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Trade War

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US-CHINA Trade War:

Introduction

On March 8, 2018, the US President Donald Trump announced imposing additional tariffs on China's export of steel and aluminium to USA.

On March 22, 2018, President Trump announced plans to enact sanctions against China over its Intellectual Property Rights (IPR) policies that negatively affect the US stakeholders. These sanctions included raising tariffs by 25 percent on selected Chinese products valued at $50 billion to $60 billion.

On April 1, China announced that it had retaliated against the US action by raising tariffs on various American products, such as pork. On April 3, the US administration unveiled a list of 1,333 products worth $50 billion in trade to which it intended to apply a 25 percent tariff. These Chinese goods are in strategic sectors such as information technology, robotics, advanced rail and shipping, new energy vehicles and high-techchnology medicine and health care. A few hours later, China released its proportional response: 25 percent tariffs on 106 products, also worth $50 billion in trade. Thus, there is a tit-for-tat action going on between China and the US. The Trump administration's plans to tax $50 billion worth of Chinese imports was met with threats by the Chinese to subject $50 billion worth of American products to the same. China threatened to retaliate with tariffs on American cars, chemicals and other products. The 106 goods, many produced in parts of the country that have supported President Trump, were selected to deliver a warning that American workers and consumers would suffer in a protracted standoff.1 Under the World Trade Organisation (WTO) rules, a developing country is entitled, to a certain extent, to use non-market practices to spur economic development. Since it became an economic power house trailing only the US, developed countries want China to follow the same rules and responsibilities as a market economy. So far, China's government has reacted to new tariff actions by the Trump administration with relatively restrained words and promises of proportional responses to the American government's actions.

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The actual intention behind the Trump administration's recent series of anti -China moves goes beyond this rhetoric. It has two aspects:-

- Forcing Beijing to open its market further for US goods and services and providing US companies with more favourable investment conditions.
- Curbing the state-backed high-tech sectors that form the core of Beijing's 'Made in China 2025' strategy. The US and China are the two biggest economies in the world. A trade war would have very serious repercussions all over the world. It could derail the current global economic expansion and cripple American businesses that depend on business with China. It could also further complicate geopolitical priorities given the Trump administration has enlisted the help of the Chinese in solving the crisis with North Korea

US-China Trade Relations

The US-China trade rose rapidly after the two nations re-established diplomatic relations in January 1979, signed a bilateral trade agreement in July 1979 and provided mutual most favoured nation (MFN) treatment, beginning in 1980.

In that year (which was shortly after China's economic reforms began), the total US-China trade (exports plus imports) was approximately $4 billion.

In 2017, the total US merchandise trade with China was $636 billion, making China the US' largest trading partner.2 US Merchandise Trade with China The US Merchandise Exports to China The US merchandise exports to China in 2017 were $115.6 billion.

China was the third-largest US merchandise export market after Canada and Mexico.

China was the second-largest US agricultural export market in 2017, at $19.6 billion, 63 percent of which consisted of soybeans.

The top merchandise US exports to China in 2017 were:

- Aerospace products (mainly civilian aircraft and parts)
- Oil seeds and grains (mainly soybeans)
- Motor vehicles
- Semiconductors and electronic components
- Waste and scrap

