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Review

US–China Trade War: The Tale of Clash Between Biggest Developed and Developing Economies of the World

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US–China Trade War: The Tale of Clash Between Biggest Developed and Developing Economies of the World

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Abstract

United States (US) and China are the two largest economies of the world, where the former is the biggest developed economy and the latter is one of the largest developing economies of the world. This paper implores to assess the cause and effect of the US-Sino Trade War. The attempt is to understand the reasons behind the same and its impact on warring economies and collateral damage to the economies of other countries. The experience establishes that trade wars have no winners. The war started in year 2018; the long-run effects of this trade war are still to be seen yet; till date the impact of this crisis has been substantial for both the US and China.

Keywords: Trade wars; US-Sino; Trade deficit; Imports; Exports.

1. INTRODUCTION

United States (US) and China are the two largest economies of the world, where the former is the biggest developed economy and the latter is one of the largest developing economies of the world. Thus, the positive relationship between the two economies becomes the key to ensure global stability, prosperity, and development. Given the differences in their economic systems and the stage of development, the eruption of differences and friction in their commercial cooperation is essentially inevitable. For long time now, the US–China trade and economic relations has witnessed various twists and turns with the current situation appearing the latest addition in that long history. In 2018, the US suddenly increased tariffs on nearly 50% of imports from China raising the average US tariff on Chinese imports from 3 to over 12%. This led to a simultaneous retaliation from China with imposition of tariffs on the US imports raising the average Chinese tariff on the US exports from less than 10% to more than 18%. This period may be regarded as the first episode of large-scale protectionist measure adopted by the US since the Great Depression of the late 1930s. These kinds of tit-for-tat exchanges of imposition of tariffs are typically termed as a “trade war.” This trade war raises vital questions on the future of international trade integration. It is because behind the pretext of trade war, the battle between the two largest economies of the world is essentially the fight for the global dominance, stature, and wealth.

The US has become wary of emerging role of China in the global economy and also from its policies to get ahead at the cost of the US and other advanced economies. The US accuses China of nonreciprocal trade policies where higher tariffs are imposed on the US imports, state-sponsored hacking, subsidies to crucial industries that drove overcapacity in old industrial sectors of steel and aluminum, acquisitions of high-tech companies in the US and Europe, and discrimination against foreign companies. However, the real causes for the displeasure of the US are mainly two concerns: first, threat to the dollar’s status as the world’s reserved currency and second, threat to its position as the worldwide leader in Digital and Hi-Tech

space. Thus, fractious trade relationship between the US and China is not just any sudden event but a reaction to the threat of China's emerging role in global economy riding on the US resources. Hence, the US, while warning about China's ambitions, has taken it unto itself to limit China's economic influence in the US and abroad, and hence, the US-Sino Trade War.

2. REVIEW OF LITERATURE

2.1. Trade Wars

In simple terms, a trade war is when a nation imposes tariffs or quotas on imports and foreign countries retaliate with the similar forms of trade protectionism. A trade war results in movement of nation's output constituents toward self-supporting position. Thus, all the parties involved in the trade war lose eventually in the long run, even if in the short run it means a gain for the bigger state and loss for the smaller state. The world has also witnessed the escalation of trade wars into a full-fledged conflict between states such as the First Anglo-Dutch War owing to disputes over trade leading English attacking the Dutch merchant shipping. Other trade wars fought over the trade, sea and trade routes, were Anglo-Dutch Wars, Shimonoseki Campaign, Opium Wars, and Battle of Kowloon, Banana Wars, Smoot-Hawley Tariff Act, and Anglo-Irish Trade War.

