Trade War Between US And China And Its Implications On The Global Economy

In today's 21st century, global economy is driven with severe competitions amongst ambitious countries where there prevails major economic conflict amongst each other. The world-wide economic activity among these countries that are inter-related and adversely affect each other's economic status. In the past few decades, we can witness clash of different nations with regard on taxation of imports and exports, creating trade barriers against each other and restricting trade practices in global economy. There has been economic collision with differences in trading practices among countries, raise of tariffs has caused disputes, hostility and eventually leading to "Trade War".

A trade war starts when a nation attempts to protect their national or domestic industry and create employment. Tariffs are supposed to give competitive advantage to domestic producers of that product. Their prices would be lower by comparison. Hence, they would receive more demands from local customers. As their businesses thrive, they would add jobs.

A trade war can adversely affect the countries that are not involved in the trade war as well. The world's two largest economic giants of the world China and U.S.A have been dealing with the trade war in these recent years. China's Gross Domestic Product (GDP) is 12.4 trillion USD and world's largest economy in Purchasing Power Parity (PPP) while U.S Gross Domestic Product (GDP) is 19.5 trillion USD making it the world largest economy.

Since US President Donald Trump's administration in 2018, US has imposed tariffs on 50 billion dollars goods and products. the US also plans to impose new investment restrictions, take action against China at the World Trade Organization and the Treasury Department also will propose additional measures. (Diamond, Jeremy. Trump hits China with tariffs, heightening concerns of global trade war. Washington(CNN). China's Commerce Ministry had accused the United States of launching a trade war and said China would respond in kind with similar tariffs for US imports, starting on July 6, 2018.

The immediate effect of this trade war between US-China is that prices for US consumers will increase, Chinese exporters will likely suffer from low orders with both countries witnessing strained economic status and pressure. Moreover, car industries have immensely been affected with this trade war as changing trade policies were dramatically taking a toll on their performance.

The advantages of trade limitations among countries results in barriers to imports of goods. This makes life convenient for industries in the country getting the protection. This also, in some cases will also benefit business companies from the other nation which have set up factories in the country in question. Trade barriers result in companies looking at different ways in entering new markets. One way is the establishment of factories in the blocked nation. A trade war can be advantageous in delivering major political benefits. President Donald Trump gained a lot of political support from voters because of his anti-free trade message and campaigns.

Like U.S. companies in the past, Chinese manufacturers are shifting some of their supply chains

to Southeast Asia. In U.S-China trade war, countries in South Asia like India, Vietnam, Nepal etc. can benefit by seizing the opportunity by strengthening its exports to China. The countries can grab the Chinese market share after the withdrawal of U.S. where China imposed 15-25% tariffs on U.S goods and imposed only 5-10% tariffs on other countries.

It is speculated that Vietnam can get advantage from the trade war because of its low manufacturing cost and Vietnamese industries are getting huge export orders on seafood, furniture and garment industries. Vietnam has become an outpost of Chinese businesses, especially manufacturing and exporters looking for cheaper labor and less regulations.

China retaliated with a tax of 15% would be levied on 120 products such as fresh and dried fruits, nuts, wine and steel pipes, while a tax of 25% would apply to pork, pork products and recycled aluminum. Recent reports suggest that Beijing will reduce their official GDP growth target to as low as 6% from the current 6.5%. The trade war, a shift in some global business cycles like technology and tighter regulations from Xi Jinping’s government are reversing the China growth trend.

About half of all Chinese imports to the US are now subject to the new duties. International monetary Fund (IMF) may have a bad consequence in global growth. The White House says its tariffs are a response to China's 'unfair' trade policies. The import charges will make Chinese-made products more expensive which is a move intended to convince US businesses and consumers to buy elsewhere.

There are also other major drawbacks to a Trade war. It depresses economic growth for all countries involved. It triggers inflation when tariffs increase the prices of imports. According to Chief economist Taimur Baig, an all-out trade war could shave 0.25% off the GDP of both economies this year. It gets much worse next year - with both countries seeing a reduction in growth of about 0.5% or more. He stated that 'considering China grows at 6-7% and the US at 2-3%, we believe the damage would be greater to the US than on China'. (Vaswani, Karishma. July,2018. How a US-China trade war could hurt us all. BBC)

Higher tariffs on US imports of goods from China and other countries will in most cases be passed on as higher prices to American consumers, raising inflation and, in turn, interest rates. One of the contrasting deal of imposing import tariffs on goods from China is that a high quantity of these will come from US companies such as Apple and Dell, which assemble their products cost competitively in China, then export them to US consumers. President Trump calls for these firms to relocate their production back to the US, but comparatively much higher labour and other costs would lead to higher prices for consumers and inflation (Dent, Christopher. January 2019)

The vengeful mentality between Beijing and Washington could conclude in arousing hostility for both sides to a point where they cannot climb down from their hostile positions for fear of losing face. According to Chinese news sources they have already witnessed lower sales of automobiles, electronics resulting to slowdown in Chinese economy. This has caused bad impact on the international trade environment and business issues.

Similarly, factors of trade war threat and economic slowdown has brought severe slowdown in the sales of consumer durables. Hence, consumer durable consumption is directly related to consumer confidence that has been immensely affected by trade tensions between China and

the U.S. Over time, trade wars weaken the protected domestic industry. Without foreign competition, companies within the industry don't need to innovate. Eventually, the local product would decline in quality compared to foreign-made goods.

'The risk that current trade tensions escalate further—with adverse effects on confidence, asset prices, and investment—is the greatest near-term threat to global growth,' the IMF's economic counsellor Maury Obstfeld said (BBC Research). China's GDP growth is forecast at 6.6%, but the IMF said measures the country is taking to reduce debt could lead to unanticipated negative effects.

Smaller Asian countries could be affected with the trade war between US and China. According to the Economist, 30% of the value of the goods China exports to America originates from third-party countries. In addition, China may not have as much power as the US to retaliate, given the US buys much more from China than it sells to them. This could mean it would find alternative ways to fight back such as making life difficult for American companies in China by increasing red-tape.

Financial Secretary of Hong Kong Paul Chan Mo-po, writing on his official blog, expresses his concern that a US-China trade war would have a negative impact on Hong Kong’s economy and affect one in five Hong Kong jobs. Likewise, former Prime Minister Neville Chamberlain stated, “In war, whichever side may call itself the victor, there are no winners, but all are losers.”U.S. companies like Apple are losing money. Today’s trade data points to evidence that more companies trading with China brought in much less money in December (FORBES).

Trade analysts from Panjiva research, part of the S&P Global Market Intelligence group, believes the U.S is a net loser from the tariffs because of Chinese imports from the U.S. declined 35.8% in December 2018 from 10.3% gains in the prior three months. As a result, Chinese imports brought in around $5.8 billion less in December while exports lost $1.53 billion, for a net balance of $4.28 billion of trade value lost, based on Paiva’s analysis.

There are no real winners in this US-initiated trade war. Countries facing new tariffs, including the United States, experience declines in real exports and GDP. Other countries are hit indirectly through weaker demand for their own exports, either through supply chains or in response to weaker global economic growth. These effects outweigh any potential gains from trade diversion to avoid tariffs.

World trade suffers in a more protectionist environment, as countries turn inward, and multinational companies move production to end markets to stay competitive. In the scenario, real global exports of goods and services are 2.4% below the baseline level by 2020. The sharpest declines in real exports occur in China and the three North American countries.

The future health of the global economy depends on a good working partnership between the US and China. Both countries must quickly come to an end on this trade war and trade policies by focusing instead on establishing more harmonious relations for the stability and progress of World Economy