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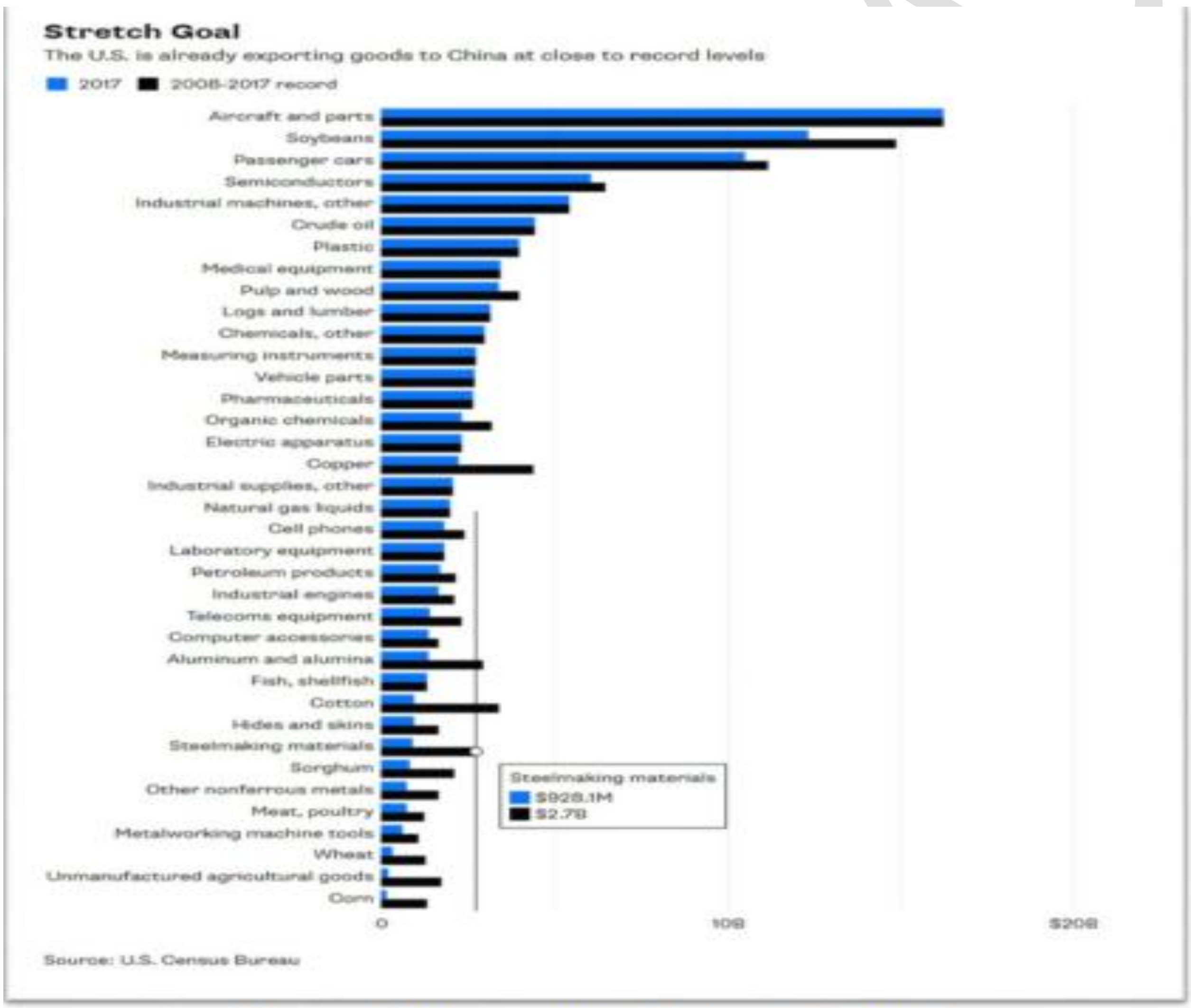
Many trade analysts argue that China could prove to be a much more significant market for US exports in the future. China is one of the world's fastest growing economies. Healthy economic growth is projected to continue in the years ahead, provided that it implements new comprehensive economic reforms. China's goals of modernising its infrastructure, rebalancing the economy, upgrading industries, boosting the services sector and enhancing the social safety net could generate substantial new demand for foreign goods and services.



Major US Exports to China in 2017

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Major US Merchandise Imports from China

China was the largest source of US merchandise imports in 2017, at $506 billion. China's share of total US merchandise imports rose from 8.2 percent in 2000 to 21.6 percent in 2017. The top five US imports from China in 2017 were communications equipment, computer equipment, miscellaneous manufactured commodities such as toys and games, apparel and semiconductors and other electronic components.

Table: Major US Merchandise Imports from China in 2017 ($ in millions and percentage change)

Products	**2016**	**2017**	**Per cent Change 2016-2017**
Communications Equipment	65,674	77,957	18.7 %
Computer Equipment	52,180	58,609	12.3 %
Miscellaneous Manufactured Commodities	34,408	36,497	6.1 %
Apparel	25,483	24,559	-3.6 %
Semiconductors & Other Electronic Compo-nents	18,903	23,158	22.5 %
Household & Institutional furniture & Kitch-en Cabinets	16,535	18,222	10.2 %
Household Appliances and Misc Machines	14,062	14,494	3.1%
Footwear	14,620	14,074	-3.7%
Plastics Products	12,319	13,771	11.8%
Motor Vehicle Parts	13,117	13,533	3.2%
Total	**462,618**	**505,597**	**9.3%**

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Throughout the 1980s and 1990s, nearly all the US imports from China were low-value, labour intensive products, such as toys and games, consumer electronic products, footwear and textiles and apparel. However, over the past few years, an increasing proportion of US imports from China are more technologically advanced products. According to the US Census Bureau, the US imports of “advanced technology products” (ATP) from China in 2017 totalled $171.1 billion. Information and communications products were the largest US ATP import from China. ATP products accounted for 33.8 percent of total US merchandise imports from China. Some see the large and growing US trade deficit in ATP with China as a source of concern, contending that it signifies the growing international competitiveness of China in high technology. Others dispute this, noting that a large share of the ATP imports from China are in fact relatively low end technology products and parts, such as notebook computers, or are products that are assembled in China using imported high technology parts that are largely developed and/or made elsewhere.

The US View

The US President, Donald Trump, has for years accused the Chinese Government of unfair trade practices, which he says puts the US companies at a disadvantage. Many other foreign leaders have agreed that China unfairly subsidises its businesses and has at times devalued its currency to boost exports. However, most countries have favoured a multi-national approach to apply pressure on Beijing. While China has significantly liberalised its economic and trade regimes over the past three decades, it continues to maintain or has recently imposed a number of state directed policies that appear to distort trade and investment flows.

The US policy-makers and stake holders have expressed concern that China does:- • Extort or steal its rivals’ intellectual property.

• Pursue industrial policies aimed precisely at creating advantages for many designated key sectors of its economy over foreign competitors.

• Limit exports of critical commodities like rare earths to give its own producers advantage on rival non-Chinese companies to move operations to China.