- (a) **Anglo-Dutch Wars** or Dutch Wars refer to four naval conflicts between the Dutch Republic and England in the seventeenth and nineteenth centuries. The first three Anglo-Dutch wars were trade-related wars that established the naval might of England and the last war stemmed from the Dutch interference in American revolution, which concluded the position of Dutch Republic as the world power. The first Anglo-Dutch War (1652-54) was fought to limit the Dutch intervention in English sea trade, especially after institutionalization of the Navigation Act (1651) by England (Boxer, 1974). The war ended with both sides suffering heavy losses and establishment of Treaty of Westminster (April 1654). The second Anglo-Dutch War (1665-67) was the one declared by England on Dutch in March 1665 after the sustained hostilities between the two countries and occupation of New Amsterdam (New York) by England. This period witnessed many wars that were mainly won by Dutch Republic. The war ended with England suffering the destruction of its docked fleet by Dutch at Chatham in June 1667 and entering into a Treaty of Breda. The English and Dutch after allying for almost a century fought their third Anglo-Dutch War (1672-74) as a part of general European war of 1672-78. The last and fourth Anglo-Dutch War (1780-84) was fought because Dutch was secretly trading with the American colonies that had started revolt against England. The ending of the war in May 1784 also marked the end of Dutch power and prestige (Hainsworth, Churches, and Hainsworth, 1998).
- (b) **Shimonoseki Campaign** was a series of military engagements against Japan in 1863 and 1864, fought by joint naval forces of the US, Netherlands, England, and France to control the Shimonoseki Straits of Japan (The Battle of the Straits of Shimonoséki, 1868). This was an episode where many feudal lords of Japan openly and aggressively resented the shogunate's open-door policy to foreign trade. The demand was to end Shogun rule and return the powers to the emperor while advocating the formation of modern military, which would give them the teeth to expand the empire. However, Tokugawa Shogun Iesada, the military dictator of Japan, in his effort to maintain the atmosphere of peaceful solidarity, argued for the opening of Japanese kingdom to trade with the rest of the world. Nevertheless, this opposition to foreigners of Europe and American nationality escalated into an open conflict when a century of imperial tradition was broken by the Emperor Kōmei with his March 1863 orders to expel the barbarians after the deadline of the 10th day of the 5th month according to Japanese Calendar. Following the order, the daimyō Mōri Takachika took an extreme decision ordering his forces to fire on all the foreign ships transiting via Shimonoseki Strait without warning. The first attack thereby occurred on June 25, 1863, immediately after the "order to expel the barbarians" came into effect. The confrontation via the war was the method adopted by the US as soon it became clear that Tokugawa dictatorship was unable or unwilling to contain the anti-foreign faction.

- (c) **Opium Wars** refer to two wars between Qing Dynasty of China and Britain Empire and also Western countries, particularly France. While the first Opium War (1839-42) was fought between Britain and China, the second Opium War (1856-60) was between Qing Dynasty and Britain aided by French forces, also called as the Arrow War or Anglo-French Wars. In both the cases, it was the Western powers who won the war and made inroads into Qing sovereignty by gaining commercial privileges and legal and territorial concessions in China. Post-war period was marked as the era of unequal treaties for China that witnessed the replacement of dynasty by republican China in the early twentieth century (Pletcher, 2019). However, prior to the first Opium war, China was hailed as the largest economy in the world for many centuries (Maddison, 2010; World Economic Forum, 2017). Until the war, China was the net exporter with large trade surpluses with the Western economies. Everything toppled post the second Opium war in China, its global share of gross domestic product (GDP) fell by half, and it faced the compromise on its sovereignty over its territory until the end of World War II and the retrocession of Hong Kong and Macao at the conclusion of the twentieth century (Farooqui, 2005).

The first opium war was waged to suppress the China's resistance against the illegal smuggle of opium from India by British East India Company (EIC) since the late eighteenth century. The British EIC sponsored opium trade devastated the Chinese population, especially coastal Chinese cities, by converting 10-12 million people into addicts. Chinese government took a strict action in Spring 1839 by confiscating and destroying more than 1,400 tons of the drugs that was warehoused in the free trade region of Canton (Guangzhou) by British merchants. On the advisory of British trade commissioner in Canton, Captain Charles Elliot, British government sent troops in May 1840 and a British naval force arrived on June 21, 1840, off Macao to bombard the port of Ting-ha. The war was concluded with the enactment of Treaty of Nanking (Nanjing) in 1842, which imposed reparations for the losses incurred by the British traders for their illegal trades being destroyed in Canton, demanding 21 million dollars with six million immediate payment and rest through specific installments. The treat also resulted in forced transfer of Hong Kong Island with surrounding smaller islands to the government of Great Britain. Britain also extracted the status of "most favoured nation" for itself. The same privileges were granted to other Western countries also like France on their demand.

