OPINION | India, China And Emerging Politics Of Tariff Evasion

US-China trade tensions are shifting to global supply chains, with India facing scrutiny over transshipment risks and the origin of goods.

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The United States has opened a new front in its trade confrontation with China, and the battlefield is no longer simply the tariff schedule, but it is the global supply chain.

The White House Office of Trade and Manufacturing Policy have recently released a report arguing that Chinese exporters have increasingly used third countries to circumvent higher US tariffs and describes a broader "Shadow Transshipment Network" involving more than 40 countries and jurisdictions. India is among the Tier 1 countries listed, which comprise the Diversified Scale Leaders.

India's inclusion has understandably attracted attention. But it is important to understand precisely what Washington has, and has not, alleged. The report places India in Tier 1 of its Shadow Transshipment Network, alongside Canada, the European Union, Israel, Japan, Mexico, South Korea and Taiwan.

Yet Tier 1 is defined as comprising "Diversified Scale Leaders" consisting of economies with large volumes of China-linked goods, diversified industrial bases and major US-bound export platforms, where transshipment risk is embedded within broad legitimate trade flows. The classification therefore does not establish that Indian exporters, as a class, are engaged in customs fraud.

This distinction is crucial. Modern manufacturing rarely occurs entirely within a single national border. A product may contain Chinese components, Indian labour and processing, Japanese machinery, American technology and Korean investment. The relevant question is not whether Chinese inputs are present. It is a question of whether the processing undertaken in India is sufficient to give the product Indian origin under the applicable rules.

What Is Transshipment?

Transshipment itself is not unlawful. Goods can legitimately move through third countries for logistical, commercial and manufacturing reasons. The problem arises when routing through another country is used to conceal the actual origin of merchandise or to make a product appear eligible for tariff treatment that would not otherwise apply.

The White House report identifies practices, including minor processing, relabelling, repackaging, re-invoicing, and paperwork changes, that allegedly create the appearance of a new national origin while leaving the underlying Chinese content substantially intact.

US customs law provides an important framework for understanding the distinction. Where goods involve processing in more than one country, US Customs and Border Protection generally applies a “substantial transformation” analysis. The question is whether processing results in a new article with a different name, character or use.

Minor processing that leaves the identity of the original article intact generally does not constitute substantial transformation. These determinations are made on a case-by-case basis.

Thus, Chinese inputs do not automatically make an Indian-made product Chinese. Conversely, routing a largely Chinese-made product through India and performing only superficial processing does not necessarily make it Indian. That is the distinction on which the debate should turn.

Where Washington's Concern Is Legitimate

The economic incentive identified by Washington is real. When substantially different tariffs apply to otherwise comparable goods depending on their country of origin, firms have an incentive to reorganise supply chains.

The White House traces the problem to the Section 301 tariffs imposed on Chinese goods beginning in 2018. It argues that Chinese exporters responded partly by redirecting goods through lower-tariff jurisdictions. The report calls this broader shift the “Great Reallocation”. There is evidence of a significant change in trade patterns.

The White House shows that China's share of US goods imports declined after the 2018 tariffs, while the combined share of imports from more than 40 countries identified as transhipment-risk jurisdictions increased. But even the White House report acknowledges the central evidentiary problem, as some of this shift represents legitimate relocation of production rather than illegal transshipment.

It expressly describes the extent of illegal transshipment as an open question. That caveat should not be overlooked.

The report estimates annual illegal transshipment flows between $40 billion and $303 billion, depending on methodology, with a central estimate of $75 billion based on product-level and shipment-flow analysis. It correspondingly estimates $113 billion to $150 billion in reduced annual gross domestic product and $19 billion to $26 billion in associated federal revenue losses.

These are White House estimates, not independently established measurements.

India Should Not Accept Collective Guilt

For India, the issue presents both a challenge and an opportunity. India has sought to position itself as an alternative manufacturing hub as multinational firms diversify supply chains beyond China. Genuine relocation of production to India is precisely the kind of supply-chain diversification that many governments have encouraged.

The White House report itself recognises that legitimate production shifts exist. Its concern is with situations where goods remain substantially Chinese but acquire the appearance of another national origin through limited processing or documentation changes. The report specifically identifies India's Pune-Gujarat-Chennai manufacturing belt in relation to pumps and compressors and compares that production corridor with Cincinnati, Dayton and Columbus in the United States.

This does not establish that Indian pump or compressor manufacturers are engaging in tariff evasion. Rather, it illustrates Washington's broader concern that China-linked supply chains may increasingly intersect with India's expanding manufacturing capacity. India therefore needs to respond with evidence, not defensiveness.

Indian exporters should be able to demonstrate the origin of inputs, the nature of manufacturing operations, ownership and supplier relationships, production capacity and the extent of value added in India. Indian customs authorities should also cooperate with US authorities where credible evidence of fraudulent origin declarations exists.

But Washington should equally distinguish between evidence of fraud and evidence of integration. A country that imports Chinese components cannot reasonably be presumed to be a transshipment hub merely because those components are Chinese. Global manufacturing is built precisely on such cross-border supply chains.

Tariffs Create Incentives, Enforcement Must Distinguish

There is an uncomfortable logic at the heart of the transshipment problem. Large differences in tariff rates create incentives for firms to alter their production and routing decisions. Some of those changes represent genuine investment. A company may move assembly, manufacturing, design, testing and other operations to India because India offers competitive labour, infrastructure, market access or a more diversified supply chain.

Other arrangements may involve little more than repackaging or relabelling. Treating both phenomena as equivalent would undermine the very supply-chain diversification that the

United States claims to encourage. The proposed US response is nevertheless significant. The White House report describes an AI-enabled "Detective Border" designed to analyse shipment data, routing histories, product classifications, production capacity and ownership relationships. It also envisages using packaging information and X-ray imaging to identify inconsistencies between declared and actual cargo.

If implemented effectively, this could make customs enforcement substantially more data-driven. But greater technological capacity also makes accurate classification more important. An algorithm should identify anomalies for investigation, not turn a statistical correlation into a presumption of guilt.

The Larger Question Is The Origin

India should neither dismiss the American concerns nor accept collective responsibility for them. The appropriate position is straightforward. India must not become a platform for fraudulent tariff evasion. Indian businesses that deliberately disguise Chinese-origin goods should face scrutiny and, where the evidence establishes wrongdoing, appropriate consequences.

But legitimate Indian manufacturing should not be treated as disguised Chinese exports simply because it operates within Chinese-linked supply chains.

The larger transformation in international trade is therefore not merely about tariffs. It is about the origin. The traditional question was: "Where was this product exported from?" The emerging question is more difficult: "Where was this product actually made?"

That question will increasingly determine who bears tariffs, who receives market access and ultimately who controls the strategic geography of global production. The "Great Transshipment Scam" is consequently more than another chapter in the US-China trade conflict. It signals the emergence of a new politics of origin, supply chains and economic sovereignty.

For India, the task is to ensure that its emergence as a manufacturing power remains demonstrably genuine, transparent and legally defensible.

The principle should be clear: India cannot be a shield for tariff evasion. But legitimate Indian manufacturing cannot become tariff evasion merely because it uses Chinese inputs. The credibility of the emerging trading order will depend on whether Washington and New Delhi are able to preserve that distinction going forward.

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