

Tariff War– A Veracity with Tartness as per Indian Perspective

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Abstract--- *The unilateral imposition of tariff by US on various countries has started the tariff war which adversely affects the worldwide economies. This paper find that how tariff war will impact India and which sectors will highly influence by it. Few economist believes that the India's export penetration in the US and elsewhere will increase because of China loses out. However an analysis shows that China's export basket is more advanced and consists of more upgraded technology and finished products, India consist more of raw material and semi finished products. For this study quantitative data has been collected. This study has shown both the positive and negative impact. As per the results it impact negatively on most of the sectors in India. As the trade war will continue, therefore it is more possible that India will not get much benefits in the international market at the expense of China.*

Keywords--- *Tariff, Tax, Donald Trump, US, China, Economy.*

I. INTRODUCTION

When one country imposes extra tariffs on another country's product to restrict the import, is called trade war. Tariff is a tax or duty which is imposed by govt. on particular class of imports and exports. The increase rate of tax is done or designed in a way to hurt other country's economic condition. As imposition of tariffs discourage people from purchasing goods or services from other countries. Tariffs also have their unintended side effects however this makes the domestic market of country inefficient due to lack of foreign competition. The tariff war between US and China was started in January 2018 by US president Donald Trump. He started this tariff war by imposing 25% tariff on \$34 billion specifically on Chinese goods and after sometime there is further increase tariff on various Chinese products. The biggest reason for this tariff war was that US face off a huge amount of trade deficit nearly about \$370 billion due to the import of Chinese products.

1.1 How Tariff War Begins?

In January 2018 a TRADE WAR is started between U.S. and China, when Mr. Trump imposed duties on solar panel, which was mostly imported from China. Then he asked from his administration to impose 25% tariff on steel imports and 10% tariff on aluminum imports, to boost the growth of domestic steel an aluminum industries. But it was not clear that if the president intends to exempt allies like Canada and the European Union.

Here is the main point of Donald Trump was to punish China by making Chinese products more expensive for American consumers to buy. If Chinese products will become more expensive then they will buy the same product from another manufacturer, which will cost them less. Then China also prefer charges against U.S. by imposing 25% tariff on \$34 billion worth of U.S. goods including automobiles. So this is how the trade war begins between U.S. and China (U.S. impose taxes on Chinese products as in tit for tat response China also continue to impose taxes on

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U.S. products). This war impacts other countries as well and slowly and gradually other countries to join this tariff war. The tariff war impacted each and every sectors of an economy whether positive or negative. The evaluation in this paper is based on the impact of trade war on different sectors of an Indian economy.

II. LITERATURE REVIEW & GAP ANALYSIS

Tariff war will be a lose for Donald Trump as he is maintaining unsound relations with India and other countries.(Kaur. J 2017) There will always be alternative channels for us to bring in imported products to satisfy Indian consumer. So, obviously a trade war is not good for anybody, and in particular we feel that the trade war actually will hurt small businesses in US.(Tsai. Joseph C 2017) No country, including US itself is likely to benefit from the tariff war.(M.Balaji2018) The fear of Chinese tariffs on US soybean import is leading to South American growers looking to expand soybean acreage. So again, a shift that will benefit FMC.(Brondeau. Pierre R 2017) the Indian government may impose higher tariff to raise revenue or to protect domestic industries from forien competitors, because consumer prefer to buy cheaper produced products.(Dr. Malaya) An import tariff puts a wedge between the world c.i.f. price and importing country's domestic consumer price. The policy is usually taken to protect domestic producer from cheaper foreign goods. Rigorous partial equilibrium analysis has been laid down by (Krugman, et al. 2012). GTAP model simulation found that in the absence of tariff, India's trade with United States would have been around US\$ 200-291 higher (Elsheikh et al. 2015).

III. RESEARCH METHODOLOGY

3.1 Objectives of the Study

1. To understand the impact of tariff war on different sectors of an Indian economy and on US economy as well.
2. To know which sector is highly affected through tariff war.
3. To find which sectors are exempted from tariff war.

