Gaining from the US-China Trade War

What is the issue?

- US President Donald Trump has taken the US into a trade war with China.
- In this context, early evidence suggests some gains for India from the trade war, calling for taking forward the momentum.

What should India's approach be?

- In a China-India comparison, the Chinese economy is bigger and the Chinese policy establishment is more capable.
- China has graduated to making sophisticated goods, such as computer equipment, which India does not make.
- India’s exports, so far, look more like those of a developing country.
- Consequently, India may expect that the US-China trade war might not yield significant gains for India.
- However, to assess the developments associated with the US-China trade war, India should focus on the US import of goods from both countries i.e. China and India.

What is India's and China's share in this regard?

- India does well on services exports to the US, but the US-China trade war is primarily about goods.
- The latest data, for the month of May 2019, shows that India’s exports to the US were $5.6 billion, and China’s exports, $39.3 billion.
- On the other hand, the total import of goods into the US was $220.8 billion.
- Notably, India’s value in this is much smaller than that of China.

How has the trade war changed the proportion?

- The highest ever value of China’s share in US imports was in September 2015, at 23.87%.
- From that high, there has been a decline to 17.78% in the latest data, which was May 2019.

- Just one year prior to this, in May 2018, China's share was 21.5%.
- From the peak of September 2015, until the latest reading of May 2019, China's share in US imports has declined by 6.09 percentage points.
- This is a notable change.
- In comparison, over this period, India's share in US imports went up from 1.92% to 2.54%, a gain of 0.62 percentage points.
- In other words, about a tenth of the share lost by China has come to India.

How does the future look?

- Most global trade takes place within multinational firms. When Walmart grows deep roots in India, Walmart will export more from India.
- So, for India to do well in exporting, it needs global firms to commit to India, on a greater scale, and also needs Indian multinationals to flourish.
- However, these effects will necessarily reflect slowly.
- When a US-China trade war erupts, in the short run, global firms do not change course by much.
- But in the medium term, boards of global firms are constantly looking at the countries in which they operate.
- They also make changes based on their judgement about the countries that offer a better economic environment.

What lies before India?

- For India to make the best of this situation, the country needs to become more of a mature market economy.
- It should play fair by the rules of the game of globalisation.
- India needs to make policies keeping in mind the priorities of the boards of global firms that are grappling with the problem of their over-exposure to China.
- To improve India's attraction as an FDI destination, India needs to relook at issues of labour law, infrastructure, and taxation.
- Of these, tax policy and tax administration is a major concern for global operations.
- For India to be integrated into global supply chains, goods should seamlessly move into India, and then get re-exported.
- This requires removing all customs duties, establishing a goods and services tax (GST) -on-imports and having zero-rating of exports.
- It also requires well-structured operational procedures and a well-behaved tax administration.
- The use of raids and imprisonment deters private persons from operating in India.
- India now has the highest income tax rate for corporations in the world and a

source-based taxation system.

- This needs to shift to a residence-based taxation system and an income tax rate for corporations (all-inclusive) of 20%.
- In all, India's stance in international relations should emphasise the gains from a ruled-based world of open borders, where there is a low risk of new barriers to globalisation coming up.

Source: Business Standard