EDITORIAL: INDIAN EXPRESS

GENERAL STUDIES 3: ECONOMY **DATE: 17.04.2025**
TOPIC: TRADE

The US wants 'balanced trade'. Trump's tariff's are making mayhem that

Background: U.S. Initiates Global Tariff War

- Under the leadership of President Donald Trump, the United States shifted away from multilateralism and initiated a wave of **protectionist tariffs**, particularly targeting China, the European Union, and other trade partners.
- The **Trump administration imposed a 10% universal import tariff**, along with **25% tariffs on specific sectors** like steel, aluminium, and automobiles.
- Though a **temporary 90-day suspension** was announced for some tariffs, the broader protectionist policy remained firmly in place.
- These moves triggered **retaliatory tariffs from major economies**—especially China—leading to a near-total breakdown of U.S.-China trade relations and straining global commerce.

Impact on Global Trade and Economic Stability

- This tariff war marked a shift from **rules-based multilateral trade** to **aggressive bilateralism**, upending decades of cooperative global trade norms.
- It created **uncertainty in global markets**, discouraged long-term business investment, and disrupted international supply chains.
- Countries dependent on exports or global trade cycles, such as Germany, South Korea, and India, became increasingly vulnerable to **economic slowdowns** and **supply-side shocks**.

Volatility in Global Financial Markets

- The global financial markets responded with **heightened volatility**, reflecting investor concern over rising production costs, delayed trade flows, and contracting profits.
- Despite a brief market boost after the tariff moratorium, **investor confidence remained weak** due to the unpredictable nature of U.S. trade policy.
- There were growing fears that escalating trade tensions could trigger a **global recession**, especially as business margins tightened and demand weakened.

Bond Market Indicators Reflect Deepening Stress

- In a typical economic scenario, when equity markets fall, investors shift to bonds, causing **bond prices to rise and yields to fall**.
- However, a **simultaneous decline in U.S. equity and bond prices** during this period indicated **capital flight**, with foreign investors pulling out of American assets altogether.
- This unusual pattern signaled a **loss of confidence in the U.S. economy**, and possibly influenced Trump's decision to partially pause tariffs.
- It underscored the **economic consequences of unilateral trade aggression**, and how financial markets can influence policy shifts.

Unpacking U.S. Tariff Strategy: A Flawed Logic?

- The Trump administration aimed for **balanced bilateral trade**, where trade with each country would have equal exports and imports—a major deviation from global economic norms.
- Traditional economic theory accepts that trade deficits arise from broader factors such as **fiscal policy, savings-investment imbalances**, or currency valuation.
- The U.S. rejected the EU's offer to **mutually eliminate tariffs**, showing that the objective was not free trade or reciprocity, but rather **numerical parity**.
- This simplistic approach ignored **structural causes of trade imbalances** and conflated financial flows with trade inefficiencies.

Understanding Trade Deficits Correctly

- Trade deficits are not inherently negative—they can reflect **strong domestic demand, investment growth**, or flexible capital markets.
- Like a household or firm borrowing to invest, a country may run a trade deficit to fund productive activities and long-term growth.
- These deficits are often offset by **foreign investments or capital inflows**, making them part of a broader global economic system.
- The U.S. approach mistakenly treated trade deficits as economic failures rather than a reflection of **financial and macroeconomic dynamics**.

Implications for India: A Mixed Bag

- **Negative impacts** include:
  - A potential **global recession** could dampen demand for Indian exports, especially in sectors like textiles, IT services, and auto parts.
  - **Cheaper Chinese goods**, originally intended for the U.S. market, could flood India, hurting domestic manufacturers.

- **Positive opportunities** include:
    - **Lower global commodity and oil prices** may reduce inflation and provide room for supportive monetary policy in India.
    - Companies seeking to **diversify away from China** could consider India as a manufacturing alternative—especially in electronics, consumer goods, and auto components.
    - India's large labor force and emerging logistics infrastructure can be strategically leveraged to attract global supply chains.

Need for Strategic Trade Negotiation and Policy Alignment

- India should pursue a **comprehensive trade agreement with the U.S.**, focusing not only on tariff reduction but also **addressing the trade balance narrative**.
- It is critical to **protect India's strength in service exports**, particularly IT and consultancy, which are key to bilateral trade success.
- India might strategically offer to **increase imports from the U.S.**—such as defense equipment, oil, and natural gas—to demonstrate commitment to balanced trade.
- Simultaneously, **U.S. demands for agricultural market access** can be used to justify long-pending reforms in India's farm sector, boosting productivity and export competitiveness.

Broader Trade Reforms and Diversification for India

- India should intensify its **engagement with other trading blocs** like the EU, ASEAN, and CPTPP to diversify its trade relationships.
- Reviving **bilateral and multilateral trade pacts** can act as insurance against future U.S.-centric trade disruptions.
- Domestically, India should reconsider its rising **tariff protectionism** and instead open up strategically to boost innovation and global competitiveness.
- **Exposure to international markets** can incentivize Indian industries to upgrade technology, improve product standards, and enhance productivity.

Conclusion: Seizing a Moment of Disruption

- The global trade upheaval presents **a unique window for India** to reposition itself in the global economic order.
- By embracing **strategic liberalization, export-oriented reforms**, and proactive diplomacy, India can transform a global crisis into an opportunity.

- Like past reforms driven by external shocks, this moment could catalyze **long-term structural transformation**—making India a preferred destination for global trade and investment.

Source: https://indianexpress.com/article/opinion/columns/the-us-wants-balanced-trade-trumps-tariffs-are-making-mayhem-that-9948431/