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US - China Trade War And The Affected Economies – A Study

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ABSTRACT

A trade war is a slippery slope that starts when one country becomes more of a protectionist. An ongoing trade war is continuously witnessed between U.S. and China. Both US and China being trade active economies at global front, the protectionist policy has created economic disturbances at world level. Heavy imposition of tariffs by US on China has restricted the flow of commodities between the nations adversely affecting the global economy in general and China in particular. Chinese retaliation to the move intensified the dispute between the two major economies disrupting the global supply chain. The battle has led to both positive and negative effect on the economies around the globe. The world economy has been slumping down escalating trade tension across the world. The trade dispute is yielding negative spill-over effects for different areas of global concern. However it has opened avenues for India to serve the market and become a prominent exporter to both the countries and thereby consequently raise its exports capacity. This paper is an effort to determine the effects of ongoing trade war on both the disputed participating countries. The researchers shall also examine the most affected economies by the US-China trade war and the superiority that Indian economy shall have.

Keywords: Trade war, Trade deficit, Intellectual property, Protectionist, Unfair trade practice, Global supply chain.

INTRODUCTION

A trade war comes about when a country aspires to improve its trade deficit. It also falls out to protect its domestic companies from unfair competition which therefore, increases the demand for domestic goods. But it's never a win-win situation, you win some – you lose some. The increasing demand of the domestic goods precedes to increasing cost and inducing inflation. Trade war clearly states that it discourages trade which consequently reduces the choices of consumers in the market place. They may even face shortages if there is no ready domestic substitutes for the imported goods that tariffs have impacted or eliminated. Tariffs are the special tax that are imposed on the imports of goods by the government to raise its revenue. Tariffs are levied on imports to protect its domestic industries. The general outcomes of tariffs are often unwanted increase in consumer prices.

OBJECTIVES

- To study the overview of a trade war.
- To study the effect of trade war on US and China.
- To determine the economies most affected by US- China trade war.

METHODOLOGY

The researchers have worked on this project “**US – CHINA TRADE WAR AND THE AFFECTED ECONOMIES – A STUDY**”. The researchers has used the secondary resources, which the researchers has taken from various media-journals, online resources etc. and only secondary data has been used while making this assignment. The researchers has collected the data from the websites. The researchers has taken the data of the last 5 years for the purpose and accordingly it has been used.

US-CHINA TRADE WAR:

It is very evidential that US has been an enormous economy for decades and has played a vital role in supporting the emerging countries to develop. Being the most powerful nation, US had its last trade surplus in 1975. Having trade deficit for such a long tenure, US had to act for its recovery. Stating the figures, US imports amount to \$3.1 trillion and the exports \$2.5 trillion. The total trade deficit of US outnumbered to be \$621 billion. Out of \$3.1 trillion of US imports, \$539.5 billion of imports is from China, which is 17.3% of US imports. And out of \$2.5 trillion of US exports, \$120.3 billion exports is of China which is 4.8% of US total exports. The trade deficit of \$621 billion, China is alone responsible for \$419 billion that is 67% of US total trade deficit. Therefore, China has given way less than what US has given to China.

US thought why is it helping China, it's competitor to come ahead of it, while suffering trade deficit in which China is responsible for a very large proportion. Consequently, US made a major decision by signing the tariffs on imported steel and aluminium from China as well as all countries on 9th March, 2018. Chinese company ZTE violated the agreement of doing business with Iran and North Korea. ZTE was penalized by US for this violation and was also banned from buying US technology for 7 years. China's unfair trade practices regarding ZTE was in the headlines for several days. In the response to these unfair trade practices related to technology transfer, innovations and selling apparatus with American parts to Iran and North Korea, US proposed tariffs. US also said that it will complain about China's recent activities to WTO. It also wanted to restrict investments from China.

