Uncertainty in Global Economy

What is the issue?

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Uncertainty in the global scenario due to the tariff dynamic has to be handled by following an integrated strategy.

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What is the current global scenario?

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- The US President indicated his decision to raise tariffs on steel and aluminium imports into the US in line which his isolationist reforms.
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- In response to his decision, US's trade partners have informed the World Trade Organisation about the retaliatory tariffs they intend to impose.
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- India has also announced retaliatory tariffs on several imports from the US, such as nuts, apples, and motorcycles.
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- Most of the retaliatory tariffs that have been declared by various countries are strictly proportional with the tariffs announced by the US.
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What are the concerns with this dynamic tariff scenario?

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- There is uncertainty regarding the pattern of world trade including that of services once the tariff dynamic kicks in.
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- Since, the retaliatory tariffs of US's trading partners will affect US equally, it is ambiguous how the US administration will react.
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- The world economy is entering a deeply destabilising period where even the final 'real' value of currencies may change.

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- As not just changes to trade but vast changes to capital flows are being driven by reviving US growth, US federal government borrowing, and the stance of the United States Federal Reserve.
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How will in impact India?

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- If US now distorts and disobeys the rules, its ramifications will be manifold and it will affect the global economy and its strategic alliances.
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- Therefore, companies that are globally integrated, including those in India, will have to re-examine and re-optimise their operations.
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- But the Indian government is still unprepared to bring up the resources for an integrated and holistic response to these changes.
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- India is far below its potential growth trend-line and thus it needs to work out pro-active rules defining international economic and strategic engagement as quickly as possible.
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Source: Business Standard

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