Trade Policy and National Security: The Geoeconomic Challenge of Trumpism

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Abstract

This article traces the historical evolution and contemporary resurgence of protectionist trade policy in the United States (US), particularly under the Trump and Biden administrations. It explores how trade, technology, and investment are increasingly wielded as instruments of geoeconomic statecraft, especially in the context of rising US-China rivalry. The article argues that India, while benefiting from strategic convergence with the US, faces new economic risks, including tariff threats and transactional expectations. Against this backdrop, it emphasises the imperative for India to strengthen its domestic foundations—economic, industrial, technological, and human capital—to safeguard strategic autonomy. The narrative of 'Rising India', historically driven by gross domestic product growth, now requires a redefinition grounded in manufacturing capacity, defence self-reliance, and global competitiveness. Drawing lessons from both Western and East Asian experiences, the article highlights the need for integrated development in research and development, education, and export-oriented industrialisation to support national security and global standing. This is the essence of India's geoeconomic grand strategy.

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Journal of the United Service Institution of India, Vol. CLV, No. 640, April-June 2025.

Introduction

The resurgence of protectionist trade policy in the United States (US), often justified under the banner of 'Fair Trade', is not without precedent. Historically, the US has oscillated between liberal trade regimes and assertive protectionism—whether in the 1930s, the 1970s, the Reagan era, or the Trump Presidency. In each case, economic anxieties and strategic recalibrations have pushed the US to adopt more restrictive trade measures. The present moment, marked by the US-China competition, rapid technological shifts, and economic nationalism, reflects a broader trend in American statecraft—one where trade, investment, and technology are increasingly leveraged as instruments of geopolitical influence.

Historical Patterns of the United States Trade Protectionism

Responding to European and Japanese competition, the Nixon administration sought to legislate the Trade Act of 1971 that would have raised tariffs steeply. This attempt was, however, foiled fearing a backlash from trade partners. Senator Abraham Ribicoff, Chair of the Senate Finance Committee, undertook a tour of Europe and returned home to warn the US Congress that, if enacted, the Trade Act 1971 would have sparked off a 'Trade War'. In his report on 'Trade Policies in the 1970s', Ribicoff stated that, "Strong threats of retaliation against the US were made by common market spokesmen and by several other countries. Fundamental relationships between ourselves and our closest allies were at stake—but these consequences seemed to have been ignored by our policy makers".[1]

Despite this warning, the Nixon administration persisted, perhaps buoyed up by the successful outreach to China that summer. A Congressional Commission that enquired into the subject of 'National Security Considerations Affecting Trade Policy' (1971), took the view that 'Trade policy is national security policy' and advocated a policy shift from the ideology of free trade. After the dismantling of the Bretton Woods system of exchange rate determination in 1973, which led to a sharp devaluation of the US dollar, President Richard Nixon shifted his focus to trade policy. The Trade Act of 1974 gave enormous powers to the President in the realm of trade and tariff policy. It was in response to the economic challenge posed by the rapid rise of the post-war economies of Germany and Japan that the US Congress enacted the Trade Act of 1974.[2]

The policy instruments made available by the 1974 Trade Act, like Special and Super 301, were deployed by the US against Japan in the 1980s. Walking in the footsteps of Nixon, another Republican President Ronald Reagan weaponised trade policy to force Japan to reduce its export surplus vis-à-vis the US. Providing intellectual justification for Reagan's actions, Harvard historian and the author of the theory of 'Clash of Civilisations', Samuel Huntington wrote an essay on *Why International Primacy Matters*, and focused on the US' 'Economic Primacy'.[3] To quote:

> "In the coming years, the principal conflict of interests involving the US and the major powers are likely to be over economic issues. The US' economic primacy is now being challenged by Japan and is likely to be challenged in the future by Europe. Economists are blind to the fact that economic activity is a source of power, as well as well-being. It is, indeed, probably the most important source of power and in a world in which military conflict between major states is unlikely economic power will be increasingly important in determining the primacy or subordination of states".

