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Trump Will Back Down On Tariffs. India Must Wait To Negotiate

There are telltale signs that Trump's tariff is not working this time. India's trade dependence on the US is not very high, so we must bide time and negotiate hard

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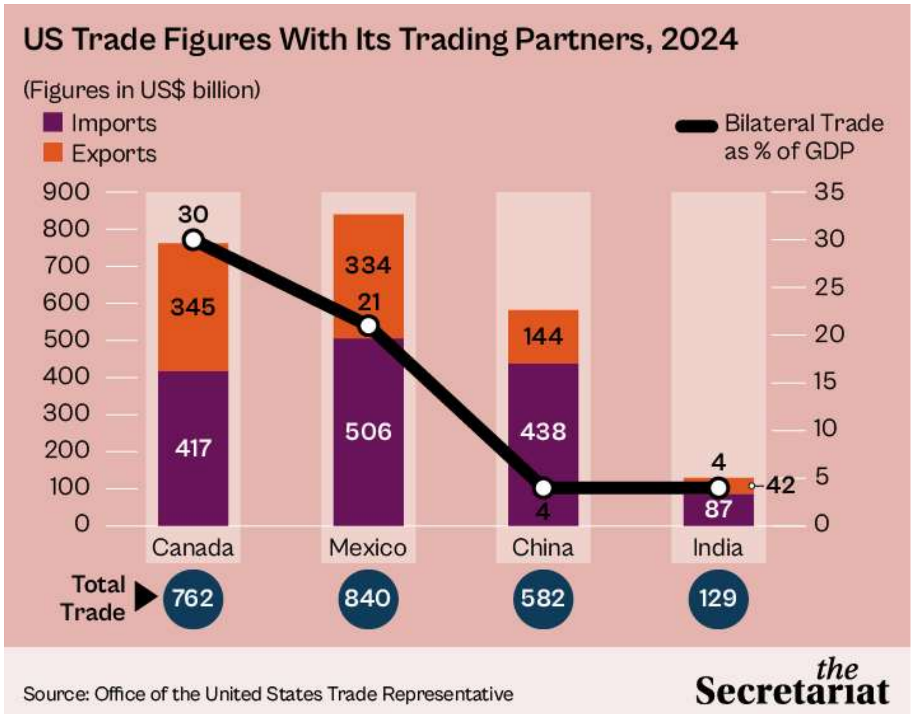
America's unilateral tariff imposition is back in the spotlight.

President Trump inflicted [20 per cent tariffs on Chinese imports] and [25 per cent tariffs on Canadian and Mexican goods]. Canada retaliated with 25 per cent tariffs on American exports worth US$ 20.7 billion. There is a possibility of expanding this retaliation to US$ 86.2 billion worth goods if Trump tariffs are not cut after 21 days.

China retaliated earlier with 10 to 15 per cent tariffs on different US exports. Tariffs on India are slated to begin April 2, 2025 onwards.



The US is the largest trading partner of Canada. So, Canada is highly vulnerable. Purely based on the numbers (specifically trade as a percentage of GDP), it's clear that Canada and Mexico are likely to suffer the most from Trump's tariffs.

In particular, because of the talk about 25 per cent tariff on steel and 10 per cent tariff on aluminum products, as well as tariffs on various other goods.

Under the United States-Mexico-Canada Agreement (USMCA), these countries enjoyed relatively open access to the US market, with minimal barriers to trade.

The tariffs led to increased costs for Canadian manufacturers, making their goods such as automobile less competitive in the US market.

In retaliation, Canada imposed tariffs on over US$ 12 billion worth of US goods, including products like soybeans, dairy products, ketchup, whiskey and mattresses, thus increasing costs for US companies reliant on Canadian exports.

Canada is actively contemplating a 100 per cent tax on American EV maker Tesla. The country also plans to put surcharges on electricity to US customers.

Other US car manufacturers are also being impacted by Trump's decision to impose tariffs on Chinese and Canadian-made automobile components.

