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- 5.

Recently a study by the UN trade and investment body has said that India has emerged as a winner amidst the US-China trade war.

### Background

According to the World Bank's Global Economic Prospect, the global economy has slowed to its lowest pace in three years because international trade and investment have been weaker than expected. International trade has been severely affected by the trade war between the US and China. Over the course of 2018, the US administration started implementing a series of trade measures to curtail imports, first targeting specific products (steel, aluminum, solar panels and washing machines) and then specifically targeting imports from China. In the early summer 2018, US and China raised tariffs on about \$50 billion worth of each other's goods. This escalated further in September 2018 when the US introduced an additional 10% to cover \$200 billion worth of Chinese imports, to which China retaliated by imposing tariffs on imports from the US worth an additional \$60 billion. In June 2019, the US increased the tariffs further, to 25%. China responded by raising the tariffs on a subset of products that were already subject to tariffs. In September 2019, the US imposed 15% tariffs on a large subset of the remaining \$300 billion worth of imports from China not yet subject to tariffs. India gained about \$755 million in additional exports, mainly of chemicals, metals and ore, to the US in the first half of 2019 due to the trade diversion effects of Washington's tariff war with China, according to a study by the UN trade and investment body.

### Analysis

Trade war is a subset of Trade Protectionism.

It is a conflict between two or more nations regarding trade tariff imposition on each other's goods.

A trade war is usually initiated when a nation imposes tariffs or quotas on imports and foreign countries retaliate with similar forms of trade protectionism. As it escalates, a trade war reduces international trade.

A trade war starts when a nation attempts to protect a domestic industry and create jobs. In the short run, it may work. But in the long run, a trade war costs jobs and depresses economic growth (by suppressing demand for goods as they become expensive) for all countries involved.

It also triggers inflation when tariffs increase the prices of imports.

### Advantages

Imposing tariffs protects the economy from foreign competitors. This provides the new companies time to develop their own competitive advantages.

Protectionism also temporarily creates jobs for domestic workers.

The protection of tariffs, quotas, or subsidies allows domestic companies to hire locally.

However, these benefits end once other countries retaliate by erecting their own protectionist measures.

### Disadvantages

In the long term, trade protectionism weakens the industry. Without competition, companies within the industry have no need to innovate.

Eventually, the domestic product declines in quality and becomes more expensive than what foreign competitors produce.

## Four Methods of Trade Protectionism

One way is to enact tariffs that tax imports. That immediately raises the price of the imported goods. They become less competitive when compared to local goods. This method works best for countries with a lot of imports, such as the United States.

A second way of protecting trade is when the government subsidizes local industries. This makes the products cheaper even when shipped overseas. Subsidies work even better than tariffs. This method works best for countries that rely mainly on exports.

A third method is to impose quotas on imported goods. This method is more effective than the first two. No matter how low a foreign country sets the price through subsidies, it cannot ship more goods.

Fourth type of trade protectionism is subtle. It is a deliberate attempt by a country to lower its currency value. This would make its exports cheaper and more competitive. This method can result in retaliation and start a currency war.

## Criticism of US Action

On January 22, 2018, US imposed tariffs and quotas on imported Chinese solar panels and washing machines. China is a world leader in solar equipment manufacturing. The World Trade Organization ruled that the United States acted unfairly in levying the tariff.

The head of the U.S. Chamber of Commerce said Trump's trade war could cost 2.6 million U.S. jobs. Eight countries have filed formal complaints with the World Trade Organization. Many of these countries, like Canada, India, and the European Union, are allies. The countries have argued that the US cannot justify the tariffs on the basis of national security.

Increasing protectionism can further slow down economic growth (weak consumer demand owing to inflation). It would cause more layoffs, not fewer.

If the country closes its borders, other countries will do the same. This could cause layoffs among the workers who owe their jobs to exports.

Trade war in the long term would hamper global economy due to reduced trade volumes among nations. The IMF noted that the US-China trade tension was one factor that contributed to a "significantly weakened global expansion" in 2018, as it cut its global growth forecast for 2019.

The trade tensions could result in an increasingly fragmented global trading framework, weakening the rules-based system that has underpinned global growth, particularly in Asia, over the past several decades.

## Implications

### Sharp decline in bilateral trade:

Higher prices for Chinese consumers, losses for US exporters and trade gains for other countries. Of the \$35 billion Chinese export losses in the US market, about \$ 21 billion (or 62%) was diverted to other countries, while the remainder of \$14 billion was either lost or captured by the US producers.

### Higher prices for consumers:

Tariffs imposed by the United States on China are economically hurting both countries and consumers in the US and China. The analysis shows that US tariffs caused a 25% export loss, inflicting a \$35 billion blow to Chinese exports in the US market for tariffed goods in the first half of 2019

### Trade diversion effects:

Increased imports from countries not directly involved in the trade war.