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- Subsidise massive overcapacity in goods like steel and aluminium in order to undercut the competition globally.
- Place many restrictions on foreign providers of farm products along with banking, insurance, tele-communications, Internet related, audiovisual, express delivery, legal and other services.
- Sue its trade partners in the WTO simply because they're exercising their right to bring actions against China.
- Remain determined to keep foreign firms in the dark about the regulations concerning licensing and operating requirements; product, investment, business expansion approvals and business license renewals. The US Government's grievances centre on the Chinese trade practices impacting technology transfer, intellectual property and innovation.

The Trump administration's Section 301 Report identifies four areas of specific concern, which are summarised below:-

- China has an unfair regime of forced technology transfer, implemented through formal and informal practices and policies. Through foreign investment restrictions, US companies seeking to operate in China are made to engage in a joint venture with a Chinese partner, most often a state owned enterprise. In selected sectors, such as aero-space and information technology, Chinese regulations require that the Chinese enterprise maintain the controlling interest in the joint venture.
- Forced technology transfers occur through discriminatory licensing restrictions under the Chinese technology import-export regulations. Chinese companies are able to "free ride" on their US counterparts' research and development in virtually any imported technology transfer arrangement.
- The Chinese Government directs and unfairly facilitates the systematic investment in and acquisition of, US companies and assets by Chinese companies, as a means of obtaining intellectual property and generating large scale technology transfer in industries deemed important by state industrial plans. The 'Made in China, 2025' programme blunts US innovation and corrodes its distinct competitive advantage.
- Over a decade, the Chinese Government has conducted and supported cyber intrusions into US commercial networks targeting confidential business information held by US firms.

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Through these cyber intrusions, Beijing has gained unauthorised access to a wide range of commercially valuable business information, including trade secrets, technical data, negotiating positions and sensitive and proprietary internal communications.

Rise of China

In 1990, China's gross domestic product ranked only the eleventh, lagging behind not only the US, Japan, Germany, France, UK, Italy, Canada and Spain, but also two developing countries, Iran and Brazil. By 2010, China rose to number two, next only to the US.

China's rapid economic growth has been attributed to:-

- The Chinese Government's reform measures, which ranged from the introduction of the household responsibility system in place of collective organisations in agriculture and the rise of township and village enterprises in the 1980s.
- Privatisation and incorporation of state-owned enterprises in the 1990s.
- Massive inflow of foreign direct investment. However, these are not uncommon in the rest of the world. These are found more or less in almost all other developing countries, but none of these countries has experienced economic growth as fast and enduring as in China. Economic factors alone cannot fully explain China's rapid economic expansion in the past or the sharp power it has developed outside the country. The reasons behind China's rise as a global power may be due to China's history and culture, which work together to influence the behaviour of the people and government in China in their pursuit of personal well-being or the national goal of economic growth.

Specifically, there are five factors:-

- Immense size of China's population and market.
- The homogeneity of its society and its ethnic composition.
- The secularized values of its people.
- The abundance and high quality of its human capital.
- The intervention and strategizing of the state that combine to propel and sustain China's economic growth.

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What is unique to China is that all these five factors exist there simultaneously, and all of them have their roots in Chinese cultural traditions or historical legacies before the Communist Revolution in 1949. China's huge population and the immensity of its domestic market allow for the growth of all sectors of manufacturing and the emergence of thousands of industrial clusters throughout the country. These, coupled with the abundant supply of a well-educated, hardworking labour force and the unusual stability of a homogeneous society, explain China's unparalleled attractiveness to investors home and abroad. The central government's implementation of long term growth plans and its massive investment in infrastructural networks further contribute to China's global competitiveness. It is the functioning of all these factors that propels the phenomenal growth of the Chinese economy.

View from China

China is a hard-nosed global player, pursues its national interest vigorously. They've taken a non-ideological approach to economics over the last few decades, picking market based tools and government policies to their advantage.

China's Ministry of Commerce made the Chinese position very clear. It said, "We do not want to fight, but we are not afraid to fight a trade war.

The Chinese side will follow suit to the end and will not hesitate to pay any price and will definitely fight back. It must take a new comprehensive response and firmly defend the interests of the country and the people." 17 There is a school of thought that the new tariffs will hardly send China into an economic tail-spin.

China's more than $13 trillion economy exported $2 trillion in 2016. The tariffs will adversely affect some businesses and industries, but their total value (25 percent of between $50 billion and $65 billion) represents only about 2.5 percent of China's overall exports to the US. China is at the end of the Asian supply chain.

Many of the goods it exports, particularly consumer goods, contain a substantial amount of intermediate products from elsewhere in the region that Chinese companies then assembled into a finished product.

But, China has been making a concerted and successful push to reduce its dependence on trade; the share of total exports in its gross domestic product fell from over 30 percent in 2007

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to under 20 percent last year. During that same time, the share of exports to the US fell from approximately 9 percent of China's economy to just over 4 percent. If Beijing concludes that trade tensions with Washington are likely to stay, and perhaps even intensify, it may well take steps to accelerate that trend.

China plays the globalisation game by what we might call Bretton Woods rules, after the much more permissive regime that governed the world economy in the early post-war period.

