



# TOPIC OF THE WEEK

## JUL'18 (01 to 07)

## Topic: India retaliates to US tariffs; Trade wars

As a reply to the heavy tariffs imposed by the United States on imported steel and aluminium items, India has decided to raise customs duty on 29 US products including apples, chickpeas, almond, walnut and pulses.

The duty hike would come into effect from August 4, as per a notification from the Union finance ministry.

### History

In March, US President Donald Trump slapped import tariffs of 25 per cent on steel and 10 per cent on aluminium, unfolding the prospect of an all-out global trade war. China retaliated in April imposing tariffs as high as 25 per cent on 128 American products.

The duty hike decision by India is similar to that of the European Union and China which decided to levy higher import duties on a variety of US products in retaliation to the protectionist policies adopted by America. According to India, the duty hike imposed by the US has affected Indian steel exports by USD 198.6 million and aluminium

shipments by USD 42.4 million. The duty hike by India would have equivalent tariff implications for the US. India exports steel and aluminium products worth about USD 1.5 billion to the US every year. India's exports to the US in 2016-17 stood at USD 42.21 billion, while imports were USD 22.3 billion.

Meanwhile, the European Union has also slapped tariffs on iconic US products including bourbon, jeans and motorcycles in its opening salvo in a trade war with President Donald Trump.

### **Key Highlights**

India had submitted a list of 30 items to the World Trade Organisation (WTO), on which it proposed to raise customs duty by up to 50 per cent. In the notification, however, there is no mention of duty hike on motor cycle with engine capacity of over 800cc. As per the list India submitted to the WTO, it had proposed to hike customs duty on specified motorcycles, which included Harley Davidson, to 50 per cent. The higher customs duty would come into effect from August 4, 2018.

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- The import duty on chickpeas, Bengal gram (chana) and masur dal has been increased to 70 per cent from 30 per cent earlier and that on lentils has been hiked to 40 per cent from earlier 30 per cent.
- While import duty on walnut has been hiked to 120 per cent from 30 per cent, the duty for shelled almond has been increased to Rs120/kg from Rs 100/kg earlier.
- Further, apples imported from the US will attract customs duty of 75 per cent as against 50 per cent earlier.
- The import duty on boric acid and phosphoric acid has also been hiked to 17.50 per cent and 20 per cent respectively from earlier 10 per cent each.
- The import duty on diagnostic reagents has been doubled to 20 per cent, while the duty on binders for foundry moulds has been hiked to 17.5 per cent.
- The duty on flat-rolled products on iron has also been raised to 27.50 per cent from 15 per cent earlier, while the duty on certain flat-rolled products on stainless steel has been increased to 22.50 per cent as against earlier 15 per cent.

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- The customs duty on Artemia, a kind of shrimp, has also been raised to 30 per cent.
- For automobiles and earth moving equipment, SIM socket/other mechanical items (metal) for use in the manufacture of cellular mobile phones, the duty has been hiked to 25 per cent from earlier 15 per cent.

### **Trade Wars**

The trade war seems to be getting fierce with the US announcing tariffs on \$50 billion in Chinese imports. China, not to be left behind, has already announced its intention of retaliating against these new US import duties. The stage for this escalation in trade war was set at the recently-concluded G7 summit that turned out to be one of the most acrimonious where the US was completely isolated and its relationship with its allies reached historic lows. The confrontation was prompted by the issue of US tariffs on steel and aluminium, and the summit concluded with a threat of a war between allies.

### **Conclusion**

With the United States adopting protectionist policies and hiking import duties, a trade war like situation has

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emerged. The European Union has decided to levy higher import duties on a variety of US products and a similar action is being contemplated by China.

But can the US really continue to engage in a trade war for long? Remember that in recent period there have been historic shifts in monetary and fiscal policies of the US. Trump has drawn fierce domestic criticism, with some opposing unilateral measures out of free-market principles.

Firstly, as the US economy gathered momentum with falling unemployment rate and increasing growth, the Fed has shifted its stance from its long pursued accommodative policy to a tighter one to keep inflation in check. Secondly, the fiscal policy of the US has become expansionary as the government decided to cut its corporate tax from 34% to 21%. Consequently, it will have to raise more debt from the market to fund its expenses if expenditure is not cut elsewhere.

Trade wars are hard to start, end or win. Winning requires smarts, not bravado. If the Trump administration proceeds without adequate preparation, the United

States and the global economy may be far worse off than if nothing had been done.

**Suggested Reading:**

- ✓ <https://www.thequint.com/hotwire-text/as-countermeasure-india-hikes-import-duty-on-29-us-products>
- ✓ <https://www.jagranjosh.com/current-affairs/india-retaliates-to-us-tariffs-hikes-import-duty-on-29-us-products-1529655411-1>
- ✓ <https://timesofindia.indiatimes.com/business/india-business/india-hikes-import-duty-on-certain-us-products/articleshow/64678424.cms>
- ✓ <https://www.financialexpress.com/opinion/can-the-us-sustain-its-trade-war/1214270/>