3.2 Research Design

Tariff war has recently occur between US and China in January 2019, not so much research has been done on the trade war. No doubt, research will going to be done in future but right now it is an EXPLORATORY RESEARCH. The paper includes all the sectors of India which are majorly affected by it.

3.3 Gap Analysis/Limitations

1. Time constraint, the time was little less. If time could have been increased more clearly the problem would have been identified.
2. The study didn't examine the effect of tariff war from the view point of China.
3. Because of current issue, availability of secondary data was a little bit challenging.
4. Research papers were also not much available.

3.4 Need of the Study

Tariff war was started by US president by imposing taxes on steel and aluminium coming from all countries except Canada and Mexico, now India has to pay duties on \$241 million to the US. On the contrary India is

imposing tariff on 30 different types of US goods. Now US has to pay \$238 million as taxes to India. This study is being conducted to find the answer of the question, how US-China trade war will affect Indian economy?

3.5 Sampling Design

To know the impact of Tariff war on India, different published report has been analyzed and to know the actual results, questionnaire has been designed which has been filled by 70 respondents. Out of which, 30 respondent get personally interviewed for the purpose of gathering quantitative data.

3.6 Data Collection

The data which is collected to prepare this paper is based on primary as well as secondary source of data. The objective of the study is proved through diagrams, pie charts and most of the data is in numeric form. The quantitative data is collected through journals, newspapers, and e-books, these all sources used as secondary source of data and for the primary source questionnaire is designed.

IV. DATA ANALYSIS AND INTERPRETATION

4.1 Quantitative Data Analysis

The data which is analyzed to prepare the research paper is quantitative based. For this purpose different journals, newspapers, reports are visualized. The research paper is framed with the help of different tables, graphs and pie charts. The results of the study can easily be recognized through the diagrams and also through the numeric charts.

4.2 Questionnaire Analysis

For the purpose of conducting research, a questionnaire has been created. Questionnaire is being prepared with the help of Google Doc and data is collected through both offline and online media consists (e-mail, whatsapp, facebook and Instagram). 70 respondents filled the form, out of which 30 persons were meet with the criteria required for Directly Interview.

4.3 Demographic Profile

Profile

Gender	No. of Respondents
Male	42
Female	28
Total	70
Age Groups	
16 – 20	20
21 – 40	35
Above 40	15
Total	70
Occupation	
Student	37
Business Man	7
Salaried	21
Home- Maker	5
Total	70

(a) Background of Respondents

Out of 70 respondents, only 30 respondents were directly interviewed. 52% students (7 out of 37) 7% Home-makers (2 out of 5), 10% Businessman (6 out of 7), 22% Salaried (15 out of 21).

1. Respondent's Views

The talk synchronies about the negligible or negative effect of tariff war on India, 83% of the respondent go for the negative effect and rest for no effect. If we asked them about the government initiatives 50% said yes, govt. is taking measures to mitigate the effect, however 25% says no, govt. is not taking any measures. Tariff war is not going to provide a fruitful result in future neither to US nor any other country. Even US can get into trouble due to tariff war, because each and every international boundary opposing it and slowly moving against US. Even 90% of the respondent agrees on this point. Their view point says that if everything will move in same way, then in short span of time India will also suffer a huge lose of exports, which (export) is one of the main motive for make in India. According to the respondents the relationship between US and China before the tariff war was on 7-10 scaling but after the tariff war it falls down to 4-6 scaling.

