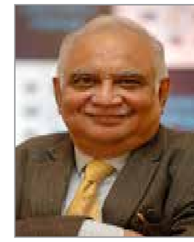
Aggressive Trump's Tariffs - Tactical Pause Not A Strategic Reorientation



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COVER STORY

"The heart has its reasons that reason does not know". Blaise Pascal, French mathematician, physicist, and philosopher.

Donald Trump's rule has evoked widespread development discourse and thrown the global economy into a tailspin in ways few would have thought possible. The US claimed that 133 Countries charged it higher tariffs on more than two-thirds of the 6,00,000 odd product lines. President Donald Trump eloquently maintained, *"China's average tariff on our products is twice... and South Korea's average tariff is four times higher... This is happening by friend and foe. This system is not fair to the United States. It never was...We have been ripped off for decades by nearly every country on Earth, and we will not let that happen any longer"*. Similar stern action was in for the European Union (EU) because of Trump's plan to impose tariffs of 25 % on EU, holding EU was created to *"screw the United States"*. Strong and unambiguous words these!

Emerging Contours

The United States and China agreed to pause most of their punitive tariffs for 90 days. This welcome move was greeted by the markets, reflected in a spike in the stock indices globally. The reneging on the dense economic policy of reciprocal tariffs, the like-for-like duties for all countries and products, and the unsustainably level of high tariffs of 145 % by the United States on Chinese goods and Chinese tariffs up to 125 % on American imports were understandable because of the stiff pushback from multiple countries, the frontiers of economic intimidating tactics and the unmistakable inter-dependencies and inter-linkages characteristic of the modern global world, a world, where no economy can thrive in isolation, in a silo. This was starkly reflected in the fact that manufacturers reliant on Chinese components felt the painful pinch and the Chinese export-driven industries were majorly hit. While the Geneva talks broke fresh diplomatic and strategic ground, they recalibrated economic pain as partners in development. It was realized by countries across the development spectrum that a *"sustainable, long-term, and mutually beneficial economic and trade relationship"* between the US and China and indeed other major trading partners is the sine qua non of the capitalist system and the basic canons of free trade.

This is why the broader tariff regime was steeply pruned from the earlier 145 % to 30 % on Chinese goods, and to 10 % on American goods to China. While these time-bound reductions are welcome, a 'reset' in bilateral relations is not a 'pivot'. There continue to be structural and deeply entrenched issues of intellectual property disputes, espionage concerns, technological theft, and the yawning chasm of the US trade deficit with China ($ 295.4 billion in 2024). What worsens matters is the USA's systemic distrust of China's economic ascendancy. This is why the jury is out on whether this pause is markedly different from the earlier episodic agreements with China.

This deal of cutting US tariffs from 145 % to 30 %, which stabilizes global markets and softens inflationary pressures, could provide a reprieve for emerging market economies (EMEs). But till a few years ago, most US tariffs were under 3 %. Were China to regain its appeal to global investors as a reliable manufacturing base, the vaunted 'China+1' strategy, could lose teeth. India's trade dynamics with both powers remain uneasy. India's trade deficit with China continues to widen and the Indian industry remains unduly reliant on Chinese imports across sectors. Hence, these are early days yet and there is a fair way to traverse in moving from tactical manoeuvring to long-term economic reconciliation.

Sprouting Pain Points

Contrary to Trump's perception of catalyzing manufacturing and turbocharging foreign investment in America, this myopic policy would have led not to a win-lose situation but a lose-lose scenario with all participants in the process of global trade becoming worse off in a vicious cycle of higher cost of imported goods, concomitantly higher inflation, fragile trade relations, lower volume of trade, and reduced economic growth and declining confidence from both investors and consumers.

World trade zoomed 400-fold from $ 60 billion in 1947 to $ 25 trillion in 2023, whereas global growth rose only 26 times. This frenzied growth was facilitated by countries lowering tariffs and opening markets, making cross-border trade easier and cheaper. Most of these tariff cuts were made first by GATT and subsequently by WTO.

