

Us China Trade Wars – An In Depth Study On Its Causes and Effects

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I. Introduction

International Business today has brought countries closer than ever before and more interconnected. The effects of one country's policy, especially if it happens to be an economic super power will effect most of the countries in the world because of the domino effect. As trade tensions rise between the US and China, the IMF and central banks have stepped up warnings that the confrontation could hurt the global recovery. So far the IMF is sticking to its central forecast that the world economy will grow 3.9 per cent both this year and next — projections that have not changed since April. But it has warned that an escalation in the tensions could depress growth in the medium term. Meanwhile, the European Central Bank has warned that a tit-for-tat battle over sanctions between the US and China could undermine growth in the euro area and leave US tariffs at their highest level for half a century. So are tariffs now starting to affect economic activity? What could be the longer term costs of a new wave of protectionism? This paper seeks to identify the causes and effects of the current Trade wars between two of the world's most powerful economies.

II. Scope of Study

The scope involves a study of the current global business environment with special reference to the trade between US and China in respect of tariffs as well as the economic indicators of emerging economies with special reference to those of India.

III. Literature Review

(Sharmila Kantha) Institute for China Studies, New Delhi publication of April 2018 titled "The US China trade confrontations and implications for India" studies the effects of the recent trade hikes by both countries on each other's imports, analyses the USTR report on the exchanges and finally discussed the specific implications for India in terms of Trade and related factors. A paper titled "The US China Trade Competition – An Overview" (Siby K.M. and Dr Arunachalam P) from Kochi University in the Munich Personal RePEc Archive talks about the tariff war, gives statistics on trade between the countries and possible implications on the rest of the world. (Ha Jiming) in the 2018 CF40-PIIE Joint Report, American mainstream media attributed the reason for the falling of Rust Belt to globalization and foreign competition, which has speeded up America's foreign policy shift. Also, creating trade conflicts with China could benefit the Republican in mid-term election.

(Antoine Bouet and David Laborde) in IFPRI Discussion Paper, August 2017, believe that there is no scenario in which the US government augments its domestic welfare or gross domestic product. There may be sectoral gains in value-added in the United States, but they are small and to the detriment of other sectors. (Samo Gonsalves, Manuel Escobar et al) GTAP, Global Trade War – A Strategic Assessment have come to the conclusion that effects of welfare as a result of these trade escalations are negative for both the US and China in the long term with increasing signs of a "Trade War". (Johannes Bollen, Hugo Romagosa) CPB Netherlands, Bureau for Economic Policy Analysis, June 2018, believe that the losses are particularly strong when the conflict is extended beyond the EU and China, and include other OECD countries --particularly Canada and Mexico, which have relatively strong trade ties with the SU. In all scenarios, China will be country that is hurt most by these trade wars.

Objective

The objective of this paper is to bring out the various facets of the ongoing trade disputes between the US on China based on the raising of tariffs by both countries, the effect of these measures on the trade between these countries as well as the effects on trade and related economic factors of emerging economies

Need for Study

There is a need to understand the rationale behind the recent interchanges in trade between the two major economic superpowers as this will help us to understand global business in a much better manner and be able to predict the possible outcomes so that measures to overcome the malefic effects of these manoeuvres can be suggested for adopting by emerging economies to prevent ill effects on their economies.

Method of study

The study will be mostly based on Secondary data but it is proposed in the second phase of Research to include a Primary research based on a Survey to get the views of economists and experts on the subject.

History and Genesis

In April 2017, Washington and Beijing imposed punitive tariffs on \$34 billion of imports from each other — equivalent to 7% of China's exports to the US — and are scheduled to impose duties on an additional \$16 billion on August 23, 2017. They threatened to further escalate the dispute, with US President Donald Trump suggesting that the US could introduce duties on China's annual total of \$500 billion in imports. Moreover, the US levies tariffs on imports of steel and aluminum, triggering retaliatory duties from Canada, Mexico, and the EU. After a meeting between Mr Trump and Jean-Claude Juncker, President of the European Commission, this month at the White House. Tensions with Europe have decreased. But Mr Trump was still able to pursue the threat of imposing tariffs on European cars. Starting to bite tariffs?

