



AN ANALYSIS OF THE GLOBAL TRADE WAR AND ITS IMPACT ON THE INDIAN ECONOMY

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ABSTRACT

The global trade war, marked by rising tariffs, protectionist policies, and strategic economic rivalries among major economies, has significantly reshaped international trade dynamics and posed complex challenges for emerging markets like India. Triggered primarily by tensions between the United States and China, the trade war disrupted global supply chains, reduced trade volumes, and increased uncertainty in financial markets. For the Indian economy, these developments have produced both adverse impacts and strategic opportunities. On the negative side, slower global growth and weakened export demand affected key Indian sectors such as engineering goods, textiles, and information technology services, while volatility in commodity prices and capital flows added pressure on macroeconomic stability. At the same time, higher input costs and uncertainty discouraged private investment and strained small and medium enterprises. However, the trade war also created opportunities for India to enhance its role in global value chains, as multinational firms sought to diversify production away from China. India benefited from trade diversion in select sectors, increased foreign direct investment interest, and greater emphasis on domestic manufacturing through initiatives like “Make in India” and “Atmanirbhar Bharat.” Overall, the impact of the global trade war on the Indian economy has been mixed, underscoring the need for structural reforms, trade diversification, and stronger competitiveness to navigate an increasingly fragmented global trade environment.

Keywords: Global Trade War, Indian Economy, Protectionism, Trade Diversion, Global Supply Chains, Economic Growth

1. INTRODUCTION



The global trade war refers to a period of intensified trade tensions among major economies, characterized by the imposition of tariffs, quotas, and other protectionist measures aimed at safeguarding domestic industries. In

recent years, especially following the trade conflict between the United States and China, the world trading system has witnessed a significant shift away from multilateralism toward economic nationalism. These developments have disrupted the smooth functioning of global trade, weakened international cooperation, and increased uncertainty in financial and commodity markets. As global supply chains became deeply interconnected, the effects of trade wars extended beyond the countries directly involved, influencing both developed and developing economies. India, as one of the fastest-growing emerging economies and an important participant in global trade, has been directly and indirectly affected by these changes. The Indian economy relies heavily on international trade for exports, imports of essential raw materials, capital goods, and energy resources. Consequently, fluctuations in global demand, tariff barriers, and changes in trade policies have a strong bearing on India's economic growth, industrial performance, and employment generation. While trade wars have posed challenges such as reduced export competitiveness, volatile capital flows, and increased costs for producers, they have also opened new avenues for India to reposition itself in global value chains. Understanding the nature of the global trade war and its implications is therefore crucial for assessing India's economic prospects and policy responses in an increasingly uncertain and fragmented global economic environment.

2. REVIEW OF LITERATURE

Other studies focus on the broader implications of global trade tensions for the Indian economy. Reserve Bank of India (RBI) reports emphasize that trade wars increase volatility in exchange rates, capital flows, and commodity prices, posing risks to macroeconomic stability. Kumar and Singh (2021) observe that export-oriented small and medium enterprises in India were particularly vulnerable to declining global demand and rising input costs during periods of heightened trade tensions. Overall, the literature indicates that the global trade war has had a mixed impact on India, combining short-term challenges with long-term strategic opportunities, thereby underscoring the need for policy reforms and trade diversification strategies.

A number of researchers have specifically analyzed the impact of the US–China trade war on emerging economies, including India. According to Banga (2019), trade diversion resulting from the US–China conflict created limited export opportunities for India in sectors such as chemicals, textiles, and electronics, but these gains were constrained by structural inefficiencies and competitiveness issues. Panagariya (2020) notes that while India stood to benefit from shifts in global supply chains, inadequate infrastructure and complex trade policies reduced its ability to fully capitalize on these opportunities. These findings suggest that benefits from trade wars are not automatic and depend on domestic readiness.

Several studies have examined the causes and global consequences of trade wars, emphasizing their disruptive impact on international trade and economic growth. Krugman (2018) argues that protectionist measures such as tariffs distort comparative advantage and reduce overall welfare by increasing costs for producers and consumers. Similarly, Evenett and Fritz (2019) highlight that prolonged trade conflicts weaken the multilateral trading system and create long-term uncertainty, discouraging investment and slowing global economic recovery. These studies provide a theoretical foundation for understanding how trade wars negatively affect global economic stability.

