

# U.S CHINA TRADE WAR; GLOBAL EXPORTS & ECONOMIC IMPACTS

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**Abstract:** The Trade war initiated by the US between world's two largest economies had spread the uncertainty globally. The conflict was started on the allegations of US President Trump over China on their theft of American intellectual property and their unfair trade practices and thereby implementing higher tariff on certain Chinese products. The countries affected by the new tariffs and other countries are also bothered by the impact of the trade conflict in terms of exports and imports. Though some crisis is going around, some countries are also benefitting from the trade upheaval prevailing in the current market scenario. Those emerging countries gain more market in manufacturing and production sectors indirectly. The trade crisis amid of US and China had resulted in a trade imbalance in certain sectors and also has affected the global economy adversely. This article throws light towards the US-China trade war and their impacts on global exports and world economy.

**Keywords:** Trade war, China, US, Exports, Economy, Retaliation, Impacts.

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## I. INTRODUCTION

The US-China trade war gave its first cue during the presidential campaign, when then-candidate Donald Trump said that Beijing couldn't be allowed to "rape our country". Trump always accused china for unfair trade practices and intellectual property theft. And China had a perception that US is trying to curb their rise. All together resulted in firming tension between world's two largest economies. On March 8, 2018 U.S initiated the conflict by imposing additional tariffs to export of aluminium and steel to USA with the objective to impact china make changes in their alleged "unfair trade practices". The accusation concerns of US intellectual properties, military technology or adopting and obligating policies and foreign companies to engage in joint venture with the Chinese establishments which eventually put forth the American patent holders in pitfall and thereby illicit access to their technology is gained by the Chinese companies. Brought about by the disagreement, America came up with the plans to enact sanction against China by raising the tariffs on selected Chinese products valued from \$50 billion to \$60 billion by 25% on 22 march, 2019. Those products were from the critical sectors of the China such as robotics, information technology, automobile industry, medicine and health care technology.

Foreign direct investment is further area of disagreement for which the foreign companies are restricted from entering some business sectors and enforced forming joint ventures with the Chinese companies to establish over there. As per U.S, such joint venture gives illicit access of the technologies of foreign companies to the Chinese companies and there by leakage of intellectual property occurs. As retaliation to the American exertion, China raised 25 percent tariffs on 106 products, also worth \$50 billion in trade. The long disagreement over china's trade and economic practices has now banged its impact globally. This article focuses on the implications of the trade war on global exports and its impacts on global economy.

## II. LITERATURE REVIEW

International trade which involves both imports and exports of goods and services across countries is considered as the "Engine of Growth" which has proved advantages to the global economy. A trade promotes the efficiency of a country which lacks in certain products by enabling them to import the product from other countries. And similarly country can export too, where a country having surplus amount of certain products can export the same to other countries that are in need. International trade enables customer to buy better quality of products at lower cost (Boudreaux & Ghei, 2017).

International trade creates more job opportunities in efficient industries therefore; it helps increase in wages, better standards of living and higher growth of income per capita which eventually increases economic growth.

Though international trading has got lot of advantages but it also has few disadvantages where if a country is manufacturing the product at lesser price can also export the same to the country where the same quality product prices more. This happens due to the surplus quantity of raw materials and therefore, manufacturing cost reduces. And same happened between US and China which has created a trade war when US government imposed additional tariffs on China's export of certain products due China's wrong trade practices. This trade war created a big impact in global businesses as US and china holds the largest economy in the world. Due to the trade war was there was a huge decline in jobs which causes inefficiency and reduces the volume of trade. According to Comtrade (2018), in 2017, the US trade deficit with China increased to \$363 billion, the highest bilateral trade deficit on record. The data shows 42% of the total US trade deficit of \$861 billion. This trade war created a big impact in global businesses as the world's two largest economies have imposed tariffs on billions of dollars worth of one another's goods. It messed up global supply chain and created inefficient trade diversions.

President Trump's tariffs policy aims to encourage consumers to buy American products more by making imported goods more expensive. So far, the US has imposed tariffs on some \$250bn of Chinese goods, and China has retaliated with tariffs on \$110bn of US products. Washington delivered three rounds of tariffs last year, placing duties of up to 25% on a range of Chinese products, from handbags to railway equipment. Beijing retaliated back with tariffs ranging from 5% to 25% on US goods including chemicals, coal and medical parts.

### III. CONTENT

The escalating tariff imposition of billions of dollars worth one on another over the past year, amid of world's two largest economies has fabricated economic dilemma globally. US President, Trump's tariff policy objectify to encourage consumers to buy American products by making imported goods more expensive. Through several rounds of sweeping tariffs on US\$250 billion worth of Chinese products US initiated the conflict and China counter stroked with tariffs on \$110 billion of US products. The US had a trade deficit of \$419 billion with China in 2018 since US exports to china were only \$120 billion whereas imports from China were \$540 billion. So far neither of the negotiations went fully successful, US-China trade tensions gives out a cue of "full-blown trade war". As per Ministry of Commerce of china, the dispute may even lead to the largest trade war in economic history to date".

#### *Effect on global exports*

China, experiencing surpassing hype in Growth Domestic Product Growth rate over the past decades has cooling down of GDP growth rate to 6.6% even though their Foreign Trade Volume rose 9.7% in 2018 despite of trade war with US. Being the second largest economy globally, exertions happens in china doesn't stay in china alone. It effects on the rest of the word and will have greatest impact on China's major trade partners such as US, Japan and Hong Kong etc. China's major trading partner US have a bilateral trade of \$737.1 billion worth. The trade tensions prevailing amid of US and China has affected the bilateral surplus that China runs with United States exacerbated by China's slow down. Not only lowering the growth rate of Chinese economy translate to weaker demand for U.S goods, but the devaluation of Yuan, by making Chinese goods cheaper for America, could increase U.S imports from China.

