India’s Concern over US’s Trade Woes

What is the issue?

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- US administration has announced a tariff hike for imported metals recently, which had less impact on India. Click hereto know more about the issue.
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- Following that move US Federal reserve is planning to hike interest rates, which is likely to have impact on India.
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What are the impacts of US’s move on imported metals?

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- Trade Expansion Act of 1962, which gives the US the right to investigate whether certain imports, or high levels of certain imports, pose a threat to its national security.
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- Based on this act US has imposed high tariffs on imported steel and aluminium, and the US administration also plans to expand this act further to other metals.
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- As of now India’s steel exports to the US is at less than 1% of the total Indian production, and aluminium exports are just 2%.
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- Thus USA’s decision may not have any immediate or direct impact on the Indian metals sector.
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What are the expected Federal Reservereforms in US?

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- Within the US domestic economy, higher inbound steel and aluminium escalates the threat of higher consumer prices caused by importers passing on their increased costs for raw materials.
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- This could then force the Federal Reserve toraise rates faster than it would have done otherwise.
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- The Fed is also slated to pursue its scheduled reversal of the easy money policy, or the so-called quantitative easing of the last decade, going ahead.
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- The American central bank had also announced that it would start shrinking its balance sheet by selling the treasury bonds and mortgage-backed securities in order to inject liquidity in the markets.
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- The sale of such securities is slated to go up in the coming months, with this the Fed would gradually wind down the $ 4 trillion in holdings that it acquired during the phase of quantitative easing.
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What will be the impacts of hiked interest rates for India?

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- The three external risk factors higher tariffs, rising interest rates and elevated bond sales come at a time when the domestic banking system is grappling with a renewed stress of bad loans in India.
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- An increase in interest rates in US has implications for emerging economies such as India, both for the equity and debt markets.
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- Already the Indian government securities market has been falling for the past seven months on cues of rising US yields and projections of increased local inflation.
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- Higher US rates lead to outflows from emerging market bonds and equities as investors look to chase higher returns in their home country.
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Source: Indian Express

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