The United States-China Trade Confrontation and Implications for India

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An unprecedented phase of trade retaliation has erupted between the two largest trading nations of the world – the US and China. Together, the total trade engagement of the two countries in 2016 topped $7.3 trillion or about 23 per cent of global merchandise trade, and any drop in their bilateral trade bears diverse implications for the world’s exports and imports.

India, for which exports are a significant growth driver, must delve into the ramifications of these retaliatory trade measures which, if implemented, are likely to impact its own trade efforts.

Trade Dispute

Since the beginning of the year, the US-China trade dispute has intensified (Bloomberg 2018). From countervailing duties on stainless steel flanges from China (and India) to safeguard duties on washing machine and solar cells aimed at China, the escalation carried on with several other measures and countermeasures. The US move to apply tariffs on steel and aluminium imports to protect its domestic industry resulted in China issuing intent to impose duties on agricultural goods worth $3 billion imported from the US, designed to impact US farmers (Stanton 2018).

Following the publication of the US Trade Representative (USTR) report (USTR 2018) of its investigation of China under section 301 of the US Trade Act on March 22, the US decided to impose 25 per cent tariff on over 1,300 products coming from China, as per the list announced on April 3. Chad Bown of the Peterson Institute for International Economics (PIIE) estimates that these items account for $46 billion of US imports from China (Bown 2018).

The next day, China evened the score with its own list of 106 US products that would be subject to the same tariff rate, calculated by PIIE to impact almost $50 billion worth of Chinese imports from the US.

If, after due process, all these tariffs are instituted, they would price higher about 15 per cent of bilateral goods trade, not an insignificant proportion.
April witnessed a barrage of trade measures from the two countries directed at each other. The US banned its companies from selling components to Chinese telecom equipment manufacturer ZTE for seven years, citing violations of sanctions against Iran. Anti-dumping deposits were imposed on US exports of sorghum to China, its major market by far for the product. US President Trump then followed up to threaten tariffs on another $100 billion imports from China, which would leave China with no room for retaliation of an equal level (Olorunnipa and Mayeda 2018).

Such tit-for-tat steps have significant implications for global trade. The US is the world’s largest importer of goods at $2.2 trillion and the second largest exporter with $1.4 trillion. China ranks top in exports with $2.1 trillion and second in imports at $1.4 trillion as of 2016. Merchandise worth $637 billion was exchanged between the two countries in 2017, with two-way flows including services exceeding $711 billion. With such significant trade values involved, market sentiments are being affected, leading to volatility due to uncertainty about implementation of threatened tariff measures.

United States Trade Representative (USTR) Report

The USTR report, on which the recent round of tariff hikes is based, is entitled ‘Findings of the Investigation into China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation under Sector 301 of the Trade Act of 1974’ (USTR 2018). It was initiated in August 2017 following long-standing complaints from US companies about being pressurized to share technology with China in return for market access. The findings imply that the Chinese government deploys unfair, opaque and unwritten ways to compel American enterprises to open up their proprietary technologies.

The report also alleges that China supports and incentivizes acquisitions of and investments in US technology firms to gain intellectual property. The US government in March refused the takeover of chip-maker Qualcomm by Singapore-based Broadcom to prevent Huawei Technologies from acquiring access to critical technology. Earlier too, it had stopped the takeover of another chipmaker firm by a Chinese company.

One key claim of the report is that the Chinese government indulges in ‘unauthorized intrusions’ into US commercial computer networks and cyber theft of intellectual property belonging to US enterprises. It estimates that this may have resulted in loss of 200,000 jobs in the US. The Chinese government has refuted the USTR report as violating the ‘spirit of WTO’ (Ministry of Commerce of the People’s Republic of China 2018).

Technology War

The USTR report details the different national policies that China has strategically instituted to attain global dominance in advanced technology sectors. China aims to move from low value-added manufacture to become a leading source of global innovation. According to the report, the Chinese government has instituted over 100 five-year plans in science and technology and specific cutting-edge sectors over the last decade to meet its ambitious targets.

These include the overarching ‘National Medium and Long-Term Science and Technology Development Plan Outline (2006-2020)’, development of ‘Strategic Emerging Industries’, and ‘Made in China 2025’. The central and state governments and state-owned enterprises play a strong role in fostering and supporting new technologies, and directly or
indirectly encourage unfair technology transfers from foreign firms, adds the report. The US-China ‘trade war’ thus translates into a tussle for technology leadership and strategic dominance. Chinese investments in US technology firms too have been on the US radar. China accounts for the largest number of patent applications in the world, crossing 1 million and accounting for 98 per cent of the total growth in patent applications in 2016 (World Intellectual Property Organization 2017). The US patent office came in at less than half of this number. China is also the biggest market (International Federation of Robotics 2018) for industrial robots with 30 per cent of the total supply, and has determinedly advanced on artificial intelligence, one of its priority areas (Kopf 2018).