In the realm of military competition, the instruments of power are missiles, planes, warships, bombs, tanks, and divisions. In the realm of economic competition, the instruments of power are productive efficiency, market control, trade surplus, strong currency, foreign exchange reserves, ownership of foreign companies, factories, and technology.

President Donald trump has walked in the footsteps of former Presidents Nixon and Reagan. To understand the logic of Trump policies, it is useful to revisit the thinking of American strategists on the importance of geoeconomic dominance and on addressing economic challenges posed by other countries. As early as in 1971, Abraham Ribicoff observed in his report to the Congress:

> "Today, the traditional methods and old slogans of international trade and investment are simply not relevant when dealing with the increased power of the European Economic Committee and Japan. The pre-eminent trading position of the US in the world has faded, and we have run into difficult economic times,... The issue

in 1971 for the US is no longer trade expansion through free trade, but through fair trade".[4]

If it was European Union (EU) and Japan, then today, it is EU, Japan, China, India, and the rest of the world. The central strategic challenge for the US economic policy today is for it to recover and secure its geoeconomic dominance in the global system. After vanquishing the Soviet Union, the US had emerged as the dominant global political and military power. The competition with the Soviets was, albeit, in ideological and geopolitical terms. The Soviet Union imploded due to its economic weaknesses. What is evident today is that, while the US remains the primary global military power, its economic and technological status is being challenged by China. Beijing does not yet pose a geopolitical or military challenge to the US, but it certainly has begun to challenge the economic and technological dominance of the US.

In an important book published in 2012, in the aftermath of the trans-Atlantic financial crisis and the subsequent acceleration in the rise of China, Edward Luttwak (*The Rise of China vs the Logic of Strategy*), advocated the 'Geoeconomic Containment' of China aimed at preserving 'The world's equilibrium without worse forms of conflict'.[5] In Luttwak's view, "The only remaining means of resistance (to China) would then be 'Geoeconomic', to apply the logic of strategy in the grammar of commerce". He suggested that the US restrict trade with China; deny China access to key raw materials; and stop technology transfers that China would still need. All this aimed at 'Impeding China's growth'.[6]

From Decoupling to De-Risking

Advocating a focus on geoeconomics in shaping the US statecraft and foreign policy, Robert Blackwill, former US Ambassador to India from 2001 to 2003 and Jennifer Harris, scholar and former government official specialising in the US foreign policy and economics, advised US policymakers to ask three questions with respect to the country's relations with other countries: How does it affect America's economic position in the world? How can India use geoeconomic tools to advance its strategic interests? How can India shape emerging economic trends to produce geopolitical results beneficial to the US, to its allies and friends, and to a rules-based global order?[7]

It may be recalled that during his first term, Trump followed up on such advice with policy action on trade, raising tariffs of several products. Beijing retaliated, targeting USD 100.0 bn worth of mainly agricultural goods from the US.[8] Former President Joe Biden retained the Trump tariffs and by the middle of his tenure used industrial policy to target China. Biden's Creating Helpful Incentives to Produce Semiconductors for America Act imposed export controls and offered subsidies aimed at benefitting American companies and curbing high tech exports to China. The act specifically sought to support domestic production of semiconductors and limit China's capacity in this area. China called it technology blockade and said it was aimed at controlling their rise. Indeed, technology has become the new battlefront with the US determined to end China's access to western technologies and ensure the continued global domination of the US technology firms in fields ranging from metals to artificial intelligence.

President Trump and President Biden have tried to walk the talk, but it has not been easy. Trump's talk of 'Decoupling' was replaced by Biden team shifting focus to 'De-risking'. For example, while declaring that the US would act when its vital interests are at stake, Janet Yellen, Secretary of Treasury, cautiously added, "But we do not seek to decouple our economy from China's. A full separation of our economies would be disastrous for both countries. It would be destabilising for the rest of the world".[9]

Speaking soon, thereafter, at the Brookings Institution, US National Security Advisor (NSA) Jake Sullivan outlined the US economic strategy aimed at reviving and revitalising the country's economy with a view to re-asserting the US global economic leadership. He ended his talk with the caveat, "We are for de-risking and diversifying, not decoupling" from China.[10]

The US has taken measures to reduce its economic dependence on China. It has also taken measures to restrict China from drawing on the US' technology. More such action can, of course, be expected from President Trump; however, there are limits to what the US can do, imposed by existing dependencies.