To date, the new trade barriers have had very little impact on economic activity— the measures announced affect a fraction of the world economy. Gabriel Sterne, head of macro research at Oxford Economics consultancy, calculates that even if recent threats occur, high duties would still apply to only 4% of world imports. Nevertheless, Mark Carney, Governor of the Bank of England, spoke this month of temporary evidence of tariffs having an impact on trade flows.' He added: 'you see it in orders for capital goods, you see it slowing down in trade, you pick it up from conversations.' The big question is whether the threat of more sweeping steps can undermine wider business confidence and hit asset prices, leading to tighter finances. What is shown by the data? The clearest evidence came from manufacturing surveys, showing widespread weakness in export orders in many regions, although overall activity remains flourishing. In July, the US ISM manufacturing index slipped to a low of nearly 12 months; the Eurozone measure of new export orders fell to a low of two years; and other surveys suggested slower growth in China and elsewhere in Asia.

More ominous, as it appeared in "hard" data rather than sentiment surveys, was June's sharp decline in German manufacturing output. It was largely due to a drop in orders outside the eurozone. There are also some signs that importers are likely to be affected by tariffs for front-loading goods orders. Trade flows might drop sharply once this impulse wears off. What are economists saying? Many see the global economy only slightly slackening, even though there are job losses and higher prices for consumers. This is partly because Mr Trump's fiscal stimulus has turbo-charged the US. China has other policy instruments to support growth, and the renminbi's recent depreciation will ease the tariff effects on its exporters. Mr Sterne at Oxford Economics estimates that a trade conflict escalation could result in a cumulative loss of 0.7% in global gross domestic product by 2020.

Barry Eichengreen, a professor at Berkeley, however, warned last month that "standard economic models are notoriously bad at capturing the macroeconomic effects of uncertainty created by trade wars with vengeance." His response to anyone surprised by the punishing effects of Mr Trump's trade war was: "A trade war where retaliation rounds and response rounds would create a completely different climate,"

ECB president Mario Draghi said last month. "We would have to assess both the direct effects, which can be significant as the numbers increase significantly, and the indirect effects of trust — particularly on business investment," adds Mr Sterne: "It becomes highly corrosive when it becomes multilateral," he warns: "It is the interaction with financial vulnerabilities and competitive devaluations that can really be harmful." Emerging markets, which are struggling separately with the fallout from the Turkish lira's plunge, are already on the fire line. Jon Harrison, an economist at TS Lombard consultancy, said trade concerns were fueling a sell-off in emerging-market debt, added to the effects of the strong dollar and rising US interest rates.

Following the announcement by Mr Trump that he doubled tariffs on Turkish steel and aluminum, the lira accelerated its fall. Mr Harrison has said "The next stage of a trade war would further disrupt supply chains," as many South-East Asian economies rely on Chinese exports to the United States. "The odds are," said Adam Posen, president of the Peterson Institute for International Economics, "the trade war that the Trump administration is pursuing is likely to harm everyone else much more than the US." "The odds are that they [the US] have a few years before the results are actually felt." But eventually, he argued, a confrontation could result in up to 1 m job losses in the US while driving up consumer prices and undermining productivity.

Progression

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Current status – Effects on the World economy

The meaning is clear and alarmingly apt for what now appears to be a full-blown trade war between the US and China as the two powerhouses struggle for global economy supremacy. Collateral damage is already evident, and nowhere more so than in emerging markets, which are most vulnerable to the feeling of so-called 'risk off' that prompts nervous investors to move their money to perceived 'safe havens.' The World Bank warned about the impact a trade war would have on the global economy well before the threats and rhetoric ratcheted up to the level they are now at. "A wide-ranging increase in tariffs around the world would have a major negative impact on global trade and activity," as given in its latest economic perspective, released in early June

An escalation of tariffs to rates defined by the World Trade Organization as legal could shock off 9% of global trade flows, similar to the drop predicted in 2008 and 2009 during the financial crisis. Emerging markets and developing economies would be the hardest hit areas in the event of increased protectionism, with sectors such as agriculture and food processing being the hardest hit, he added. Emerging market assets have already been under pressure from the interest rate hiking cycle of the US Federal Reserve, which is occurring faster than originally expected this year.

The tightening policy supports the dollar, which this year has risen by 5.4 percent against a currency basket index. There is another dimension to the talks being underestimated by Americans. Simply put: what does China get out of any deal besides temporarily reducing the risk of higher tariffs? In any trade agreement, Beijing will almost certainly insist on reciprocal U.S. actions. Xi will have to be able to show his domestic audience that he's got something more from a trade deal than higher tariffs being postponed.

Beijing may be pressing Trump to instruct the United States Department of Justice to reach a settlement with the Chinese telecoms group Huawei for allegedly evading U.S. sanctions against Iran, while allowing Canada to release Meng Wanzhou, Chief Financial Officer of Huawei and the group's founder's daughter, after being arrested in December at the request of the United States. Xi would also probably want to see a rollback on specific product categories of existing U.S. tariffs. If immediate tariff relief is not available, it will be difficult for the Chinese president to accept any U.S. deal.