The second opium war broke out during the civil war within China with a rival Emperor establishing himself at Nanking. At the same time, a new Imperial Commissioner who loathed British and was determined to stamp out illegal opium trade got appointed at Canton. In October 1856, he threw the crew of seized British ship Arrow and threw them into captivity. The British retaliated by bombarding and capturing the forts on the Pearl River as they guarded the approach to Canton. In December, the captured Chinese port of Canton witnessed the outbreak of a riot in which foreign factories and trading warehouses were burnt (Meyer, 1997). Subsequently, a gruesome murder of a French missionary was also reported that got the British the support of the French, and hence followed the second opium war in the late 1857 in China. The war resulted in Treaty of Tientsin (26 June, 1858) that demanded reparation of war expenses, a second group of 10 more ports being opened to trade with Europe, legalization of the opium trade and right to travel for foreign traders and missionaries (Teng, Collis, and Pelcovits, 1948).

2.2. Development of China, Its Competitiveness, and Its Trade Relations

Prior to 1979, China was a centrally managed economy with State planning, controlling and directing the production, and allocating resources. The state had barred private and foreign invested firms to operate in their economy. It was the centrally controlled, state-owned enterprises (SOEs) that dominated the majority of industrial production (around three fourth) in the economy until 1978. China's real GDP growth rate was 6.7% from 1953 to 1978 as per the Chinese government statistics. Subsequently, China moved toward reformation of its economy led by Deng Xiaoping, which started in December 1978.

The reforms of China in 1979 materialized with opening up of its economy to foreign trade, foreign investment, de-collectivization of agriculture, permission for new start-ups, lifting up of price controls, regulations, protectionist policies, and realization of free market reforms. The reforms proved to be successful is evident from the fact that China has now become the world's fastest growing economy with real GDP

averaging 9.5% through 2018. It has become the world's largest economy on purchasing power parity (PPP) basis, merchandise trader, and manufacturer and holder of largest forex reserves. In order to sustain its growth levels, China adopted innovation as its top priority in its economic planning. Hence, it launched some high-profile initiatives such as Belt and Road Initiatives (BRI) and Made in China 2025 (MIC 2025). Made in China, announced in 2015, is aimed at increasing the innovation, fostering Chinese brands, reducing dependence upon foreign technology, and ultimately boosting competitiveness of its industries. On the other hand, BRI launched in 2013 aimed at enhancing economic connectivity and integration with its trading partners and neighbors encompassing Asia, Europe, Africa, and beyond. In its BRI project, Latvia is a BRI country that can contribute to its Eurasian Land Bridge facilitating container block train for distribution of Chinese goods between Latvia and China, i.e., in Scandinavian countries, since cargo potential for this route is growing already (Bulis, Kabiraj, & Siddik, 2018). Some more initiatives were also undertaken by China. For instance, the creation of a USD 100-billion New Development Bank headquartered in Shanghai in July 2014 was announced by China in joint association with Brazil, Russia, India, and South Africa. Another USD 100-billion Asian Infrastructure Development Bank (AIIB) was initiated to be constructed by China in October 2014, which witnessed the consent of 57 other nations excluding US. AIIB is also headquartered in Beijing, China, which started its operation in January 2016. Nonetheless, such initiatives have raised concerns that China intends to reduce its reliance on foreign technology and foreign currency by using industrial policies and eventually dominate global markets. It can be said that Chinese economic model is undergoing major restructuring as the old growth model is no longer sustainable. In its quest for a new growth model, China is now putting significant emphasis on innovation and private consumption as the new drivers of growth. Khan and Ahmad (2018) found a significant growth in product w.r.t comparative advantage in Chinese export basket. Additionally, there is a significant change in Chinese export structure moving to capital-intensive products from labor-intensive products. However, unless China manages to effectively implement new economic reforms, sustainability of healthy economic growth could prove to be challenging.

