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US report says India part of network helping China evade tariffs: What it means for trade ties

India has been named in a US 'shadow transhipment network'. The Trump administration alleges that Chinese goods are being routed through third countries to evade tariffs.

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Prime Minister Narendra Modi of India meets with President Donald Trump at the G7 Summit in Evian-les-Bains, France, on Wednesday, June 17, 2026. (Photo by Haiyun Jiang/The New York Times)

After significantly reducing its direct dependency on Chinese products, the Trump administration, in a report titled 'The Great Transhipment Scam: Global Evasion and Economic Costs' on Friday, said that more than 40 countries, including India, are part of a 'shadow transhipment network' designed to hide the true economic origin of goods produced in China.

The White House report categorised the 'shadow network' into three tiers, with countries such as India, Mexico, Canada, and the European Union forming tier 1, where illegal transhipment risk is "embedded" within massive legitimate trade flows. While "closely integrated" countries with China such as Vietnam, Malaysia, and Thailand were categorised as tier 2, smaller economies such as Cambodia, Panama, and the UAE, with "weak customs enforcement" were classified as tier 3.

"On that strict standard, the Department of Commerce's Office of Trade and Economic Analysis (OTEA) estimates that approximately $67 billion in U.S.-bound goods were transhipped from China through the top hubs—Mexico, India, and Vietnam—in 2025, producing an estimated $28 billion in lost tariff revenue," the White House report said.

The report claimed that tariff revenue is the most obvious loss from illegal transhipment and that when China-linked goods enter the US through third countries, they widen the effective trade deficit, displace domestic production, reduce GDP growth, and lower associated federal tax receipts.

Calling for stronger curbs and Congressional action, the report said that current standards for determining country of origin are complex and cumbersome, and that the rules apply to goods made using components manufactured in multiple countries.

"While imports may conform to these standards and meet the legal letter of the law, they fail to meet the spirit of the law. Congressional action to amend and codify these standards, along with the Detective Border, will combat illegal transhipment and strengthen the President's trade fairness agenda, supporting reciprocal treatments and protecting US jobs and industries from unfair competition," the report said.

Groundwork for new curbs

International trade experts said that the Trump administration could be laying the groundwork for another set of curbs through the Congressional route after reciprocal tariffs were deemed illegal by the US Supreme Court in February last year. Trade lawyers also said that India being categorised in the first tier could indicate that the US would push India to shift away from Chinese dependency under the trade agreement being negotiated.

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"India's categorisation in 'tier-1' transhipment network country is notable and indicative of two things at least. First, it cements the idea that the US will seek a clause in the upcoming trade deal that commits India to take action on transhipment and other practices that help exporters evade US tariffs. Second, it suggests that imports of certain transhipment-prone goods from India may already be facing greater scrutiny," Shantanu Singh and Vikram Naik, international trade lawyers at Khaitan & Co, said.

"Though the Office of Trade and Manufacturing Policy (OTMP) is not established through a statute or statutorily required to present actionable reports, its advisory role within the White House suggests that continued surveillance of transhipment may just be a prelude to the USTR imposing in the future new Section 301 tariffs upon an investigation into the transhipment-tackling policies of other countries," Singh and Naik said.

International trade expert and former trade negotiator Abhijit Das said that the OTMP's report is yet another attempt by the Trump administration to put its trading partners under pressure and create leverage. "The report fails to make a distinction between trans-shipment as normally understood in international trade and exports based on genuine domestic value addition to imported inputs. India must question the basis and conclusions of the report," Das said.

"When the reciprocal tariffs under the International Emergency Economic Powers Act (IEEPA) were struck down by the US Supreme Court, reasoning that the President did not have the authority to impose those, Trump called it a disgrace and embarrassment. The recent law passed by the US Senate allowing up to 100% tariffs on major buyers of Russian oil, and the OTMP report, appear to lay the groundwork for fresh action by the US President," Anuradha RV, Partner, Clarus Law Associates said.

"The OTMP report shifts the focus from China-related tariffs to countries like India through which Chinese exporters are allegedly routing goods. The whole thesis is that it's not just China scamming the US but others too. Classifying countries based on risk categories (India in the highest risk category) could be the precursor for more insidious tariff moves," Anuradha said.

'Pune–Gujarat–Chennai – Dirty sisters'

Calling several global manufacturing cities "ugly sister" cities, including the Pune–Gujarat–Chennai industrial corridor, the US report says America loses when these hubs win. "And the longer the system operates unchecked, the harder it becomes to restore lost industrial capacity. Unless addressed with meaningful enforcement, the world's illegal transhipment hubs will continue to siphon off American manufacturing one product line at a time," the US report said.

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The report said that these are not sister cities in the cultural sense but are the "ugly sisters" of modern zero-sum global trade. They cover only a small sample of the countries, product lines, and American industrial corridors affected by the Great Transhipment Scam.

New Delhi-based think tank, Global Trade Research Initiative (GTRI), said that the US transhipment report specifically targets India's Pune–Gujarat–Chennai corridor for pumps and compressors under HS 8413–8414. However, data shows substantial Indian manufacturing capacity in these product groups.

"In FY2026, India exported liquid pumps worth $1.61 billion globally, including $414.5 million to the US, while importing $326.4 million from China. India also exported air pumps and gas compressors worth $1.48 billion globally, including $335.4 million to the US, while importing $1.63 billion from China. India's large global exports weaken any presumption that its US shipments are simply Chinese goods being rerouted," GTRI said.

The US report also said that in Southeast and South Asia, Vietnam's Ho Chi Minh City corridor handles electrical switching and circuit-protection apparatus, putting electrical-equipment work in Chicago, Milwaukee, and Rockford under pressure. India's Pune–Gujarat–Chennai production belt absorbs pumps and compressors, affecting industrial supply chains in Cincinnati, Dayton, and Columbus and Malaysia's Penang–Kulim cluster moves plastic articles, exposing plastics production in Akron, Canton, and Upstate South Carolina.

"Indonesia and Thailand illustrate the same pattern in specialised components. Indonesia's Bekasi– Batam corridor moves plastic boxes, cases, crates, and packing articles, pressuring plastics and packaging suppliers in Houston, Lake Charles, Beaumont, and Tulsa. Thailand's Ayutthaya–Samut Prakan corridor handles thermostats, putting pressure on work tied to Minneapolis–St. Paul controls an instrument base," the report said.

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