Impact of US-China Trade War

Why in news?

The latest round of the tariff war between the US and its largest trade partner China, is set to present a significant opportunity for India.

What is the history of US-China trade war?

- **Trade deficit**- US's trade deficit with China and accusation of unfair subsidies have constrained the relationship leading to trade war
- **2018 trade war** - n 2018, US imposed a 25% tariff on Chinese imports of around 34 billion dollars and further tariffs in 2018 and 2019.
- US accused China for "unfair trade practices" and "technology theft".
- **Limitation on technology transfer**- The US has denied China both the knowledge and inputs for producing frontier goods and services as well as access to markets, affecting semiconductor production and 5G technology.
- **2023 trade war**- It encompasses 100% tariff on electric vehicles, a 50% tariff on semiconductors, and a 25% tariff on electric vehicle batteries imported from China.
- Increased tariff on medical gloves, syringes, needles, critical minerals, solar cells and aluminium.
- These measures aim to counteract China's perceived unfair trade practices and protect US industries from the influx of low-priced Chinese goods.

What will be the impact of US-China trade war on India?

Positive effects	Negative effects

• **Opportunities for exporters**- Indian exporters can capitalize on the void created by the US-China tariff conflict. • **Strong market**- India has a strong market presence in the US for products like face masks, syringes, medical gloves and natural graphite. • **Metals and minerals**- Higher tariffs on Chinese metals can benefit Indian exporters of these commodities, increasing their market share in the US. • **Increase competitiveness**- With the US imposing higher tariff on Chinese goods, Indian products in similar categories might become more competitive allowing Indian exporters to increase market share in the US. • **China's retaliation**-If China imposes retaliatory tariffs on US goods, Indian exporters could step in to supply products to both the US and Chinese markets.	• **Rise of dumping**- Chinese products that face higher tariffs in the US could flood the Indian market, harming local manufacturers. • **2018 tariff hike**- The tariff hikes in 2018 did not reduce China's exports as they merely shifted to other destinations or entered the US through third countries. • **Electric Vehicle sector**- The significant tariff hike on Chinese EVs, from 25% to 100% poses a risk as these vehicles might be redirected to other markets, including India which could disrupt the local market manufacturers. • **Semiconductors and Li-ion batteries**- essential components of various industries would potentially inundate Indian market with cheaper alternatives.

How India could potentially use this opportunity?

- **Anti-dumping measure**- India employs tools such as the Directorate General of Trade Remedies to impose anti-dumping duties on underpriced imports. However, the process can be slow due to delays in accessing and analysing trade data.
- **Enhanced monitoring**- To address these challenges more effectively, India could establish a dedicated department to monitor key import data daily. This would allow for quicker responses to potential dumping and unfair trade practices.
- **Review of EV policy**- Given the potential influx of cheap Chinese EVs, India might need to reassess its EV policies to protect domestic manufacturers and maintain a balanced market.
- **Strengthening trade policy**- India should develop a robust trade policy with China that supports its manufacturing sector and mitigates the adverse effects of the trade war.
- **China plus one strategy**- India should emphasize its potential as an attractive alternative manufacturing hub for companies looking to diversify away from China.

China plus one refers to a strategy in which companies avoid investing only in China and diversify their businesses to alternative destinations.

Reference

Business Line- US China trade war