3. OBJECTIVE AND METHODOLOGY

This paper implores to assess the cause and effect of the US-Sino Trade War. The attempt is to understand the reasons behind the same and its impact on the warring economies and collateral damage to other world economies. The experience establishes that trade wars have no winners. It only has negative economic and political implications for the economies involved in the war. With the war started in year 2018, the long-run effects of this trade war are yet to be seen and its impact has been substantial for both the US and China for short term as well.

The descriptive methodology of review of reports and articles has been followed in the paper.

4. ABOUT THE WAR

Trade protectionism in the era of economic globalization is poison and not panacea. The loss is inevitable for both the economies, the one imposing tariffs and the one being subjected to tariffs, in the event of trade war. In fact, there would be collateral damage as well for the countries on the sidelines. For instance, protectionist measures via higher tariffs would ultimately result in escalated consumer inflation in the US owing to increased manufacturing costs for the US businesses. In order to avoid the war, it becomes imperative that both the US and China must reach an agreement that addresses key issues of intellectual property rights (IPR), market access, and joint-venture technology transfers. However, the biggest question is how and when did this war started. The answer to that question lies in the following time line tracking the events leading to the current situation.

4.1. Cause of the War

The past three decades witnessed the evolution of the US-China trade relationship. By 2018, China has bagged the title of the largest US merchandise trading partner with total trade at \$660 billion, largest source of imports for the US at a billing of \$440 billion, and third largest export market at total trade value of \$120

billion. China also holds the largest reserves of the US treasury securities at \$1.1 trillion at year-end 2018. However, the bilateral relations have been strained with the tensions growing sharply in recent years over numerous economic and trade issues. The US recently launched a trade war against China in 2018 with decri of the US President Trump about the unfair trade relationship of China with the US at the cost of the US. The following are some of the causes of the war.

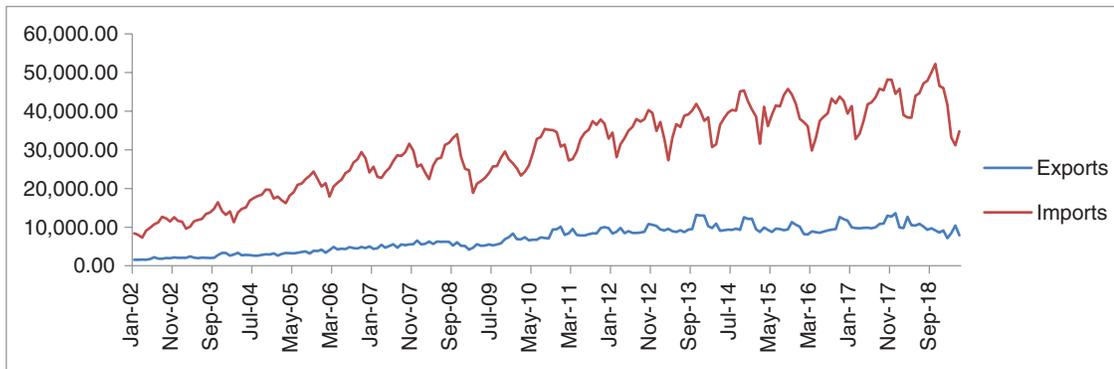
4.1.1. The Trade Deficit

President Trump highlighted the trade deficit of about \$419 billion in 2018 (up from \$376 billion in 2017) in the US trade balance with China (CRS, 2019) (Figure 1). While some of the US policymakers contend the large trade deficits of the US with China as an indicator of unfair trade practices, others view bilateral trade deficit as a misleading indicator because of the growth of supply chains used by multinational firms. Today, the place of invention, development, manufacture, and assembly is generally different given the global nature of business today employing multiple foreign sources to export a product. Thus, the US bilateral trade data fail to reflect the true nature of value added in each country, ignoring to identify the actual beneficiaries of its global trade.