Similarly, Mexico faced significant trade disruptions. The tariffs on steel and aluminum, in particular, affected Mexican industries that rely on US exports of these raw materials.

China, on the other hand, strategically shifted its production base to Mexico, effectively mitigating the initial impact of the tariffs imposed on them.

China learned its lessons from Trump 1.0. China was badly hit by the US tariffs imposed in 2018 on hundreds of billions of dollars worth of Chinese exports, in industries including electronics, machinery, and consumer products.

China, in turn, retaliated with tariffs on US goods, such as soybeans, meat and poultry, cars, and chemicals. Instead, they now source most of their pork meat from Spain, Germany, and France, and procure agricultural items like soybeans and coffee from Brazil and Venezuela.

This US-China trade war escalation in 2018 severely disrupted the global supply chain, particularly those linked to these two countries.

Since then, China started shifting their production base strategically. As the numbers in the table above demonstrate, China has successfully reduced its trade dependence on the US.

China's share of total US trade — measured as the sum of exports and imports — dropped from 15.7 per cent in 2018 to 10.9 per cent in 2024. The US share in China's total trade fell from 13.7 per cent to 11.2 per cent in the same period.

The US Trade Representative Katherine Tai accused China of re-routing its steel products as Mexican, to illegally gain access to the US market.

Total US imports of Mexican goods in 2023 were USUS$ 475 billion, roughly USUS$ 20 billion more than the 2022 figure. The US imports of goods from China totalled US$ 427 billion in 2023, about US$ 10 billion less than the previous year.

The net result: At least 30 Chinese firms currently operate out of Mexico, including Chinese automobile majors like BYD and Cherry International.

China has pumped in 30 per cent more FDI into Mexico in the last couple of years. It's no surprise that the Chinese are more aggressive, openly stating they are unafraid to engage in a trade war.

For India, trade dependence on the US is not as high compared to the level of trade dependence that Canada and Mexico have with the US.

The main Indian exports to the US are refined petroleum products, gems and jewellery, apparel and textiles, engineering goods and pharmaceutical products.

Among these, Trump mentioned imposing tariffs on pharmaceutical items, which eventually may backfire as it will increase the cost of medicine in the US

There are telltale signs that Trump's tariff is not working this time. Latest American official data reveal that US unemployment rose to 4.1 per cent in February 2025 from 4 per cent in January. This incremental rise can be attributed to uncertainty in trade policies and deep federal government expenditure cuts.

Wall Street has crashed since. Canada is looking forward to selling its crude oil and natural gas, originally earmarked for the US, to China and the EU. Mexico is also contemplating imposing a curb on the crude heading for the US refinery.

On the reverse side of the deal, Canada will get the rare earth materials from the EU and China. The US tariff policy may lead to eventual economic isolation and could even result in an eventual pause on tariffs once the strategic threats play out over time.

In fact, tariffs never worked for the US. Data show US trade deficit with China continued to rise even after the major tariff announcement by Trump during his earlier tenure as President of the US. America's average trade deficit with China every year during Barack Obama's tenure (2009-2016) was US$ 311 billion.

This average trade deficit ballooned to US$ 361 billion in Trump's first term (2017-2020). Subsequently it decreased to US$ 327 billion when Joe Biden was President (2021-2024).

The lesson for India is very clear, the country has to negotiate hard with Trump. Ideally, India should let the Trump tariffs aimed at India play out rather than unilaterally cutting Indian tariffs on EVs, or providing Starlink a carte blanche to operate in the country.

It is now evident that the US negotiation, spearheaded by the Trump-Musk duo, would gun for greater Indian market access. However, that should be granted only if the Indian services exports get more access to the US market.

There are already indications that Trump is backing down on his plan to impose tariffs, as he has halted the proposal to double US tariffs on Canadian steel and metal imports to 50 per cent, just hours after initially threatening them.

Trump is simply testing the waters, and as a true businessman, he will soften his stance if he sees his trading partners responding aggressively.

(*The writer is a professor at Mahindra University. Views are personal*)

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