The Latin expression *res ipsa loquitur* (the thing speaks for itself), which is a doctrine in common law and Roman-Dutch law jurisdictions, suggests that one of the basic reasons for America's prosperity is the humongous, internal, free trade area. It would, therefore, be unreasonable and illogical to be oblivious to the *Smoot-Hawley Tariff of 1930*, which greatly worsened an already bad recession, plummeting the American economy into a deep depression. What was prognostically alarming was that this move would have become an exercise in futility with the treatment being worse than the disease – a classic case of the *Cobra Effect*, when good intentions backfire spectacularly. Such short-sighted, myopic policies strike at the fundamental tenet of capitalism and free trade.

The ominous impact of trade wars and escalating tariffs on growth and inflation across countries constitutes conventional wisdom. Shared prosperity necessitates a more connected, secure, and efficient trading environment - an environment, where the size of the global pie not only increases but is also more equitably distributed.

The underlying reasons for the ostensible *'tariff terrorism'* included internal debilities, such as asset monetization, lower crude prices, lower rates, a weaker dollar, and resurgent manufacturing in the US.

These policies could have also significantly impacted the gold trade. Central banks *"currently hold about 10 % of their reserves in gold, and could raise this figure to +30 % to make their portfolios more efficient"* (Michael Widmer, Bank of America's commodity strategist). Non-U.S. central banks and governments hold a huge stock of dollars in their reserves, reinforcing the dollar as the world's reserve currency. With this position changing now, some countries are exploring a dollar-policy Plan B, particularly in the event of another financial crisis. This geopolitical shift would provide a discernible upward bias to the gold price. As Widmer averred, *"Uncertainty around Trump administration trade policies could continue to push the USD lower, further supporting gold prices near-term."*

Ripple Effects

With almost 30 % of total global spending and about $ 5 trillion stock of foreign direct investment (FDI), the USA remains the pivot of the global economy. Hence, JPMorgan Chase analysts had warned that the possibility of a US slowdown had resulted in a *"materially higher risk of a global recession this year because of extreme U.S. policies."* They placed the probability of a downturn at 40 % because of rising costs for US producers and consumers. Warren Buffett has called Trump tariffs *"an act of war, to some degree,"* since they will trigger a trade war that will contract global trade and economic growth while raising prices and the cost of doing business.

Canada, the E.U., and China retaliated against the "arbitrary tariffs". Hence, Trump's tariff whiplash could have marked the onset of a possible global trade war because such unbridled aggression will provoke patriotic fervor in other countries and thus unleash retaliation on a large scale, the kind seldom seen in global history.

Trump's fulfillment of his promise of *"making America great again"* (MAGA) can be substantiated by the theoretical underpinnings provided in a book called No Trade Is Free (2023) by Robert Lighthizer, who was the former US Trade Representative (USTR) in the first Trump administration. Lighthizer made a strong case for *"fair trade"* rather than free trade since the untrammeled play of market forces hurt American strategic interests.

Smelling the Coffee- An Indian Prism

Considered in a proper historical and comparative perspective, trade disputes between the USA and India regarding agricultural and industrial products are not new. But with tariffs becoming an article of faith for President Trump and India focusing on innovative strategies like Atmanirbhar Bharat, Make in India, Productivity-Linked Incentives (PLIs), and start-ups to significantly scale up domestic manufacturing and exports in general, and protect vulnerable sectors such as agriculture (11.2% of agri products from India go to the US), marine products, rice-both Basmati and non-Basmati rice and strategic sectors like defense, energy, and medical devices in particular, such discordant notes have been amplified. Thus, India's stage of development and the compelling requirements of meeting the challenges of today and the expectations of tomorrow require a renewed thrust on protecting domestic industries, promoting self-sufficiency, and managing trade imbalances—a well-defined strategy to prop up economic growth, when the domestic economy is not fully developed, characterized as the *'infant-industry'* argument in economic history.

