General Studies-2; Topic: Effect of policies and politics of developed and developing countries on India’s interests

US-China Trade War

1) Introduction
   - Trade war is a situation where countries restrict each other’s trade by imposing tariff or quota on imports.
   - US has started imposing tariffs on as much as 25 percent on $34 billion in Chinese imports.
   - China responded with retaliatory tariffs of 25% on US goods worth an equivalent $34 billion, including soybean, automobiles, and marine products such as lobsters.
   - Donald Trump told that he may also consider imposing additional tariffs of $500 billion on Chinese goods.

2) Reasons
   - The imposition of tariffs by US is to punish Beijing for restricting US investment in China.
   - The US also accused China of stealing American intellectual property and Chinese firms imitating US technologies.
   - Trump believes that Beijing has exploited the WTO-enabled global trade framework to its advantage.
   - The U.S. trade deficit with China was $375 billion in 2017.
   - China has disrupted the international trading system through hidden subsidies, currency manipulation and, more recently, technology theft.
   - US aimed at protectionist measures by China, especially its “Made in China 2025” programme — an initiative to transform China into an advanced manufacturing powerhouse.
   - Trump has also accused China of subsidising steel exports in a practice termed dumping on the rest of the world, which has hit jobs in the US.

3) Implications
   - The tariff and other steps will damage the trade agreements under WTO.
   - US imposing tariffs on producer goods will inadvertently hurt Americans.
   - In the long term, a full-fledged trade war is bad and there could be major global repercussions.
   - The outcome is nearly impossible to control in an integrated global economy.
   - The fallout will also have a direct impact on Asian economies such as Taiwan, Malaysia, and South Korea.
   - A trade war could weaken investment, depress spending, unsettle financial markets and slow the global economy.
   - It could also result in other countries raising protectionist barriers.
   - Chinese tariffs will cut off American farmers from China, which buys about 60 percent of their soybean exports.
   - The Chinese could leverage an anti-American sentiment among consumers to boycott US goods.
   - In 2012, Chinese nationalists boycotted Japanese cars and stores because of a territorial dispute, badly denting sales of Japanese goods.
   - Increase in interest rates in the US has implications for emerging economies such as India, both for the equity and debt markets.
4) **Impact on India**
   - The trade war may impact Indian economy more adversely.
   - A trade war would slowdown global growth overall, worsening India’s already dismal export numbers.
   - The biggest impact could be on the rupee which is already battling historic lows against the US dollar.
   - The rising price of oil threatens to widen India's current account deficit, impacting India's macroeconomic stability.
   - Reducing investment flows into India.
   - However, India which runs a $51.08 billion trade deficit with China may stand to benefit.
   - China imports 100 million metric tons of soybean which serves as protein source and feeds its food processing industry, this presents a huge opportunity for India.
   - India may also seek the opportunity to reduce its own trade deficit against China.
   - India may be able to gain some traction in textile, garments and gems and jewellery if Chinese exports to the US slow down.

5) **Conclusion**
   - US and China need to negotiate the issue amicably and not put the free trade under threat.
   - India needs to be cautious. Its strategic relationship with both the countries needs to be nurtured.