

US China Trade War and its effects on the Indian Economy

HS 323 Term Paper Presentation

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What is a trade war?

- ❖ When countries go protectionist.
- ❖ Tariff / Barrier imposition

The US China Trade War

- ❖ USA - World's Largest Exporter
- ❖ China - World's Largest Importer
- ❖ Bilateral Trade : 3% of Global Trade; 2.5% of China GDP; 1% of US GDP.
- ❖ Then why is this still impact

What led to Washington v/s Beijing?

- ❖ “Trumponomics” - An America-first approach.
- ❖ Historically, no reciprocal market access to US.
- ❖ China’s rising global dominance (BRI, South China Sea, Taiwan, Hong Kong).
- ❖ IP Rights and Violations

Impact

- ❖ China's currency devaluations(11 year low), GDP growth rate (30 year low), price devaluations.
- ❖ “When elephants fight, it is the grass that suffers.” - African Proverb
- ❖ Developing Nations may be impacted much more than developed ones.

The Indian Economy

- ❖ “India could be a winner in the US-China Trade War”
- CNBC Article
- ❖ India can ramp up exports to the two countries
(Export share grown since the trade war).
- ❖ India's World Exports: 1.58% Q4 '17 to 1.71% - Q1 '19).
- ❖ India's manufacturing not as integrated in the global supply chain. (i.e. exporters cushioned)

Opportunities for India

- ❖ Products competitive as long as the price differential before the tariff imposition was higher than the current amount of tariffs.
- ❖ For non-competitive products, India sees an opportunity. Eg. India's entry in US Metal Markets
- ❖ To China- vehicles, motorcycles, fibre optical cables, coal, plastic products, apple, Soya bean, wine, meat, etc.
- ❖ To USA- , it has an opportunity to export electrical machinery, solar panels, furniture, toys, steel, aluminium, etc.

Opportunities for India (contd.)

- ❖ The Case of Soybeans (China 57% World Demand - US 44% World Exports)
- ❖ Investment Diversions
- ❖ Where is WTO? GATT National Security Clause
- ❖ Top three sectors in India that could benefit from the trade war are: pharmaceutical, chemicals and engineering.
- ❖ Manufacturing Sector : textiles, footwear and electronics.

Challenges for India

- ❖ Dumping of Surplus Metals from China.
- ❖ RCEP- First PTA with India & China as members.
- ❖ India's opting out may be to curb dumping.

Is currency war a possibility?

- ❖ China's secret weapon - dumping all US Debt.
- ❖ May lead to a currency war?
- ❖ Graceffo, 2019: Currency war would hurt China more.
- ❖ Devaluation- threat to IMF Special Drawing Rights Currency, else Yuan no longer an option as international currency, scare of investors.
- ❖ China's FDI drops
- ❖ China Largest Exporter, with no USD reserves, will it except USD as payment?

Conclusion

- ❖ Developing Nations being affected the most.
- ❖ Change in manufacturing bases.
- ❖ Bureaucratic Hurdles, licensing interference.
- ❖ Short run, trade diversion - Opportunity for India.
- ❖ Markets with US & China, tougher for India.