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Institute of South Asian Studies
National University of Singapore
29 Heng Mui Keng Terrace
#08-06 (Block B)
Singapore 119620
Tel: (65) 6516 4239 Fax: (65) 6776 7505
www.isas.nus.edu.sg
<http://southasiandiaspora.org>



India and the Global Trade War: Long-term Impact can be serious

India has entered the global trade war by joining countries retaliating against unilateral United States (US) tariff hikes. While the immediate impact of the friction is insignificant for India, it can be substantive if the US initiates specific trade actions. This possibility cannot be ruled out, given the acrimonious bilateral trade ties, the US tendency to act on trade on national security grounds and the inability of the World Trade Organization to prevent such actions. India's defensive outlook might also prevent it from capitalising on possible opportunities arising from a new trade order aiming to isolate a protectionist US.

Amitendu Palit¹

The trade war is now official, with the United States (US) and several other countries either imposing or increasing tariffs against each other's imports. The US tariff hikes on steel and aluminum imports have become effective, as have the first round of US tariffs on several imports from China. Retaliations have followed. More tariff actions and an intensification of the trade war is expected as the next set of US tariffs on more Chinese imports becomes effective. At the same time, ongoing US investigations to determine whether imported automobiles and parts should be subjected to higher tariffs, once concluded, might see more wide-ranging tariffs being imposed by the US, inviting reciprocal hikes from other countries.

¹ Dr Amitendu Palit is a Senior Research Fellow and Research Lead (Trade and Economic Policy) at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS). He can be contacted at isasap@nus.edu.sg. The author bears full responsibility for the facts cited and opinions expressed in this paper.

The prolongation of the trade war would have multiple impact. Apart from affecting the global economy and financial markets,² there would be long-term impact. This would include the reorganisation in global value chains and supply networks forced onto businesses by the rising tariffs. This is evident from US auto companies like Harley Davidson intending to relocate a part of its production outside the US to avoid European Union (EU) tariffs on automobiles imported from the US.³ Forced relocations would increase as more tariffs come up. These geographical reorganisations in production would be accompanied by serious challenges for the multilateral rules-based trade framework of the World Trade Organization (WTO). The US's defiance of the WTO in initiating unilateral trade actions, and its resultant impact, has created a situation where WTO's ability to run global trade in an orderly fashion is being severely tested.

India has also become a part of the trade war by moving against the US at the WTO and announcing retaliatory tariffs. While its economic prospects might not be immediately impacted, the longer term consequences might be more significant if its rocky trade relations with the US lead to specific trade actions by the US and counter responses by India.

Joining the War

China was the first country to proceed against the US at the WTO after duty hikes on steel and aluminum products. India followed China in raising a dispute against the US on the same issue and was, subsequently, joined by Russia, Thailand, European Union, Mexico, Canada and Norway.⁴ India has also notified the WTO about its intention to impose retaliatory tariffs on US imports worth US\$240 million (S\$325.3 million).⁵ By doing so, it joins the EU,

² 'Trade War will affect global economy significantly: Heng', *The Straits Times*, 9 July 2018. <https://www.straitstimes.com/singapore/trade-war-will-affect-global-economy-significantly-heng>. Accessed on 9 July 2018.

³ 'Harley Davidson to shift production overseas to offset EU tariffs', *The Wall Street Journal*, 10 July 2018. <https://www.wsj.com/articles/harley-davidson-to-shift-production-overseas-to-offset-eu-tariffs-1529927301>. Accessed on 10 July 2018.

⁴ Dispute Settlement: Disputes by Member, World Trade Organisation (WTO). https://www.wto.org/english/tratop_e/dispu_e/dispu_by_country_e.htm. Accessed on 9 July 2018.

⁵ 'India imposes retaliatory tariffs on US widening global trade war', *The Washington Post*, 21 June 2018. https://www.washingtonpost.com/world/india-imposes-retaliatory-tariffs-on-us-as-global-trade-war-widens/2018/06/21/7c3a016b-1de0-497a-9635-a522bc55810a_story.html?utm_term=.325cd678b56c. Accessed on 9 July 2018.

Canada, Russia and a host of other countries, which have already raised tariffs on US imports or are intending to do so.

The rationale behind India's retaliation is not entirely clear. It is not one of the topmost exporters of steel and aluminum to the US and, therefore, would not have been hit as hard by these tariffs as larger exporters like Brazil, Korea and Japan would have been. Incidentally, none of these countries have resorted to retaliatory tariffs. Whether the reaction was forced by the disappointment of the US turning down its request for exemption from steel and aluminum tariffs, or it was an 'opportunity' seized by the establishment to mobilise much-needed revenue through higher customs duties, by moving at the WTO and imposing retaliatory tariffs, India has joined the band of countries that have taken on the US in the first round of the trade war.

