# Implications of US-China trade war

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## What is the issue?

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India can possibly benefit from the production relocation possibilities as a result of the US-China tariffs and counter-tariffs war.

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## Who are likely to be the biggest beneficiaries?

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- One of the expected outcomes of the US-China tariffs and counter-tariffs is that both the countries would look to source imports from elsewhere.
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- This is inevitable as their respective imports become more expensive.
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- A study on the import-substitution impact of more than 7,000 trade items as a result of US-China trade-spat points to Malaysia, Japan and Pakistan as the likely largest beneficiaries of import-substitution.
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- This shows that prospects of greater sourcing from India are relatively less.
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- Several Southeast Asian countries such as Thailand, Philippines, Vietnam, Indonesia and Cambodia are also expected to benefit more than India.
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## What is the reason behind?

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- The lesser prospects for India is largely due to the nature of imports that have been subjected to tariffs by the US and China.

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- Food, beverages and vehicles to China have been the hardest hit with regards to exports from US.
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- On the other hand, Chinese exports of electrical equipment, appliances, components and machinery to the US have been affected.
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- Most of these items are manufactured products, which are largely assembled and rolled out from Southeast Asia, Japan and Taiwan.
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- It is hardly surprising therefore that import-substitution by large markets like the US and China would benefit these countries.
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## What are the short-term benefits for India?

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- In the short-term, import substitution efforts by both US and China would be on getting cheaper alternative imports, irrespective of locations.
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- India is likely to benefit from Chinese efforts to shift to alternative cheaper sources of agricultural imports.
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- India might emerge as a potential location for greater import of soybean by China, though the bulk of such 'new' imports might be sourced from Brazil and Argentina.
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- Hence for India, this could be an opportunity for negotiating with China for greater market access of some more of its agricultural exports.
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- China recently relaxed quality barriers for rice and fish oil exports from India.
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- This points to the increasing leverage it has obtained with China in agricultural exports, which can be capitalised further.
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## What would be the long-term implications?

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- India can be a bigger beneficiary of the US-China trade-spat in the long term, because both countries would gradually witness greater relocation of supply chains.
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- Businesses, seeking to avoid tariffs while exporting from China to the US, and vice-versa, would have incentives to export to these countries from other locations.
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- The production relocation possibilities point to greater benefits for India.
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- Greater relocation possibilities can be leveraged in case of Automobiles Industry.
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- For that, India has to keep tariffs low on vehicles it exports to the US, which can make it as a hub for export-oriented auto assembling.
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- Indeed, while Vietnam tops the list of Asian countries likely to benefit from long-tern relocation of final product assembling, India follows after Vietnam, Malaysia and Singapore.
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- It can similarly benefit as a centre for electrical and electronic equipment, once some of these are relocated from China.
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- However, Vietnam and Malaysia are clearly ahead of India in these sectors, because of their lower costs and better infrastructure.
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## What should be done?

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- US and China recently announced ceasefire on escalation of tariffs at the G20 Summit.
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- But it is not clear if they will withdraw the tariffs they have already raised.
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- The recent ease of doing business ranking shows that India fares better in the indicator of 'trading across borders' (80 for India, 100 for Vietnam).
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- Hence if this improvement is sustained, then India can effectively compete with Vietnam in emerging as an important relocation spot.
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- Thus, India's benefits from the trade war are in the longer term and it has to

prepare for the long haul.
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**Source: Financial Express**

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