V. DATA ANALYSIS AND INTERPRETATION:-

5.1 Impact of tariff war on growth of India

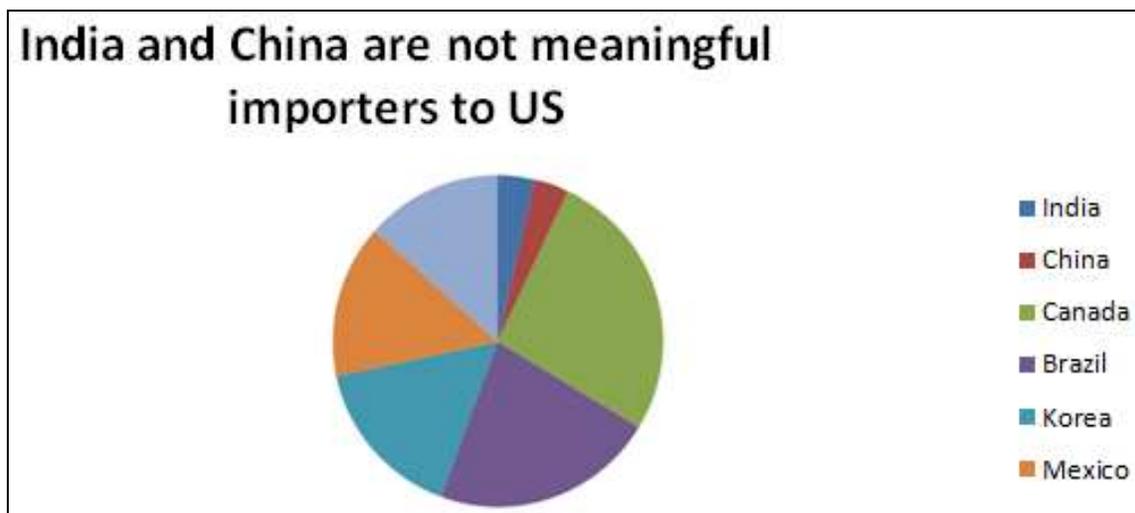


Fig. 1: Impact of Tariff war of Growth Perspective of India

(Source: Tradingeconomies.com, Ministry of Commerce and Industry, India)

According to this data China is only capturing 2.1% market in US of its total market. Which means US, is making import of only 2.1% from China. On the contrary, India's share in exports to US is 2.2%. which means, if US impose heavy tax on these countries which are not capturing the enough US market then it will adversely affect to the US itself and it is moving a step forward for maintaining unhealthy relation with other countries. Though Canada's share in export is 16.5% and Brazil's share is 13.5%. As they are capturing the ample of US market as importers but US has exempted these countries from the taxes. So, overall this tariff war will not be proved beneficial for the US.

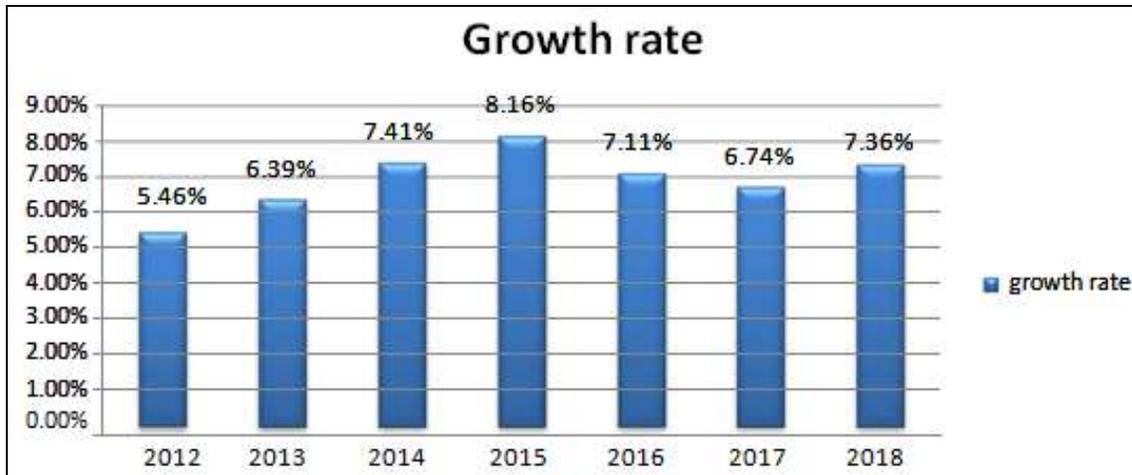


Fig. 2: Showing Growth Rate

(Source: Tradingeconomies.com, Ministry of Commerce and Industry, India)

According to this diagram growth rate of India is not much affected by tariff war as it is clear in the diagram in 2017 growth rate was 6.74% and it increases to 7.36% in 2018. so there is a positive increase in the growth rate but at decreasing level.