The rapid progress it has made in these and other areas of the so-called Industry 4.0 technologies cement its growing footprint in new technologies and establish a strong foundation for its future leadership role, a development which the US administration under President Trump views with concern, according to analysts (Laskai 2018). Thus, hopes regarding moderation in bilateral trade actions in the future may turn out to be belied.

India’s Trade with US and China

For India, the US is its largest export market and second largest source of imports with total trade in goods at $66 billion (Apr-Feb 2017-18). China remains by far India’s largest import partner with close to $70 billion of goods purchased from the country in the first 11 months of the fiscal year. However, China’s interest in Indian products added up to less than $12 billion during this period.

If the tariff barriers imposed by the US and China play out as planned, global trade could contract, impacting India’s recent upturn in exports.

India’s Exports of Tariff-Impacted Products

According to Bown, machinery, mechanical appliances and electrical equipment account for $34.2 billion of the affected US imports from China. The largest three items as per HS Code at 8-digit level are 85287264 (color televisions), 87032301 (motor vehicles), and 84439950 (printer parts). The imported value of about 800 items in the US list is less than $1 million and about 100 items stood at zero value (Bown 2018). This in itself raises questions as to the US administration’s intent in slapping 25 per cent import duties on these Chinese products.

Looking at US import items from China valued at over $500 million, it is found that India’s exports to the US of these items (at 4-digit level) in 2016 were very limited (see Table 1). Only 4 of the 15 items aggregated more than $100,000 and none came in over $300,000 value. It is, therefore, unlikely that US demand of these products from India would pick up considerably in the short term.
Regarding the Chinese imports from the US on which retaliatory tariffs are proposed, Bown has calculated these from US data. The top category is transportation goods at $27.6 billion, followed by vegetable products ($13.7 billion) and plastics and rubber ($3.5 billion) (Bown, 2018). For all but two of the items for which imported value is over $ 500 million (at 6-digit HS Code), India’s exports to China are nil or negligible (see Table 2).

The only exceptions are cotton and vehicle parts. Thus, India would probably not be considered by China as a potential replacement source for its US imports of these goods.

The above analysis reveals that India would not see much trade diversion coming its way from the ongoing US-China trade spat. For one, with about 15 per cent of bilateral trade slated to suffer from higher tariffs, the first and second round spill over impact on world trade from lower bilateral trade would be inimical to Indian exports, which have just begun to consolidate. China is a key player in global value chains, and loss of US markets for certain products will affect its imports from supply partners, which in turn will impact the economies of exporting nations down the chain.

Second, the high-value imported goods on which tariffs are proposed by both countries are not significant in India’s export profile for the two partners. In some cases, such as electrical equipment and machinery, India lacks manufacturing capacity. In others, as for example, soya beans, China’s import barriers for Indian products have prevented India from accessing its market.

Three, given the current US stance, there is a risk of further trade barriers on US imports from India. India has been placed on the Priority Watch List in the USTR Special 301 Report for intellectual property rights (IPR) implementation. Its foreign exchange policies are also under US watch. The coveted H1B visa regulations have been made tougher, and fewer Indians are applying for them. President Trump has also voiced concerns about high tariffs in India for certain US products (Haidar and George 2018). The US has further announced a review of general system of preferences (GSP) which permits imports of certain goods from India at zero tariffs, impacting $5.6 billion of India’s exports to the US of key labour-intensive products such as textiles and gems and jewellery. These are part of the overall US protectionist trade sentiments and policies, which could escalate, depending on domestic reaction and global retaliation.

On the Chinese side, there has been reluctance to address India’s trade concerns, including for agricultural products. At the meeting of trade ministers in March, China continued to maintain the rhetoric on the ballooning bilateral trade imbalance without much actual action (Press Information Bureau 2018).

**Implications for India**

**Investment Dimension**

There is some potential for positive diversion to India on the investment side. China’s FDI in the US has dropped considerably in 2017 over the previous year; led both by Chinese restrictions on overseas investments and unfavourable US scrutiny of Chinese investments. Anxiety about trade has continued to detract from Chinese investor interest in the US, with the slide unabated in the first two months of 2018. US FDI in China remained around $14 billion in 2017 as in the previous year (The Asia Times 2018).

With Chinese firms taking positions in India’s technology sector, there is some possibility for higher inflows from that direction. US investments into India fell between 2015-16 and 2016-17 and stayed muted in the period April-December (Department of Industrial Policy and Promotion 2018). In several institutionalised dialogue platforms between

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**With technology development and IPR as issues of contention, India will need to be watchful regarding its own position in the evolving Industry 4.0 technologies**
India and the US, various challenges faced by US companies in doing business with India have been raised, which India has sought to address. However, cumulative investments by the US in India trail at 6th position at just over $22 billion between April 2000 and December 2017 (Department of Industrial Policy and Promotion. 2017) compared to its outward FDI of $299 billion in 2016 alone.

