

America's Shifting Trade War: Implications for India and the Global Economy

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- What is a Trade War?
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Why in News?

China's rapid economic rise as a major exporter has led to trade tensions, with the US launching tariff measures during Donald Trump's presidency. As China's trade surplus nears \$1 trillion, Trump's potential second term might witness more intense trade war.

Trump's approach resembles past US actions against Japan in the 1970s, targeting similar issues like "state support" and "intellectual property theft."

While Trump's focus on China might indirectly benefit India due to its regional position, experts suggest India should support World Trade Organization (WTO) reforms and a rules-based trade order to ensure sustainable growth. Yet,

India faces immediate competitive challenges from the US, especially in the pharmaceutical and services sectors.

What is a Trade War?

- **About**

- A trade war occurs when countries impose tariffs or other trade barriers on each other to protect domestic industries or retaliate against trade practices perceived as unfair.
- These actions often lead to increased costs for consumers and disrupt global supply chains.
- Recent notable examples include the US-China trade war, where the US imposed tariffs on Chinese goods to address trade imbalances and allegations of intellectual property theft, prompting retaliatory tariffs from China.

- **Implications**

- **Boost to Domestic Industries**
 - Tariffs on foreign goods can protect domestic industries from international competition.
 - E.g., the US steel industry saw temporary benefits from tariffs on imported steel, as domestic producers faced less competition.
- **Encourages Local Investment**
 - Trade barriers can incentivize countries to invest in domestic production.
 - For example, China has accelerated its focus on technological self-reliance to reduce dependency on US technology amid trade tensions.
- **Higher Consumer Prices**
 - Tariffs increase the cost of imported goods, which often gets passed on to consumers.
 - During the US-China trade war, American consumers faced higher prices on goods like electronics and household items.
- **Disruption of Global Supply Chains**
 - Trade wars can disrupt international production networks, leading to delays and inefficiencies.
 - The 2018 US-China trade war impacted global tech and automotive industries as critical components sourced from China faced tariffs, causing delays.
- **Economic Slowdown**
 - Prolonged trade conflicts can harm global economic growth.
 - For instance, the IMF revised global growth projections downward during the US-China trade tensions due to reduced investment and uncertainty.

America's shifting trade wars and India in the crosshairs

- **Background - Overview of US Trade War and Tariff Hikes**

- US President-elect Donald Trump is poised to escalate trade tensions by imposing significant tariff hikes, with proposals for a 10%-20% increase on all imports and a 60% hike on Chinese goods.
- While tariff hikes are not new, the scale of this move may have global consequences.
- The aim of these tariffs is to protect domestic industries and address trade imbalances, but they could lead to retaliatory tariffs and economic disruptions.

- Past tariffs have primarily targeted China, Mexico, Canada. However, experts believe India might become the next target.

- **Potential Impact on India**

- If Trump's administration intensifies trade friction, India may face negative consequences.
- US tariffs on sectors like pharmaceuticals, automobiles, textiles, steel, and aluminum could harm Indian exporters, especially in industries where India has a competitive advantage.
- India's trade surplus with the US (\$35.3 billion in FY24) could also be affected.
 - This surplus could attract attention from the US, particularly if it views the trade imbalance as detrimental to US industries.
 - Under Trump 2.0, India could face renewed pressure, especially in areas like intellectual property rights, labor standards, and digital trade policies.
- However, if Trump's push for decoupling from China succeeds, India may benefit by attracting foreign investment and becoming a more prominent player in supply chains, particularly in emerging technologies.
 - Indian exporters might be able to fill the gap left by Chinese goods in global markets, especially in sectors where India has a competitive advantage, such as textiles, pharmaceuticals, and IT services.

- **India's options**

- Experts have said that tariff retaliation might be India's only effective response to new US taxes.
 - This approach worked when India imposed tariffs on US agricultural products in retaliation for US steel and aluminum tariffs, resulting in a settlement under the Biden administration.
 - China has become India's largest trading partner, surpassing the US, and India's trade with Russia has increased significantly, with a goal of reaching \$100 billion by 2030.
 - These growing trade relationships provide India with opportunities for diversification and economic growth beyond its dealings with the US.
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Q.1. How does the US-China trade war affect global industries?

The US-China trade war disrupts global supply chains, raises consumer prices, and creates uncertainty, especially in industries like technology and automotive, leading to inefficiencies and economic slowdowns globally.

Q.2. What impact could Trump's trade policies have on India?

Trump's tariff hikes could hurt Indian exports in sectors like pharmaceuticals and textiles. However, India may benefit from shifting global supply chains if it capitalizes on opportunities left by China.

News: Will India be a winner or loser when Trump unleashes trade war? | [Indian Express](#)

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