On March 23rd 2018, China tried to unveil tariffs on imports of US which was \$3 billion in response to steel and aluminium tariffs and was successful. After so many enmities both nations reached on an agreement and issued a joint statement. US assented to hold off on tariffs. But this did not settle on good terms with both the nations. Just after a week US announced about moving ahead with tariffs on \$50 billion of imports. It also intended to curb investments in sensitive technology. While moving ahead with tariffs, Trump threatened China about increasing tariffs if it retaliates. US also anticipated tariffs on another \$200 billion of Chinese exports. Not only US but now China also proposed tariffs on US. As a result, tariffs on \$37 billion on imports began from both sides.

Coming to the other side of the story China has been quite repulsive. It is the 2nd largest economy in the world and has ambitions of becoming the greatest by outrunning US. China came up with a plan called “Made in China 2025”. China is known to be a low end manufacturer which now it intended to become a high end producer. China aims to add a boost to its increasing wealth. In this process the goal is to convert the already existing manufacturing infrastructure and labour market into producing specialised goods. It also targets an emphasis on technological innovation. Chinese government has been very supportive and is encouraging leaderships in robotics, IT and clean energy. There are several countries

who are not happy with this vision namely Brazil, EU, Central American, Middle East. Furthermore, it has been a concern for US or to be more specific, for Trump since then.

GLOBAL IMPACT:

In every trade war, there are winners and losers. The ongoing trade war is not only affecting the contesting nations but also influences a large number of other nations in either positive or negative course of action. The trade war could amount a damage of \$585 billion by 2021 on the global economy. The fears of global recession are getting stronger. Major economies such as UK, Germany, Russia, Singapore, Brazil and many more are already on the verge of recession, and US is likely to be there soon. As the comparisons are made with the non-trade war scenario, currently the world GDP is to fall by 0.6% in 2021. Even the monetary policies cannot reconcile the entire damage. International Monetary Fund's managing director warned about the threatening situations of trade war that could cause the loss of a part of global economy at least the size of Switzerland by coming year.

Countries that impose tariffs and countries that are subjected to tariffs undergo through economic damages, but the side-line countries revolving around faces collateral damage. The occurrence of damages are mainly due to the shifting of manufacturing and production process into different nations, beneficiary for some though. Countries looking for substitutes and making trade relations is one of the good things happening. But on the other hand, countries with terrible infrastructures are unable to grasp the opportunities. Some of the most affected countries from the US-China trade war are:

1. Vietnam-

The effects from the war are inevitable as the products from Vietnam are a part of China's value chain. US imports consumer goods like apparel, leather shoes, phones, furniture, and seafood from Vietnam. US International Trade Commission confirmed that the imports of mobile phones has been doubled and imports of computers has increased by 79% since 2019. The Vietnamese goods previously processed in China such as garments, textiles, furniture and dried fish past US tariffs, has also increased the imports of US. As a result, trade war led an increase in Vietnam's export by 27.3% by half of 2019. Not only US but Vietnam's export increased by 0.3% to China which was way less than that of US. The country could also see a 5 % gain in total exports with GDP gain of 7.9%. Being an export oriented economy, Vietnam has an opportunity to establish itself as a manufacturing hub. Vietnam is enjoying the benefits of the war but it also has certain threats as China is redirecting the exports of raw materials towards Vietnam to hide the origin of their products in order to dodge tariffs. This practice highly affected the local industries in Vietnam due to which US Dept. of commerce levied high taxes on imports of steel from Vietnam. China is affecting Vietnam in several distinct ways. Namely, Vietnam's trade deficit with China will increase as china boosts its exports resulting in more competition with Vietnam's domestic enterprises. Apart from Vietnam, when Chinese goods find other markets ultimately the competitions of Vietnam is increasing. Lastly, if China fails to find the replacement for US, it has to consume some of the produced goods in China itself which will be more troublesome for Vietnam.