5.2 Impact of Tariff War on Exchange Rate

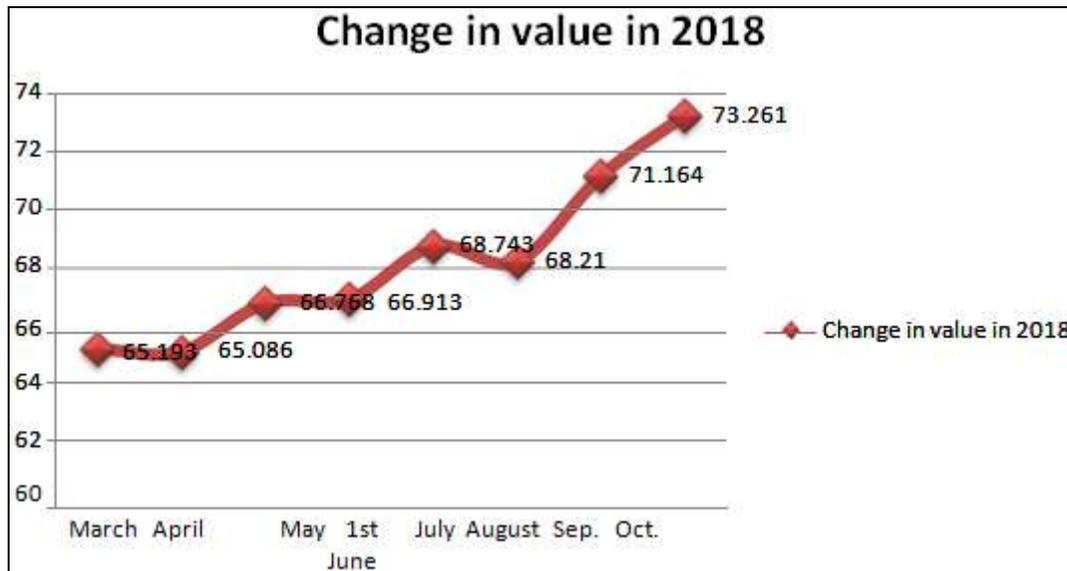


Fig. 3: Elaborating Change in value

(Source: Tradingeconomies.com, Ministry of Commerce and Industry, India)

According to this figure the tariff war has hit the US dollar up, which affects the exchange rate too. Because of tariff war the value of Indian rupee decreases. Dollar hit from INR 65.19 to INR 73.29. This sudden increase in dollar within year has affected the economy negatively.

5.3 Impact of Tariff War on Stock Market



Fig. 4: Stock Market Impact

(Source: Tradingeconomies.com, Ministry of Commerce and Industry, India)

Tariff has also crashed the stock market. As shown in the diagram SENSEX decreases from 35,906.66 to 33,006.27. on the other hand, NIFTY also decreases from 11,016.9 to 10,114.75. This drastic fall is seen within few years just because of heavy duties.

5.4 Impact of tariff war on crude Oil

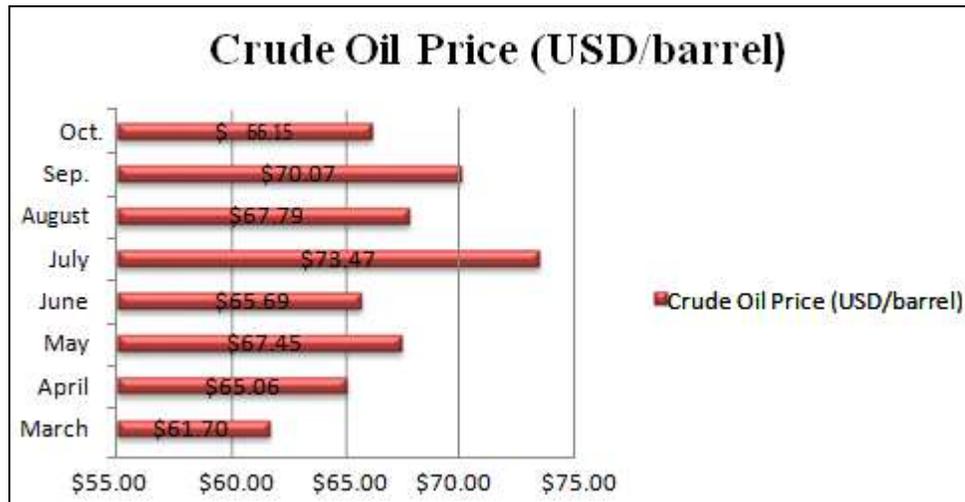


Fig. 5: Crude Oil Price during War Period

(Source: Tradingeconomies.com, Ministry of Commerce and Industry, India)