Possible Outcomes

Disagreements between Trump administration officials on trade strategy will continue into the final phase of the game. This may add to mistrust, but also foster a possibly mistaken Chinese confidence that Trump will rely on Xi's deference enforcement. That could happen if Trump believes Chinese support is needed after his summit with North Korean leader Kim Jong Un in Hanoi to support a North Korean nuclear deal. Trump may also decide to conclude a face-saving trade deal with Beijing if the Hanoi Summit yields little but criticism of Pyongyang's inability to obtain concessions.

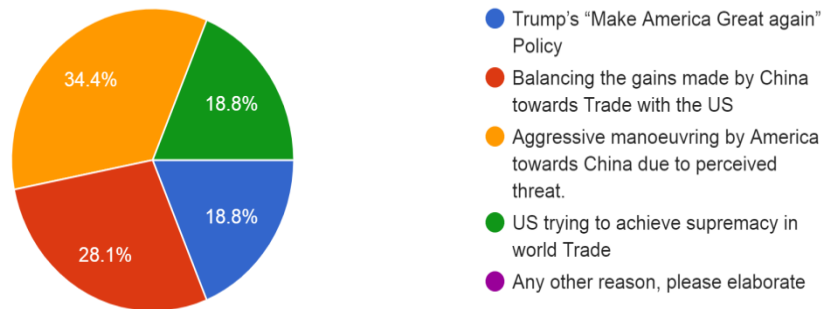
What will U.S. firms say about the outcome of a "lite" trade deal? American corporate reaction is likely to range from a timid "wait-and-see" attitude to criticism that the trade disruption consequences and China's subsequent treatment of U.S. companies are not worth the price of getting some big-ticket purchases and market opening promises. After all, since November 2017, most features of such a deal have been on the table. But the only possible outcome is not a modest deal. At least 20% of the chances of a no-deal result from a Trump-Xi Summit.

Keep in mind that one basic assumption Trump shares in his administration with both trade hawks and doves is that China faces the real risk of a sharp decline in growth by mid-year. That perspective would support a "now or never" view that the U.S. should use its leverage in the weeks ahead to take a tough approach. That means that it is not possible to rule out a spectacular breakdown in the Florida sunshine.

Analysis of Responses

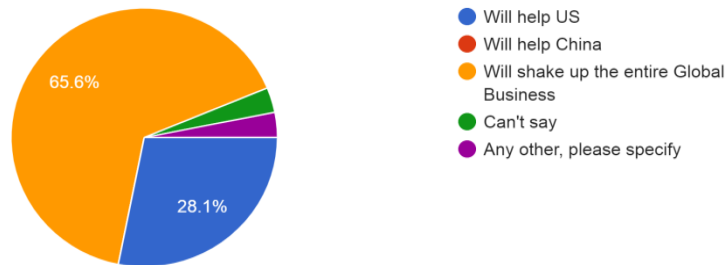
What in your opinion is the possible cause of the US China Trade conflict?

32 responses



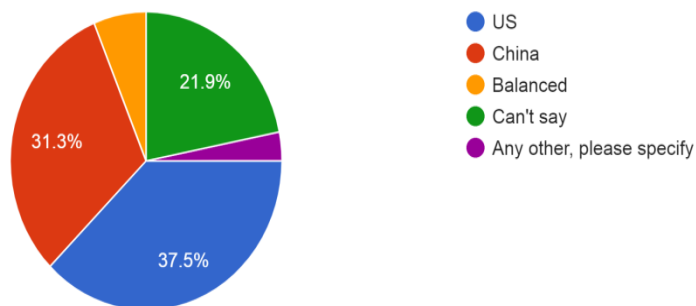
What is the likely outcome and effect of this Trade War on the rest of the world?

32 responses



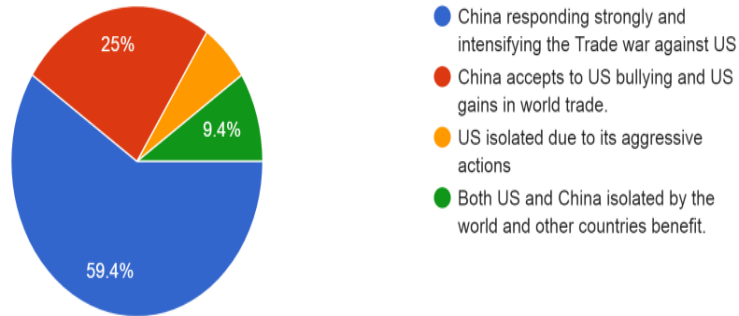
Who do you believe has the upper hand in the ongoing Trade War, US or China?

