



**GAMAT**  
PRUDENCE REDEFINED

# TRADE WAR



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# INTRODUCTION

## TRADE WAR: Definition:

Actions taken by one country, like raising import tariffs or by placing other restrictions against other country's imports leads to a Trade War. A country normally undertakes such actions with the intention of protecting domestic businesses. The Trade War, which has started between two the countries may affect the Global economy in future.

## US and China Trade War

China has cut tariffs as promised, after joining the World Trade Organization, but has violated WTO rules by continuously stealing Intellectual Property and forced many American companies to transfer technology to access Chinese market. Chinese foreign trade has grown rapidly after getting into WTO in 2001 and US has started facing a huge trade deficit with China and this has become a huge political issue in the 2016 US Political campaign.

The US trade deficit with China has almost doubled in 2005 when compared to 2001. As per the US Trade representative, there was slight decline in the trade deficit after the start of the Trade war. This conflict of trade war between two of the largest economies has not only affected the economies of US and China, but also had a negative impact on various businesses and weighed on global economy.





**US has accused China for its unfair trading practices, including intellectual property theft, forced technology transfer, lack of market access for American companies in China and the forced transfer of American technology to China.**

**This trade war has led to higher prices for consumers in US.**

**US's tariffs policy aims in encouraging consumers to buy domestic products by making imported goods expensive. In China, the economic growth and growth of manufacturing activity have slowed to their lowest rates in decades and believes that, US is trying to restrict its rise as a global economic power.**

**The conflict of trade war, which started on 6th July 2018 has reached a crucial point when there was a signing of Phase one Trade deal on 15th January 2020.**

**The Chinese government subsidies that were not included in the phase one and other issues will be addressed in phase two as insisted by Trump, but the phase two is temporarily on hold because of the outbreak of COVID-19.**



# MAJOR CAUSES FOR THE TRADE WAR

The Two Major Causes for the Trade war between China and USA

## US-china Trade imbalance

As one of the major concerns regarding the trade war between US and China is trade imbalance, which is a \$342.2 billion trade deficit goods in 2017 because of lack of reciprocity in terms of tariff, market access, and investment. China has offered some concessions in this area like opening up particular service sectors, lowering investment restrictions and offering to buy more American agricultural and energy product concessions that can be made to align with China’s overall economic reform agenda.



## Made in China 2025 initiative

Made in China (MIC) 2025 strategy aims to upgrade China's industrial sector by shifting towards higher value-added manufacturing sectors such as robotic, aerospace, and energy-saving vehicles. The stated objective of this program was released in 2015 for China to become a major competitor in the advanced manufacturing sector. This sector is dominated by developed countries with high per capita income like the US. Until now China relied on manufacturing and exporting basic consumer goods like clothing, consumer electronics, and shoes to drive the country’s growth. In these low-value and low-wage sectors China mainly competes with other developing countries like Mexico, Brazil, South Africa, India, Vietnam, and Taiwan. But to escape the middle-income trap China wants to move towards high-tech industries.

The US wants to increase the number of jobs by returning the US capital to its home country supporting domestic producers by limiting foreign competition in the US as it will reduce bilateral trade and get American jobs back home.

# TRADE WAR- COUNTRIES AFFECTED

It all started with CHINA. Even though the trade war seemed to settle in the beginning of 2020, it did not. It was fueled by global pandemic COVID19. US believe the virus had its origin in CHINA, may be as a plan to capture the world economy. Though the trade war is between the top-class economies US-CHINA, it had butterfly effect in other economies too. Major economies affected by the pandemic and trade war are US, India, UK, Italy, Australia, and Germany.

## Impact of US-China trade war on European Nation

“What is hurting German exports currently is the uncertainty which has spread across the globe and has also paralyzed many European economies,” said Carsten Brzeski, chief economist for Germany at ING. “Looking ahead, the outlook for German exporters is clearly in the hands of the U.S. and China.”

The EU economy relies heavily on trade for economic growth, and the recent slowdown in trade of US-China conflict has raised concerns in Europe about future growth. Exports are worth 40 percent of EU’s GDP, and that number has increased in recent years (US exports are worth about 12 percent of US GDP).

Draghi and the EU are growing concerned that their largest trading partners will become increasingly averse to trade, and they fear that the negative effects will be felt around Europe.

