

Snap | 17 June 2019

India tariff hike shows vulnerability of US trade strategy

India has struck back after the US withdrew its preferential tariff schedule



Source: Shutterstock

India has decided to impose long-awaited tariffs on 28 product groups after the US said it would roll back a duty-free imports scheme for approximately \$6 billion worth of imports from India. The tariffs came into effect on Sunday. These retaliatory measures show the vulnerability of the high pressure strategy characterised by the current US trade policy. Not all countries will give in so easily to US demands as, for example, Mexico did. Countries that are less dependent on trade with the US will resist, with the risk of escalating tit-for-tat tariff fights. If it pushes too far in negotiations with India, Japan, the EU, and China, the US could end up being the biggest loser of all. This is because it would then face tariffs with all its trading partners involved in the disputes while the EU and the other countries would face higher tariffs only at the US border.

Although the measures are, in part, a reaction to the US withdrawing preferential market access for India, legally, these tariffs are a retaliation against the US steel and aluminium tariffs imposed last year. India postponed the tariffs multiple times in the hope of reaching some sort of agreement with the US. In the end, it decided not to postpone any further.

The 28 products affected include agricultural products, with tariffs being raised by up to 120%. The measures [are reportedly expected](#) to raise about \$217 million of tax revenues. Assuming that the average increase is about 50%, the tariffs will affect 1% to 2% of total Indian merchandise imports from the US. Although this is only a small fraction of US – Indian trade, it further inflames tensions between the two countries.

[Click here](#) for our 2019, 2020 trade outlook and scenarios for the trade war.