Japan, China's second largest trading partner which has bilateral trade of \$330 billion worth rose 6.8% in terms of exports to china and imports rose by 4% in 2018. Hong Kong's 44% of domestic exports went to China and 46.3% of its total imports came from china in 2018. Slowing down of Chinese economy, trade war amid of two largest economies of world and civil unrest are no doubt putting pressure on Asia's largest financial hub. So there is an uncertainty going across globally due to trade war, there are few countries benefiting from this. Since the two side's battle continues, companies affected from hiked tariffs are looking to shift manufacturing units elsewhere. So the business operating in other countries are experiencing economic growth.

About 80% of the American company Pedego known for electric bicycles, parts came from china before but not anymore. The manufacturing of bicycle parts for Pedego has been shifted to two factories in Vietnam. Now, 70% of the manufacturing is occupied in Vietnam and rest of the 30% in Taiwan. The production unit of Pedego was moved from china in 2018 due to the high tariffs on Chinese-made electric bikes. The U.S based company Gopro also moved their production units of Cameras for American Market from China to Mexico in june 2019 due to the high tariffs as well as recognizing some cost savings and efficiencies. Gopro's cameras for other markets other than America continues to be

made in China. According to Kevin Klownen, head of Milken Institute, a research centre based in Santa Monica, California “The two countries that are benefiting the most are Vietnam and Mexico and everybody is looking at them in envy”. By the reports of US Census Bureau, goods imported from Mexico has been increased by more than 6 percent for the first six months of 2019, for first 6 months of 2019, compared to that of 2018. Vietnam imports at the same period rose by more than 33 percentage whereas china has been dropped by more than 12 percent. According to US census, a number of companies would like to go back to U.S just because of the stability.

The GDP rate of Philippines also had a gain of 0.1% from trade war. Philippines had a gain of 3.2% in total exports where its main export items were semiconductors and electronic equipments. The GDP of South Korea had a gain of 0.8% due to the trade war and their exports rise were mostly for electric apparatus for phones, parts of office and automatic data processing machines. Malaysia had the benefit of 1.5% growth in GDP through the export of natural gas and semiconductors. Singapore and Thailand also had GDP growth benefit from the trade upheaval.

Trade tensions had boosted the export levels of India among 350 products such as granite and chemicals to these countries as per Ministry of Commerce of India. According to the Study of Commerce Ministry of India, almost 151 products including diesel, X-ray tubes and certain chemicals have a whole advantage to displace US exports to China. Correspondingly, 203 Indian goods such as rubber and graphite electrodes have an edge to displace Chinese exports to US. The ongoing trade uncertainty may bring about a shift in the global trading patterns due to spill over effects and displacement of imports and exports across the countries. The increase in the exports of India would help India narrow the widening trade deficit with China which was at \$ 50.12 billion in April –February 2018-19. The specific product variants of India can potentially expand their market access to china and other countries at this current scenario. As per Federation of Indian Export Organizations(FIEO), the exports of India has rose by 11.2 percent in 2018 to US and to china by 31.4 percent in the same year benefitting Indian economy. Beside the trade, diversion in investment flows is an opportunity that can benefit India since the manufacturers seek alternative destinations for productions. India can increase the market access by increasing footprint in amid of US-China trade war, specially on the categories which US has raised tariffs on China.

#### ***Impact on global economy***

The trade war initiated by US would seriously affect to the global economy as protectionist actions escalates though there are some countries benefitting from the trade war. The countries which slap each other by tariff hikes would experience losses in economic welfare, whereas the countries on the sidelines would experience collateral damage. If the high tariff prevails, losses in economy would be permanent since the distortion price signals would prevent global productivity maximization. The probability for an “all out trade war” is increasing even though still it’s in low pace. Countries confronting new tariffs are experiencing drop in exports and GDP. Other countries are banged indirectly with weaker export demands for their own through supply chain or in response to the weaker global economic growth. These effects heaviness over any potential gains from trade diversions to avoid tariffs. At this scenario, the real global GDP has reduced by 0.1% in 2018, will be reducing by .8% by the end of 2019 and may extend by 1.4% in 2020 if this condition persists. That is, the economic growth of 2019 and 2020 is just above the threshold of 2.0% for a world recession.

The international trade suffers from this as the multinational companies move their production to end markets to stay competitive. Thus the real global exports of goods and services drops below 2.4% of baseline by 2020. Consequently, the monetary stimulus is causing the elevation of oil price and political crisis. Macroeconomic level crisis is more in effect and the trade war has now become a currency war which raises the potential harm to another level. Within US, the threat arises from the hike of consumer prices as the tariffs on imported products are increased forcing the Federal reserve to increase the interest rate faster and this will put Rupee under stress.

#### **IV. CONCLUSION**

The US trade war impacts doesn’t fit in the respective countries alone but reflects internationally on economic terms. The trade conflict effects on other countries shows that some of the countries will gain on welfare and trade but lose on production and manufacturing employment. It is because that since the trade between US and China has reduced and shifted to other countries which will result in the improvement of consumption variety and welfare but will decrease the production and manufacturing employment in US and China. Though there are certain countries which gain benefits out of it, countries like Japan will be at risk if the situation continues. China’s hi-tech goal of ultimate “made in china 2025” which aims to support and promote cutting edge industries like robotics, aerospace, 5G communications, new materials

and new energy vehicles replacing imports with local products and building championship over the western tech domination will be swept off. If this scenario continues, the world economy will face recession by the 2020-21.

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