3. GLOBAL TRADE WAR

A global trade war is an economic conflict in which countries impose tariffs, quotas, or other trade barriers on one another in retaliation. It usually begins when a country tries to protect its domestic industries or reduce trade deficits. Other countries respond with similar restrictions, causing tensions to spread across international markets. As tariffs increase, the cost of imported goods rises, leading to higher prices for consumers. Businesses that depend on global supply chains face disruptions and increased production costs. Export-oriented industries often suffer losses as demand from foreign markets declines. Trade wars can slow down global economic growth by reducing the overall volume of trade. They also create uncertainty, making companies hesitant to

invest or expand. Developing countries are often hit harder because they rely heavily on exports. Farmers and manufacturers are among the most affected groups during trade conflicts. Governments may use trade wars as political tools to gain leverage over rivals. However, prolonged trade wars can damage diplomatic relationships between nations. History shows that major trade wars have worsened economic downturns. The Smoot–Hawley Tariff Act is a well-known example that intensified the Great Depression. Modern trade wars can also affect technology and innovation. While some argue trade wars protect national interests, the benefits are usually short-term. In the long run, cooperation and fair-trade agreements are more effective. International organizations try to reduce trade conflicts through negotiation. A global trade war ultimately harms both producers and consumers. Therefore, most economists believe trade wars should be avoided whenever possible.



4. REASON BEHIND THIS GLOBAL TRADE WAR

The global trade war is caused by a combination of economic, political, and strategic reasons. One major reason is trade imbalance, where some countries import much more than they export, leading governments to protect domestic industries. Another key reason is protectionism, as countries impose tariffs to support local manufacturers and farmers. Unfair trade practices, such as dumping goods at very low prices or providing heavy subsidies, also trigger conflicts. Competition for global economic dominance, especially among major powers, increases trade tensions.

National security concerns push countries to restrict imports of sensitive goods. Differences in labor and environmental standards create disputes between developed and developing nations. Currency manipulation accusations further worsen relations. Rapid technological growth and control over critical technologies lead to trade restrictions. Political pressure from domestic groups influences governments to act aggressively. Retaliatory actions by affected countries escalate the conflict. Weak enforcement of international trade rules adds to the problem. Regional conflicts and diplomatic tensions spill into trade policies. Globalization has made economies interdependent, increasing vulnerability to shocks. Economic nationalism promotes self-reliance over cooperation. Changes in global leadership and policies can disrupt trade stability. Overall, the global trade war arises from economic competition, political interests, and lack of international cooperation.

5. EXAMPLES OF GLOBAL TRADE WAR

US–China Trade War (2018–Present): The most prominent example of a global trade war is the trade conflict between the United States and China. The US imposed high tariffs on Chinese goods to reduce its trade deficit and address concerns related to intellectual property rights and unfair trade practices. In response, China imposed retaliatory tariffs on US products. This conflict disrupted global supply chains, slowed global economic growth, and affected many third-party countries, including India.

US–European Union Trade Disputes: Another example is the trade dispute between the United States and the European Union over aircraft subsidies to Boeing and Airbus. Both sides imposed tariffs on each other's goods, including agricultural products and manufactured items. These actions strained transatlantic trade relations and affected global markets.

US–India Trade Tensions: Trade tensions between the United States and India also reflect elements of a trade war. The US withdrew India's preferential trade benefits under the Generalized System of Preferences (GSP) in 2019, citing market access concerns. India responded by imposing retaliatory tariffs on selected US products. Although limited in scale, this dispute highlighted growing protectionist trends in global trade.

Japan–South Korea Trade Dispute (2019): Japan imposed export restrictions on key industrial materials used by South Korean technology firms, leading to retaliatory actions by South Korea. This dispute affected global electronics supply chains and demonstrated how trade conflicts can extend beyond tariffs to include export controls.