2. Taiwan-

Economists often say there are no winners in a trade war, but that's not entirely accurate. Recently a report published by UNCTAD (United Nations conference on trade and development) stated that "Taiwan is gaining the most" from the ongoing trade war. This unexpected gain of \$4.2 billion is the highest among all other countries. Its GDP gain from trade was 2.1%. Taiwan's trade is largely related with technical hardware such as semi-conductors and new gear for 5G wireless protocol. 10 million

people in China that are employed by the Taiwanese company, 60% of those work in information and communication technology. Taiwanese companies are now planning to shift their plant from China to their home country. So far they have invested almost 18 billion USD and created 50000 jobs. Therefore, the products origin shifts from 'made-in-China' to 'made-in-Taiwan'. According to Central News Agency reports as of October 29, 142 Taiwanese investors had repatriated NT\$610 billion from China back to Taiwan. Electric firms of Taiwan has primary production base in China. But due to US tariffs, Taiwan intends to shift their production base from China to their home country which is being considered to be an effective and efficient plan. "Taiwan is in a prime position to benefit from the trade diversionary effects of the US-China trade war," says Edward Gardner, economist with European forecasting firm Focus Economics. "This is partly because of its geographical proximity to, and close trade links with, mainland China." However, this shift is not that beneficial for Taiwan as 40% of its exports were to China. So Taiwan is in a dilemma: either to move back to Taiwan and seek assistance from its own government, or to diversify its portfolio of trade partners in the region.

3. Mexico-

In 2018, 80% of Mexico's exports of crude oil, refined petroleum products and natural gas were to US. Mexico's imports from US include machinery, electrical machinery, vehicles, mineral fuels, and plastics. The volume of trade between US and Mexico jumped from US\$249 billion to US\$258 billion. It functions as an export platform as it imports grains from US and converts them into animal protein and further sells it to China. The Chinese companies are shifting to Mexico to fight US tariffs.

4. Hong Kong-

The trade war led Hong Kong's economy grinding in the middle as it trades with both the sides. It serves as the re-export hub between the two nations. Despite being a part of China, Hong Kong was spared by the US tariffs under a deal called the United States-Hong Kong Policy Act, which states that the city has to be treated separately from China in terms of trade exports and economics. However, as a middleman it will definitely be influenced by the conflict. Secretary for Commerce and Economic Development Edward Yau Tang-Wah also mentioned that the city's traders would be the first ones to bear loss, the latest round of tariffs from US of \$200 billion worth on Chinese goods would hit Hong Kong harder. Companies operating in re-export and transshipment business on the borderline are to brutally affected. The trade war led to a downfall in exports of 5.7% and its GDP gain from trade was 1%. Therefore, it is vividly visible that Hong Kong is having its hardest times and is only affected in a non-positive way.

5. South Korea-

If there happens to be any country that is most seriously hit by the US-China trade war, it definitely has to be South Korea. The trade war has hit a major number of South Korean industries which were enduring the global economic downturn. It relies heavily on the two nations for its exports. According to the Korean International Trade Association, China accounted for 24.8% and US 11.9% of South Korea's total exports in 2019. Its total GDP gain from trade was 0.8%. South Korea mostly exported the intermediary goods such as semiconductors to China which was further processed and placed in smartphones and other electronics then exported by China to US, but eventually, US tariffs caused a significant loss to the South Korean companies. As of now, those intermediate goods are being reported to be 78.9% of South Korea's total exports to China of which only 28.7% is used by China for export purpose. In other words, US tariffs caused a huge destruction in the exports of South Korea. The petrochemical companies are also taking a direct hit as they rely on China for 47.5% of their exports, declined by 7.2% last year. The petroleum product exports has been declining since December 2018. However, the situation may not be that worse as the declining of exports to China may fill the gap by exporting to US which could take South Korean tech industries to another heights. The memory chipmaker companies of South Korea has shifted its manufacturing centres to fast growing and cheaper countries in Southeast Asia. It is beneficial but also carries a huge risk.

6. Singapore-

On the list of US' top trading partners, Singapore ranks 13th with \$32.7 billion worth exports and on China's it ranks 10th with \$49.8 billion worth exports. Singapore exports non-oil products to China which had a downturn of 15.8% and total non-oil exports fell 17.3%. Exports of electronic products also declined by 31.9% and imports by 4.8%. All together the trade fall short by 7.2% from the past year. The GDP growth reported last week was 0.7%. Hence, Singapore is a lot more dependent on trade than any other nation and it intends to remain neutral to both the participating nations during the trade tension.