Within the EU, the country with perhaps the most to worry about is Germany. The EU’s largest economy and largest exporter has a lot to lose if global demand falls. Germany produces nearly the same value of exports as the United States despite having only one-quarter of the population size. Moreover, one in four German jobs rely on their export market, with the United States as the largest buyer of German goods; decreased US demand due to trade conflicts would be have negative impact on Germany. On the other side of the coin, Germany has a long history of doing business in China, and exports to the Asian giant have increased over 1000 percent in the last two decades. If China cools to trade and continues to devalue its currency (yuan), Germany may lose a massive export market.

Germany needs to worry about both players in the trade war, but should pay special attention to the United States, which has indicated its willingness to go head-to-head with the EU in a few sectors.

Trump has been on-again-off-again about slapping tariffs on EU auto exports, a major industry for the EU and Germany. Nearly 6 percent of the EU workforce is employed by the auto sector, including 11 percent of all EU manufacturing jobs.

**Any tariffs on the auto sector will have a significant impact on the EU. The EU's Trade Commissioner, Cecilia Malmström, has promised a strong response if Washington does go after the EU auto industry, preparing nearly \$40 billion worth of tariffs on the United States. This potential escalation of trade would certainly harm both the economies in a race to nowhere.**

**The “phase one” trade agreement signed in January between the United States and China will cut demand for nearly \$11 billion in European goods, with the German and French manufacturing sectors particularly hard hit, according to a new study from the US Chamber of Commerce.**

**A threat of US tariffs on European-made autos is pending, on top of the World Trade Organization (WTO)-authorized tariffs already being imposed on the EU's finished aircraft, French wine, Italian cheese, and other goods stemming from the Airbus subsidy trade dispute. The Trump administration last month said it would increase existing US tariffs on EU aerospace products from 10 percent to 15 percent because of European subsidies paid to Airbus.**

**Apart from the existing issues, Chinese companies, taking advantage of crisis are swooping in to buy strategic stakes of the low selling US and European companies**

## **Impact of US-China trade war on Canada:**

**The US-china trade had affected smallish countries such as Canada that they're forever at the mercy of larger powers.**

**Take the Phase 1 trade deal slated to be signed by the United States and China, the world's two largest economies. This agreement is bad news for Canada, and Canada cannot do a thing about it. It's also ominous for global trade more broadly.**

**The details of the pending agreement are still murky. But U.S. officials say Beijing has agreed to boost purchases of U.S. goods and services by as much as US\$200 billion within two years, including tens of billions worth of farm products. U.S. President Donald Trump has called it a large and comprehensive deal.**

**Whatever China commits to buying from the U.S. will inevitably come at the expense of other exporting countries. In farm products, Canada is among the countries most at risk of losing market share, along with New Zealand, Argentina, Brazil, and Australia.**

For Canada, some of the exports that could suffer include frozen pork, beef, soybeans, canola oil, lentils, beans, wheat, coal, and seafood. China has already imposed significant restrictions on imports of Canadian canola, pork, and other products – an apparent act of retaliation for Canada’s arrest of Huawei executive Meng Wenzhou on a U.S. extradition request. Canada will remain a bystander in those talks, while continuing to try to resolve its own disputes with China.