The trade diversion effects of the US-China tariff war for the first half of 2019 at about \$21 billion, implying that the amount of net trade losses corresponds to about \$14 billion.

These trade diversion effects have brought substantial benefits for Taiwan (province of China), Mexico, and the European Union

Trade diversion benefits to Korea, Canada and India were smaller but still substantial, ranging from \$0.9 billion to \$1.5 billion

The US tariffs on China resulted in India gaining \$755 million in additional exports to the US in the first half of 2019 by selling more chemicals (\$243 million), metals and ore (\$181 million), electrical machinery (\$83 million) and various machinery (\$68 million) as well as increased exports in areas such as agri-food, furniture, office machinery, precision instruments, textiles and apparel and transport equipment

#### Opportunities

India has an increasingly widening trade gap with China. Ongoing trade war may be an opportunity for India to reduce it significantly.

India can export the surplus agricultural products such as soybean to China after decrease in the export from USA.

India can become China's software industry partner, as it looks to replace the US hegemony of technology companies. India needs some strong pegs to pitch to China, and India's software industry is capable of graduating to a higher level.

Growing trade tensions between China and the US could enhance the flow of Chinese investment towards India.

India can explore opportunities to export the demands of goods by the US after restricted entry of Chinese goods in the US economy. Of the \$300 billion in Chinese exports that are subject to US tariffs, only about 6% will be picked up by firms in the US, according to a report released by the UN Conference on Trade and Development (UNCTAD). Here, India can be benefited along with other nations.

India may be able to increase its exports in textile, garments and gems and jewellery to US if Chinese exports to the US slow down.

#### Concerns

America has a trade deficit with every nation of the G7 grouping and that deficit has been increasing each year. With India, the US has a trade deficit of \$21.3 billion, which on the contrary is a trade surplus (FOREX earning) for India, which is at risk due to the ongoing trade war.

US wants duty reduction from India in Harley Davidson bikes, stents, knee implants and medical devices and dairy and poultry products among others. India has already reduced duty on high powered bikes to 50% from 75%. However, further pressure for duty reduction can affect the domestic production. India should remain cautious of China's intention of dumping its overproduction of steel and aluminium due to restrictions imposed by the US.

The rising price of oil threatens to widen India's current account deficit, impacting India's macroeconomic stability.

India's already struggling currency may further decline in value due to the ongoing trade war.

#### Conclusion

Even though it is a lengthy and time consuming process, the settlement of disputes through international conventions and rules is the need of the hour.

WTO dispute settlement resolution mechanism should be approached instead of unilateral decisions. The benefit of the WTO process is that it prevents the damaging consequences of trade protectionism. Nations can resolve their disputes through WTO instead of raising tariffs.

India can derive maximum benefits of the opportunities created by the ongoing trade war between the US and China. However, it should remain careful and prepare for the challenges arising out of the trade war.

# US-China Trade War – Implications and Opportunities for India

**Context**

Recently a study by the UN trade and investment body has said that India has emerged as a winner amidst the US-China trade war

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According to the World Bank's Global Economic Prospect

The global economy has slowed to its lowest pace in 3 years because international trade and investment have been weaker than expected

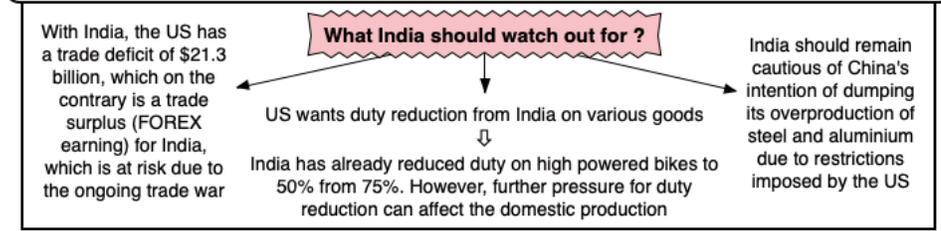
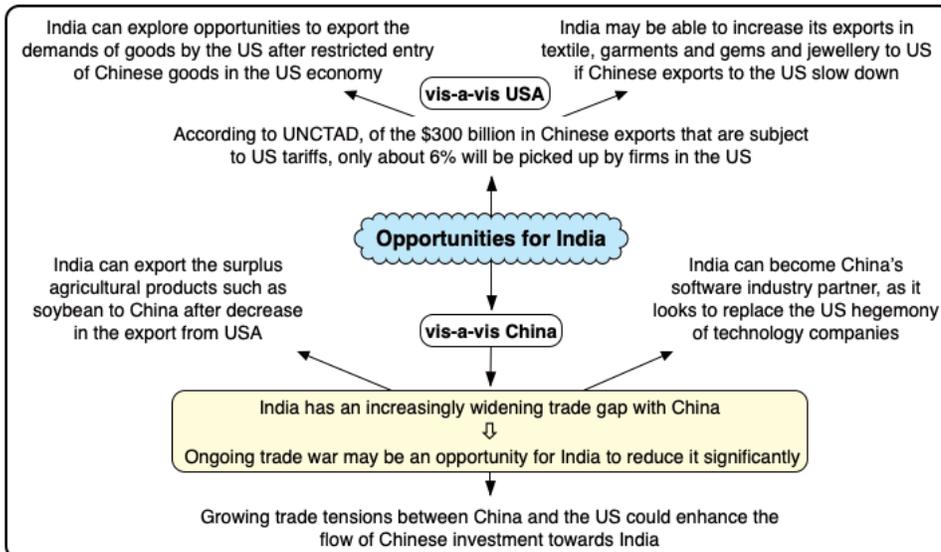