**Technology Implications**

With technology development and IPR as issues of contention, India will need to be watchful regarding its own position in the evolving Industry 4.0 technologies, which involves multiple emerging technologies such as robotics, artificial intelligence (AI), and additive manufacturing, among others, and also fosters rising share of embedded services in manufacturing (Scalabre n.d.). India has emerged as a top three nation in technology-led startup entrepreneurship creation (NASSCOM 2017) and is a leading destination for global innovation centres set up by multinational companies. It compares well with China in terms of English language proficiency and cultural connect, raising less anxiety about data security and IPR loss (Goyal 2017).

As long as India adheres to a strong IPR regime and continues to encourage non-resident patent applications, it would stand out as a reliable technology partner for the future. However, China’s focused and accelerated approach towards the target of technology dominance should incite deeper strategic thinking in Indian policy circles to avoid India being marginalised in the technology leadership competition between the US and China.

**Future Direction**

The US-China trade disputes are part of two larger developments. The first is the general context of strategic geopolitical tensions exhibited within an economic and technological expression. Second, are the waning gains that overseas enterprises perceive in a Chinese economy where the trade-off between market access and IPR loss is yielding lower profitability. How these two forces play out in the global arena and for India in particular, would depend on the actions taken by the two powerful nations in the future.

It is unclear which direction the trade tensions could take in coming months. The US administration provides a window of 60 days before the tariff measures are implemented and the Chinese side has not set a date for its retaliatory announcements to take effect. Meanwhile, China permitted foreigners to set up wholly-owned enterprises for car production, a move aimed to encourage new US auto players to enter the Chinese market. Thus, on the one hand, there is the possibility of de-escalation of trade measures and countermeasures, which would require a period of intensive negotiations between the two sides, and on the other, increased clamor from different constituencies (primarily in the US) could lead to further rounds of offensive policies.

Even within this, while potential exists for the two leading trading nations to negotiate for setting aside the recent tariff hikes and uncertainty prevails, the spate of other trade steps, such as the crippling ban on ZTE, would remain on the table. As the US-China trade issue unfolds over the year, global trade can be expected to be impacted.

Meanwhile, in India, the procedural issues arising from introduction of the Goods and Services Tax still create problems for exporters. For India’s policymakers, the fact that the items of interest to the world’s largest traders figure insignificantly in its export basket with these markets flags the country’s continued low penetration of world markets.
The Indian government would need to ensure a strategic approach to the many dimensions of the export endeavour in this evolving trade scenario and accelerate export competitiveness in mission mode to reinstate its efficacy as a growth driver for the country. It must also continue to take measures to encourage its R&D engagement and boost technology industries.

