India’s Dependence on the US and China Places it in a State of Persistent Uncertainty

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Rohith Jyothish

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President Donald Trump, left, and Chinese President Xi Jinping shake hands before their meeting at Gimhae International Airport in Busan, South Korea, Thursday, Oct. 30, 2025. Photo: AP/PTI.

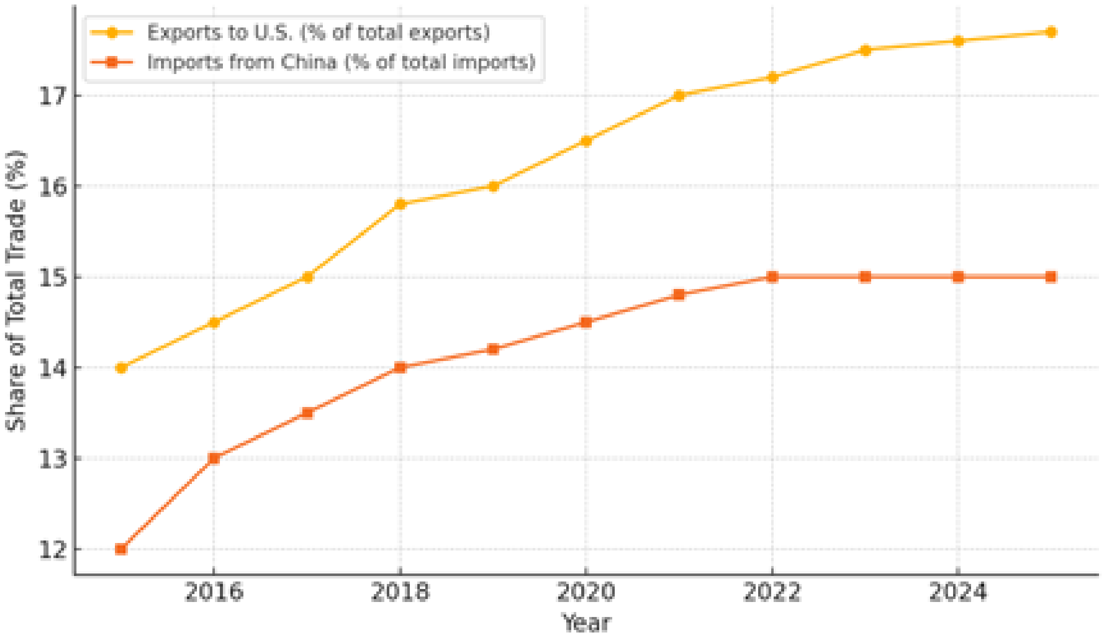
The Trump-Xi summit in Busan on October 30, 2025 was billed as a thaw in global trade tensions. The two leaders announced what Trump called a “12 out of 10” deal. A one-year framework that promised to trim US tariffs on Chinese goods from roughly 55% to 47%, pauses the threat of 100% hikes, and links future adjustments to Chinese cooperation on fentanyl, soybeans, and rare-earth exports.

Markets responded with relief. Yet, the episode confirmed how deeply trade has become a lever of State power. Even after the so-called truce, tariffs remain at multi-decade highs, and countries that depend on both the US and China now face persistent uncertainty. India sits squarely in this position.

In this post, I argue that India’s exposure is not symmetrical but overlapping. The same industries that face higher US import barriers also rely heavily on Chinese inputs. This pattern of dual dependence reveals the structural constraints facing middle-income economies in a weaponised world economy. Hence, conventional diversification strategies may no longer secure developmental autonomy.