**Trade Diversion**

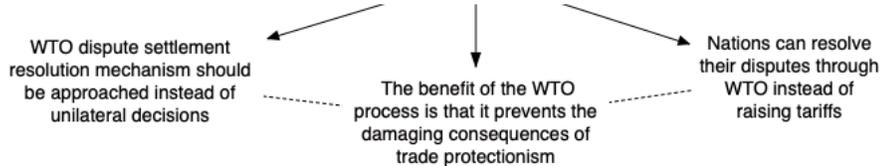
Increased imports from countries not directly involved in the trade war

Of the \$35 billion Chinese export losses in the US market, about \$ 21 billion (or 62%) was diverted to other countries, while the remainder of \$14 billion was either lost or captured by the US producers

India gained about \$755 million in additional exports, mainly of chemicals, metals and ore, to the US in the first half of 2019 due to these trade diversion effects



Even though it is a lengthy and time consuming process, the settlement of disputes through international conventions and rules is the need of the hour



Recently India-Australia bilateral relationship reached a historic moment when they undertook their third joint naval exercise which saw the largest ever peacetime deployment of Australian defence assets and personnel to India.

India and Australia has shared a cordial relation with each other since a very long time and has witnessed an increased commitment in recent past. Multiple engagement in fields such as bilateral trade, strategic relations, student exchange programs, similar commitments towards sustainable development has made this relationship all the more dynamic.

As the global momentum is markedly shifting towards the Indo-Pacific region it becomes imperative for both the nations to stand in unison and provide the stability the region desires owing to the over-indulging nature of China.

### Historical Ties

India and Australia have built strategic trust over the years, slowly yet steadily. Australia and India for the first time established diplomatic relations in the pre-Independence period, when the Consulate General of India was first opened as a Trade Office in Sydney in 1941.

In March 1944, Lieutenant-General Iven Mackay was appointed Australia's first High Commissioner to India. India's first High Commissioner to Australia arrived in Canberra in 1945.

India-Australia relations touched a historic low when the Australian Government condemned India's 1998 nuclear tests. The relations since then has witnessed a significant thaw and when in 2014, Australia signed a uranium supply deal with India, the first of its kind with a country that is a non-signatory to the Nuclear Non-Proliferation Treaty, in recognition of India's "impeccable" non-proliferation record it became evident what type of relation Australia wanted with India.

### Bilateral economic and trade relationship

The India-Australia economic relationship has grown significantly in recent years. India's growing economic profile and commercial relevance to the Australian economy is recognized, both at the federal and state level in Australia.

India's exports to Australia stood approximately at US\$ 4.6 billion (A\$6.1 bn) in 2016 while India's import from Australia during the same period stood at US\$ 11 billion (A\$14.6 bn). India's main exports to Australia are Passenger Motor Vehicle & machinery, Pearls, Gems and Jewellery, Medicaments and Refined Petroleum while India's major imports are Coal, Non-monetary Gold, Copper, Wool, Fertilizers and Education related services.

India-Australia also has a Joint Ministerial Commission (JMC) which was established in 1989 to enable interaction at a government and business level on a broad range of trade and investment related issues.

The two countries are currently discussing a Comprehensive Economic Cooperation Agreement (CECA) which will provide greater market access to exporters of goods and services. The two sides have exchanged their goods and services offer lists. The conclusion of the CECA will expand the base of merchandise trade, remove non-tariff barriers, encourage investment and address the border restrictions to trade.

### Defence relation

India–Australia both borders the Indian Ocean and has a shared interest in the maintenance of freedom of navigation and trade.

Australia recognises India's critical role in supporting security, stability and prosperity of the Indian Ocean region. Australia and India are committed to working together to enhance maritime cooperation and has a formal bilateral naval exercise (AUSINDEX) since 2015.

