

The Unlikely End of Sino-US Trade War

Dr S. Uma Devi

*Assistant professor, Faculty of Law, ICAFI Foundation
for Higher Education Hyderabad*

Abstract

Trade War is an economic war that occurs when countries between countries reduce trade deficits. Trade shortages occur when imports are higher than exports. This paper discusses the incessant Trade War between the USA and China. It explores why the Trade War continues despite the efforts of both countries, the reasons for the Trade War into a Cold War, and how India can exploit this situation and gain by expanding its trade with both countries.

Keywords: Trade War, protectionism, trade deficit, tariffs, imports, exports, Cold War.

INTRODUCTION:

Trade War is an economic crisis that occurs when the state pursues a protectionist policy of international trade to reduce trade shortages. No country wants a trade deficit. Each country seeks to reap the benefits of trade by increasing its exports and reducing its imports. The Trade War continues until the warring parties reach an agreement. This paper examines the existing Trade War between the USA and China. It discusses why the Trade War continues despite the efforts of both countries and how India can take advantage of the situation.

REVIEW OF LITERATURE:

- Ahmed Medhat Mahmoud (2019) analyzes the economic and political effects of the Trade War between the US and China. It explores trade between US and China, as well as the US and China trade deficit from 2001 to 2017.
- Manjula Jain & Salini Saraswat (2019) presents the Chinese view of the Sino-US Trade War. This paper seeks to analyse the effects of the Trade War between the United States and China and briefly discusses the Trade War impact on China.
- Larry D. Qiu, Chaoqun Zhan, and Xing Wei (2019) analyze the reasons and efforts to see how to avoid future Trade Wars.

NEED FOR THE STUDY:

This paper researches after the Phase I agreement on the Trade War and the condition of the Trade War in future. It examines issues other than trade in this Trade War and how this will turn into a Cold War.

OBJECTIVE:

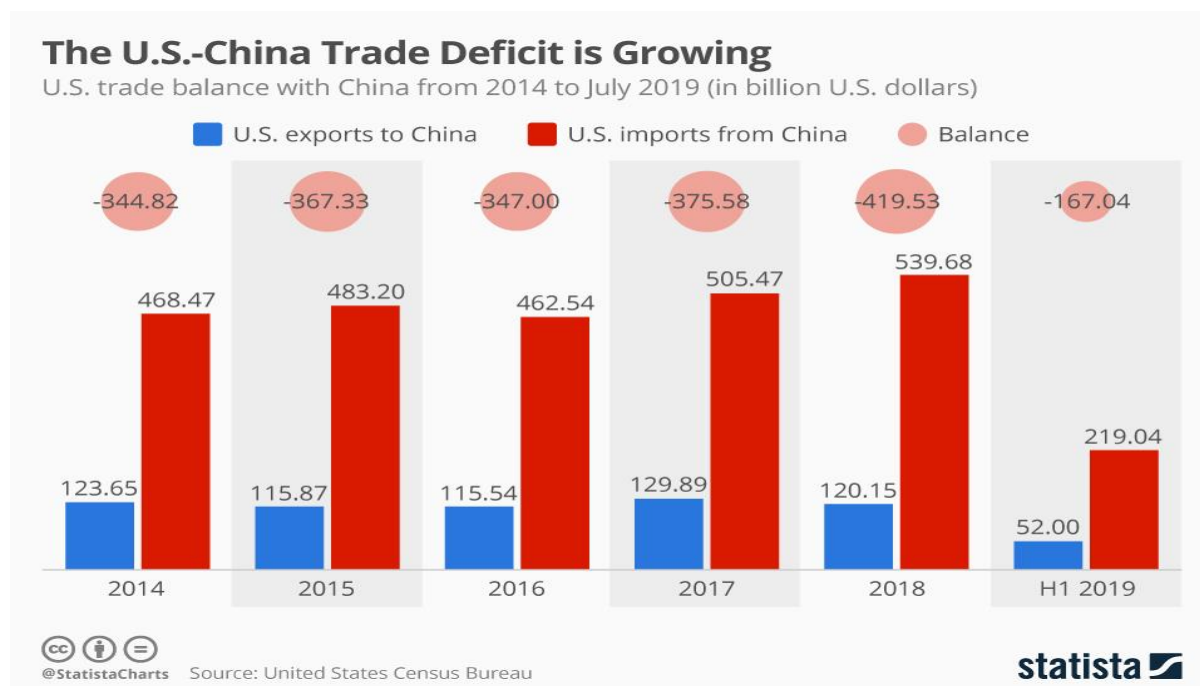
The purpose of this paper is to examine

- Why the Trade War continues despite efforts by both nations to end it.
- Why the Cold War would turn into a Cold War
- How India could take advantage of the Trade War