4.1.2. Nonreciprocal Trade Practices

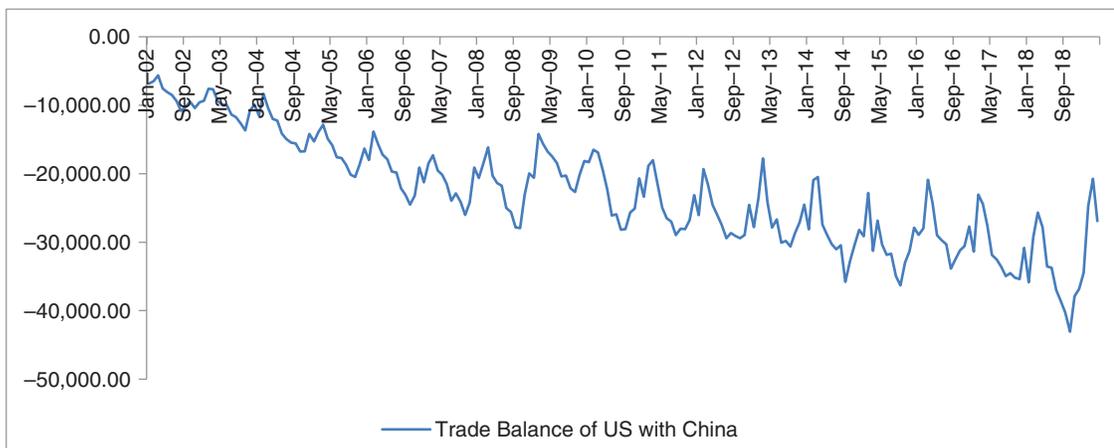
Trump accused China to be engaging in nonreciprocal trade policies where China charges higher tariff on imports from the US than vice versa. Additionally, the trade balance also tilts in favor of China more as compared to US (Figure 2).

Figure 1. Export and Import of US with China.



Source: Author's own plot (data taken from United States Census Bureau).

Figure 2. Trade Balance of the US with China.



Source: Author's own plot (data taken from United States Census Bureau).

4.1.3. Theft of Intellectual Property Rights and Cyber Theft

The strongest allegation was regarding the economic model of China in which US multinationals complained about mistreatment and predatory practices of Chinese administration. The US firms alleged the transfer of the US firm technology by legal and illegal means to China, and theft of IP through forced joint venture of the US technology firms with Chinese firms if the US firms wanted to have access to the promising Chinese markets. The cost of Chinese theft of American IP was estimated at about \$225–\$600 billion annually to the US besides the loss of jobs to the US nationals (Siby and Arunachalam, 2018). A study authorized by Commission on the Theft of American Intellectual Property in May 2013 found China to be responsible for up to 80% (\$240 billions) of annual losses to the US resulting from global IPR theft. In year 2017, China and Hong Kong were held accountable for 78% of counterfeit goods seized by U.S. Customs and Border Protection. Furthermore, five members of Chinese People’s Liberation Army were held responsible by the U.S. Justice Department in May 2014 for the theft of the proprietary information and government-sponsored cyberespionage against US companies that was used to assist China’s economic development strategy. In October 2018, China was identified as the most profound nation state threat by the US cybersecurity technology company based on their records of targeted intrusion attempts against multiple sectors of the US economy by Chinese entities.

4.1.4. Industrial Policies

Trump administration has alleged China to be engaging in economic aggression against the US economy owing to Chinese government practices. The Chinese government is alleged to be engaging in the employment of industrial policies to support and protect its domestic firms, discriminatory IP and technology policies; foreign trade and investment barriers; subsidies, tax breaks, loans to Chinese firms at subsidized rates; and technology transfer mandates. Adding to the concern of the US administration was the “Made in China 2025,” the recently issued economic plans that indicated the increased role of government role in upgrading the Chinese industry and thus economic development.

4.1.5. Long-Term Challenges

The biggest challenge to the US comes in the form of China’s emergence as the major economic power. China is laboring to evolve into more technologically advanced in a number of dual-use industries particularly through IPR theft and state intervention, at the cost of the US. Furthermore, it is regularly attempting to advance its interest globally through initiatives like Belts and Roads by employing its highly established financial resources. The US is disturbed from China’s emergence as the alternative soft power besides it offering its economic model of authoritarian capitalism as an option to the US economic model.

