



What a trade war might mean for India

It is not the direct impact of tariffs of steel and aluminium that are a major concern to India's economy but the potential of wider repercussions that would take a bigger toll



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Vicky Jain in Mumbai is very worried about United States president Donald Trump's move to increase tariffs on steel.

As a steel exporter who ships stainless steel raw materials to the US, one of his most important markets, he says if India is not exempt from the tariffs, his company will be hit by the hikes, which will increase his costs and could make his products uncompetitive.

"This will surely have an effect on our business," says Mr Jain, a partner in Salem Steel Industries, which has exported goods to the US for two decades. "It's definitely going against our interests."

Mr Trump in March delivered a shock announcement that tariffs of 25 per cent and 10 per cent will be imposed on steel and aluminium, respectively, in a move to protect US national security and economic interests, including jobs.

India is the world's fourteenth-largest steel exporter, exporting 4.9 million tonnes of steel in the financial year to the end of March 2017 worth \$3.1 billion, according to figures from the United States International Trade Administration. India's steel exports to the US totalled 900,000 tonnes last year, accounting for just 2 per cent of US steel imports and 5 per cent of India's steel exports, while 100,000 tonnes of aluminium was exported to the US, again accounting for 2 per cent of imports of the metal into the US, data from the US Department of Commerce and Kotak Institutional Equities show.

The numbers are small compared to China, the world's largest steel exporter, which ships more than 100 million tonnes globally of the metal every year.

Consequently, analysts say it is not the direct impact of the tariffs that are a major concern to India's economy – although businesses like Mr Jain's will feel the pinch and exports will certainly be hit – but that it throws up the potential of trade wars that would take a bigger toll on India.

"It is the ease with which the United States is increasing tariffs citing national security that should concern India," says Sanjay Notani, a partner at Economic Laws Practice, a law firm based in Mumbai. "In the future, it is not improbable that the United States could increase tariffs on products that may hit Indian exports hard."

The issue is of such concern to India that in March hosted an informal World Trade Organisation (WTO) ministerial meeting, attended by representatives from some 50 countries, to try to push against protectionist measures.

Many industry leaders in India are calling for a diplomatic approach, amid fears that retaliation would ultimately only harm the country's economy. India's trade deficit hit a near five-year high in January, which makes it all the more important for the country to strive to boost its exports.

“Countries across the world should think beyond retaliatory measures to counter the challenges,” says Rashesh Shah, the president of the Federation of Indian Chambers of Commerce and Industry a lobby group. “India can play a significant role in guiding this exercise to diffuse the emerging possibilities of a global trade war.”

Meanwhile, within the metals sector, there are fears that there could also be a knock-on effect of steel being dumped in India from other markets. The steel sector accounts for 2 per cent of India's GDP, according to data from the Indian government.

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“We are not among the top trading partners of aluminium and steel to the US but yes, if this becomes a trade war of sorts, those fears are already having a negative impact on the global economy and it would affect India,” says Kaynat Chainwala, research analyst for base metals at Angel Commodities Broking based in Mumbai. “In case negotiations don't go through on the steel and aluminium tariffs, excess supply will weigh on the global market balance and pressurise prices. This surplus will then be targeted to other consuming nations, including India, especially steel.”

This would be negative for Indian steel and aluminium manufacturers. Kotak Institutional Equities' figures show that the tariffs could result in total global exports to the US declining by 9 million to 14 million tonnes for steel, and aluminium by 600,000 to 700,000 tonnes.

The US has already revealed that Mexico and Canada will be exempt from the tariff hikes. Suresh Prabhu, India's commerce minister, is seeking exemption for India also. There are already signs that the tariff hikes are hurting US and India relations and there is speculation that India could retaliate with its own hikes if not excluded.

“Since the tariffs have been imposed on security grounds and some of the key trading partners have been excluded from that, on the basis of India's strategic partnership with the US, we are certainly not a security threat to the US,” Rita Teotia, India's commerce ministry said in New Delhi in March, the business newspaper *Mint* reported. “So exemption to India should also be available on the same grounds.”

There is a lot at stake, as trade relations between India and the US have until now been strengthening, and there has been recognition from industry and government leaders that trade between the two nations could be much greater than it is currently.

The value of US bilateral trade of goods and services with India totalled about \$115 billion in 2016, according to US government figures. Exports from the US to India stood at \$42bn, while imports from India totalled \$72.8bn. That meant there was a US trade deficit of \$30.8bn with India.

New Delhi and Washington have been actively trying to boost economic relations. The Indian prime minister Narendra Modi, who visited Washington last year to meet Mr Trump, has said that he wants the bilateral trade figure to increase to \$500bn by 2025.

But a trade war could impact several sectors.

The biggest exports from the US to India are precious metals and stones at \$7bn in 2016, machinery totalling \$2bn, and optical and medical instruments at \$1.3bn. Meanwhile, in terms of goods flowing from India to the US, the biggest categories were precious metalb and stones worth \$11bn, pharmaceuticals at \$7.4bn, mineral fuels at \$2.4bn, and textiles at \$2.3bn.

Mr Notani says there are possible “ways out” of a potential trade war.

“The United States has invited countries with which it has a security relationship” to discuss ways to address national security threats posed by its aluminium and steel imports,” he says, citing unconfirmed reports that Indian trade officials have written to their US counterparts.

“Two possible options are available for Indian aluminium and steel producers,” Mr Notani explains. “Firstly, they could petition the Indian government to initiate a trade dispute against the United States at the WTO. “

But he points out that this option could risk harming broader trade relations between India and the US.

“A more pragmatic approach would be for the aggrieved Indian firms to seek exclusions for steel and aluminium products. The U Department of Commerce is authorised to grant these exclusions for products that are not sufficiently produced in the United States or those which do not affect national security considerations.”

But for now, Mr Jain in Mumbai and others fears the issue will not be resolved and profits will slide.

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