While India may face collateral damage because of the actions aimed at China, Trump has repeatedly named India as a target for tariff hikes. What can and will be done and what is done must, of course, be carefully evaluated against what is threatened. The point to note is that the US may regard India as a geopolitical partner in dealing with China's rise and spreading global influence, but it is beginning to view India as a potential target for the US action with respect to trade and investment.

Navigating the Trump Challenge

The geopolitical reassertion of American interests has worked well for India in dealing with a rising China and instability in West Asia. The US-India strategic partnership has worked well and has broad political support in both countries. Successive governments in both countries have carefully nurtured this relationship. However, on the other hand, President Trump's focus on the bilateral trade imbalance, on Indian emigration, and the larger geopolitical and geoeconomic game of asserting 'America First' is potentially problematic for India.

First, the US has emerged as India's biggest trade partner. In 2024, the total trade in goods and services was estimated to be USD 120 bn. President Trump has targeted the gap between Indian exports to the US and imports from the US, and has said that he expects India to reduce tariffs and further open-up the Indian market to the US exports. What action he would take remains to be seen.

Second, it may be suggested that India has managed to keep its overall trade deficit in check by balancing the high and rising trade deficit with China against a high and rising trade surplus with the US. President Trump could well suggest that India is managing its problem with China by creating a problem for the US.

Over the past quarter century, there have been two different perspectives within the policymaking community in the US on the economic relationship with India. One view has been essentially transactional. What will India do in exchange for what the US does. A second view has been that any US action that benefits India is in itself in the US' interest since India's rise would balance China's growing influence within Asia. If Trump's geoeconomic statecraft places greater emphasis on what the US would get in return for support to India, then more would be expected from India. India would then have to assess what aligns with its own national interests as opposed to what serves the interests of improved US-India relations.

What does this mean for India? To begin with, New Delhi must seek to insulate itself from the collateral damage it may face because of the US' actions against China, even as it aims to benefit from US-China competition. India must take full advantage of emerging opportunities but should also be prepared for actions that could harm its economic interests in the realms of trade, technology, and immigration. Initiatives for technology transfer, begun during the Biden presidency, that have not yet seen much light of day, may get derailed as questions of intellectual property rights and the US strategic interests come to the fore. It remains to be seen how many of the initiatives recently announced during the visit of the US NSA Jake Sullivan to India will fructify and how soon.[11]

At any rate, the US approach will remain increasingly transactional, and it will have to be seen what the quid-pro-quos would be. The US would have interest in increasing its share of Indian defence spending. Washington would also offer opportunities for co-production and technology cooperation where India would also have something to offer in exchange. It should be recognised that US dependence on Indian science, technology, engineering, and mathematics talent as well as on skills offered to the US corporations through Global Capability Centres based in India has increased. Hence, this is already a two-way street to an extent. What must be noted is that Indian talent is voluntarily participating in Make America Great Again (MAGA), while India must seek and negotiate access to the US high-tech.

Beyond managing the 'Trump Challenge', Indian policy must explore other options with respect to foreign trade. India already has several free trade agreements and the free trade agreement with the United Arab Emirates has proved to be of great value. Seeking free trade agreements with the US, the EU and the United Kingdom is one option. India may be well advised to re-examine its options in Asia, looking at membership of Regional Comprehensive Economic Partnership and Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

India's capacity to take advantage of the strategic partnership would depend largely on its own investment in domestic capabilities and capacities. By ensuring *Atmanirbharata* (Self-reliance) in the nuclear and space programmes, despite the US sanctions, India has enhanced its capacity to strike deals with the US in these fields. Similarly, in the defence and technology fields too, domestic investments will determine the efficacy of external cooperation.

