US-CHINA TRADE WAR – IMPLICATIONS AND OPPORTUNITIES FOR INDIA

Issue

Recently a study by the UN trade and investment body has said that India has emerged as a winner amidst the US-China trade war.

Background

- According to the World Bank's Global Economic Prospect, the global economy has slowed to its lowest pace in three years because international trade and investment have been weaker than expected. International trade has been severely affected by the trade war between the US and China.
- Over the course of 2018, the US administration started implementing a series of trade measures to curtail imports, first targeting specific products (steel, aluminium, solar panels and washing machines) and then specifically targeting imports from China.
- In the early summer 2018, US and China raised tariffs on about 50billionworthofeachother′sgoods.ThisescalatedfurtherinSeptember2018whentheUSintroducedanadditional1050billionworthofeachother′sgoods.ThisescalatedfurtherinSeptember2018whentheUSintroducedanadditional10200 billion worth of Chinese imports, to which China retaliated by imposing tariffs on imports from the US worth an additional $60 billion.
- In June 2019, the US increased the tariffs further, to 25%. China responded by raising the tariffs on a subset of products that were already subject to tariffs. In September 2019, the US imposed 15% tariffs on a large subset of the remaining $300 billion worth of imports from China not yet subject to tariffs.
- India gained about $755 million in additional exports, mainly of chemicals, metals and ore, to the US in the first half of 2019 due to the trade diversion effects of Washington's tariff war with China, according to a study by the UN trade and investment body.

Analysis

- Trade war is a subset of Trade Protectionism.
- It is a conflict between two or more nations regarding trade tariff imposition on each other’s goods.
- A trade war is usually initiated when a nation imposes tariffs or quotas on imports and foreign countries retaliate with similar forms of trade protectionism. As it escalates, a trade war reduces international trade.
- A trade war starts when a nation attempts to protect a domestic industry and create jobs. In the short run, it may work. But in the long run, a trade war costs jobs and depresses economic growth (by suppressing demand for goods as they become expensive) for all countries involved.
- It also triggers inflation when tariffs increase the prices of imports.

Advantages

Four Methods of Trade Protectionism

1. One way is to enact tariffs that tax imports. That immediately raises the price of the imported goods. They become less competitive when compared to local goods. This method works best for countries with a lot of imports, such as the United States.
2. A second way of protecting trade is when the government subsidizes local industries. This makes the products cheaper even when shipped overseas. Subsidies work even better than tariffs. This method works best for countries that rely mainly on exports.

3. A third method is to impose quotas on imported goods. This method is more effective than the first two. No matter how low a foreign country sets the price through subsidies, it cannot ship more goods.
4. Fourth type of trade protectionism is subtle. It is a deliberate attempt by a country to lower its currency value. This would make its exports cheaper and more competitive. This method can result in retaliation and start a currency war.

Criticism of US Action

- On January 22, 2018, US imposed tariffs and quotas on imported Chinese solar panels and washing machines. China is a world leader in solar equipment manufacturing. The World Trade Organization ruled that the United States acted unfairly in levying the tariff.
- The head of the U.S. Chamber of Commerce said Trump's trade war could cost 2.6 million U.S. jobs.
- Eight countries have filed formal complaints with the World Trade Organization. Many of these countries, like Canada, India, and the European Union, are allies. The countries have argued that the US cannot justify the tariffs on the basis of national security.

- Imposing tariffs protects the economy from foreign competitors. This provides the new companies time to develop their own competitive advantages.
- Protectionism also temporarily creates jobs for domestic workers.
- The protection of tariffs, quotas, or subsidies allows domestic companies to hire locally.
- However, these benefits end once other countries retaliate by erecting their own protectionist measures.

Disadvantages

- In the long term, trade protectionism weakens the industry. Without competition, companies within the industry have no need to innovate.
- Eventually, the domestic product declines in quality and becomes more expensive than what foreign competitors produce.
- Increasing protectionism can further slow down economic growth (weak consumer demand owing to inflation). It would cause more layoffs, not fewer.
- If the country closes its borders, other countries will do the same. This could cause layoffs among the workers who owe their jobs to exports.
- Trade war in the long term would hamper global economy due to reduced trade volumes among nations. The IMF noted that the US-China trade tension was one factor that contributed to a “significantly weakened global expansion” in 2018, as it cut its global growth forecast for 2019.
- The trade tensions could result in an increasingly fragmented global trading framework, weakening the rules-based system that has underpinned global growth, particularly in Asia, over the past several decades.