#### Civil Nuclear Co-Operation

A Civil Nuclear Cooperation Agreement was signed in September 2014 which came into force in November 2015 and provides the framework for substantial new trade in energy between Australia and India.

The deal ensures that Uranium mining companies of Australia can supply Australian uranium to India for civil use with confidence that exports would not be hindered by domestic legal action challenging the consistency of the safeguards applied by the IAEA in India and Australia's international non-proliferation obligations.

It also ensures that any future bilateral trade in other nuclear-related material or items for civil use will also be protected.

#### Consular Cooperation

India and Australia signed The Mutual Legal Assistance Treaty (MLAT) and the Extradition Treaty in June 2008, which has been ratified by both the Governments, and has come into force since January 2011.

#### Importance of the Deepening Ties

The strategic trust on display during AUSINDEX is representative of a deepening strategic alignment between the two countries. It emphasizes on the shared outlook of both the nations as free, open and independent democracies, as champions of international law, as supporters of an open and inclusive Indo-Pacific and as firm believers that 'might is not right'.

As India has emerged as a leader in this region working closely with Australia can work in the favour of both the nations as both can effectively address the shared challenges such as combating transnational crime, terrorism, people smuggling, and illegal fishing

As India looks set on its agenda of Make in India it can significantly use Australian expertise in the field of health, education and tourism as these are areas in which Australia has a comparative advantage.

India which will have the largest working population in the world by 2027 will need to up-skill 400 million people. Australia is well-equipped to assist with this huge need for knowledge-sharing, education and skill development. The two countries also have enormous potential to build on their people-to-people links and thus their soft power influence. India is the third largest source of immigrants to Australia and the second largest source for skilled professionals. This should give sufficient impetus to build a public understanding of each other and thereby improve public policy.

Both India and Australia are situated in the most dynamic region on the planet (the centre of economic and strategic gravity is shifting to the Indo-Pacific as we speak). India and Australia are also wary of China's assault on maritime security and freedom of navigation in the Indo-Pacific region. Both the nations can therefore serve together as the net security provider in the region.

There is a great scope for regional economic integration in the Indo-Pacific, one of the most flourishing trade zones in the world. The Regional Comprehensive Economic Partnership (RCEP) is a good platform for India to work towards the goal of regional economic development, since India is not yet a part of the Trans-Pacific Partnership (TPP-11 or CPTPP).

Trilateral engagements with crucial nations like Indonesia and Japan and deeper engagement with regional groups like the Indian Ocean Rim Association and East Asia Summit will also strengthen the ties between India and Australia.

### Areas of Cooperation

**Water** – Australia and India face some similar challenges in water resources management, particularly in managing over-allocation and water quality, while balancing the water needs of the community, industry and maintaining system flows. Both the nations can come together in finding a novel solution to this common problem.

**Energy** – Meeting the energy needs of 240 million people, which currently lack access to electricity, is a key priority for India. Australia is a natural partner for India in the energy sector as it is a world leader in energy and the sector contributes around 10% to Australia's GDP.

**Science and Technology** – India and Australia have a strong track record of collaborating in research and innovation. The \$84 million Australia-India Strategic Research Fund (AISRF) is Australia's largest.

### Challenges

The region faces a range of traditional security challenges that relate to issues of trust in the form of China which has emerged as a regional power and has little faith in rule based order. There are also a growing number of non-traditional and trans-boundary security challenges, including terrorism, natural disasters and pandemics.

Also, India faces unfavourable trade with Australia and despite opening talks for a comprehensive economic cooperation agreement in 2011, the agreement which would have significantly lowered the trade balance in favour of India, has remained elusive.

### Way Forward

The India-Australia bilateral relationship has been largely a case of "one step forward, two steps back" — though one witnesses a positive shift in relations since 2014 — after a gap of 28 years. India no longer sees Australia at the periphery of India's vision but at the centre of its thoughts.

The opportunity as well as challenge is that the two nations are at very different levels of development. There can be converging and diverging interests. Therefore, the future must be woven around the three pillars, which are economic relationship, geostrategic congruence and people-to-people ties, and the glue that can bind this is a sustained momentum.

India and Australia raised their relationship to a "Comprehensive Strategic Partnership" after a 'virtual' summit between Prime Minister Narendra Modi and Australian Prime Minister Scott Morrison, who concluded nine agreements including a Mutual Logistics Support Agreement (MLSA) and issued a joint declaration on a "Shared Vision for Maritime Cooperation in the IndoPacific."

The two countries also agreed to increase the frequency of meetings between the two Prime Ministers, and took the "2+2" format of bi lateral meetings to the level of Foreign and Defence Ministers, who will meet to "discuss strategic issues" at least every two years.