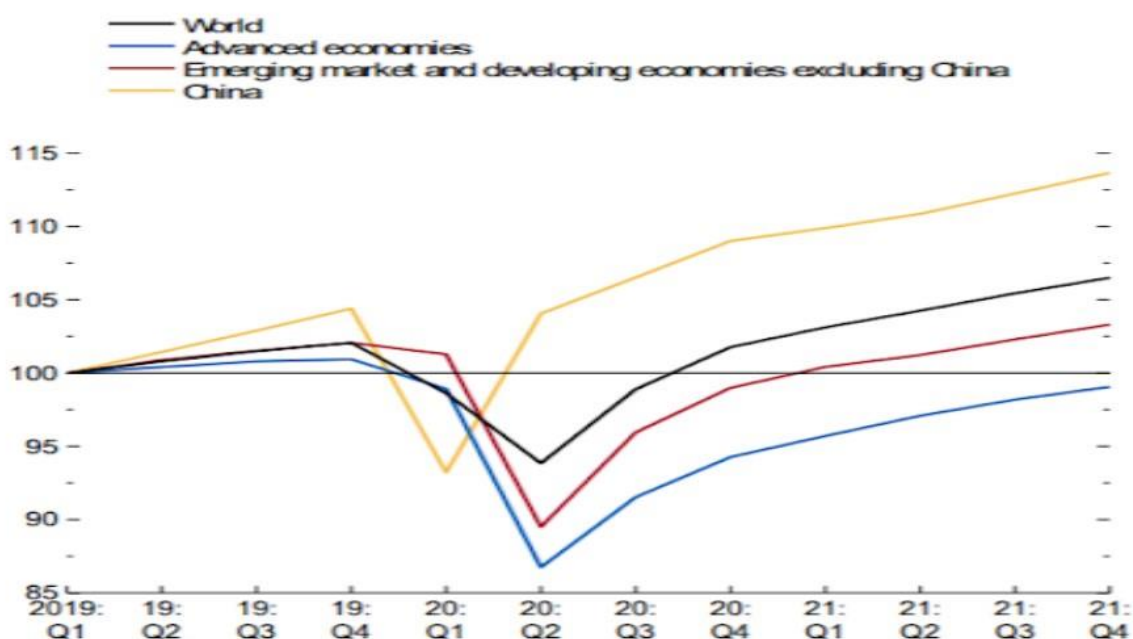
## Other Impacts

Tension of the trade war have imposed burden on the global trade Centre Hong Kong. Hong Kong is a country with free exports and imports, contributing 2-3% to CHINA’s GDP. US announced that Hong Kong will have to enjoy the trade tariffs as CHINA if it binds to support China. But this would impact both US and Hong Kong business, since Hong Kong play vital role in US investments and with less impact on CHINA.

Amid the pandemic, CHINA continues to fortify its plan on occupying islands on South China Sea. At present China has it defence force and equipment in island countries like Philippines, Indonesia, Vietnam etc., with a plan to capture them.

These actions from the Chinese will impose serious threats to Taiwan and other Asian countries. This can be prevented only when there is an existence of multilateral ally between US and ASEAN, UN countries.

**Figure 1. Quarterly World GDP**  
(2019:Q1 = 100)





## Other Impacts

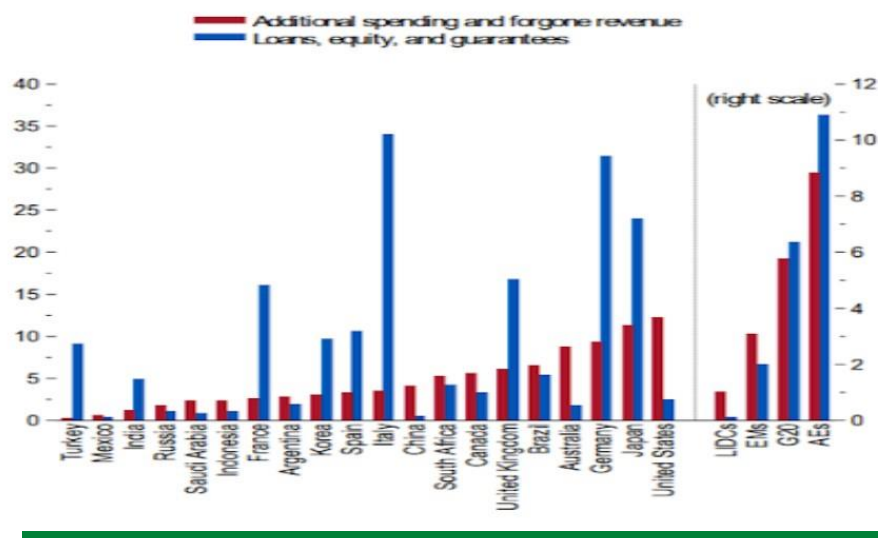
There could be a short-term impact on the stock markets. The benchmark Sensex at the Bombay Stock Exchange has been falling in line with global markets that have been spooked by the escalating trade war between the US and China.

In the longer run, while a slowdown in the US economy does not augur well for emerging markets, the trade war could have a silver lining for some countries.

India is among a handful of economies that stand to benefit from the trade tensions between the world's top two economies.

**Annex Figure 1. Country Fiscal Measures in Response to the COVID-19 Pandemic**  
(Percent of GDP)

Countries are providing sizable fiscal support through budgetary measures, as well as off-budget liquidity.