Implications

- **Sharp decline in bilateral trade:**
  - Higher prices for Chinese consumers, losses for US exporters and trade gains for other countries. Of the 35billionChineseexportlossesintheUSmarket, about35billionChineseexportlossesintheUSmarket, about 21 billion (or 62%) was diverted to other countries, while the remainder of $14 billion was either lost or captured by the US producers.
- **Higher prices for consumers:**
  - Tariffs imposed by the United States on China are economically hurting both countries and consumers in the US and China. The analysis shows that US tariffs caused a 25% export loss,

inflicting a $35 billion blow to Chinese exports in the US market for tariffed goods in the first half of 2019

- **Trade diversion effects:**
  - Increased imports from countries not directly involved in the trade war.
  - The trade diversion effects of the US-China tariff war for the first half of 2019 at about 21billion,implyingthattheamountofnettradelossescorrespondstoabout21billion,implyingthattheamountofnettradelossescorrespondstoabout14 billion.
  - These trade diversion effects have brought substantial benefits for Taiwan (province of China), Mexico, and the European Union.
  - Trade diversion benefits to Korea, Canada and India were smaller but still substantial, ranging from 0.9billionto0.9billionto1.5 billion
  - The US tariffs on China resulted in India gaining 755millioninadditionalexportstotheUSinthefirsthalfof2019bysellingmorechemicals(755millioninadditionalexportstotheUSinthefirsthalfof2019bysellingmorechemicals(243 million), metals and ore (181million),electricalmachinery(181million),electricalmachinery(83 million) and various machinery ($68 million) as well as increased exports in areas such as agri-food, furniture, office machinery, precision instruments, textiles and apparel and transport equipment

Opportunities

- India has an increasingly widening trade gap with China. Ongoing trade war may be an opportunity for India to reduce it significantly.
  - India can export the surplus agricultural products such as soybean to China after decrease in the export from USA.
- India can become China's software industry partner, as it looks to replace the US hegemony of technology companies. India needs some strong pegs to pitch to China, and India's software industry is capable of graduating to a higher level.
- Growing trade tensions between China and the US could enhance the flow of Chinese investment towards India.
- India can explore opportunities to export the demands of goods by the US after restricted entry of Chinese goods in the US economy. Of the $300 billion in Chinese exports that are subject to US tariffs, only about 6% will be picked up by firms in the US, according to a report released by the UN Conference on Trade and Development (UNCTAD). Here, India can be benefited along with other nations.
- India may be able to increase its exports in textile, garments and gems and jewellery to US if Chinese exports to the US slow down.

Concerns

- America has a trade deficit with every nation of the G7 grouping and that deficit has been increasing each year. With India, the US has a trade deficit of $21.3 billion, which on the contrary is a trade surplus (FOREX earning) for India, which is at risk due to the ongoing trade war.
- US wants duty reduction from India in Harley Davidson bikes, stents, knee implants and medical devices and dairy and poultry products among others. India has already reduced duty on high powered bikes to 50% from 75%. However, further pressure for duty reduction can affect the domestic production.
- India should remain cautious of China's intention of dumping its overproduction of steel and aluminium due to restrictions imposed by the US.

US-China Trade War – Implications and Opportunities for India

SVADYAY FOR UPSC- SHANKAR SIR

Context

Recently a study by the UN trade and investment body has said that India has emerged as a winner amidst the US-China trade war

International trade has been severely affected by the trade war between the US and China

According to the World Bank's Global Economic Prospect

The global economy has slowed to its lowest pace in 3 years because international trade and investment have been weaker than expected

Trade Diversion

Increased imports from countries not directly involved in the trade war

Of the $35 billion Chinese export losses in the US market, about $ 21 billion (or 62%) was diverted to other countries, while the remainder of $14 billion was either lost or captured by the US producers

India gained about $755 million in additional exports, mainly of chemicals, metals and ore, to the US in the first half of 2019 due to these trade diversion effects

Opportunities for India

vis-a-vis USA

According to UNCTAD, of the $300 billion in Chinese exports that are subject to US tariffs, only about 6% will be picked up by firms in the US

- India can explore opportunities to export the demands of goods by the US after restricted entry of Chinese goods in the US economy
- India may be able to increase its exports in textile, garments and gems and jewellery to US if Chinese exports to the US slow down

vis-a-vis China

India has an increasingly widening trade gap with China
⇩
Ongoing trade war may be an opportunity for India to reduce it significantly

- India can export the surplus agricultural products such as soybean to China after decrease in the export from USA
- India can become China's software industry partner, as it looks to replace the US hegemony of technology companies

Growing trade tensions between China and the US could enhance the flow of Chinese investment towards India

What India should watch out for ?

- With India, the US has a trade deficit of $21.3 billion, which on the contrary is a trade surplus (FOREX earning) for India, which is at risk due to the ongoing trade war
- US wants duty reduction from India on various goods
  ⇩
  India has already reduced duty on high powered bikes to 50% from 75%. However, further pressure for duty reduction can affect the domestic production
- India should remain cautious of China's intention of dumping its overproduction of steel and aluminium due to restrictions imposed by the US

Even though it is a lengthy and time consuming process, the settlement of disputes through international conventions and rules is the need of the hour

- WTO dispute settlement resolution mechanism should be approached instead of unilateral decisions
- The benefit of the WTO process is that it prevents the damaging consequences of trade protectionism
- Nations can resolve their disputes through WTO instead of raising tariffs

SVADYAYA FOR UPSC SHANKAR Sir 8500968010