7. European Union-

The concerns for the future growth of the member states has risen as the trade conflict between US-China has slowed down the trade. A country pertaining to the GDP of \$18.768 trillion whose exports are worth 40% of their GDP has unsettled thoughts about disinclination of trade with their significant trading partners. Amongst the EU, Germany is probably the convincing victim to be if the global demand falls. Their export market is responsible for over one-fourth of the German jobs. The trade tension has reduced the US demands for German goods which is not very pleasant news. On the other hand, Germany has been trading with China for last two decades. If China doesn't stop to devalue its currency, Germany could have a loss of a huge export market. Despite the consequences, US is likely to stand with EU in a few sectors. On the contrary, UNCTAD had a study that the EU has favourable outcomes from the US-China trade war as the European companies are to earn about US\$70 billion in trade. Therefore, the most competitive nations are likely to benefit from the trade war.

8. India-

Amongst all the economies who are positively influenced by Sino-US trade dispute, India could be one of them only if it grasps the opportunities pertaining this trade conflict. The three different sectors in which India could benefit itself are pharmaceuticals, chemicals and engineering. India also gained US\$755 million by selling chemicals, ore and metals to US in 2019 after the effects of US-China trade war. India only has opportunities for the short run that too in its manufacturing sector. If the country still focuses on 'Made in India' and improving 'ease of doing business', the aspirations of shifting the production and relocating the supply chains here will be high enough to raise the economy of India. Only if India focuses on upgrading its infrastructure, India can aim on becoming the substitute country for manufacturing the goods for the home countries and an appealing terminus. Moreover, an additional 6-35% concession on tax is granted on MFN under the trade agreement which is the most favourable situation. According to SBI, after the trade war India has enlarged its trade with China figuring 25.6% than that of US that is 9.46%. Therefore, India reaped benefit from this trade dispute by exporting plastic, cotton, inorganic chemicals and fish to China. But most of the above stated opportunities are the assumptions of economists and analysts.

US - CHINA PHASE I

The phase one of the economic and the trade agreement intervening US and China took effect from February 14, 2020. The deal encompasses curtailment of US tariffs on Chinese goods interchanging Chinese pledges to purchase more of US farms, manufactured goods and energy amounting to a total of \$200 billion, and also addressing the intellectual property complaints. China bought about \$130 billion of goods and \$56 billion of services in 2017. China has intent to purchase manufacturing of \$77.7 billion which ultimately will be \$32.9 billion in 2020 and \$44.8 billion in 2021. China intent to make energy purchases of at least \$52.4 billion and US services total of \$37.6 billion. On the flip side US will lessen the tariffs imposed on goods worth \$120 billion by half to 7.5%. The tariffs imposed on goods of \$250 billion i.e., 25% will remain unchanged and the tariffs specifically on cell phones, clothing, laptop computers and toys a total worth of \$160 billion shall be suspended. The deal incorporates a robust

Chinese legal defence for copyrights, trademarks and patents along with ameliorated criminal and civil procedures to tackle online dereliction, pirated and counterfeiting goods. The pact contains obligations by China to abolish constraints for foreign companies to channel technologies to Chinese firms and to banish government supremacy for the transfers. China also pledged not to devalue its currency as well as exchange rates for trade advantages.

CONCLUSION

As we have mentioned earlier trade war can never be a win-win situation to all however, if it happens it will be only for a short run. The major parts of the supply chain are mostly disrupted such as consumers, producers, suppliers, exporters, importers, etc. This trade has almost negatively affected almost all the major countries on a global level. Despite the war, there is an alternative that US can lower its trade deficit with China by exporting more and more of US goods to China. As we know that the US grievances were not only limited to the trade deficit issues but was also related to intellectual property theft in which now China has made progress. Even the positive effects of shifting the manufacturing of one country and earning profits will disrupt the domestic industries of other country. Hence, the impact of US-China trade war has negative impact on the global economy. As the Trump's presidential term ended, the phase one is likely to continue as the newly elected President Joe Biden has no intentions of ending the tariffs.

WEBSITES

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