## Disadvantages

- Increase in tariffs on goods will weaken the dollar that has negative effect on trade deficit as India has to pay more money for imports.
- India must pay by massive cost cuttings to attract global companies. Indian local producer is not equipped enough to fulfill the domestic demand.
- The USA blamed India for discriminatory trade practices. The export of steel from India has fallen due to the sanctions applied.

## Challenges for businesses - setting up in India (Because of trade war)

Businesses in India face two key challenges: land laws and labour regulations.

- ♦ Land laws are the “biggest hurdle” for manufacturing and infrastructure development, Current land laws make it difficult for the private sector to obtain space for manufacturing units. That is because land ownership is fragmented across several states, and companies need extended periods of time to obtain land, or bypass legal issues that may crop up.
- ♦ Labor laws in India are “extremely complex,” They comprise about 40 acts and companies are required to adhere strictly to all of them. This makes it difficult for manufacturers.

Land and labour reforms are two of the “most important factors of production” needed.

## BENEFICIARIES OF TRADE WAR

The Chinese have earned the rank of being the alternative to America led globalization. The recent trade war or rather a tariff war has had an impact on the both the economies of China and the US, each of them complementing tariffs on each other as a retaliation.

Since the time the Trump administration has increased import tariffs from 25% to 30% on Chinese goods worth \$250 billion and increase from 10% to 15% on imports of \$300 billion and china in retaliation-imposed tariffs on American imports worth \$75 billion, this scenario poses an opportunity to those countries that provide a comparative cost advantage to the global manufacturers in terms of lowered production costs, tax holidays, flexible labour laws, availability of land etc.

China being the leader in manufacturing has clustered worlds leading manufacturers into its fold. The US tariffs on the Chinese manufactured goods has had many of the global manufacturers begin to contemplate their locational shifts to countries that mimic the Chinese industrial policies. Some US manufacturers have been shifting their production lines from china to countries such as Vietnam, India, Taiwan, and Malaysia. The covid-19 pandemic has further worsened the manufacturing scenario of China, where 1000 leading manufacturing companies have quit China.

**The US tariffs have made Chinese goods more expensive to the American importers, a variety of goods ranging from industrial goods, apparel, electronics were hit by tariffs making them expensive. In the early months of the year 2019 imports to US from China have declined to 12% from the previous year. The imports from Vietnam were up by 36%, Taiwan by 23%, Bangladesh by 14%, and South Korea by 12%. Taiwan and South Korea are more focused on electronics and semi- conductors, Vietnam and Bangladesh give a competitive advantage in terms of wages for apparel and shoes. Vietnam, Chile, Malaysia, Argentina, India, Taiwan, and Thailand are the top countries benefitting from the trade war.**

**Vietnam is by far the largest beneficiary, gaining 7.9% of GDP from trade diversion. The further relocation of the companies in China will be a boon to countries like India and Malaysia, owing to the availability of skilled labour and infrastructure spending. The countries Vietnam and Korea have gained from the US import substitution in electronic appliances, Malaysia has benefited from semi-conductors and Mexico, from motor vehicles. The trade war spillover is providing a potential opportunity for the countries such as India where there is no dearth of skilled labour and vast swathes of land available for the establishment of the industrial corridors. The Indian government has pooled a huge land with a total area of 461,598 hectares has been identified across the country located in the states of Gujarat, Maharashtra, Tamil Nadu and Andhra Pradesh to be offered to the companies leaving China, the land pool is bigger than that of the country Luxembourg.**

# MNC's AFFECTED DUE TO TRADE WAR

Most of the industries that has been affected due to trade war are Automobiles, Energy Tech, Agriculture and Translation industries.

## Automobile

Probably the greatest territory influenced in terms of trade tensions is the U.S. automobile industry. A year ago, China expanded the levies on U.S.- made automobile entering the nation from 15% to 40% in retaliation to U.S. tariffs. While Chinese buyers generally purchase privately produced vehicles, U.S. automakers, like Tesla Inc. (TSLA), endure the worst part of trade tensions. American automakers sell most of their products in the Chinese market. Vehicle parts venders will likewise remain to lose if the circumstance will not improve.

## Tech

Chip creators and hardware producers that rely upon China for deals, as NVIDIA Corp. (NVDA), Micron Technology (MU) and Intel Corp. (INTC), are viewed as particularly helpless in a trade war situation. On the other hand, Chinese manufacturers, depend on American semiconductor suppliers to run their businesses. The trade war has already had an impact on the iPhone maker's earnings since it adversely affected the slowing Chinese economy.