The US has defended higher tariffs on steel and aluminum on the grounds of 'national security interests' and has justified these interests as being compatible with the rules of the WTO.⁶ In the same context, it has argued that the EU and other countries, invoking retaliatory duties, have ignored the WTO's rules. While the WTO allows retaliatory action on unilateral trade actions described as 'safeguards', the current US actions, prompted by national security, the US Trade Representative, Robert Lighthizer, argues, are not safeguards and are, therefore, not subject to retaliatory duties.

While the issue would need to be sorted out at the WTO, it is evident that the US is not prepared to back down on its intention to defend trade actions on national security grounds. Such a view is likely to produce more trade actions. India, along with other countries, might have to brace for a long round of trade hostilities that would need to be tackled bilaterally, as well as multilaterally at the WTO.

⁶ 'Statement by Ambassador Robert E. Lighthizer on Retaliatory Duties', Office of the United States Trade Representation (USTR). <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/june/statement-ambassador-robert-e>. Accessed on 9 July 2018.

What lies ahead?

India's concerns with the trade war would be more over the ramifications of its deepening and widening. The US is India's second largest partner. India-US bilateral trade in goods was around US\$74.5 billion (S\$100.1 billion) in 2017-18, with India enjoying a trade surplus of US\$21.2 billion (S\$ 28.6 billion).⁷ The steel and aluminum tariffs are unlikely to create any major adverse impact on India's total exports of around US\$49 billion (S\$66.4 billion) to the US. However, the impact might be noticeable if future tariff hikes by the US target India's major exports to the country, such as diamonds, gold jewelry, silver jewelry, shrimps and prawns, medicine for retail sales, airplane parts, auto parts and accessories, kitchen and toilet linen and refined petroleum products.⁸ As mentioned earlier, automobiles and auto parts might be the next tariff targets of the Donald Trump Administration under Section 232 of the Trade Expansion Act of 1962 on national security grounds and would have implications for India.

Are there possibilities of Indian exports to the US being subjected to unilateral tariffs the way Chinese exports have been? Going by the size of the trade imbalance, it is unlikely. India's bilateral trade surplus with the US is much less compared with that of China and the EU, which account for 21 per cent and 19 per cent of US's total imports respectively. However, India's trade relations with the US have been anything but harmonious with the ties increasingly taking a turn for the worse.

India's move against the US at WTO on steel and aluminum tariffs was accompanied by the US challenge at the WTO on India's market price support for wheat and rice having exceeded the ceiling permissible under the WTO's Agreement on Agriculture. This latest round of hostilities follows earlier brushes at the WTO over the US cutting the quota for H1B visa applicants and India's preference for solar power developers using indigenous content in

⁷ 'Total Trade – Country-wise', Department of Commerce, Ministry of Commerce & Industry, Government of India. <http://commerce-app.gov.in/eidb/iecnttopn.asp>. Accessed on 9 July 2018.

⁸ Some of the key exports by tariff lines are HS71023190 (diamond (other than industrial diamond), cut or otherwise worked), HS03061790 (other shrimps and prawns), HS30049099 (other medicine put up for retail sale), HS71131930 (jewelry of gold set diamond), HS71131120 (silver jewelry set with gems), HS88033000 (other parts of airplanes/helicopters), HS87089900 (other parts and accessories of vehicles), HS63026090 (toilet linen and kitchen linen, of terry toweling or similar terry fabrics). Refined petroleum products include a wide range of items including distillates and residues, and also kerosene oil and Aviation Turbine Fuel (ATF). Export-Import Data Bank, Department of Commerce, Government of India. <http://commerce-app.gov.in/eidb/ecntcom.asp>. Accessed on 9 July 2018.

government procurement programmes. Trade remains a very wide chasm between the two countries unlikely to be bridged by any significant extent in near future. The rift and resultant hostilities do not entirely preclude the possibility of India not being at the receiving end of specific trade actions by the US. Indeed, the current environment demonstrates the US proclivity to initiate trade actions oblivious of the WTO by rationalising them on ‘national security interests’. With multilateral rules not being a hindrance to specific tariff actions, India, along with several other countries, would do well to stay prepared for more actions.

There is, of course, the possibility of the US finding itself isolated as the trade war prolongs. Major nations in global trade such as the EU, China and Japan are expected to increasingly consult and cooperate with one another to ensure global and national trade prospects stay as unharmed as possible. Emerging market economies with aggressive interests in the global trade would also begin coordinating with the former to preserve the momentum in the global trade. This might provide an opportunity to India to reassess its prospects in global trade and engage in meaningful multi-country trade consultations.

The changing global production landscape, conditioned by new tariffs, might bolster the opportunity. However, India’s innate resistance to lowering tariffs in many sectors might impair it in a scenario where members of the Organisation for Economic Co-operation and Development and emerging market economies envisage building economic blocs to thwart the trade war. That would mean another opportunity foregone for snatching larger shares in global markets!

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