China's practices are not much different from what all advanced countries have done historically when they were catching up with others. One of the main US complaints against China is that the Chinese systematically violate intellectual property rights in order to steal technological secrets.

But, in the nineteenth century, the US was in the same position in relation to the technological leader of the time, Britain, as China is today vis-à-vis the US. And the US had as much regard for British industrialists' trade secrets as China has today for the American intellectual property rights.

Actions Taken by China

China retaliated by putting tariff of $13.7 billion worth of soybean imports, alongside a little over $3 billion in cotton, sorghum, wheat and corn. China's decision to play its biggest card — soybean imports — is risky.

The country accounts for 60 percent of global soybean imports. It receives the majority from two sources - Brazil and the US. It bought a third of total US output last year.

Though the Chinese market is important for the American soybean growers, these exports are vital in helping contain food price inflation in China, since these crops are widely used to feed the livestock that satisfy the country's soaring appetite for beef and pork.

Though China cannot fully replace the US as a source of soy, it can take several steps to mitigate the impact. China is likely to increase imports from Brazil, increase domestic production and use of domestic stocks and start using alternative feed sources like corn.

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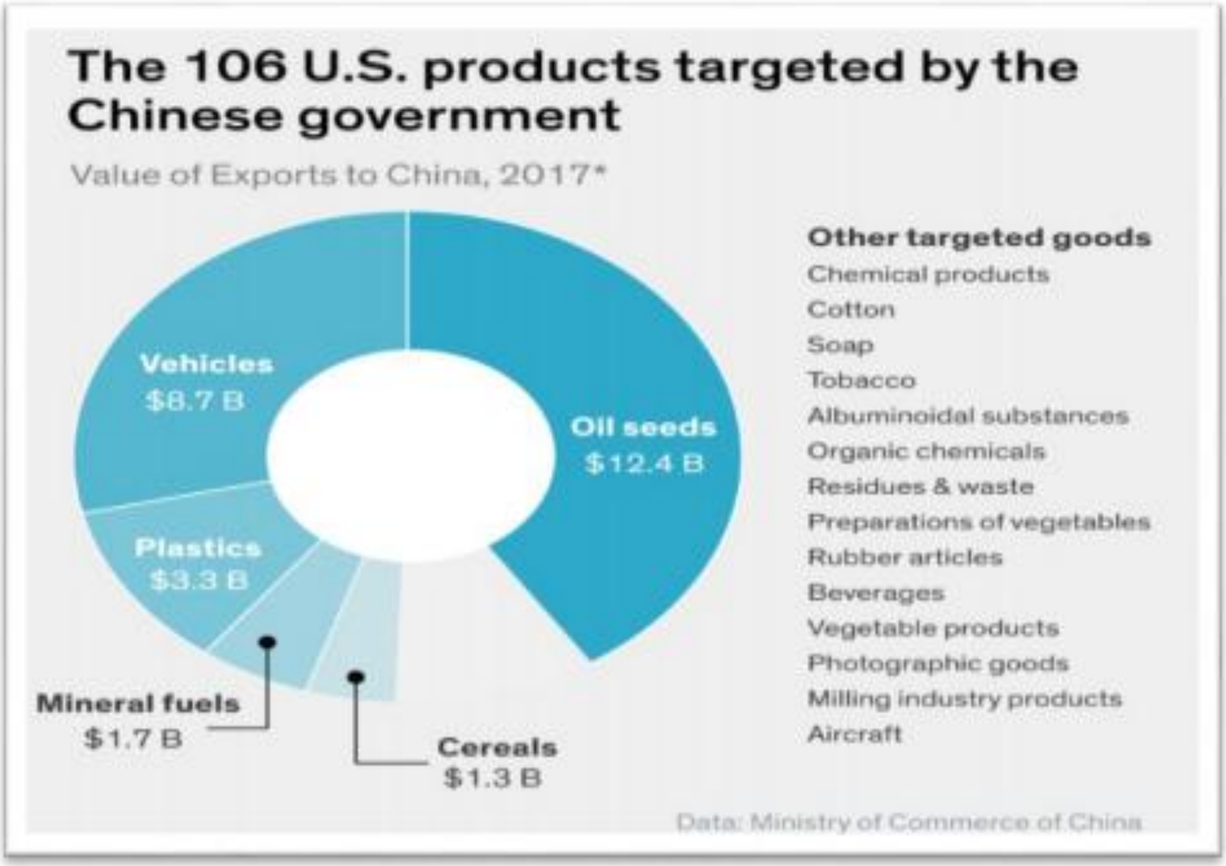

The US is likely to be able to withstand most of the restrictions without significant shortages or pricing impacts. However, given that China can use subsidisation to account for rising import costs, Beijing is in a stronger position than Washington is when it comes to this specific tariff.

China already has outlined a strategy to respond in the WTO while also targeting politically sensitive US exports that would squeeze Trump's support base. In February, China opened an investigation into the alleged US farm subsidies for sorghum production.

The country's government also has raised the possibility of targeting other agricultural exports, including pork and soybeans, for investigations that could hurt business in states such as Iowa, Nebraska, Indiana and Missouri which are traditional Republic strongholds. Reports have circulated in the Chinese state media that Beijing may drop aircraft orders from the US aerospace firm Boeing Co. in favour of France's Airbus.

