



EDITORIAL: INDIAN EXPRESS

GENERAL STUDIES 3: ECONOMY

DATE: 23.04.2025

TOPIC: TRADE

US tariffs are likely to remake the global trade system. Few economies are prepared for this

Context: Sudden U.S. Shift Towards Protectionism

- The United States has dramatically altered its trade policy direction, adopting a **highly protectionist stance**.
- This shift is notable because the U.S. was historically the architect and leader of the post-World War II **liberal global trade order**.
- The change has been rapid and sweeping, signaling a **systemic overhaul** of how the U.S. engages with global trade.

Key Developments in U.S. Tariff Policy

- Over the last two months, the U.S. has introduced a **universal baseline tariff of 10%** on all imports.
- It has imposed **sector-specific duties**:
 - 25% on **steel, aluminum, and automobiles**, excluding those from USMCA countries (Canada and Mexico).
 - 20% on **electronics**, especially key consumer and industrial components.
- The most aggressive move targets China:
 - **Tariffs up to 145%** on \$350 billion worth of Chinese goods.
 - The **average U.S. tariff rate has jumped to 25%**, and for Chinese goods specifically, **to 110%**, up from a general 3.5% just months ago

Potential Risks and Global Economic Fallout

- The U.S. is likely to **expand tariffs further** to cover:
 - **Semiconductors**
 - **Pharmaceuticals**
 - **Raw materials** like copper



- **Global trade partners**, such as the EU and India, are in negotiations to avoid further escalation. If talks fail, **reciprocal tariffs** could trigger a trade war.
- Financial institutions like **JP Morgan** estimate a **60% probability of a global recession**, citing:
 - Recession onset in the U.S.
 - Slowed growth in China
 - Disrupted global supply chains and demand cycles

Misplaced Expectations of De-escalation

- Many analysts hope the tariffs are a **temporary negotiation tactic** and that moderation will follow.
- However, the article asserts that this is a **fundamental policy shift**, not a short-term gambit.
- The **true intent** appears to be **undermining the existing global trade system**, not merely adjusting trade deficits or reviving U.S. manufacturing.

Rejection of the Liberal Global Economic Order

- The current U.S. approach is a **reversal of the very system it built** through institutions like GATT and the WTO.
- The Biden (or potentially Trump-led) administration argues:
 - The U.S. has suffered from trade deficits, deindustrialization, and a **strong dollar** that hurts exports.
- Economists counter that trade deficits are caused by **domestic savings-investment imbalances**, not unfair global trade.
- Despite such economic consensus, the U.S. leadership is pressing ahead, **redesigning global trade on unilateral terms**.

Impact on the Global Economic Structure

- The global economy is deeply **interlinked through trade specialization**:
 - Advanced economies focus on **innovation, branding, and finance**.
 - Emerging markets dominate **manufacturing and assembly**.
 - Developing countries supply **raw materials** and labor.
- The U.S. policy threatens to **disintegrate this balance**, destabilizing national economies, development models, and supply chains across the world.



What This Means for India

- India has positioned itself as a **global manufacturing alternative** to China, aiming to attract supply chains.
- A U.S. inward turn weakens that vision. If America—the world’s largest importer—retreats, other countries may also adopt **protectionist models**.
- India would need to **pivot from an export-led model to a domestic demand-led growth model**, challenging longstanding policy norms.

Policy Implications for India’s Domestic Strategy

- To boost domestic demand, India must **lower its savings rate**, which historically has been high to fund investments.
- This would require:
 - **Financial liberalisation** to allow easier credit access
 - Reforms in **land, labor, education, and healthcare**, oriented toward serving **domestic markets**, not just export competitiveness

Rethinking Infrastructure Priorities

- India’s infrastructure (ports, airports, export highways) has been built for **international trade integration**.
- There is now a need to shift towards:
 - **Domestic trade corridors**
 - Enhanced **intra-national logistics**
 - Connecting **commercial hubs** like Kanpur and Coimbatore directly by rail and road
- The **internal trade ecosystem** must be strengthened to support a **consumption-based economy**.

Conclusion: A Generational Global Trade Disruption

- The U.S. policy shift is not a routine trade dispute—it marks a **generational turning point** in the global economic order.
- It poses a serious challenge to **economic globalization, trade multilateralism, and development trajectories** of emerging economies.
- The full consequences are **unpredictable and underestimated**, but they demand immediate **policy reorientation and strategic recalibration**, especially for countries like India.



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Source: <https://indianexpress.com/article/opinion/us-tariffs-likely-remake-global-trade-system-few-economies-prepared-9959147/>



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