4.1.6. Rapid and Aggressive Internationalization of EMNEs

The sudden emergence of emerging economy multinational enterprises (EMNEs) in a very short period of time, giving a tough competition to multinational enterprises based in advanced economies (AMNEs), is another contributor to the US–China Trade War (Awate, Larsen, and Mudambi, 2012). Numerous studies have pointed out that a parity by EMNE firms had been achieved in the technological capabilities with industry incumbent AMNEs (Mathews, Hu, and Wu, 2011; Mudambi, 2008). Abramovitz (1986) asserted the relative underdevelopment of developing firms as compared with advanced economies’ firms as the motivation to close the technological and productivity gap and create a successful international competition. The EMNEs had even overcome their relative disadvantage of technological insufficiency by acquiring or sourcing firms with such technologies in the host countries. The disadvantages were thereby converted rapidly to advantages by averting numerous pioneering costs and time investments that were incurred by AMNEs (Hennart, 2012).

4.1.7. Threat to Dollar’s Status as Reserved Currency

The prime reason for the supremacy of the US in the world is the use of the US dollar (USD) as the reserve currency, claiming 70% of global trade being denominated in USD. This statistic is peculiar especially since the US share in the global trade is only 15% at max. It is the majority of the remaining trade in the world that is denominated in USD particularly large contracts for commodities like oil imports that make it the global currency of trade. Furthermore, even the majority of bank’s international operations are denominated in USD despite the fact that neither seller nor buyer has USD as its home currency. The countries adhering with USD as the global currency are allies, such as Saudi royal family, which ensured denomination of all OPEC oil contracts in USD since 1970.

All was well until recently (few years back) when some countries with China particularly at the fore started denominating their trade contracts in local currency. However, with China's intention to denominate all BRI contracts in Chinese Yuan (LCU), the dollar's position as the reserved currency is under threat. The US had never shied from going great lengths to defend its status of reserved currency for USD. For instance, the 2003 invasion of Iraq by the US Army alleging to resolve the issue of possession of Weapons of Mass Destruction by Iraq. However with no *post-hoc* discovery of weapons of mass destruction at Iraq, the real cause of invasion was asserted to be the decision of Iraq to denominate its oil contracts in Euro and other currencies instead of USD (Srivastava, 2018). This time too would not be any different and it is China this time.

4.2. Timeline of the War

- The first indication to a likely trade war was delivered in the year 2016 by the US Presidential candidate Donald Trump in his campaign for the White House. In his June 28, 2016, rally in Pennsylvania, he promised to counter unfair trade practices from China by applying tariffs under section 201 and 301 under the US trade legislation. He alleged China's entry into World Trade Organization (WTO) to be responsible for the "biggest job theft in history" where the US republic suffered.
- Together with EU and Japan, the USA agreed to work within WTO and other multilateral groups to remove market-distorting trade practices by the countries. He argued that subsidies created non-competitive conditions through forced technology transfers, subsidies, local content requirements, and state-owned enterprises (Raszewski and Cohen, 2017).
- In March 2017, two executive orders were signed by Trump: the first order directed for the review of trade deficits and their causes and the other tightened the tariff enforcement in cases of anti-subsidy and antidumping trade cases.
- In August 2017, "Section 301" probe was ordered by Trump against Beijing investigating alleged theft of intellectual property.
- Subsequently, in January 2018, a warning of a big fine on China was issued by Trump over alleged theft of intellectual property. This was followed by an actual imposition of tariffs by the US on all imported solar panels and washing machines from all countries and not just imports from China (Eckhouse, Natter, and Martin, 2018). However, China being the world leader in solar panel manufacture and also having exported \$425 million worth of washers to the US was severely impacted by the policy (United States International Trade Commission, 2019).
- More tariffs were applied by the US specifically 10% tariff on aluminum and 25% on steel imports from all suppliers—not just China (Swanson, 2018). This time China retaliated by imposing tariffs of up to 25% on 128 US products. The US followed their lead and announced the plans to implement 25% tariffs on about \$50 billion of Chinese imports. Next day China took matter further by imposing retaliatory tariffs on about \$50 billion of US imports.
- In June 2018, the effective day of tariff implementation was set as July 6, 2018, with 25% levy on \$34 billion of Chinese imports. China immediately reacted in kind with an imposition of tariffs on \$34 billion of US imports.
- In July, the US launched another offensive by disclosing the plans for 10% tariffs on \$200 billion of Chinese imports. By August 2018, the United States Trade Representative (USTR) increased the tariff on \$200 billion of Chinese imports from 10 to 25%. Later, the list of \$16 billion of Chinese goods on which 25% import tariff was imposed was released. China reacted promptly by levying 25% duties on \$16 billion of US goods.
- Staying firm on its stance, the US threatened tariffs on \$267 billion more of Chinese imports but imposed 10% tariffs on \$200 billion of Chinese imports. China in return imposed duties of its own on \$60 billion of the US goods.
- Subsequently in December 2018, the US and China agreed to a 90-day halt to the new tariffs, which failed to draw favorable conclusion on the trade war for both the economies. In May 2019, the US finally increased the tariffs on \$200 billion of Chinese imports from 10 to 25%, effective May 10, 2019. The reason cited was the backtracking by China from its promises on approximately all aspects of a draft US–China trade pact.

