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Why Trump's win and missed China-plus-one export opportunity seem to be prompting a trade policy rethink

The election victory of Donald Trump has also exacerbated fears of tariff action against India. However, Trump's tariff hikes on Chinese products could boost investment interest in India.

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Prime Minister Narendra Modi US President Donald Trump in 2017. (PTI Photo)

With Asian peers racing ahead in capturing the record outflow of investments and export opportunities shifting away from China, and the fresh uncertainties in American trade policy — sparked by Donald Trump's victory in the US elections — seems to have stoked a fresh debate in India's trade policy circles on the country's approach to economic integration amid the new geopolitical realities.

In stark contrast to India's current stance of staying out of the China-led Regional Comprehensive Economic Partnership (RCEP), NITI Aayog CEO BVR Subrahmanyam said on Thursday (November 7) that the country is missing out on the 'China-plus-one' opportunity and should consider joining multilateral agreements such as RCEP and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Subrahmanyam highlighted that countries like Vietnam, Indonesia, Malaysia, Turkey, and Mexico have gained more from the 'China-plus-one' opportunity than India, arguing that joining a large trade bloc would benefit India's Micro, Sm Medium Enterprises (MSME) sector, which contributes 40 per cent of the cou exports, unlike large corporations that are not significant exporters.

Recent comments, indications of shift

Just last month, the Commerce and Industry Minister Piyush Goyal had said that joining RCEP would effectively amount to a free trade agreement (FTA) with China, allowing it to dump goods into India and exacerbate the trade deficit. Goyal said that India's trade deficit with China increased between 2004 and 2014 at a compounded annual growth rate (CAGR) of 42.85 per cent, which he claimed had undermined domestic manufacturing.

Goyal's comments came as Western countries, particularly the United States, turned more protectionist due to rising imports from China, which have resulted in manufacturing job losses largely dubbed as 'China shock'. The newly elected US President has pledged to increase tariffs on Chinese goods entering the US to level the playing field. Meanwhile, Europe has imposed tariffs on Chinese electric vehicles (EVs) and solar equipment.

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Subrahmanyam, a former Commerce Secretary, further said that capacity utilisation in the private sector remains around 70 per cent, with private-se investments lagging behind government expectations due to various bottler including high tariffs relative to other countries. "I think if we don't cut tariffs, then we are not going to benefit because that is the pain point," Subrahmanyam remarked.

This comes as the Commerce Ministry has paused trade negotiations to establish a fresh standard operating procedure (SOP) amid a growing trade deficit with countries such as the UAE and the Association of Southeast Asian Nations (ASEAN). While the ASEAN trade deal was signed under the UPA era, the UAE deal was signed in the NDA regime.

India missing the China-plus-one opportunity

An Oxford Economics report released last month stated that India has not been able to capitalise on the shift in US import demand away from China to the same extent as its Asian peers, particularly in high-growth sectors. More concerningly, the production gains realised have not translated into increased domestic value added as much as for India's peers, the report said.

"This is most striking in the high-tech goods sector, where exports rose by an impressive 350 per cent, yet domestic value-added output shrank by nearly 18 per cent between 2017 and 2023. For the manufacturing sector, the outlook is somewhat brighter, with domestic value added rising 26 per cent, though still outpaced by merchandise export growth of 44 per cent," the report highlighted.

The research report said that rising tensions between the US and China had the imposition of bilateral tariffs in 2018-2019 on products constituting arou per cent of India's global exports, sparking hopes that India would experience an increase in US substitution demand, potentially boosting India's struggling manufacturing sector.

US trade rerouting has been particularly pronounced in the large electronics market, where China's share has plummeted since 2017. India's share in US electronics imports has increased nearly tenfold since then to 2.1 per cent, and electronics now represent a greater proportion of India's export mix, indicating some success in the government's drive to become a high-tech powerhouse, according to the report.

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"Most Chinese losses have been offset by products from Vietnam (up 7.2 percentage points, now 10.1 per cent market share) and Taiwan (up 6.4 percentage points, now 10.4 per cent market share). Malaysia and Thailand remain key players in the electronics sector, each accounting for around 5.5 per cent market share, more than double India's 2.1 per cent in 2023 (up from 0.2 per cent in 2017)," the report added.

Case for attracting Chinese FDI

Facing tariff barriers abroad alongside sluggish domestic demand, Chinese companies are increasingly expanding their presence outside the country. However, investment in India has remained limited due to ongoing border disputes. India's share of mainland China's outward direct investment to Asia (excluding Hong Kong) fell from an already low 2.6 per cent in 2019 to 1 per cent in 2021, according to Oxford Economics.

China's overseas investment notably hit a record high this year amid rising protectionist measures in the West. Chinese firms increased their overseas assets by about $71 billion in the second quarter, according to revised data from the State

Administration of Foreign Exchange, as reported by *Bloomberg*. This is an increase of more than 80 fper cent rom a year ago and marks the highest level since records began in 1998.

However, former Indian trade officer and the head of the think tank GTRI A Srivastava cautioned that while Chinese companies investing in India and exporting to Western markets might seem beneficial in the short term, it could jeopardise India's long-term economic security and strategic autonomy. Dependence on Chinese firms for key manufacturing capabilities could expose India to supply chain vulnerabilities and geopolitical risks, he said.

"Chinese firms investing in India may prioritise their own supply chain efficiencies, potentially sidelining local industries and limiting opportunities for home-grown companies to flourish. Additionally, there is a risk that the employment generated may not meet expectations if Chinese firms bring in their own managerial and technical staff, reducing benefits to the local workforce," Srivastava said.

Uncertainty with Trump's policy

The election victory of Donald Trump has also exacerbated fears of tariff action against India. However, Trump's tariff hikes on Chinese products could boost investment interest in India. India had lost duty-free access under the decades-old Generalised System of Preferences (GSP) programme, of which it had been the largest beneficiary in 2019 under the Trump administration. The tariff-free benefits accrued to approximately $5.7 billion of India's exports to the US.

Trump during his first term had disabled the WTO's dispute resolution function by blocking the appointments of judges, effectively leaving it inoperative for all members. Trump's successor, Joe Biden, did not restore the system but instead pledged reforms that are yet to take any concrete shape. While large trading countries have found mutual resolution of disputes, smaller countries remain in limbo.

"A Trump presidency would likely extend tariffs beyond China to other countries, possibly including India. Trump could push for stringent trade negotiations, likely applying reciprocal tariffs on Indian goods. Trump may pressure India to cut tariffs and also impose higher tariffs on Indian goods, especially in sectors like automobiles, textiles, pharmaceuticals, and wines, which could make Indian exports less competitive in the U.S. market, impacting revenue," Srivastava said.

However, as the US intensifies its stance on China, new opportunities may open for Indian exporters to fill gaps left by restricted Chinese imports, he added.

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