Economic Power as Strategic Foundation

This brings the author to the nub of what constitutes Indian geoeconomic statecraft. The task for India remains what has always been its primary policy goal, namely, to strengthen the economic, financial, scientific, industrial, and technological foundation. Much is written these days about India's 'Grand Strategy'. India's grand strategy has always been about reversing the course of history, recovering the lost space in the global economy, sustaining economic development aimed at improving the lives and well-being of every citizen, and re-engaging with the world economy and global polity on equitable and respectable terms. This brings the discussion to the core of what constitutes Indian geoeconomic statecraft. The task for India remains what has long been its primary policy goal: To strengthen its economic, financial, scientific, industrial, and technological foundation.

The NSA Board (NSAB) stated in its Strategic Defence Review of 2000:

> "Economic power is the cornerstone of a nation's power in the contemporary world. The economic size of a nation matters and is an important element of national security. Low economic growth, low productivity of capital and labour, inadequate investment in human capital and human capability, and a reduced share of world trade have contributed to the marginalisation of the Indian economy in the world economy."

The NSAB then went on to state, "The economic security challenge for India is to pursue above average national income growth at the annual rate of 7.0 to 8.0 per cent so that India's share of world income is commensurate with her population size and a larger economic base can more truly reflect India's status in the global arena".

The Arithmetic of Rising India

The required economic agenda emphasised improved human development indicators, increased public investment in education and public health, an improvement in the fiscal indicators and capacities of the governments of the union and the states, an increase in the share of manufacturing in national income, an investment to Gross Domestic Product (GDP) rate of above 30 per cent, improved competitiveness of domestic enterprise and, as a consequence, an increase in India's share of world trade and investment flows. All these remain goals even today, despite an improvement in the record over the past quarter century.

It is useful to remember that the 'Rising India' story was built on three simple numbers. From 1950 to 1980, the Indian economy grew at an annual average rate of growth of 3.5 per cent. This was only marginally lower than between 1980 and 2000, when India grew at an annual average rate of 5.5 per cent, while China's growth accelerated to double digits, averaging close to 10 per cent. This was a significant improvement from China's earlier growth, which had been closer to 4.0 per cent. In the period 2003 to 2011, the Indian economy grew at around an average rate of 8.5 per cent. Thus, while India lagged behind China, it too demonstrated the capacity to grow at higher rates. India's rapid rise in the period 1995-2010 altered the geopolitical discourse around India.[12] The three numbers—3.5, 5.5, and 8.5—defined a certain narrative about Rising India.

The recent deceleration in India's economic growth to an average annual rate of 6.5 per cent has, therefore, to be reversed. Even the anticipated annual average rate of growth over the next five years remains pegged at 6.5 per cent. India would still be among the world's faster growing economies, but this is not adequate to catch up with East Asia, especially China (as shown in Table 1).

1950-1980	3.50
1980-2000	5.50
2003-2011	8.50
2011-2020	6.40
2020-22	Covid Years
2023-24	8.20
2006-2024	6.33
2024-2030	6.50 (forecast)

Table 1: India: Real Gross Domestic Product Growth Rates (Factor Cost)

Source: *Compiled by the author*

India must set its sights higher, aiming to achieve growth rates upwards of 7.5 per cent—not only to generate more employment and industrial capability but also to mobilise the fiscal resources required for human development, social and physical infrastructure, and defence capability.

Manufacturing as Strategic Backbone

It has become fashionable among some economists to claim that, since India has performed well in the services sector, the country can continue to focus on services and need not be overly concerned about its inadequate manufacturing capacity and capability. This is a spurious argument. Manufacturing must be viewed both from the viewpoint of its ability to generate low and semi-skilled, non-farm employment as well as from a purely national security perspective. A robust and globally competitive manufacturing sector is the foundation of national defence capability. *Atmanirbharat*a in defence cannot be attained as a stand-alone goal. It can only be attained on the foundation of a robust domestic manufacturing base.