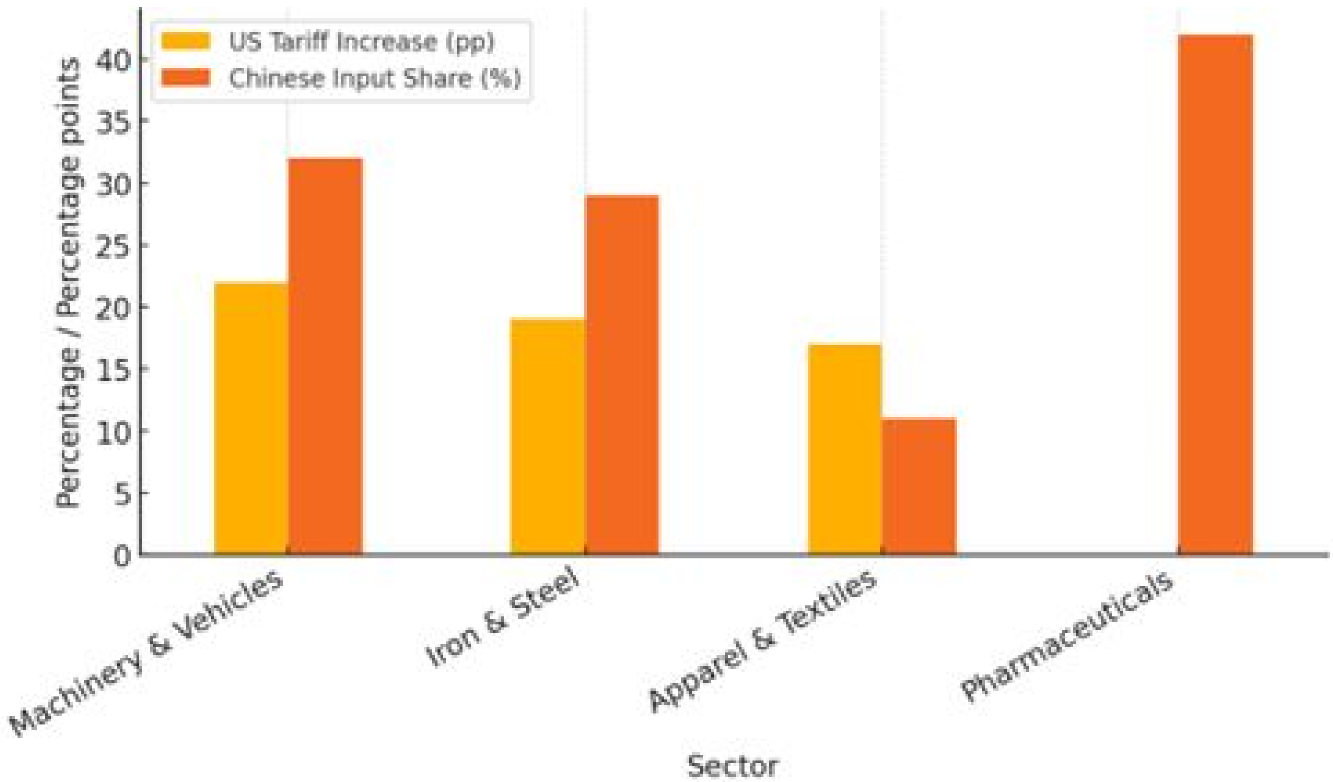
India's trade structure in a weaponised world

India's external trade exhibits two reinforcing features. First, export concentration in the US market remains high for a handful of sectors at the centre of India's industrial policy – machinery, automobiles, iron and steel, apparel, and gems and jewellery. Second, import dependence on China has deepened in precisely those sectors as global value chains (GVCs) have tightened.



Sources: Author's illustration using data from Yale Tariff Budget Lab (2025); Sanyal (2021); Mukherjee (2024). Notes: (i) Shares refer to percentage of India's total merchandise trade. (ii) 2015-2024 values in the Figure are interpolated using published aggregate shares to illustrate exposure trends; 2025 values are from Yale Tariff Budget Lab (2025) and EPW-summarised studies

This trajectory underscores India's position within the global trading hierarchy. Dependence on the US for markets and on China for inputs has become structurally linked over the last decade, not offsetting but reinforcing one another.



Sources: (i) Author's calculations using the October update of Yale Tariff Budget Lab (2025), which reports effective sectoral rates following the US reciprocal-tariff announcement. (ii) Input dependence estimates combine import-intensity ratios for Chinese intermediates from Sanyal (2021) and Mukherjee (2024) with input-output linkages from OECD (Organisation for Economic Cooperation and Development) TiVA (trade in value-added) and GTAP (global trade analysis project) 11(Sahoo et al. 2025). (iii) This synthesis draws on existing datasets but presents a new combined lens connecting US tariff exposure with Chinese input dependence, a configuration not previously examined together in published work. Notes: (i) Tariff increases refer to change in effective duty in percentage points. (ii) Input shares refer to Chinese share of imported intermediates in gross output. (iii) Figures are illustrative of relative exposure, not econometric coefficients.