METHODOLOGY:

This study is analytical and descriptive and is based on secondary sources. Mathematical tools such as graphs are used to analyze this paper

The Sino-US Trade War is initiated by the USA due to the high trade deficit in 2018. The value of China's exports to the US is more than that of its imports over the years. The negative balance of payments for the USA with China went on increasing since 2014. For China, the trade surplus is increasing.



SOURCE:

Katharina Buchholz: The U.S.-China Trade Deficit is Growing;
<https://www.statista.com/chart/15419/the-us-trade-balance-with-China/> Aug 19, 2019

The United States accused China of unfair trade practices, such as the theft of intellectual property and the transfer of American technology forcibly to Chinese companies. In early 2018, the US increased the prices of a few major imported goods — washing machines, solar panels, steel, and aluminum. China retaliated similarly. The United States then increased prices on thousands of products from China between 2018 and 2019, ending up with about \$ 350 billion in imports from that country. China retaliated with a series of tariffs, directing about \$ 100 billion to US exports. After two years of conflict in the Cold War, former US President Donald Trump and Chinese Deputy Prime Minister Liu signed the first so-called “Phase 1” agreement in January 2020 to reduce conflict.

PHASE1 DEAL:

As part of a “first phase” trade agreement, the USA agreed to reduce tariffs on Chinese goods. As China agreed to buy at least \$ 200 billion of goods and services within two

years - by 2020 and 2021 in addition to its 2017 purchases. This includes US agricultural products, industrial products, natural resources, and services. China has also agreed to address some US complaints related to intellectual property rights. China agreed not to pressure foreign companies to transfer technology to Chinese firms. The agreement helps the US enter the Chinese financial services market including banks, insurance, securities, debt rating services, etc. China agreed to avoid devaluing its currency. China promised to buy soybeans, pork, cotton, wheat, etc.

Is the Phase1 agreement working to reduce the Cold War?

In the "Section 1" agreement, both the US and China have deducted part of the cost. But 25 percent of US tariffs on \$ 250 billion worth of taxes on Chinese products and Chinese retaliatory tariffs on US \$ 110 billion worth of US goods will still exist. However, there have been complaints that China does not cooperate with the obligations of a section 1 agreement.

Planned Purchases

China agreed to increase its U.S. imports by about \$200 billion over two years.

Proposed increases in imports by category

2020 2021



Source: U.S.-China Trade Agreement

The Phase One trade agreement that was signed in January 2020 included specific targets for Chinese purchases of goods and services from the United States. But China

only purchased around 60 percent of the committed amount for trade in goods. The table below shows that China is not meeting its purchase targets.

U.S. exports to China							
(Billions of U.S. dollars)						Target	Target
	2017 (Baseline)	2018	2019	2020 (Actual)	2021 (12m rolling sum as of July)	2020	2021
Total goods targeted	95	85	78	93	114	159	193
Manufactures	67	67	60	56	65	99	111
Agricultural	21	10	15	27	36	33	40
Energy	8	8	4	10	14	26	42
Total goods not targeted*	35	35	29	31	35	33	33
Services**	55	57	57	40	36	68	80
Total goods and services	185	177	163	165	184	260	306

Source: U.S.Census Bureau

* “Not targeted” 2020 and 2021 projections assume constant 2017-2019 average level.

**Services column for 2021 shows seasonally adjusted data for Q1 and Q2 at an annual rate

Some important aspects of the US-China trade dispute — such as Chinese state-owned enterprises' support have not been resolved. Biden's management did not make any changes to its tax framework and is said to be scrutinizing the "Phase One" trading agreement. It is therefore unlikely that the Cold War will end soon

WILL THE TRADE WAR TURN INTO COLDWAR:

Often, Trade Wars occur because of high costs, quotas, or unfair trade policies followed by the countries. Trade wars end when the affected states resolve trade disputes. But trade is not the only issue in the Sino-US Trade War. There are other geopolitical issues and strategies that could turn the trade War into a Cold War. The USA wants to maintain its prestige as a major power. China is also a nuclear power. It is very ambitious and expansionist. Its economy is growing rapidly. Its China 2025 'plan to incentivize domestic industries, its export-oriented economy, emerging technologies, and the Belt and Road Initiative (BRI) poses a challenge to US' global supremacy.