In a recent analysis, Bernstein cogently argues that India could emerge as a significant beneficiary should the U.S. economy enter a recession. India's economic resilience amidst global challenges stems from robust domestic consumption, diverse economic structure, and attractiveness to international investors during a U.S. recession because of a shift in investment flows and favorable demographics. There are also aspects, such as government initiatives like structural reforms and prudent fiscal and monetary policies to maintain macroeconomic stability, control inflation, and promote sustainable growth, enhancing economic fundamentals, and diversification benefits for global portfolios emanating from reduced correlation with Western markets and emerging market growth potential.

Paradigm Shift from Free Trade to Fair Trade

While *"no trade is free"* (Dani Rodrik), one size does not fit all. Unlike the US, India's high tariffs are compliant with the WTO (World Trade Organization). At the time of the inception of the WTO (in 1995, developed nations agreed to let developing countries retain higher tariffs in lieu of introducing TRIPS (Intellectual Property rules), services trade liberalization, and agricultural trade rules.

Leaning Against the Wind-Indian Strategy

India's imports from the USA comprise energy, advanced technology, raw materials, aircraft and space parts, and electric machinery. The imposition of an equal and matching tariff by India on American goods is practically difficult because of global and domestic factors, viz., the marked difference in the relative size, composition, and heft of the American and Indian economies, the level of technological prowess in America, the extraordinary strength of the American *"military-industrial complex"* and America's continued sway, despite some diminishing in recent years, on geo-strategic issues.

Non-tariff Barriers (NTBs)

Non-tariff measures (NTMs) are policy measures other than tariffs that can potentially have an economic effect on international trade in goods. While many NTMs are aimed at protecting public health or the environment, they also substantially affect trade through information, compliance, and procedural costs. NTBs, such as import quotas, licensing, and technical regulations, prevent free trade, stifle international trade, and make the playing field uneven. The WTO identifies NTBs as trade, including import licensing, rules for the valuation of goods at customs, pre-shipment inspections, rules of origin, and trade-prepared investment measures. There are also issues of import quotas, technical regulations, sanitary and phytosanitary measures, and customs delays.

India uses fewer NTBs than most developing countries, including the US. Accordingly, there must be a sharper focus on NTBs *"to strike the delicate balance between the reduction of trade costs and the preservation of public objectives"* for a holistic assessment and perspective.

Non-tariff measures in India vis-à-vis other Major Economies

Indicator	India	US	China	UK	Japan	Brazil	Germany
Frequency Ratio (% of imported products subject to non-tariff measures)	47	77	90	92	61	75	92
Coverage Ratio (% of import value subject to non-tariff measures)	69	83	92	89	76	84	89

Source: UNCTAD

New Days, New Ways

Bilateral pacts between India and the UK/ EU, and trade agreements with ASEAN and Gulf countries will help to diversify and expand India's export markets. Such pacts will enhance trade and investment by reducing tariff and non-tariff barriers, improving market access, and helping expand opportunities in technology, healthcare, and education. Some other contextually significant measures could conceivably include re-honoring the South Asian Free Trade Area (SAFTA), strengthening BRICS and other regional alliances, exploring emerging geographies and alternative courses that transcend from Europe to the US via the Middle East, and revamping supply chain algorithms. There must also be an emphasis on joint trade portals by national-level chambers of commerce, product-specific collaborations between business associations and chambers of commerce, expanding IT exports, promoting rupee-based trade, infrastructural reforms, and digitization of trade.

Pathway to the Future

However, an objective analysis reveals that since the US is India's largest trading partner and the largest export destination, it is unrealistic to expect these FTAs to offset the impact of stiffer tariffs by the USA. Such FTAs may, however, cushion the impact of higher tariffs by the US to a limited extent and, therefore, are welcome both politically and economically.

Finally, domestic firms and industries must retool their inputs, outputs, and finished products to slash costs and achieve operational efficiency and an uninterrupted supply chain for growth, structural transformation, and resilience. This assumes greater importance because India's share of manufacturing in its GDP remains unacceptably low at 13 %. A resuscitating industrial strategy, higher level of strategic macro initiatives like Make in India, local for global, PLIs, diversifying export basket, and value addition to an altogether newer and stratospherically higher orbit is difficult but by no means impossible. However, this necessitates coordinated and concerted action swiftly by all stakeholders.

(Views are personal)