A fall can be seen in the prices of the crude oil from September \$70.07 to October \$66.15. But after this the prices of crude oil in India is increasing day by day. The tariff was has impacted the crude oil in negative way. In

India the prices of crude oil is at its peak.

4.5 Impact of Tariff War on Foreign Direct Investment

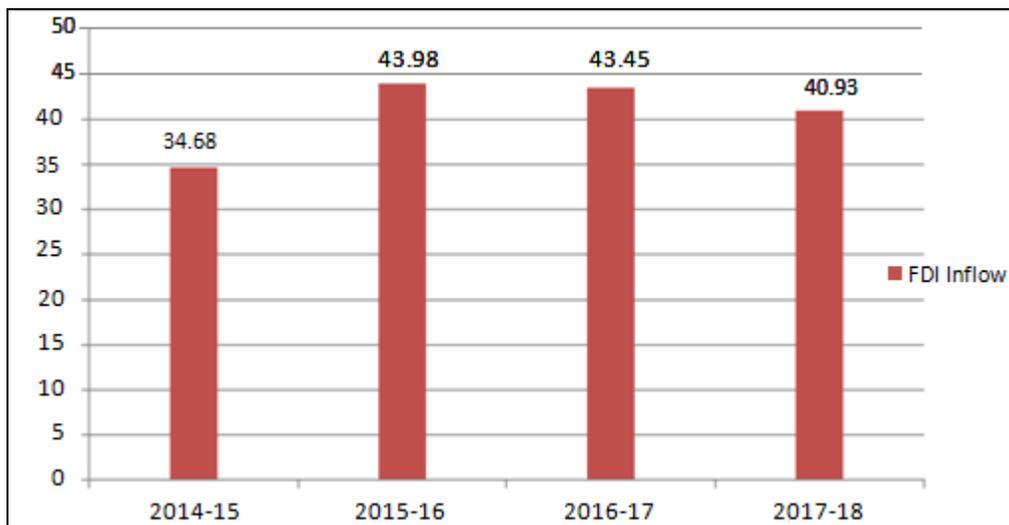


Fig. 6: FDI Structure

(Source: Tradingeconomics.com, Ministry of Commerce and Industry, India)

As shown in the diagram tariff war reflects the negative impact on FDIs. In 2017-2018 FDI decreases from 43.45% to 40.93%. This impact negatively to the Indian economy, as on now with decrease in FDI there will be decrease in foreign reserves.

5.6 Impact of Tariff War on Inflation Rate

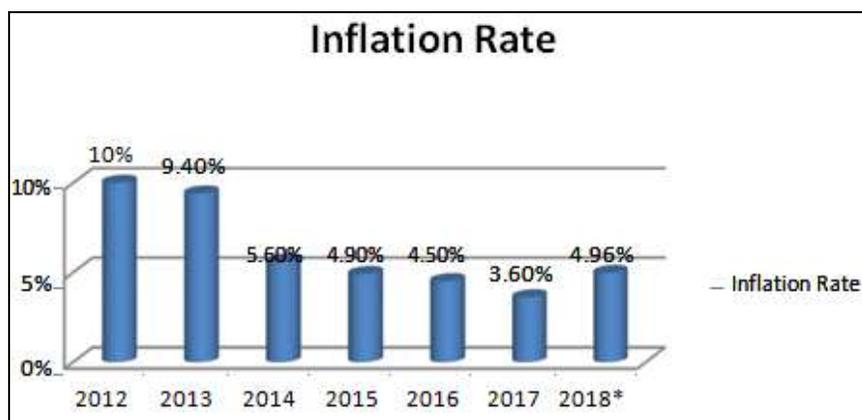


Fig. 7: Showing Inflation Rate

(Source- US-China report)

With the introduction of the trade war inflation rate of India is also increases. It was 3.6% in 2017 an it increase to 4.96%. If inflation of a country is increases then it is an indicator that the growth of that economy will also negatively impacted really soon.

