Trade War: India, US and China

Background

- President Donald Trump came to power with the promise of putting 'America First'. He promised that he will create more jobs and that other countries will not benefit at the expense of the U.S.
- In his dealings with the rest of the world, he has made it amply clear that if the U.S. buys more from another country than what that country buys from the U.S., America loses; something he does not want. That spirit has spurred his move to impose higher duties on imports to spur local manufacture and increase jobs in the U.S.
- The same spirit is also behind the move to pressure India to import at least $10 billion a year more from the U.S. over the next three years.

India-US Trade Relations

- According to the U.S. Census Bureau, India imported around $25.7 billion from the U.S. in 2017 while it exported around $48.6 billion to the US.
- India's trade deficit with the U.S. has hovered over $23-24 billion annually.
- The U.S., during '2+2' dialog, wanted India to cut its trade deficit with the US through increased purchases of civilian aircraft and natural gas.

US-China trade

- China's trade deficit with the U.S. is $375.6 billion for 2017.
- Mr. Trump is targeting imports from China (which, in his opinion, are taking jobs away from Americans) and has imposed duties on $50 billion worth of Chinese exports to the U.S.
- China has reacted with similar duties on imports from the U.S. US is also planning to target $267 billion worth of Chinese imports into the U.S. in the third round of tariff imposition.

Is 'Trade-War' helping the U.S.?

- Till now, the trade war has impacted the US economy positively.
- The US GDP is growing at a 3%-plus rate.
- The unemployment rate is near a 50-year low. The stock market has jumped 27% amid a surge in corporate profits.
- But many experts argue that this is not sustainable and predict that the US could even see a recession in 2020.

Trade-war and India

- If the U.S. continued to grow, an increase in imports by India, merely to address the trade gap, would impact the exchange rate. The Indian government has estimated an extra $26 billion expenditure due to rising oil prices. Oil importers buy dollars to pay for their imports. That has contributed significantly to the falling rupee, which has lost as much as 12% this year, making it the worst performing currency in Asia. Spending an extra $10 billion a year on imports from the U.S. would mean further pressure on the rupee.
- A falling rupee makes life difficult for other Indian importers. This would have a domino effect on the rest of the economy. Rising prices could dampen consumer demand, resulting in poorer profit margins for the industry.