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China included narrow-body aircraft but not wide-body aircraft in its retaliatory tariffs. Only two companies in the world make wide-body planes: Boeing and Airbus. If China put a tariff on planes from the American Boeing but not the European Airbus, it would lose leverage with Airbus with which to extract favourable prices and access to cutting edge technology.
China has imposed tariffs on the easy stuff: luxury goods like American wine and liquor and agricultural goods that are considered luxuries within China, like almonds and pistachios.

World Trade Organisation (WTO)

Unlike Great Britain, France, and other countries that exerted international influence through colonies, the US preferred to govern the world by establishing a series of international systems: the United Nations and its affiliates for the political and security arena;

- the alliance system and military base network in the military arena;
- the Bretton Woods system for finance and the General Agreement on Tariffs and Trade (GATT, which later evolved into the WTO) for trade in 1995.
- State-State disputes Most state-state disputes are handled by the WTO system, the primary body governing international trade.
- Each of its 164 members has agreed to the rules about trade policy, such as limiting tariffs and restricting subsidies.
- A member can appeal to the WTO if it believes another member is violating those rules.
- The US, for instance, has repeatedly brought WTO cases against China over its support for various export industries, including one in early 2017 alleging that Beijing unfairly subsidises aluminium producers.
- Although the case has not been decided, yet the Trump administration has already retaliated by unilaterally imposing tariffs on some Chinese aluminium producers.36 China has stolen the US intellectual property rights and violated other trade obligations to the US.

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The Trump administration's policy on this subject has to deal with the following aspects:-

- Launch a WTO complaint about 'coerced transfers', or China's act of coercing intellectual property transfers by the US firms operating in that country. The Trump administration has shown little patience to go through a WTO process to address that.
- The Trump administration's response to China's alleged trade agreement violations with import tariffs.
- Restricting Chinese foreign investment in the US.

The US has two options to retaliate against another country for violating trade treaty obligations:-

- The Legal Route. It involves raising a complaint at the World Trade Organization, which would mean litigation to prove to a WTO panel that the other country violated a trade agreement, followed by a similar process at an appellate body. If the charge is proved, the other country would then be given a chance to comply with the rules. If it fails to comply, the appellate body would approve specific retaliation, all of which generally take about four years.
- Not Following the WTO Process. It risks pushing everyone into a trade war and a seriously dangerous downward spiral. Trump's memorandum on the tariffs gives the US trade representative that option of pursuing the four year process, even if his rhetoric did not indicate that.

Criticisms of the WTO's System

Most trade experts see the WTO's arbitration forum as one of its most successful efforts, helping to institutionalise rules and reduce the threat of trade wars. However,

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critics, including the Trump administration, have criticised the WTO system on several grounds.

The US Trade Representative (USTR) Robert Lighthizer has argued the WTO has an anti US bias because 134 complaints have been brought against the US, more than any other country, and it has lost most of those cases.

But, many economists argue this is misguided, noting that complainant countries, including the US, usually win cases they bring to the WTO because they tend to bring only the strongest cases.

As former USTR Michael Froman points out, the US under President Barack Obama brought more cases to the WTO than any other country during that time, including sixteen against China. The US won all those cases that have been decided.

Other analysts argue that the WTO has been increasingly undermined by its most powerful members, including the US. For instance, the Obama administration ignored a series of unfavourable rulings and blocked the appointment of a WTO judge for the first time.37 The WTO rules, written before many of these technologies were even envisioned, are not adequate for regulating, say, digital trade. Rather than expressing disgust with the WTO, Trump should want America to lead it, as it has before — by rewriting rules that need to be updated and putting more teeth into the enforcement mechanisms.

Key Challenges Facing the WTO at Institutional Level

At the institutional level, key challenges facing the WTO are:-

• Decision making in the WTO is close to be paralysed. Consensus based decision making all too often turns into veto politics, incoherence and turf battles amongst members, yet consensus in some form or another remains essential to legitimacy and good policy implementation.

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• The WTO has focused far too much on trade liberalisation since its creation. Large multilateral trade negotiations are no longer feasible and many other venues for sector specific negotiation exist.

• More attention needs to be paid to upholding the WTO's rule making function. The existence of the rules is more important than is understood by populist rhetoric as mechanisms for enhancing pre-commitment, levelling and compliance.

• The future of the WTO is in jeopardy unless responsible global actors can pick up the baton dropped by the US.38 China has already officially filed a trade complaint against the US with the WTO over the steel and aluminium tariffs.

How does the WTO Adjudicate Cases?

The WTO's forum for arbitration is called the dispute settlement mechanism (DSM). The DSM is run by a rotating staff of judges, as well as a permanent staff of lawyers and administrators.

The WTO appoints a panel to hear the case if the opposing parties are unable to resolve the issue through negotiations.

A panel's rulings, if not overturned on appeal, are binding on the respondent country.

If guilty, it has the choice to cease the offending practice or provide compensation.

If the country fails to respond, the plaintiff country can take targeted measures to offset any harm caused, such as blocking imports or raising tariffs.

Member states have filed more than five hundred disputes since the WTO's creation in 1995, but most of these cases have been settled prior to litigation.39 The US officials have said are they are ready to talk with China. Both sides are making use of the procedures available in the WTO to reduce the risks of disputes escalating.