32 responses



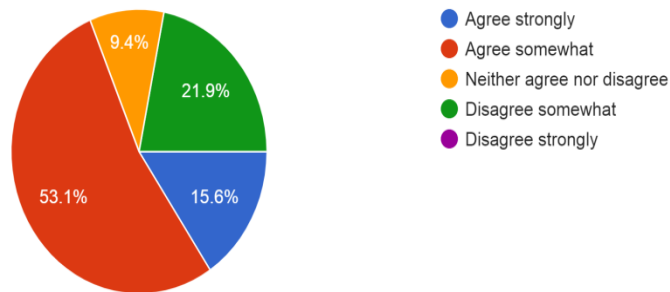
What will be the repercussions for both countries due to the actions taken by US against China?

32 responses



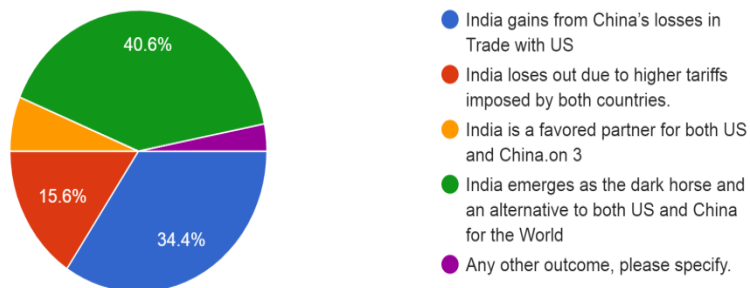
Do you feel China is responding appropriately in the ongoing Trade War with the US?

32 responses



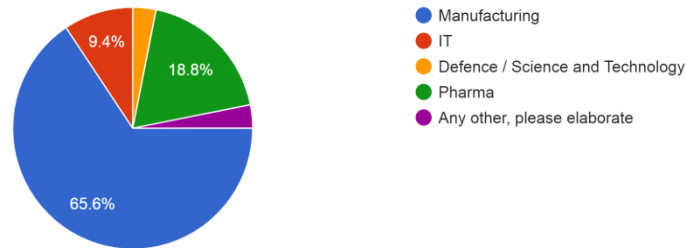
How can India benefit from the ongoing Trade War between US and China?

32 responses



Which Sectors of India stand to gain from the current Trade war between US and China?

32 responses



Findings from the Survey

1. A majority of respondents felt that the main reason for initiating the Trade war is the aggressive manoeuvring by US to what they see in China as a major threat to their International Business
2. Also, a majority of respondents were of the view that this Trade war has the potential to shake up the entire world's business and has a major detrimental effect on Global Business.
3. Respondents were almost equally divided on who has the upper hand in this Trade war, US or China. So it is seen as a battle of equals by most people.
4. Most felt that China would respond strongly to this aggressive stance by the US by imposing tariffs on their goods. This can only worsen the situation as can be seen in the current stalemate.
5. There was a generally accepted view that China was responding appropriately to the Trade hikes from the US
6. The majority felt that India emerges as a dark horse and will gain as the third alternative for most countries in Global business as a result of the US China Trade wars.
7. Manufacturing is the Sector in India that is expected to make the most from this standoff followed by the Pharma Sector

Learnings

1. Global trade today has become fiercely competitive and complex with countries manoeuvring to get a Pole position and gain maximum benefits as Free trade is becoming more and more popular and countries doing a lot to attract FDI
2. Tariffs have long since been used as an instrument of Economic and Political Policy by countries to direct trade and their benefits in terms of Revenue.
3. The current standoff between the US and China, the two most powerful economies in the world, is being closely watched by the other countries with concern as there seems to be no gains in it for anyone in the long term.
4. India can take advantage of this situation by projecting itself as the third alternative and a Manufacturing hub for the world.

IV. Conclusion

In this Research paper, we have tried to bring out the possible causes and reasons for the Trade War between the US and China, its effects both immediate and long term on the two countries as well as on the rest of the world, and also looked at how India can take advantage from the current situation. We have used both Secondary data from various articles, journals and cases from the business world and primary data in the form of responses from experts to a structured questionnaire.

Limitations and Future Scope

The key limitations in this paper were lack of time as we were into multiple activities and responsibilities. Also, the responses were not adequate and we could have improved the quality of our Analysis if there were more responses. Finally, the authenticity of information from various sources could also not be verified in the case of Secondary data. We propose to improve the quality of Research by employing statistical tools like Chi Square test and correlation or regression where possible.

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