BRI of China is a global infrastructure development strategy adopted by the Chinese government in 2013. It connects China and Asia, Europe, and Africa through a wide network of ports, roads, trains, power lines, and pipelines for oil and gas, and related infrastructure projects.. If China succeeds it will be more connected to the world than the USA. In this context if the Chinese economy grows at a rapid pace and if China succeeds in Made in China 2025 and BRI, China will control the global economy. As a result, the Yuan may replace the US dollar as a form of international exchange. The country needs to be an economic power in order to maintain hegemony. To maintain world supremacy the United States seeks to see that China does not surpass the US economically and technologically.

From the beginning, the Chinese government concentrated on the economy and invested in many companies. In communist China in all the big companies, the state is the

major shareholder. The US questions the state funding of Chinese companies as it makes the products cheaper. Communist state China will neither change its domestic laws nor stop state funding of its companies. Its export-driven economy led to huge trade surpluses and consequently, China has become one of the largest exporting countries in the world. China cannot change its policies according to US demands. The US will also not stop its protectionist policies and will try its best to surpass China economically.

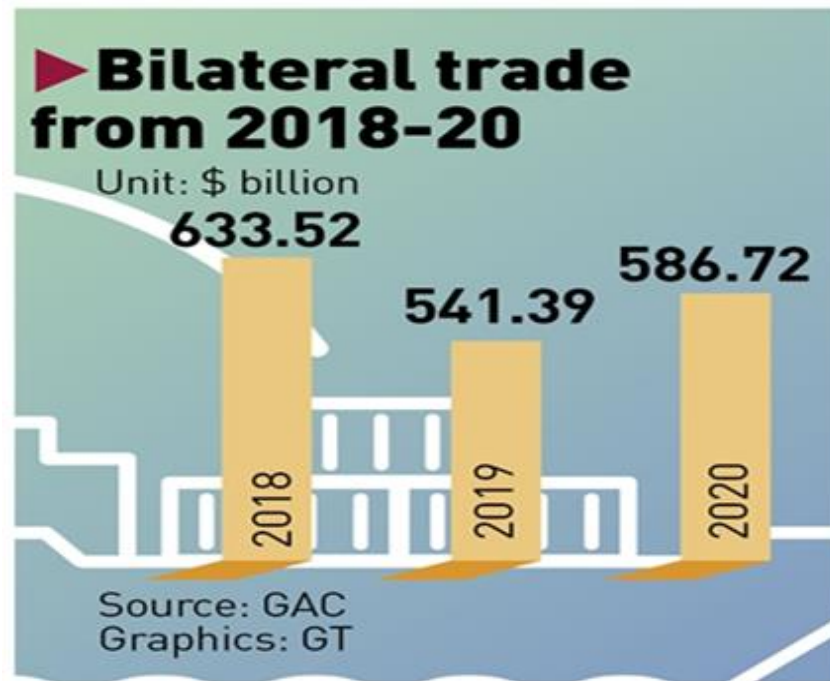
Now European Union (EU) is not in favour of US hegemony, as the USA imposed tariffs on products of the EU also. After the disintegration of the Soviet Union, NATO is losing its significance. China is also asserting itself militarily by updating its defence technology. China developed or purchased many of the missile and stealth technologies required of a powerful 21st-century empire. The United States criticized China for undermining Hong Kong's democracy and its aggressive policy toward Taiwan. The United States warned China over its "military, diplomatic, and economic pressure" on Taiwan.

US-EUROPEAN UNION ALLIANCES:

After Joe Biden became president, he began forming alliances against China. The US and the EU have blamed China for the genocide in Xinjiang. Prominent human rights groups published reports accusing China of crimes against humanity. The United States, the European Union, the United Kingdom, and Canada have imposed joint sanctions on Chinese officials to control the Uyghurs in Xinjiang. Australia and New Zealand supported the sanctions even though they did not impose their own sanctions. China responded quickly, listing the members of the European Parliament, European strategists, and think tanks. China denies all human rights abuse allegations in Xinjiang, saying that it was a plan to "re-educate" anti-separatist camps and Islamist activists in the region. China has also strengthened its ties. Its cooperation with Russia has grown, with the signing of a 25-year cooperation agreement with Iran. This means

that both countries want to form alliances with other countries. Both countries continue to attack each other with harsh words on foreign trade that is transforming the Trade War into a Cold War.