The US has asked for consultations with China on intellectual property. It must be said that both sides appear reluctant to give the WTO's dispute procedure time to reach a conclusion. It does take many months - sometimes years.

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Of course the judgment won't inevitably be what the complaining country wants. Even if they do retaliate without having been authorised by the WTO, the fact that both are making use of the procedure suggests they attach some value to the rules based system that the organisation manages.

India

NITI Aayog Vice-Chairman Rajiv Kumar who had a meeting at the fifth Strategic Economic Dialogue (SED) with his Chinese counterpart He Lifeng, the Chairman of China's top planning body the National Development and Reform Commission (NDRC), in Beijing on April 14, 2018 said: “India would not take sides in the ongoing trade spat between the US and China”.

He also said, “India has always taken an independent position on trade issues”. In his address at the SED, Rajiv Kumar made a strong pitch for China to allow India's exports of soybean and sugar. Elaborating on his stand in asking China to import soybean and sugar from India, he said, “My hint was much more towards agricultural tariffs in China than anything else”.

China's agricultural tariffs are high and India's agricultural exports suffer as a result of it.48 According to a study by economists at Rabobank International, India’s economy would be hit hard by a combination of a global tariff war and the US Federal Reserve’s monetary tightening cycle.

A tariff war would reduce exports and lead to imported inflation, which would hurt Indian purchasing power and investments.

That could mean as much as 2.3 percent of missed GDP growth for India by 2022. “India could fall victim to adverse trade policies” of the US or China or both.

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This goes against the argument that India is relatively insulated from a trade war, given its low share of total world exports of just 1.7 percent.

Besides a possible trade war, a faster than expected tightening of US monetary policy would lead to capital outflows. In such an event, the Rabobank model sees the rupee depreciating sharply and the missed capital flows would amount to $32 billion by 2022.49 It is stated that "If India uses its foreign reserves in such a case, interest rates could rise sharply as liquidity decreases. Even though India's reserves are substantial, markets might still become concerned about the prospects of further declines. These developments will create major speed bumps on India's road to economic prosperity."

India should not remain complacent that Washington would not threaten New Delhi for enhanced market access in agricultural and dairy products and medical equipment.

Although India's trade surplus with the US is little over $25 billion with the US, Washington reckons India as a big market for its dairy and agricultural products and medical equipment.

The statements of President Trump on a trivial issue like tariffs on Harley Davidson motorcycle were not a good omen.

In the dairy sector, India made significant strides for becoming self-sufficient thanks to 'Operation Flood' and 'White Revolution' launched by Verghese Kurien in 1970.

The US remains determined to export its heavily subsidised dairy products to India that could wipe out the livelihood of millions of poor people engaged in the domestic dairy sector.

On May 9, 2018 the US filed a counter-notification for the first time since the establishment of the WTO against India, alleging that India's market price support (MPS) programmes for wheat and rice breached New Delhi's allowable levels of trade distorting domestic support.

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The US, which has a range of trade distorting support programmes for rice and other items, is targeting India after blocking the permanent solution for public stockholding programmes for food security.

The US also launched a trade dispute against India on duty drawback and other programmes for Indian exporters.

The US also wants to deny the generalised system of preferences (GSP) preferential market access for Indian textiles, leather and other products.
Last but not least, the US wants to terminate the special and differential flexibilities for India, China and South Africa, among others.
Unless New Delhi stands strong like China, without yielding ground and offering market access whenever Trump blows hot and cold, the government could worsen the plight of its hundreds of millions of poor farmers in the days to come.
India has complained to the WTO against the US' tariffs on steel and aluminium imports citing inconsistency with global trade norms.
New Delhi listed multiple violations of WTO norms such as discrimination against its imports, introduction of restrictions in form of quotas and using tariffs to get other countries to agree to "voluntary export restraints" as the basis for the complaint.52 India said the US duties of 25 percent and 10 percent on imports of steel and aluminium products respectively, are inconsistent with provisions of the WTO's General Agreement on Tariffs and Trade (GATT) 1994 and of the Agreement on Safeguards in the request for dispute consultations.
China, India's largest trade partner, can definitely help with all that by buying more from India to cut down last year's trade surplus of $51.7 billion. China is doing some of that.

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India's exports to China last year increased 39.1 per cent to $16.3 billion. But, there is still a long way to go because China takes only about 4 percent of India's exports.

Key International Challenges

Internationally, the key challenges are:-

- Managing the combative economic relationship between the US and China.
- The slower growth in the transatlantic area (the US and Europe).
- The role of regional trade agreements (RTAs).

But, a trade war would exacerbate the weakening of, if not destroy, the liberal norms of openness that have characterised the global trading regime since the end of World War II.

It would detract from China's infractions of the global trade system, cede moral high ground to China and very possibly strengthen its relations with Europe at the very time when transatlantic cooperation is also being weakened by US behaviour.

The role of regional trade agreements (RTAs) for the global trade regime is becoming even more theoretically.

While there is a massive literature on the subject there is no definitive agreement on whether they are to be trade enhancing rather than defensive mechanisms in the wider geo-strategic game.

