Trump’s Negative Effect On Global Economy

The year of 2016 witnessed the major global markets- US and UK waver which could be attributed to Brexit and Trump’s election, whilst China positioned itself as an ‘economy to watch out for’. Since then, globalisation appears to be viewed with a negative outlook (Ghemavat, 2017). Jackson (2017) asserts Trump’s belief of free trade and globalisation as the root cause of unemployment which could have ignited the trade war along with the rising trade deficit with China. The aim of this essay is to critically evaluate the trade measures adopted by the United States (US) against China and its implications. The first part of the analysis will focus on the impact of free trade and protectionism and to understand the motives of this phenomenon. The second part of the analysis will involve an understanding of the impact of these trade measures on US, China and the world economy. The final level of the evaluation will consist of drawing conclusions based on the evidence.

Ritzer (2011) defines globalization as the process involving interaction and integration of people, goods, capital and services across borders driven by international trade. Raphael (1985) outlines the concept of trade liberalisation initially put forth by Adam Smith. It is said to primarily benefit the consumers by offering a variety of goods at affordable prices. Liberalisation appears to embody the driving principle of globalization by removing barriers to trade such as tariffs, emphasises on maximum yield and ensures an optimal use of resources (James et al, 1995). Consequently, US underwent a period of ‘competitive liberalisation’ around 2002 where it entered into a number of free-trade agreements as explained by Chan, 2005. However, Krugman and Obstfeld (2009) explore the redistributive effects of free trade. They highlight protection of developing economies which may experience negative effects of free trade, to thwart unfair trade practises and to protect the well-being of the national economy, as essential factors to consider. According to Bureau of Economic Analysis (2017), US trade deficit in goods is estimated to be around $807 bn and in specific $375.2 bn with China. This implies a higher percentage of imports rather than exports. In lieu of this, US under Trump’s administration seems to have adopted a protectionism stance with a focus on its trade with China (Politi and Hook, 2018).

BBC (2018) attempts to analyse the reasons that led to Trump’s decision of further levying a tariff of $200 bn worth of Chinese goods. It could be inferred that the belief of damage to the manufacturing sector coupled with the stance on unemployment in the US may have led to this. Another relevant point, is the long-standing accusations of unfair trade practises by China. CNBC (2018) illustrates the timeline of the US-China trade war which has seen a back and forth implementation of tariffs by both sides. Further delving into analysing the reasons that led to this trade war, Donnan and Leonard (2018) illuminate the consideration of complaints against China. China is accused of theft of intellectual property and is said to force out trade secrets in order to further their own agenda of innovation. This is further supported by the complaint lodged by the US to the World Trade organisation in 2017 which could be one of the contributing factors to this trade war. The key aspect to this argument however, is the rising trade deficit and increase in the unemployment rates. Moreover, this could improve the balance of trade for US. In addition, this trade war may force the hand of monetary policymakers who might retaliate with higher interest rates. Consequently, it would lead to the strengthening of the dollar which has been the objective of Trump all along (OECD, 2018). The real question is if this

trade war of penalty tariffs helping or will it lead to a global economic slowdown. Ash (2018) even speculates if Trump has adopted mercantilism where the focus is upon maximising the country's financial aspect over the prosperity of it by exporting more and importing less. It is imperative to consider the implications of this trade war. Firstly, Schott and Lu (2018) present the fact that the US trade deficit with China is still growing, even with the penalty tariffs and has seen a rise of 10% from 2017 which may be due to stockpiling of imports in the anticipation of a trade war. Secondly, they also pinpoint the investments from China have dried up which could be attributed to investors not wanting to get involved due to the trade conflict. Furthermore, Sandbu (2018) asserts that globalisation is harder to reverse into protectionism. This is with reference to the probable layoff of 14,000 employees by General Motors, it is implied that a trade war can adversely affect the consumers which needs to considered and not just the producers. Furthermore, Jones (2019) highlights the falling stock prices in US which according to Trump are performance indicators.

In comparison, the penalty tariffs seem to have had a more damaging impact on the Chinese economy. With reference to Table 1, it could be observed that the exports of China have significantly declined since the start of this trade war. Also, the implementation of the retaliatory tariff seems to have done more harm than good (Peterson Institute of International Economics, 2018). According to Leonard et al (2019), the Chinese economy and the markets appear to have slowed down at an alarming rate which is a huge cause of concern. Li et al (2018) synthesise the effects of the trade war and conclude that China may suffer a lot more as a consequence when compared to US. Although, these negative impacts are affordable, it is implied that US stands to gain more and hence holds a higher bargaining power. As evidence suggests, it is only logical to settle on a mutually benefiting deal to improve the markets at this point. Wee and Bradsher (2019) explore the talks between US-China that led to the 90 day concession period to China before the tariffs are implemented. So far, the results include lowered tariffs on American cars by China, a proposition to not access the trade secrets, opening up of the markets more and a rise in the volume of soybean purchase. Conversely, it has been pinpointed that China does not hold up commitments. But the real question remains, is this enough to end the trade war with China.

To sum it up briefly, it could be inferred that Trump's negative stance on globalisation and free trade specifically with China stems from the rising trade deficit, unemployment rates, opinion towards China as a manipulator and his belief to 'Make America great again' which is solely based on production in US i.e. export more and import less. The decision to implement tariffs appears to be an attempt to support his agenda set forth for US. However, it seems to have had an adverse effect on both the economies of US and China. Although, the implications have hit harder on China and notes to have provided US a better bargaining power. Nevertheless, this tit-for-tat tariff escalation has seem to have affected the world economy causing a slowdown. Thereby, making the need for the closure of a trade deal all the more important.