REFERENCES


The views expressed here are those of the author and not necessarily of the Institute of Chinese Studies.
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<tr>
<th>hts08</th>
<th>Sect301_list</th>
<th>US imports from China, 2016 ($, 000)</th>
<th>US imports from China, 2017 ($, 000)</th>
<th>Details</th>
<th>Indian exports to US 2016 ($, 000) At 4-digit HS level</th>
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<tr>
<td>85287264</td>
<td></td>
<td>3,104,653</td>
<td>3,888,269</td>
<td>Color television reception apparatus w/flat panel screen, video display diagonal over 34.29 cm, incorporating a VCR or player</td>
<td>91</td>
</tr>
<tr>
<td>87032301</td>
<td></td>
<td>1,457,820</td>
<td></td>
<td>Motor vehicles to transport persons, w/spark-ign. IC recip. piston engine, w/cyl capacity &gt;1, 500cc but &lt;=3, 000cc</td>
<td>295</td>
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<td>84439950</td>
<td></td>
<td>1,542,188</td>
<td>1,358,685</td>
<td>Parts and accessories of other printing, copying or facsimile machines; nesi</td>
<td>5</td>
</tr>
<tr>
<td>76061230</td>
<td></td>
<td>722,837</td>
<td>1,075,608</td>
<td>Aluminum alloy, plates/sheets/strip, w/thick. o/0.2mm, rectangular (incl. sq), not clad</td>
<td>55</td>
</tr>
<tr>
<td>84717040</td>
<td></td>
<td>1,231,490</td>
<td>885,456</td>
<td>ADP magnetic disk drive storage units, disk dia. n/ov 21 cm, not in cabinet, w/o attached external power supply, n/entered w/rest of a system</td>
<td>23</td>
</tr>
<tr>
<td>84159080</td>
<td></td>
<td>683,992</td>
<td>830,450</td>
<td>Parts for air conditioning machines, nesi</td>
<td>15</td>
</tr>
<tr>
<td>84139190</td>
<td></td>
<td>638,296</td>
<td>801,230</td>
<td>Parts of pumps, nesi</td>
<td>113</td>
</tr>
<tr>
<td>84439925</td>
<td></td>
<td>507,504</td>
<td>706,650</td>
<td>Parts and accessories of printers, nesi (included in 84439950)</td>
<td></td>
</tr>
<tr>
<td>84439920</td>
<td></td>
<td>982,026</td>
<td>691,207</td>
<td>Parts of printer units of subheading 8443.32.10 specified in additional U.S. note 2 to this chapter (included in 84439950)</td>
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<td>85269100</td>
<td></td>
<td>851,500</td>
<td>671,231</td>
<td>Radio navigational aid apparatus, other than radar</td>
<td>2</td>
</tr>
<tr>
<td>84819090</td>
<td></td>
<td>516,104</td>
<td>668,215</td>
<td>Parts of taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, nesi</td>
<td>224</td>
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<tr>
<td>85414020</td>
<td></td>
<td>653,521</td>
<td>637,238</td>
<td>Light-emitting diodes (LED's)</td>
<td>8</td>
</tr>
<tr>
<td>84314990</td>
<td></td>
<td>491,341</td>
<td>626,026</td>
<td>Parts suitable for use solely or principally with the machinery of heading 8429 or 8430, nesi</td>
<td>102</td>
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<tr>
<td>85256020</td>
<td></td>
<td>353,908</td>
<td>618,924</td>
<td>Transmission apparatus incorporating reception apparatus, other than transceivers</td>
<td>17</td>
</tr>
</tbody>
</table>
Connectors: coaxial, cylindrical multicontact, rack and panel, printed circuit, ribbon or flat cable, for a voltage not exceeding 1,000 V

Table 2

_India’s Exports to China of Imports from US for which Tariffs were raised_

<table>
<thead>
<tr>
<th>hs06</th>
<th>China Retaliation</th>
<th>US exports to China, 2016 ($, '000)</th>
<th>US exports to China, 2017 ($, '000)</th>
<th>Description manually entered</th>
<th>Indian exports to China 2016 ($, 000) at 4-digit HS level</th>
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<tr>
<td>880240</td>
<td>1</td>
<td>14,576,413</td>
<td>16,265,504</td>
<td>Aeroplanes and other aircraft; of an unladen weight exceeding 15,000kg</td>
<td>0</td>
</tr>
<tr>
<td>120190</td>
<td>1</td>
<td>14,181,635</td>
<td>12,355,952</td>
<td>Soya beans; other than seed, whether or not broken</td>
<td>neg.</td>
</tr>
<tr>
<td>870323</td>
<td>1</td>
<td>6,956,900</td>
<td>6,524,282</td>
<td>Vehicles; with only spark-ignition internal combustion reciprocating piston engine, cylinder capacity over 1500 but not over 3000cc</td>
<td>neg.</td>
</tr>
<tr>
<td>870324</td>
<td>1</td>
<td>791,984</td>
<td>1,983,324</td>
<td>Vehicles; with only spark-ignition internal combustion reciprocating piston engine, cylinder capacity over 3000cc</td>
<td>neg.</td>
</tr>
<tr>
<td>271112</td>
<td>1</td>
<td>816,800</td>
<td>1,650,095</td>
<td>Petroleum gases and other gaseous hydrocarbons; liquefied, propane</td>
<td>neg.</td>
</tr>
<tr>
<td>870380</td>
<td>1</td>
<td>-</td>
<td>1,526,040</td>
<td>Vehicles; with only electric motor for propulsion</td>
<td>neg.</td>
</tr>
<tr>
<td>520100</td>
<td>1</td>
<td>551,037</td>
<td>971,301</td>
<td>Cotton; not carded or combed</td>
<td>229</td>
</tr>
<tr>
<td>100790</td>
<td>1</td>
<td>1,047,751</td>
<td>835,656</td>
<td>Cereals; grain sorghum, other than seed</td>
<td>0</td>
</tr>
<tr>
<td>870840</td>
<td>1</td>
<td>536,501</td>
<td>676,226</td>
<td>Vehicle parts; gear boxes and parts thereof</td>
<td>70</td>
</tr>
<tr>
<td>382200</td>
<td>1</td>
<td>564,836</td>
<td>626,859</td>
<td>Reagents; diagnostic or laboratory reagents on a backing and prepared diagnostic or laboratory reagents whether or not on a backing, other than those of heading no. 3002 or 3006; certified reference material</td>
<td>neg.</td>
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_Source: Bown, 2018; Source for Indian data: Intracen_
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