Analysts and practitioners alike are not sure if RTAs are distractions or a complement to a more broad based approach to global trade governance.

Analysis

Origin of this US-China trade war:

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- Since 1990s, the Chinese government has been consistently declining the value of its currency, the yuan against US dollar. This artificial cheapness of yuan gave Chinese exporters an advantage in world markets and harmed the US exports.
- The currency devaluation is similar to sales stores which are able to sell more of their products due to cheap rates. As the yuan gets cheaper from the perspective of American consumers, the dollar gets more expensive from the perspective of Chinese consumers. That means it's getting more expensive for Chinese people to import American-made goods, so they're likely to import fewer of them. Lower demand for US goods would slow down the economic growth in the US.
- The US launched an investigation into Chinese trade policies in 2017. It imposed heavy tariffs on billions of dollars' worth of steel and aluminium items from China in March last year, and China responded by imposing tit-for-tat tariffs on billions of dollars' worth of American imports.
- This dispute escalated after US demanded that China reduce its $375 billion trade deficit with the US (2017), and introduce verifiable measures for protection of Intellectual Property Rights, technology transfer, and more access to American goods in Chinese markets.

US TRADE IN GOODS WITH CHINA

Year	Exports	Imports	Balance
2019*	25,994.4	105,973.9	-79,979.5
2018	120,341.4	539,503.4	-419,162.0
2017	129,893.6	505,470.0	-375,576.4
2016	115,545.5	462,542.0	-346,996.5
2015	115,873.4	483,201.7	-367,328.3

*January-March

Source: US Census Bureau. All figures are in millions of US dollars on a nominal basis, not seasonally adjusted unless otherwise specified

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- In 2018, the US imposed three rounds of tariffs on more than $250bn worth of Chinese goods. The duties of up to 25% cover a wide range of industrial and consumer items - from handbags to railway equipment.
- China hits back with tariffs on $110bn of US goods, accusing the US of starting the largest trade war in economic history. China has targeted products including chemicals, coal and medical equipment with levies that range from 5% to 25%.

Impact on US economy:

- Tariffs imposed on Chinese goods, in theory, make US-made products cheaper than imported ones, and encourage consumers to buy American. This will boost the consumption of domestic products and increase the profits of American manufacturers rather than Chinese manufacturers.
- The increased tariffs by China could hamper the US export industry, as the products of these US industries will now have to compete will locally available cheaper products of China.

Impact on Chinese economy:

- The biggest Chinese import sector impacted by the fresh round of tariff hikes is the $20 billion-plus category of Internet modems, routers, and other data transmission devices segment.
- This is followed by about $12 billion worth of printed circuit boards used in a vast array of US-made products.
- Furniture, lighting products, auto parts, vacuum cleaners, and building materials also face higher levies.
- The increased tariffs will lower the demand of Chinese products in American market thereby decreasing the profits earned by the Chinese companies.

Impact on world:

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- **The IMF has lowered its forecast for global growth this year and next. It said that a full-blown trade war between the US and China would put a significant dent in economic recovery.**
- **Global economic growth is now expected to reach 3.7% in 2018 and 2019, down from the IMF's previous prediction of 3.9% in July.**
- **This also exacerbates the uncertainty in the global trading environment, affects global sentiment negatively, and adds to risk aversion globally.**
- **The higher tariffs could lead to the repricing of risk assets globally, tighter financing conditions, and slower growth.**
- **The trade tensions could result in an increasingly fragmented global trading framework, weakening the rules-based system that has underpinned global growth, particularly in Asia, over the past several decades.**
- **Of the $300 billion in Chinese exports that are subject to US tariffs, only about 6% will be picked up by firms in the US.**
- **EU members are expected to benefit the most, as exports in the bloc are likely to grow by 70billion;**
- **Japan and Canada will see exports increase by more than 20 billion each. Other countries set to benefit from the trade tensions include Vietnam, with 5% export gains, Australia (4.6%), Brazil (3.8%), India (3.5%), and Philippines (3.2%).**

Impact on India:

- **The US manufacturers are setting up their bases in India, in addition to already existent bases in China. This will provide them an alternative source for export of their products to deal with such trade wars like situations. For India, this will be beneficial as it would create more jobs for us.**
- **There is a possibility that China could soon start flooding excess steel and aluminium into India's market after this raised tariffs on Chinese products by US.**

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- **Besides the steel sector, products in other sectors like mobile phones, refrigerators, washing machines, ACs, water purifiers, and possibly electric vehicles will now see increased investment flow directed towards India.**
- **The Indian consumers will get the products at a cheaper rate but the domestic producers of India will have to compete with the Chinese imports or else face loss.**
- **With this increased tariffs on Chinese products by the US, the Indian producers will get an opportunity to fill this generated gap and penetrate in the US market. This will increase their trade and profit.**
- **Besides this, there will be a short-term impact on the stock markets. The benchmark Sensex at the Bombay Stock Exchange has been falling in line with global markets that have been spooked by the escalating trade war between the US and China.**

Possibility of this trade war to be taken up at WTO level:

