Source: *The Business Times,* p3
Date: 9 September 2025

Trump tariffs could pull China and India closer, but cooperation not a guarantee: experts

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THE heavy tariffs imposed by the US on China and India may have brought the two Asian giants closer together, but observers remain cautious about whether stronger economic cooperation is on the horizon.

Yet Asean, with a cumulative gross domestic product of more than US$4 trillion, could emerge from the two giants' shadows as a driver of Asian growth.

The region is optimally placed as both a beneficiary and competitor as India and China move towards stronger economic and diplomatic ties, said the participants in a panel jointly organised by the National University of Singapore's East Asian Institute and Institute of South Asian Studies on Monday (Sep 8).

The session, which focused on China and India's economic responses amid global uncertainty, brought together academics, financial market participants and policymakers to offer insights into economic moves by Asia's two largest economies and their interactions with each other.

Both countries have been on the receiving end of heavy tariffs imposed by the US. In late August, President Donald Trump moved to raise levies on India's imports to 50 per cent as punishment for its Russian oil imports.

China, likewise, has been embroiled in a tariff war with the US, as the global economy awaits the conclusion of a 90-day pause on the 145 per cent tariff that Trump first announced in April.

"Trump may be pushing India and China together," said Stephen Olson, senior visiting fellow at the Iseas-Yusof Ishak Institute. Apart from a common tariff threat, both economies have also signalled desires to move away from Western models of trade and institutions, he noted.

In late August, the two countries' leaders met to discuss the need to expand trade and investment ties against the backdrop of the tariffs.

But underlying tensions and conflicting economic interests could mean that a significant bond between the two powers remains a lofty dream, said Olson.

"China wants to keep what India wants to take, especially higher-value, technologically advanced manufacturing," he noted. "A shared aversion to a US-led order can only get you so far."

Asean's role

Andrew Tilton, chief Asia-Pacific economist at Goldman Sachs, noted that the differing economic models of both countries have shaped their growth trajectories differently.

He said: "In China's case, this is overwhelmingly goods exports, whereas India's mix is more balanced between goods and services."

This means that tariffs have a much larger impact on China's exports than India's.

"For China, the challenge is to develop new markets in the emerging world," noted Tilton. "India, on the other hand, has room to build out investment in areas such as the artificial intelligence transition."

Singapore's Minister of State for Trade and Industry Alvin Tan, who delivered a speech as the event's guest of honour, said the South-east Asian bloc could present itself as a valuable partner for both countries. "When China and India engage, the region benefits," he said.

"Asean is a platform where both giants can connect with the wider region. We offer a thriving market, stability and opportunity for trade and cooperation," he said.

"There are opportunities for India to integrate its supply chains with Asean for key sectors like semiconductors or green energy."

Manu Bhaskaran, chief executive of advisory firm Centennial Asia Advisors, said that the region's importance to both economies is likely to increase.

"Asean's concerns about overcapacity and surges of Chinese exports into the region have to be taken seriously by China, because Asean will ultimately affect China's economy" he said.

Still, he noted that a growing divergence within the bloc was emerging – one in which northern South-east Asia moves to integrate into China's sphere of influence more than the region's southern nations.

Bhaskaran also noted the region's strong cultural and historical ties with India.

"India has taken very little advantage of these ties to forge stronger economic relations with South-east Asia," he said. "It cannot continue to underplay this region of more than 600 million people."

Singapore's Minister of State for Trade and Industry Alvin Tan said that Asean could present itself as a valuable economic partner to both China and India. PHOTO: EAST ASIA INSTITUTE, INSTITUTE OF SOUTH ASIAN STUDIES

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