5.7 Impact of Tariff War on Indian Exports

This diagram shows the net impact on Indian exports due to tariff war. Through this figure one can easily observe the drastic change in the month of March in 2019.

As tariff war start on January and it shows unbelievable impact on exports as compare to Feb; 2019.

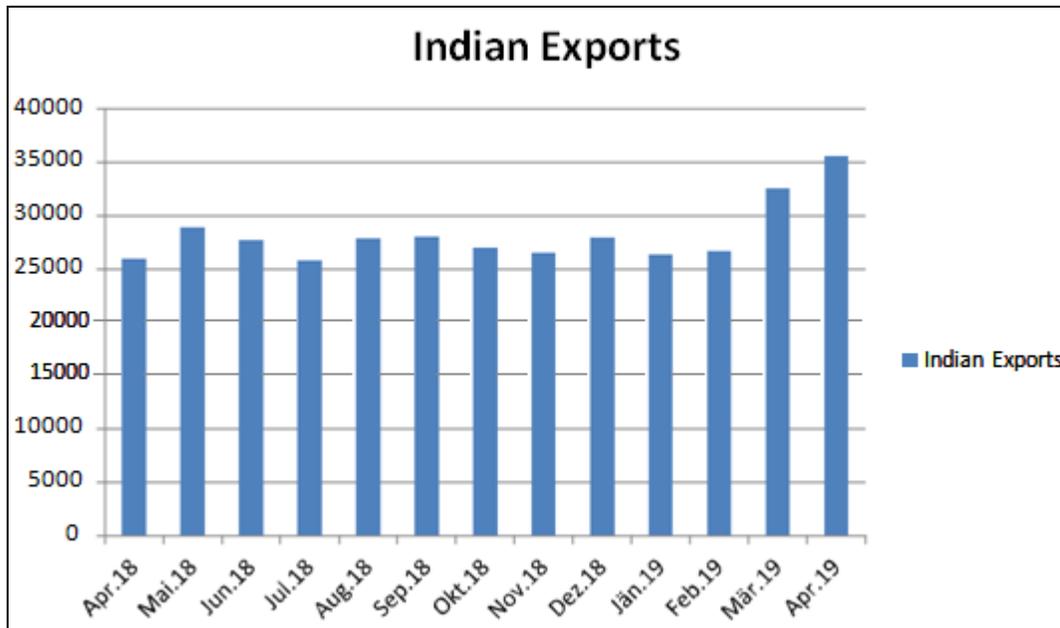


Fig. 8: Indian Exports during War Phase

(Source: Tradingeconomics.com, Ministry of Commerce and Industry, India)

VI. FINDINGS

- There are some sectors on which trade war affected negatively like it affects the inflation rate negatively, inflation rate increases in this year to 4.96%
- Share of FDI also decreases in 2018. With decrease in FDI there will be decrease in the foreign reserves.
- Tariff war has also crashed the stock market. It falls down and also it impacted the exchange rates. USD is reach at 73.26
- On the contrary on some sectors have not been affected by tariff war, in the study it doesn't affect growth rate of India. Though it is increasing as compare to previous year but at decreasing rate.

5.1 Future Scope

1. Separate study with special focus on the effect of international market.
2. Same study can also be done on large segment of market.
3. Separate study with special focus on individual perspective of China and US.

VII. CONCLUSION

Overall study revealed that, tariff war has not affected India deeply. No doubt there can be minor ups and down

in different sectors but because India is exporting only 2.2% to US of its total exports. So this study has thrown the light on the sectors which are affecting through tariff war with given percentage. Though tariff war is not a solution, it is only beneficial to few US steel and aluminum industries. US is facing unhealthy relations with other countries and it can face the same scenario which have been seen in 1930s (DEEP DEPRESSION). Tariff war will not be beneficial in long run to the US to the India and other countries as well.

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