The pattern is striking. US tariffs penalise sectors whose cost base already depends on Chinese intermediates. If the goal of US policy is to reduce Chinese influence, its collateral effect is to reinforce it. Indian firms, squeezed by new tariffs and costly inputs, become the hinge on which great-power competition turns.

How shocks travel through supply chains

Simulation exercises using the GTAP 11 model (Sahoo *et al.* 2025) show that while the US unilaterally raises tariffs, India's aggregate output loss is modest (-0.14%), but welfare falls by about US$15 billion. The aggregate masks sharp sectoral divergences. Transport equipment continues importing high-value components from East Asia even as exports to the US decline. Electronic and optical equipment expands assembly but remains import-intensive. Chinese component tariffs raise costs faster than domestic firms can adapt. Pharmaceuticals, though excluded from US tariffs, suffer input shocks when Chinese export licenses tighten for active pharmaceutical ingredients. India's industrial base thus functions as a shock absorber. Price and policy volatility abroad are transmitted through imported intermediates at home.

How firms and workers experience dual dependence

Firm-level data from the CMIE (Centre for Monitoring Indian Economy) Prowess database reveal that between 2018 and 2024, operating profit margins in the machinery and transport sectors declined 6-8 percentage points, mirroring periods of global tariff turbulence. These are also the sectors with the highest import-intensity ratios.

On the shop floor, vulnerability translates into precarity. According to the Periodic Labour Force Survey (PLFS) figures cited in the same studies, more than 70% of manufacturing workers in export-oriented units hold short-term or informal contracts. When trade orders contract or input prices surge, adjustment occurs through wages and hours rather than investment or productivity. Weaponised interdependence, in short, filters down as labour insecurity, not macroeconomic risk.

Why this matters for development strategy

For decades, India's policymakers have pursued integration into global markets as a pathway to industrial upgrading (Rodrik 2018, Gallagher 2019). The experience of 2025 suggests that deeper integration without control over key notes such as finance, technology, and logistics generates fragility instead.

Middle-income economies like India have limited jurisdiction over the infrastructures that define 21st-century sovereignty, such as dollar-clearing systems, semiconductor design, rare-earth processing, and digital platforms. The US can weaponise these through sanctions or tariffs, and China through export controls or regulatory pressure. The consequence is a dependency convergence via different channels, but the same vulnerability.

This dual dependence explains why India's trade strategy often oscillates between tariff protection and liberalisation. Neither addresses the structural problem that power now operates through networks rather than borders.

Policy implications: Resilience without retreat

Given this configuration, India's development policy should aim to build redundancy rather than pursue autarky. In other words, development strategy ought to be designed in a way that accepts deep global entanglement but ensures that no single trading partner, supply chain, or technological gateway becomes a source of coercive vulnerability. Three directions stand out from the evidence:

Strengthen upstream capacity: The data show exposure is greatest in intermediates such as chemicals, machine parts, and electronic components. Targeted investment and technology partnerships in these areas would reduce dual dependence far more effectively than across-the-board tariffs.

Diversity regional demand: Asia and Africa already absorb roughly 32% of India's exports. Improving logistics links, credit lines, and trade facilitation within these regions can cushion shocks from the US market while sustaining scale.

Integrate labour policy into trade resilience: Because global shocks transmit through precarious labour, export incentives should reward stable contracts and skill upgrading. Protecting workers is not separate from trade strategy; it is a condition for industrial resilience.

None of these steps requires disengagement from global markets. They aim instead to convert participation into bargaining capacity, that is, the ability to make interdependence less asymmetric.

Conclusion: Autonomy within entanglement

The Busan "G2" summit offered temporary calm but also clarity. The world's major powers now treat trade networks as instruments of negotiation, not neutral infrastructure. For India, the direct tariff costs of these confrontations may be small, but the structural message is large. Dependence on the US for markets and on China for inputs cannot be managed through traditional diversification alone.

Recognising this dual dependence reframes the developmental challenge. The task is no longer to choose between integration and self-reliance, but to design autonomy within entanglement. We need to build capacity to absorb shocks, maintain employment, and sustain industrial upgrading in a weaponised world economy.

Rohith Jyothish is a political economist and Assistant Professor at the Jindal School of International Affairs, O.P. Jindal Global University, Sonipat. His research spans fiscal federalism, welfare and social policy, labour process and technology, and political ecology, with a focus on state capacity, intergovernmental finance, and the changing organisation of work.

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