6. GLOBAL TRADE WAR HIS IMPACT ON INDIAN ECONOMY

The global trade war has a mixed impact on the Indian economy, affecting different sectors in both positive and negative ways. On the negative side, reduced global trade slows down economic growth and lowers demand for Indian exports such as textiles, gems, and engineering goods. Increased uncertainty in international markets discourages foreign investment and affects business confidence. Indian companies that depend on global supply chains face higher input costs due to tariffs. Volatility in global markets can weaken the rupee and increase import bills, especially for crude oil. Export-oriented sectors may face job losses if global demand declines. However, there are also positive effects for India.



Trade tensions between major economies create opportunities for India to replace some countries as an alternative supplier. Sectors like pharmaceuticals, IT services, chemicals, and electronics can benefit from shifting supply chains. India can attract foreign companies looking to diversify manufacturing away from heavily affected countries. Government initiatives like “Make in India” gain importance during trade disruptions. Domestic industries may receive protection from cheaper imports. Overall, while the global trade war creates short-term challenges for the Indian economy, it also opens doors for long-term growth if India improves competitiveness and trade policies.

7. POSITIVE IMPACTS OF HIS GLOBAL TRADE WAR IN INDIAN ECONOMY

The global trade war has some positive impacts on the Indian economy, especially by creating new opportunities in trade and investment. One major benefit is trade diversion, where countries shift imports from heavily tariffed nations to India, increasing Indian exports. India gains an advantage as an alternative manufacturing hub as companies look to move supply chains away from trade-war-affected countries. Sectors such as pharmaceuticals, chemicals, textiles, auto components, and electronics benefit from increased demand. Foreign companies are more willing to invest in India to avoid tariffs, boosting foreign direct investment (FDI). Government initiatives like Make in India and Production Linked Incentive (PLI) schemes gain momentum. Domestic industries receive protection from cheap imports, helping local manufacturers grow. The trade war encourages self-reliance (Atmanirbhar Bharat) in key sectors. India's exports to markets like the US and EU increase in certain product categories. Employment opportunities rise in manufacturing and export-oriented industries. Indian IT and services benefit as global firms seek cost-effective partners. Reduced dependence on specific countries strengthens economic security. Overall, the global trade war helps India improve its global trade position, attract investment, and strengthen domestic industries when supported by effective policies.

8. NEGATIVE IMPACTS OF HIS GLOBAL TRADE WAR IN INDIAN ECONOMY

The global trade war has several negative impacts on the Indian economy, mainly due to slower global trade and increased uncertainty. One major effect is a decline in export demand, as economic slowdowns in major markets reduce orders for Indian goods like textiles, gems, engineering products, and leather. Higher tariffs and trade barriers disrupt global supply chains, increasing input costs for Indian manufacturers. Uncertainty in international markets discourages foreign investment and delays business expansion plans. Volatility in global markets can lead to currency fluctuations, weakening the rupee and raising import costs. India's import bill, especially for crude oil and essential raw materials, may increase. Export-oriented industries may face job losses due to reduced global demand. Small and medium enterprises (SMEs) are particularly vulnerable to trade disruptions. Trade wars can also reduce global economic growth, indirectly slowing India's GDP growth. Increased protectionism worldwide limits market access for Indian products. Financial markets may experience instability, affecting savings and investment. Overall, while India may gain some opportunities, the global trade war creates significant economic challenges that can slow growth and increase uncertainty.

9. FINDINGS AND CONCLUSION

India experiences both opportunities and risks due to global trade tensions. Positive effects include higher exports, increased foreign investment, and growth of domestic industries. Negative effects involve export slowdown, higher production costs, and market uncertainties. Trade diversion allows India to capture new markets, especially in pharmaceuticals and textiles. Domestic policies like Make in India help leverage trade war benefits. Dependence on specific countries for imports is a risk. Strengthening manufacturing and self-reliance can reduce vulnerabilities. Employment in export-oriented sectors may increase with global demand shifts. Long-term economic growth requires careful trade and investment planning. Overall, India can gain from the global trade war if strategic policies are implemented effectively.

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