An acceleration in the U.S.- China exchange war could truly hurt tech merchants in the two nations.

## The Energy Sector

Aluminum and steel are one of the major energy sectors in U.S. They are building solar panels to help in distributing electric power. U.S government has imposed additional tax on these products that imports from China. This will lead customers to pay higher amount as the energy sector will keep getting costlier.

## Agriculture

China is one of the fourth largest that exports agriculture products in U.S. China has imposed tariffs on its major export products to U.S. It cut imports of soya beans, lobster, nuts, and corn. Soybeans have become one of the reasons of trade war between China and U.S. The American farmers are now struggling to find a market for their produce.

There has been a huge impact of trade war on Japanese firms. There has been impact on the sales of Japanese MNC's. – the stock market return of the listed Japanese firms with China-North America trade was significantly lower than others.

## Negative Impact of Trade War

- ♦ Trade War will lead to increase in Chinese products.
- ♦ Trade war will affect the income and employment generation of the industry. Due to various restrictions consumers will buy from the home country which will affect overall income of the MNC's Company.
- ♦ Foreign exporters will bear all the burden due to lower profits.
- ♦ Offshore ventures can make a huge import in nation disguise the terms-of-exchange externality and along these lines lessen its unilaterally optimal tariff.
- ♦ Cost of doing business has been increased.
- ♦ Companies are moving out production who has heavy supply chains in India.

## Positive Impact of Trade War

- ♦ It will help the companies to produce in their home countries that will lead to a lot of opportunities.
- ♦ There will be an economic growth.
- ♦ There will be a capital formation in the country.
- ♦ There will be poverty reduction in the domestic country.
- ♦ This will lead to increase of quality of life of the employees



# OVERVIEW OF TRADE WAR

The Trade War, which has started between two the countries may affect the Global economy in future. A trade war happens when one country retaliates against another by raising import tariffs or placing other restrictions on the other country's imports. Trade wars are a side effect of protectionist policies and are controversial. Advocates say trade wars protect national interests and provide advantages to domestic businesses. Critics of trade wars claim they ultimately hurt local companies, consumers, and the economy.

As one of the major concerns regarding the trade war between US and China is trade imbalance, which is a \$342.2 billion trade deficit goods in 2017 because of lack of reciprocity in terms of tariff, market access, and investment. China has offered some concessions in this area like opening up particular service sectors, lowering investment restrictions and offering to buy more American agricultural and energy product concessions that can be made to align with China's overall economic reform agenda.

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The US wants to increase the number of jobs by returning the US capital to its home country supporting domestic producers by limiting foreign competition in the US as it will reduce bilateral trade and get American jobs back home.

It all started with CHINA. Though the trade war is between the top-class economies US-CHINA, it had butterfly effect in other economies too.

## **Impact of US-China trade war on European Nation:**

**"What is hurting German exports currently is the uncertainty which has spread across the globe and has also paralyzed many European economies," said Carsten Brzeski, chief economist for Germany at ING. "Looking ahead, the outlook for German exporters is clearly in the hands of the U. Within the EU, the country with perhaps the most to worry about is Germany. Germany produces nearly the same value of exports as the United States despite having only one-quarter of the population size. On the other side of the coin, Germany has a long history of doing business in China, and exports to the Asian giant have increased over 1000 percent in the last two decades.**

**If China cools to trade and continues to devalue its currency, Germany may lose a massive export market. Germany needs to worry about both players in the trade war, but should pay special attention to the United States, which has indicated its willingness to go head-to-head with the EU in a few sectors. Trump has been on-again-off-again about slapping tariffs on EU auto exports, a major industry for the EU and Germany. Nearly 6 percent of the EU workforce is employed by the auto sector, including 11 percent of all EU manufacturing jobs.**

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**Amid the pandemic, CHINA continues to fortify its plan on occupying islands on South China Sea. These actions from the Chinese will impose serious threats to Taiwan and other Asian countries.**

**How India is impacted by US-China trade war: There might be a short-term impact on the stock markets. The benchmark Sensex at the Bombay stock market has been falling in line with global markets that are spooked by the escalating trade war between the US and China.**

**In the longer run, while a slowdown within the US economy does not augur well for emerging markets, the trade war could have a bright side for a few countries.**

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