energy, digital infrastructure, etc.), and trade deals could be a platform to secure those. For example, a trade agreement with a country like Japan or Germany could include commitments for technical cooperation or incentives for their companies to set up R&D centres in India, effectively transferring knowledge. Padmanabhan highlights that BTAs provide freedom to "stack the deal with favourable incentives like transfer of tech", unlike multilateral pacts where one size fits all.

Current negotiations that India should prioritize include the India-EU Broad-based Trade and Investment Agreement, the UK-India free trade agreement, and of course the U.S.-India BTA discussed earlier. Furthermore, exploring new BTAs with trading partners in Asia (especially China, Japan and South Korea), Latin America, and Africa (many of whom are also looking for new partners amidst the U.S.-China rift) could open up diversified export markets for India. It is important, however, that in these agreements India does not only seek to protect its own industry via exclusions; rather, it should seize them as opportunities to push its firms up the value chain. By committing to certain import openings (except the sensitive negative list areas) in exchange for export benefits and tech cooperation, India can integrate more deeply into global value chains. This outward-oriented strategy will help Indian industry become more competitive globally – a far better defence in the long run than high tariffs. In essence, smart bilateralism – leveraging BTAs to secure export opportunities, technology flows, and investment – is a strategic must for India.

Implementing these recommendations would position India more strongly in the tariff-constrained world. Together, they constitute a plan where India turns crisis into opportunity: protecting what is necessary, reforming what is long overdue, and engaging internationally to find new pathways for growth. Such a policy reset is echoed by experts who argue that India *"does not need to fear Trump-tariffs"* but use them as a wake-up call to fix internal issues and better integrate with global markets. By doing so, India can weather the tariff storm and emerge more competitive, ensuring that its developmental objectives stay on track even as global headwinds blow.

	Strategy	Key Action	Goal
1	**Negative List**	Protect key agricultural & MSME products with limited tariffs & non-tariff measures.	Shield vulnerable sectors from import shocks.
2	**Make MSMEs Great**	Boost credit, technology access, and ease regulations.	Enhance global competitiveness of MSMEs.
3	**Fair Play for Investors**	Level rules for domestic and foreign investors.	Encourage local investment & entrepreneurship.
4	**Smart BTAs**	Use bilateral trade deals for market access & technology transfer.	Diversify exports and strengthen supply chains.

Table 1: India's Strategic Trade Response: Key Policy Actions in a Tariff-Constrained World

Chapter 7: Conclusion: Navigating a Fragmented Trade Order-Lessons from the Tariff Shock

The recent U.S. experiment with reciprocal tariffs under President Trump has undeniably shaken the foundations of global trade. Our examination has shown that the tariff hikes – justified by the U.S. as leverage for fair trade – have set in motion a complex chain of consequences across major economies. China has retaliated hard (at the risk of incurring even steeper tariffs) and simultaneously sought new alignments, India has been compelled to negotiate and reform, Japan and South Korea have banded together with regional partners, and Europe and the UK have had to balance between standing firm and staying engaged with the U.S. The broader international trading system faces heightened uncertainty, with risks of fragmentation and a departure from the multilateral norms that governed trade for decades. Ironically, while the U.S. tariffs aim to bolster American fortunes, they threaten to boomerang and dampen U.S. economic prospects – raising the spectre of slower growth or even recession at home.

In response to these tumultuous shifts, countries are not passively acquiescing; instead, many are adapting in innovative ways. China's outreach to India – encapsulated in the evocative "Dragon-Elephant tango" metaphor – and its leadership in revitalizing the Trilateral FTA talks with Japan and Korea illustrate that nations are actively seeking alternative coalitions and markets when traditional one's falter. Likewise, India's determination to strike a trade deal with the U.S. and simultaneously protect its core interests exemplifies a pragmatic dual strategy that other mid-sized economies may emulate. The tariff conflict has in effect accelerated a reconfiguration of global trade networks: supply chains are being redrawn, new trade agreements are being pursued at a faster pace, and local industries worldwide are being forced to upgrade or adjust to survive.

One clear lesson from this episode is that **protectionism begets protectionism**, **but also begets resilience** in unexpected ways. While some countries have directly retaliated (China, EU), others have chosen innovation over retaliation – forging new partnerships or making domestic reforms. The outcome of Trump's grand tariff experiment is still unfolding. It is possible that faced with mounting economic costs, the U.S. may eventually seek negotiated settlements (indeed, talks with allies and partners like India, South Korea and Japan are indicative of this). If so, a rollback of these tariffs could occur, though likely in exchange for some concessions from partners – which, as we've seen, many are already inclined to offer in moderated form. Alternatively, if the tariffs persist, the world economy may become more regionally segmented: a U.S.-centred sphere with higher trade barriers, and a China/Asia-centred sphere with deeper integration among themselves, with countries like India navigating between them.

A key development that could shape the trajectory of the "Asian Century" is the renewed display of solidarity among China, Japan, and South Korea during the recent Trilateral Economic and Trade Ministers' Meeting in Seoul. India's absence from a prospective Free Trade Agreement (FTA) among these nations raises concerns about the emergence of a Northeast Asian power bloc—one that could challenge India's regional influence.

A pressing concern is the potential marginalization of Indian exporters, who may lose market share in these economies if the trilateral FTA results in tariff advantages among its members. The revival of China–Japan–South Korea FTA talks, spurred by the United States' protectionist shift, underscores how global trade pressures are accelerating regional integration efforts. By tightening economic cooperation, Beijing, Tokyo, and Seoul are not only advancing their national interests but also influencing the broader direction of global trade.

The consequences and opportunities of this evolving FTA landscape will be explored in greater detail in our forthcoming whitepaper.

For India, as this paper highlighted, the strategic imperative is to remain agile and forward-looking. By implementing targeted protections, domestic reforms, and aggressive trade diplomacy, India can turn the challenge into an opportunity to strengthen its global trade position. Other emerging economies could take a cue from this approach – emphasizing competitiveness and alliances over knee-jerk retaliation. In the words of Kaushik Basu, the U.S. tariff wall might slow the U.S. itself, but *"for other countries…this will be an opportunity to expand trade with one another"*. We are likely witnessing the beginning of such realignments.

Trump's reciprocal tariff policy has ushered in a new era of uncertainty in international trade. It has tested the resilience of economies and the efficacy of the global trading system. The full ramifications will play out in years to come, but one thing is certain: the episode has prompted critical reflection and action among the world's nations regarding how to safeguard their economic futures. The strategies adopted – from China's diplomatic pivots to India's reformist response – will shape not just the resolution of this tariff conflict, but also the future architecture of global trade. If there is a silver lining, it may be that this stress test ultimately yields a more balanced and diversified global trade environment, one where countries are less complacent and more proactive in securing their place in the world economy. The dance of the dragon and the elephant, and many others like it, will be pivotal in defining that future.

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