Implications of US-China trade war

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What is the issue?

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

Who are likely to be the biggest beneficiaries?

- 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.
- This is inevitable as their respective imports become more expensive.
- 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.
- This shows that prospects of greater sourcing from India are relatively less.
- Several Southeast Asian countries such as Thailand, Philippines, Vietnam, Indonesia and Cambodia are also expected to benefit more than India.

What is the reason behind?

- The lesser prospects for India is largely due to the nature of imports that have been subjected to tariffs by the US and China.
- Food, beverages and vehicles to China have been the hardest hit with regards to exports from US.

- On the other hand, Chinese exports of electrical equipment, appliances, components and machinery to the US have been affected.

- Most of these items are manufactured products, which are largely assembled and rolled out from Southeast Asia, Japan and Taiwan.

- It is hardly surprising therefore that import-substitution by large markets like the US and China would benefit these countries.


What are the short-term benefits for India?

- In the short-term, import substitution efforts by both US and China would be on getting cheaper alternative imports, irrespective of locations.

- India is likely to benefit from Chinese efforts to shift to alternative cheaper sources of agricultural imports.

- 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.

- Hence for India, this could be an opportunity for negotiating with China for greater market access of some more of its agricultural exports.

- China recently relaxed quality barriers for rice and fish oil exports from India.

- This points to the increasing leverage it has obtained with China in agricultural exports, which can be capitalised further.


What would be the long-term implications?

- 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.

- 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.

- The production relocation possibilities point to greater benefits for India.

- Greater relocation possibilities can be leveraged in case of Automobiles Industry.

- 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.

- Indeed, while Vietnam tops the list of Asian countries likely to benefit from long-term relocation of final product assembling, India follows after Vietnam, Malaysia and Singapore.

- It can similarly benefit as a centre for electrical and electronic equipment, once some of these are relocated from China.

- However, Vietnam and Malaysia are clearly ahead of India in these sectors, because of their lower costs and better infrastructure.

What should be done?

- US and China recently announced ceasefire on escalation of tariffs at the G20 Summit.

- But it is not clear if they will withdraw the tariffs they have already raised.

- 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).

- Hence if this improvement is sustained, then India can effectively compete with Vietnam in emerging as an important relocation spot.

- Thus, India’s benefits from the trade war are in the longer term and it has to prepare for the long haul.
Source: Financial Express