The United States and China are at loggerheads over political, economic, ideological, technological, and security issues. However, despite the cost of tariffs imposed on each other's export, US-China trade over the years has increased and the residual Chinese trade against the United States has increased.



In spite of frictions, the trade will continue between US and China continue as both the countries are interdependent and have goods to buy from and sell to each other, and both get benefitted. Yet, due to the differences, a ColdWar-like situation on the one side and trade on the other side will continue.

HOW CAN INDIA TAKE ADVANTAGE OF THE TRADE WAR?

Trade War gave some opportunities to Southeast Asian nations. India gained moderately from Trade War. India's exports to China have grown much faster than its exports to the US. While India's total exports to the US grew by 9.46 percent to \$ 52.4 billion in 2018-19, its exports to China grew by 25.6 percent. India could also be a major beneficiary if it increases its trade in goods and services with the US imposing higher taxes than those of China. India can explore replacing Chinese fabrics exported to the US. Fresh grapes, cotton, tobacco, lubricating oil, and benzene-like chemical products are important items of U.S. exports to China worth \$ 10 million, and India was also exporting these goods to China.

India can benefit through increasing exports to the US and China and encouraging investments from both countries to India. Now many American companies are looking forward to shifting from China due to high tariffs. Many Chinese companies are also investing in other countries like Vietnam, Malaysia, and Singapore for the same reason. Indian government should take a strategic approach and encourage foreign companies which are shifting from US and China to invest in our country. India can seek more opportunities in the enhancement of information and communication technology, e-commerce, the chemical industry, outsourcing, and the automotive industry. India is the only country in the world that can meet the level of performance after China and can meet market demand in time.

Yet Trade War in the long run will not benefit India as it is turning into a currency war. If the currency devaluates it will benefit countries with a large number of exports and India is not a net exporter. China may dump its exports in the Indian market due to high tariffs in the USA. Indian government should take

steps so that our domestic industries are not affected.

CONCLUSION:

Trade War is not likely to end in the present circumstances. Trade War is likely to turn into Cold War. This Cold War will not be like the US-USSR Cold war. Trade will continue between the warring countries in Cold War. India can increase its production capacity and invite Multinational companies that leave China to invest in India.

REFERENCES:

1. Ahmed Medhat Mahmoud ; US-China Trade War 2018.; https://www.researchgate.net/publication/330500744_US-China_Trade_War_2018
2. Andrew Chatzky; The Truth tariffs, [https://www.cfr.org/backgrounder/truth-about-](https://www.cfr.org/backgrounder/truth-about-Tariffs?gclid=Cj0KCQiAl5zwBRCTARIsArukDOK_M83LiZ64Ly7xBgMzMqQVrv5facJQIpdcAYWGwuAS5Gahhf3VIoaAvlJEALw_wcB)
3. Tariffs?gclid=Cj0KCQiAl5zwBRCTARIsArukDOK_M83LiZ64Ly7xBgMzMqQVrv5facJQIpdcAYWGwuAS5Gahhf3VIoaAvlJEALw_wcB
4. Chad P. Bown (PIIE); US-China Trade War: The Guns of August, <https://www.piie.com/blogs/trade-and-investment-policy-watch/us-China-trade-war-guns-august>
5. Christine Romans, The Trade War is destroying American profit' October 23, 2019; <https://edition.cnn.com/2019/10/23/business/trade-war-companies/index.html>
6. Collie, David, 1993. "Profit-Shifting Export Subsidies and the Sustainability of Free Trade," Scottish Journal of Political Economy, Scottish Economic Society, vol. 40(4), pages 408-419, November. Michael E. Waugh; NBER Working Paper No. 26353; Issued in October 2019, Revised in December 2019
NBER Program(s): Economic Fluctuations and Growth Program, International Trade and Investment Program
<https://ideas.repec.org/p/zbw/kcgwps/17.html>
7. Edwin L.-C. Lai; The US-China Trade War, the American public opinions and its effects on China; Economic and Political Studies, Volume 7, 2019 - Issue 2
8. Emily Stewart; Can the US-China Trade War be stopped?; <https://www.vox.com/policy-and-politics/2018/7/8/17544460/trump-China-tariffs-trade-war>
9. Ha Jiming (China Finance 40 Forum) and Adam S. Posen (PIIE), editors; US-China Economic Relations: From Conflict to Solutions—Part I; <https://www.piie.com/publications/piie-briefings/us-China-economic-relations-conflict-solutions-part-i>
10. Hideo Tamura June 15, 2018 Starting Gun Fired on a U.S.-China '100-Year Trade War https://japan-forward.com/starting-gun-fired-on-a-u-s-China-100-year-trade-war/?gsearch=click&gclid=Cj0KCQiAl5zwBRCTARIsArukDOPfnQ0ZchLFemAVSjUsOJVTuHNDugtu6dgcRWy jXBO-wGtFWetIDsaAid9EALw_wcB
11. Jack Perkowski; 27,232 views Aug 18, 2019, U.S.-China Trade War: It's Time For A Change In Strategy; <https://www.forbes.com/sites/jackperkowsky/2019/08/18/u-s-China-trade-war-its-time-for-a-change-in-strategy/#c44ef816baf9>
12. KIMBERLY AMADEO, US Trade Deficit With China and Why It's So High; <https://www.thebalance.com/u-s-China-trade-deficit-causes-effects-and-solutions-3306277>
13. Nilanjan Banik and Parikshit Bhargava; Why Trump's Trade War With China Actually Hurts Beijing Less; <https://thewire.in/trade/why-trumps-trade-war-with-China-actually-hurts-beijing-less>
14. Prerana Priyadarshi; Caught in the Crossfire: American Consumers and the US-China Trade War 29/SEP/2019 <https://thewire.in/world/american-consumer-us-China-trade-war>
15. Larry D. Qiu, Chaoqun Zhan & Xing Wei (2019) An analysis of the China-US Trade War through the lens of the trade literature, Economic and Political Studies, 7:2, 148-

- 168, DOI: 10.1080/20954816.2019.1595329
16. Manjula Jain & Saloni Saraswat; US-China Trade War: Chinese Perspective; Management and Economics Research Journal 5(S 4):1-8 · August 2019
17. Mao, Haiou & Görg, Holger, 2019. "Friends like this: The impact of the US-China Trade War on global value chains," KCG Working Papers 17, Kiel Centre for Globalization (KCG).
18. Rana Mitter, Solutions to the US-China Trade War; <https://www.ft.com/content/571603da-8233-11e9-a7f0-77d3101896ec>; 5/6/2019
19. Steve Hanke; The Trade War That Never Stops; <https://www.forbes.com/sites/stevehanke/2019/10/13/the-trade-war-that-never-stops/#14d6ee2774dd>
20. Swaminathan S Anklesaria Aiyar's View: The new US-Mexico-Canada Agreement has grim implications for India Oct 10, 2018, <https://economictimes.indiatimes.com/news/economy/foreign-trade/view-the-new-us-mexico-canada-agreement-has-grim-implications-for-india/articleshow/66139654.cms?from=mdr>
21. Tao Liu & Wing Thye Woo (2018) Understanding the U.S.-China Trade War, China Economic Journal, 11:3, 319-340, DOI: 10.1080/17538963.2018.1516256
22. Thiemo René Fetzer & Carlo Schwarz: "Tariffs and politics: evidence from Trump's Trade Wars," CESifo Working Paper Series 7553, CESifo Group Munich; 2019.
23. The Consumption Response To Trade Shocks: Evidence From The US-China Trade War Michael E. Waugh Working Paper 26353 <http://www.nber.org/papers/w26353> National Bureau Of Economic Research 1050 Massachusetts Avenue Cambridge, MA 02138 October 2019, Revised December 2019
24. Trade Wars and their Effect on the Economy and You; <https://www.thebalance.com/trade-wars-definition-how-it-affects-you-4159973>
25. 26. Yukon Huang: The unlikely, obvious solution to the Trade War;
26. <https://carnegieendowment.org/2018/09/24/unlikely-obvious-solution-to-trade-war-pub-77325>
27. Yukon Huang: Can the US-China Trade War Be Resolved?; <https://thediplomat.com/2019/07/can-the-us-china-trade-war-be-resolved/>