

Trade War : China and the US



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Why Trade War? (1/2)



- A trade war takes place when one country retaliates against another by
 - raising tariff barriers or
 - placing other restrictions such as import quotas on imports from trading partner country
- It is a sort of revengeful response to tensions
- It is a 'side effect' of Protectionism which many countries follow
- 'Protectionist' policies lie at the core of trade war
- Domestic trade unions or industry lobbyists place pressure on the governments to make imported goods less attractive to consumers

Why Trade War? (2/2)



- Trade wars can commence if a competitor nation resorts to 'unfair' trading practices, perceived or real
- It often undermines widespread benefits of free trade
- Tensions between the US and China on trade matters started in the year 2018
- Trade wars 'protect' national interests and domestic businesses
- Advantageous
 - in short run but
 - hurt local companies, consumers, and the economy in medium to long run.

The US and China



- Driven by the United States having a huge trade deficit with China
- To narrow down massive trade gap, the US resorted to imposing high tariffs on imports of Chinese goods:
 - Washing machines - 20%
 - Solar panels - 30%
 - steel - 25%; and
 - Aluminum -10%
- A boon to Whirlpool Corp. who petitioned the government for protection from competitors on the ground of 'dumping' by overseas companies
- Likewise, U.S. manufacturers such as Suniva and Solar World were severely challenged due to
 - Steep fall in prices (of solar panels) in wake of ballooning imports and technology advancement.

Drivers of Trade War



- Four main **drivers** of the **trade conflict** between:
 - to reduce the deficit of bilateral **trade**
 - to increase the number of jobs
 - to limit access of **Chinese** companies to **American** technologies and
 - to prevent digital penetration of goods of Chinese origin

Tariffs & Trade Deficit : the US and China



- Additional tariffs imposed by the United States cover around 70% of total imports from China
- Tariffs imposed on the exports of Chinese goods to the US amounted to over US\$ 50 billion
- The U.S. trade deficit with China was of the order of over US\$ 400 billion in 2018, which came down to US\$ 300 billion in 2019
- It further ebbed to US\$ 200 billion in 2020 (Jan-Sept, 2020).

Impact of the Trade War (1/3)



- Sino-US **trade war** caused economic pain on both sides and led to diversion of **trade** flows
- According to Moody's Analytics (Sept, 2019), this **trade war** had already cost the U.S. economy nearly 300,000 jobs and an estimated loss of 0.3% of real GDP
- Led to a massive decline in foreign investment globally and also within the United States because of the trade war
- According to the U.N. Conference on Trade and Development, investment into the US fell by nearly 40 percent to USD 275 billion in 2019 from USD 457 billion in the year 2016.

Impact of the Trade War (2/3)



- It makes imported goods less attractive to the consumers
- Before trade war was blown out of proportion, the US had been trying to persuade China to bring about
 - massive structural reforms in its economy
 - to bring in better protection for U.S. intellectual property; and
 - stop forced technology transfer from the US companies to the Chinese which had resulted in significant **loss of intellectual property to the US**
- The Dialogue between China and the US has not been going on well due to trust deficit between them. In fact, the negotiations came to a standstill.

Impact of the Trade War (3/3)



- The U.S. expects China to
 - give better market access to the US products and
 - reduce subsidies given to its industry
- To make US products competitive in the Chinese market
- A way to bridge the trade deficit between them
- The US perception of Covid-19 as being ‘Chinese Virus’ further confounded the situation.

Opportunity for India (1/2)



- A diminished US-China trade engagement could have positive implications from a trade perspective
- The US and China are
 - India's two largest trading partners, and
 - about 15 to 18 % of India's total exports go to the United States
- But India not able to significantly exploit the trade war to its advantage,
 - except where the Chinese not able to enter the U.S. markets
 - gained some traction in the products like jewelry, garments.

Opportunity for India (2/2)



- Emerging opportunity for India could increase its trade footprint in the midst of the US-China trade conflict, particularly under categories in which the US has imposed tariff on China
- The US could provide openings for the Indian soybean market, just as an example
- Given uncertainty due to Sino-US trade war, many investors could divert their investment towards India
- An opportunity for down the street war that there could be diversion of investment flows from China to India.

Conflict on Pause (1/4)



- China and the US have struck a ‘phase-I’ trade deal on the 15th January, 2020 after escalating tariffs and trade war
- The main features of this deal include the following:
 - Open Chinese markets to more American companies,
 - China would beef up its intellectual property regime in a number of areas such as counterfeit and pirated goods and pharmaceuticals
 - China also agreed to harsher penalties for IP theft to deter theft from the US

Conflict on Pause (2/4)



- Provide greater protection for American technology and trade secrets
- To ease some of the tariffs it has placed on American products
- China agreed to buy additional US\$ 200 billion worth of American goods and services by 2021
- These would include four sectors of (manufactured goods, services, agricultural products, and energy)
- The US representative said that the talks will continue but in tandem with high tariff levels unless China undertakes structural reforms in its economy

Conflict on Pause (3/4)



- The US pressurizing China to
 - change its economic policy
 - bring in better protection for the US intellectual property
 - stop forced technology transfer from the US companies and
 - stop cyber threats on American trade
- The US expects China to
 - provide better market access to their products
 - reduce subsidy given to its industry which puts them at a disadvantaged position
- Diversion in investment flows away from China
 - an opportunity that India could benefit from,
 - manufacturers seek alternative origination/destinations

Conflict on Pause(4/4)



- The trade dispute has already diminished trade flows between the US and China
- Protracted and economically damaging war between two of the world's largest economies entails its own 'overhead' costs.
- Impacted global growth and dampened profits and investment for companies around the world
- According to a model-based assessment by the Bank of Finland, tariff increases currently in place will slow global GDP growth by around 0.7 percentage point



Agreement

- The growth of uncertainty has been reflected in investment sentiment
- introduced foreign technology restrictions,
- fought several WTO cases,
- **Phase-I of the agreement**
 - The imperatives of domestic elections in the US probably led to a sort of truce in the form of an agreement between China-US in Jan, 2020.

Way Forward



- China's leader, Xi Jinping, said that the deal ***“beneficial to both China, the U.S. — and the world.”***
- Mr. Xi also said the agreement showed that the two countries, can find proper and effective solutions to problems.
“based on equality and mutual respect, through dialogue and consultations,”
- According to the U.S. President Donald Trump, ***“the relationship with China has been severely damaged”*** with Beijing's handling of the coronavirus outbreak.
- Given the agreement between the two countries in January, 2020, and the new regime in the US in Jan 2021, the trade war may abet in a foreseeable future
- Well within the realm of reality to resolve the dispute.

Before we move to **'Quiz'**



**Any
Comment/Suggestion/Queries**



Quiz (1/3)



Quiz Question-1 : When did Trade War between the US and China start?

- a) 2017
- b) 2018
- c) 2019
- d) None of the above

Quiz (2/3)



Quiz Question-2 : The main consideration of the US to enter an agreement with China in Jan, 2020 was

- a) The imperative of domestic elections in the US
- b) The US was experiencing domestic supply bottlenecks and China was in a position to meet key supplies requirements
- c) The US economy was witnessing downturn
- d) None of the above.

Quiz (3/3)



Quiz Question-3 : Could India significantly exploit the trade war between the US and China to its advantage?

- a) Yes, significantly
- b) Not much, except gained some traction in the products like jewelry, garments
- c) Not much, except gained some traction in agriculture products like rice, pulses
- d) No, not at all

References



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Thank you