- **While it is not clear yet whether the matter would go to the World Trade Organisation (WTO), data show that the US generally wins trade disputes, particularly against China, before the global trade arbitrator. In the last 16 years, the US has challenged Chinese practices 23 times in the WTO, with a win-loss record of 19-0 — with four cases pending.**
- **In the most recent decision, the WTO panel found that China's agricultural subsidies were inconsistent with WTO rules, and upheld US claims.**

Way forward:

- **The head of the WTO has said that global free trade is facing its worst crisis since 1947 due to the protectionist nature of this US-China trade war.**

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- **Both the countries- US and China should hold talks and deliberate on a better course of action.**
- **The US is a developed country, hence, it is no longer in the stage of primary and secondary based economy. Neither its people are poor enough, they have an appreciable standard of living. Hence the US companies should not fear of the competition from their Chinese counterparts. They should make themselves competent enough that their government need not to impose protectionist measures.**

Seven likely outcomes of the US-China trade war

With the collapse of trade talks on 10 May, the US might soon charge a steep 25% import duty on almost all products from China, though a 25% tariff on $325 billion of mostly consumer goods is yet to be imposed. The escalated tensions will affect more trade than just US imports of $540 billion from China. There are seven likely outcomes of this move.

1. Tariffs will not bring manufacturing back to the US. Higher hourly wages rule out traditional manufacturing in the US. Just 30 years ago, the US argued for the outsourcing of factory production to the cheapest location, and free flow of goods by lowering tariffs. Now it wants to go back. Leadership in technologies such as 3D printing or robotics may have helped the US, but China leads in most high-tech industries.

2. Big US firms will become vulnerable. China has already imposed tariffs on US imports worth $110 billion now. As China's total imports from the US are just $120 billion, its scope for punitive tariffs is limited. So, it may stop imports of certain products such as soybeans altogether from the US. China may also act difficult with American firms located in China or for whom China is the largest trading partner. Boeing just got an order for the supply of 7,500 passenger planes from China. General Motors sells more cars in China than in the US. It's the same with Starbucks, Apple, Nike, Tesla, Intel, Caterpillar and many others.

3. Global value chains (GVCs) will get restructured. Machinery, electronics, and computer equipment account for 60% of US imports from China. These are made via GVCs that share production across a dozen or so countries. Less demand from the US would mean China

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buying fewer components and sub-assembly units from Japan, South Korea, Vietnam and Thailand. This will shrink trade and weaken the GVC model. India, with sizeable domestic consumption, may gain from this shift with appropriate incentives.

4. Labour-intensive production could shift out of China. The US imports large quantities of consumer goods like textiles, furniture and toys from China. The 25% tariff imposed by the US and rising wages in China will make the latter less competitive in these sectors. A substantial part of production may shift to countries like Vietnam, Cambodia, Thailand, Bangladesh or India. Most of the investment in these new plants may come from China.

5. The US heat on the EU, Japan and India will have its impact. Washington is worried about losing the EU and Japan markets since it has no free trade agreements with them. To bring them to the deal table, the US threatened both the EU and Japan with the imposition of a 25% tariff on automobiles. This was in addition to the 25% tariff imposed last year on steel and aluminium on the two. Trump also threatened the EU with tariffs worth $11 billion over an old dispute about an aircraft subsidy.

The threats worked. German and Japanese car makers knew that if the tariffs materialized, many would have to shift production to the US. So, the EU has proposed a quick trade deal with the US. Japan, annoyed over the US withdrawal from the Trans-Pacific Partnership in late 2017, was initially reluctant to strike a bilateral deal, but gave in over security concerns related to North Korea and China. The next six months would be worth a watch. If Japan signs a deal with the US that comes with the caveat of a no trade deal with China, will Japan say goodbye to the Regional Comprehensive Economic Partnership?

Trump has repeatedly called India a tariff king. The US has withdrawn the trade benefits for India under its Generalized System of Preferences, imposed tariffs on steel and aluminium and filed several cases against India at the World Trade Organization (WTO). India tactically chose not to retaliate so far. But this may not be enough. Washington may force India to the deal table. India should do its numbers before that.

6. A weakened WTO: The US steel and aluminium measures in March 2018 on frivolous grounds of national security was a violation of the WTO spirit. Canada, Japan or India could never understand how their steel had suddenly become a security threat for the US. The US has no interest in pursuing the WTO's agreed Doha agenda. It is instead pushing for

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plurilateral deals on matters like e-commerce which are of interest to a few large firms. Also, by not allowing the appointment of an Appellate Body judges, it is strangulating the WTO's dispute panel.

7. There will be increased resentment against US privileges. Unlike other countries, the US does not have to earn foreign exchange to pay for imports. The dollar's status as the world's reserve currency allows it to pay its import bills by just printing dollars. Supply of the currency enables the US to buy any firm or property anywhere or finance massive wars. This is the root cause of unbridled imports or the trade war. Next, take the Society for Worldwide Interbank Financial Telecommunication (SWIFT). This is a global system for secure financial transactions open to all countries, but the US threatens to exclude unfriendly countries from its use. Naturally, the EU and others are working on creating alternatives to SWIFT.

Year one of the trade war widened the US trade deficit by over $80 billion. Tensions may harm both the US and China and reshape trade flows. This may be unsettling for most countries, but will also spell a trade opportunity for India.

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