America’s new Trade Policy agenda 2017

Why in news?

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America had released a new Trade Policy Agenda 2017, which sets to identify and crack down on such trade partners with whom the US runs a big trade deficit, and force them to shrink it.

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What is a trade deficit?

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- Trade deficit is the excess of a country’s import bill over its export receipts.
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- e.g The US trade deficit of $502 billion in 2016 means that the country spent $502 billion more on importing goods and services from other countries last year, than it earned by exporting.
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- US Trade Deficit with other countries
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1. China - $300 billion
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2. Germany - $68 billion
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3. Mexico - $62 billion.
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4. India - $30 billion.
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- The US is hoping that by imposing high import tariffs on trade partners who run a large deficit with it, it can force global manufacturing giants to relocate their factories back to its shores.
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- By putting pressures on countries such as China and India to dismantle their import barriers, it can also access new markets for American goods and services thereby reducing its trade deficit.
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What is the trade deficit for India?

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- India runs a trade deficit, with its import bill on crude oil, precious metals, electronic goods and other items, far exceeding its export earnings.
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- In April to December 2016, India's trade deficit was $76 billion.
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- Just like the US, India too is keen to shrink its trade deficit, especially the one with China.
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Why is trade deficit important?

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- Running a persistent trade deficit has following adverse effects on the economy.
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- The country's demand for dollars (foreign exchange) will be greater than the supply. This leads to steadily weakening home currency i.e depreciation.
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- It forces a country to constantly look to foreign investors to make up the gap between its export earnings and its import payouts.
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- It could be an indication that domestically produced goods are unable to compete against imports. If local factories shut down, that leads to job losses.
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What is the effect of US agenda on India?

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- US is one of the few countries with which India runs a trade surplus.
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- A reversal of this trade balance could trouble the exchange rate.
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- India's exporting and importing sectors will face new hurdles.
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- The Indian software professionals in US are already on the verge of getting expelled from US due to the recent H1B visa issue.
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- Exporters of agri-commodities, textiles and apparel are soon likely take a hit.
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- It is also not good for India's young population looking for jobs.
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Source: Business Line

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