It is not a coincidence that economies with a large industrial base like Britain, France, Germany, Japan, the US, and China also host many arms manufacturing firms. Of the world's top 100 companies in arms manufacture and military services, 40 are listed as the US firms, eight as Chinese, seven are British, and five each are based in France and Germany. India has only three defence-related firms, all public sector companies, in the top 100. At least one objective of Trump's 'America First' and MAGA strategy is to in fact improve the global competitiveness of the US manufacturing, including arms manufacturing.

India remains import-dependent in arms and the on-going global battle for market shares in defence sales has been between various suppliers to India—Russian, American, and European. Since 2005, when India signed the defence cooperation agreement with the US, Russia's share in India's defence imports has declined and the US share has increased. These are well-known facts. The so-called 'Strategic Partnerships' between India and western powers have largely been about securing access to the Indian arms market. During the recent visit of Prime Minister (PM) Modi to the US, President Trump has pushed for increased defence sales to India. To view defence purchases from the US, a means of bridging the trade deficit, would be misplaced and wrong.

Strategic Autonomy Needs Industrial Strength

Defence equipment imports create strategic dependencies and so must be viewed as part of a wider strategic partnership rather than merely as import of goods. It is not in India's interests to continue to be import-dependent in defence and much less to be dependent on a single major source. Reducing India's dependence on Russia and widening its options is a well-advised move. This process should not end up in some other country replacing Russia as the dominant source of defence equipment. For India to become self-reliant in defence capability, it is imperative that the domestic manufacturing base widens and grows. Industrialisation and technological development at home provide the foundation of defence capability.

The United Service Institution has hosted an important initiative on '*Atmanirbharata* In Defence Capability'. Recently, the Chief of the Air Staff cautioned that *atmanirbharata* in defence cannot be at the expense of national security.[13] There is a view that since public sector enterprises have not delivered adequately in this field, government policy must encourage private enterprise and foreign investment. The bottom line, however, is that self-reliance in defence capability cannot be pursued as a standalone strategy. It must be an integral part of a larger strategy of industrial development that has several components. Be it public sector or private sector, what is needed is technological capability and investment in Research and Development (R&D).

The modernisation and technological development of the defence and strategic sectors cannot be pursued independently of the overall development of industry and of R&D capacity and capability. The example of the Soviet Union testifies to this. The Soviets had out-performed the West in nuclear and space technologies and developed advanced capabilities in defence manufacturing. Yet, the Soviet Union could not catch up, leave alone compete, with the West in a wide range of manufacturing and services sectors. It is the East Asian economies that developed faster investing in industrial and technological capabilities.

To begin with, enhanced investment in education, technical skills, and R&D is required to make Indian firms globally competitive. Industrial production must be to-scale in a globally competitive and integrated world. Securing economies of scale will require manufacturing not only for the home market but also for the global market. It is this understanding that would have encouraged the PM to modify his initial Make in India policy as 'Make-in-India, Make for the World'. India has been seeking to increase its share of the global arms market. In doing so, India may have opportunities to collaborate with certain countries, as it has in exporting BrahMos missiles to Vietnam and the Philippines, or arms to Egypt and the Gulf. However, this will also run the risk of coming up against competition with existing partners. Careful calibration of the manufacturing and exporting strategy with diplomacy will be required. After all, today's partners may become tomorrow's competitors, if not challengers.

Conclusion

As global economic power shifts and great power competition intensifies, India's challenge is two-fold—managing external pressures, particularly from the US, while fortifying its domestic economic and industrial base. The foundation of India's geopolitical and defence capabilities lies not merely in partnerships but in sustained investments in innovation, manufacturing, education, and global competitiveness. The narrative of Rising India must now be redefined not just by high GDP growth, but by strategic self-reliance, robust industrialisation, and effective geoeconomic statecraft. This is the essence of India's grand strategy: Reclaiming its rightful place in the global order through enduring internal strength.

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