It can thus be concluded that the US is taking all the efforts such as erecting barriers to control Chinese investments in American firms, constraining China's role in building America's next-generation telecommunications networks, reassessing the kinds of technology that can be exported to China, and also discouraging other nations from using Chinese equipment. Looking at the time line of the bilateral trade war, the probability of an all-out trade war appears to be strengthening daily. The economies with the most at stakes the US and China need to sort out their issues in market entrée, IPRs, and joint-venture technology and knowledge transfer.

5. CHINA'S POSITION IN TRADE WAR

There is a wide-ranging belief that this trade war would hardly be able to send Chinese economy into a tail-spin. The fact is China made only \$2 trillion from exports in 2016 out of its more than \$13 trillion economy. The tariff imposition by the US in current trade war would be adversely impacting only few Chinese businesses and industries, amounting to only 2.5% of China's overall exports to the US (Stratfor, 2018). In fact, the goods exported by China essentially comprise of intermediate products produced elsewhere in the Asia-Pacific region but finally assembled and exported as finished product from China. Thus, China is at the end of Asian supply chain. Interestingly, China is in consistent and successful efforts to reduce its economy's dependence on exports after the subprime crisis. For instance, China has managed to reduce the share of exports in GDP from 30% in 2007 to less than 20% in year 2017. Furthermore, China has also successfully managed to its share of exports to the US from 9% of China's economy to a bit over 4% (Wyne, 2018). It clearly indicates China's intent to become less dependent upon the US economically, thereby strengthening its position to challenge the US foreign policies more assertively.

It may well be asserted that China is only repeating the history, specifically belong to the era of Bretton Wood period. The Chinese actions today have substantial resemblance to practices adopted by advanced economies including the US when they were busy catching up with others. For instance, today China is being alleged by the US to systematically violate IPR to steal technological secrets. However, the US in the nineteenth century was leveled the same allegations by the technological leader of that time period, namely Great Britain, similar to the contentions against China vis-à-vis the US. Moreover, the US in the nineteenth century held as much regards to the trade secrets of British industrialist as China holds it for IPR of the US today (Mallick, 2018).

6. CONSEQUENCES

The wars of any kind are always long, messy, and expensive for both the parties. This US-Sino Trade War holds no other promises. Bloomberg estimates that given the current tariff scenario, output in China and the US would be lower by 0.5 and 0.2%, respectively, as compared with no-trade-war situation. The war has implications for the global output that would also come down a notch. The Organisation for Economic Co-operation and Development (OECD) estimates a loss of \$600 billion or roughly 0.7% from the global output growth by the year 2021 (Romans, 2019). Nevertheless, the specific impacts of trade wars on both the economies have been examined in detail as follows:

6.1. Consequences for US

The consequences of trade war exist for US as well. Since it is the end consumers who purchase the products, the impact of increased tariff to the tune of 25% imports duty on Chinese products means higher purchasing cost for consumers. Or it could be lower profits for the companies. For instance, the most hurt would be the companies like Walmart that is importing cheap products and selling to US consumers. The skyrocketed prices as a result of higher import may well fall out of reach for lower economic brackets. Furthermore, it may be appreciated that China is no more underdeveloped economy like it was two decades back, looking for an access to Western technology and manufacturing techniques. It now boasts of some of the best manufacturing facilities operating on its land and access to the technology serving the world. In fact, it is Chinese markets that cannot be ignored by the US. For instance, China serves as the biggest export

market for the Apple iPhones, and Boeing currently employing 150,000 employees estimates exporting \$1 trillion of planes to China in the next 20 years. The consequence could be damaging as the competition threatens to replace the dominating US products like Apple iPhones by Samsung, Boeing being replaced by Airbus, etc.

6.2. Consequences for Other Global Countries

In a world of global value chains, domino effect beyond the countries and targeted sectors is a natural consequence of a tariff war between world trade giants. In other words, the trade spat between the US and China has consequences well beyond their borders.

Some of the affected economies in this trade war would be the following:

- (i) The economies that would be worst hit from drop in Chinese export to the US would be Taiwan, South Korea, and Malaysia. These three economies form the part of the Asia's export supply chain. For instance, 1.6% of Taiwan's output is linked with China exports to the US where computers and electronics particularly account for the largest share. Similarly, 0.8 and 0.7% of outputs of South Korea and Malaysia are linked with Chinese exports to US with the same industries in the cross-hairs (Holland and Sam, 2019).
- (ii) The trade war would impact South East Asia the most as it is the major trading partner to both the US and China. The East Asian value chains are estimated to contract by about \$160 billion owing to the tariff imposition on Chinese exports by US (Hamilton and Yin, 2019).
- (iii) In contrast, North American value chain is expected to witness a shift in their production location from China to North American region to offset the negative impact of Chinese tariff. The North American region benefitting would be US, Mexico, and Canada.
- (iv) European companies like BMW would also be impacted gravely as their production chains have roots in both the US and China. BMW, a German automobile company, manufactures its cars in the US and sells in China both of which are the main counterparties of the trade war.
- (v) International suppliers of the US firms, e.g., Boeing, an aircraft manufacturer, become the prime collateral damage bearers if China proceeds to cancel orders with them. Japan, UK, Italy, and Canada are the suppliers to the US firm Boeing.

The expectation of a long trade war will have ramifications for global investment flows, employment, and growth rate for both the developing and developed economies. The outcome of this trade war will be influenced greatly by the monetary policy and financial market responses. The US federal reserve has a history of prompt increase in its rates in response to increased domestic inflation leading to a financial stress in the economy. The rise in financial stress will adversely impact industrial production, trade, new credit flows, and restrain the investments. Furthermore, the protectionist environment would also negatively impact the global equity prices leading to its decline impacting the economies globally, inter-connected via finance and trade.

6.3. Consequences for India

The US-Sino Trade War has substantial implications for developing countries including India. It is a high likelihood that an increasing US-Sino trade tension can transform into dumping of Chinese goods in Indian markets at predatory rates (US-China trade tensions may lead to dumping of Chinese goods in India: Ind-Ra, 2019). This diversion of Chinese exports to developing economies would severely disrupt demand-supply dynamics in Indian domestic markets, particularly for products such as iron, steel, organic chemicals, and electronic goods. Furthermore, India is not even in a position to benefit from the trade war of the US with China as the nature of commodities exported by India is not the same as that of China to the US. For instance, electronic and capital goods account for the 47% of Chinese exports to the US, whereas it is gems, jewelry, and pharmaceutical products that account for 30% of Indian exports to the US in the year 2018. Hence, with such exclusivity of export commodities between India and China, the loss of one cannot be transformed into gain of India. The trade war could also mean weaker flows of foreign investment from the US to India. The decline in Chinese imports to the US might stimulate inflationary pressures in the US. This in turn may push up the discount rate and reduce arbitrage opportunities for the US investors leading to weak FPI (Foreign

Portfolio Investment) flows to India and other emerging economies. Additionally, India could also suffer from potential devaluation of Chinese Yuan, which in turn could stimulate a competitive depreciation in INR impacting the export competitiveness of India in international markets.

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Conflict of Interest

None.

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