

E-ISSN: 2469-4339

*Management and Economics Research Journal, Vol. 5, Iss. S4, Pgs. 12, 2019*

# Review

## Sino-US Trade and Trade War

Kashyap and Bothra

Special Issue S4: "Global Trade Wars - A Case of Sino-US Trade War"

Guest Editor: Prof. Badar A. Iqbal

HATASO, USA

## Sino-US Trade and Trade War

Usha Kashyap\*, Neha Bothra

Department of Commerce, Shyam Lal College, University of Delhi, New Delhi, India.

\*Correspondence: usharkashyap@yahoo.co.in

Received: Jun 10, 2019; Accepted: Aug 9, 2019

**Copyright:** Kashyap and Bothra. This is an open-access article published under the terms of Creative Commons Attribution License (CC BY). This permits anyone to copy, distribute, transmit and adapt the work provided the original work and source is appropriately cited.

**Citation:** Kashyap U, Bothra N. 2019. Sino-US trade and trade war. Management and Economics Research Journal, Vol. 5, Article ID 879180, 12 pages. <https://doi.org/10.18639/MERJ.2019.879180>

### Abstract

Trade has been one of the most primary reasons behind economic association. Cross-border trade not only makes the markets cost-efficient but rather also brings up a higher degree of specialization to the respective nations. Bilateral trades have proven to be quintessential to both sides of the deal. However, on a parallel front, every economy has a self-interest toward the domestic produce, and they also try to defend their local manufacturers from cross-border competition. The United States has an "America-first" policy. Whenever the United States imposes tariffs and duties, similar responses have been observed by China. These moves are an area of great concern for global trade. The impact is often visible on the rest of the world. A trade-off exists between domestic economic growth and favored imports. This study is an attempt to discuss the trade relations between the United States and China and how this has led to a trade war. The trade tensions between the United States and China may continue for a few more years. There is a battle for economic supremacy and global leadership. This study explains why the United States is increasing tariffs on Chinese goods and how China is retaliating. This US-China trade war has affected not only the two economies but also the world economy. This study elucidates the repercussions of trade war on the international supply chain and the countries of the European Union. This study has also endeavored to discuss the impact of this trade war on the Indian economy. It is a golden opportunity for India to increase exports to China, the United States, and Europe.

**Keywords:** Trade; Trade war; United States; China; India; Tariff.

### 1. INTRODUCTION

The United States of America was established as an independent nation in 1776. It is the world's largest economy if we go by the nominal GDP and second largest if we go by purchasing power parity. The United States has the world's largest economy, is the world's largest producer of oil and gas, is the world's largest trading center, has the largest industrial sector, and has the largest financial markets and the world's largest consumer market. As far as venture capital and global research and development funding is concerned, the US economy stands at number one in international ranking. The United States produces one-fifth of the global manufacturing output. The real GDP grew by 2.3% in 2017, while in 2016, it was 1.5%. The growth rate of real GDP was 2.2% in the first quarter of 2018 and 4.1% in the second quarter of 2018. It is the best growth rate since Q3 2014.

In 2007, the US economy was four times that of China. There was a recession and the global financial crisis in 2008; as a result, by 2012, the US economy shrunk to two times the size of China. In 2014, China became the largest economy in GDP by purchasing power parity. China is at the second rank in the world by nominal GDP. China had a GDP growth rate of 6.9% in 2017. China's growth rate has been three times that of the United States for the last 40 years.

### 2. TRENDS OF US-CHINA TRADE IN GOODS

The US-China trade relation is very old. In 1985, US goods exports to China were worth \$3855.7 million and US goods imports from China were worth \$3861.7 million. It shows a deficit of only \$6 million. After that, the

**Table 1. Exports of Goods, Imports of Goods, and Trade Deficit of the United States with China.**

Year	Exports	Imports	Trade deficit
1985	3,855.7	3,861.7	-6.0
1990	4,806.4	15,237.4	-10,431.0
1995	11,753.7	45,543.2	-3,789.5
2000	16,185.2	100,018.2	-83,833.0
2005	41,192.0	243,470.1	-202,278.1
2010	91,911.1	364,952.6	-273,041.6
2015	115,673.4	483,201.7	-367,328.3
2017	129,893.6	505,470.0	-375,576.4
2018	120,341.4	539,503.4	-419,162.0
2019 (Till March)	25,994.4	105,973.9	-79,979.5

Source: United States Census Bureau, Foreign Trade, US International Trade Data.

trade deficit of the United States has been continuously increasing. If we see the trade of both goods and services, in the year 2017, goods and services exports totaled \$187.5 billion, and imports were \$522.9 billion. The US goods and services trade deficit was \$335.4 billion in 2017. Table 1 shows US goods exports to China and US goods imports from China. All figures in Table 1 are in millions of US dollars on a nominal basis. The graphical interpretation of Chart 1 raises a question why this deficit has been increasing over time? Which goods and services are being traded between the two countries?

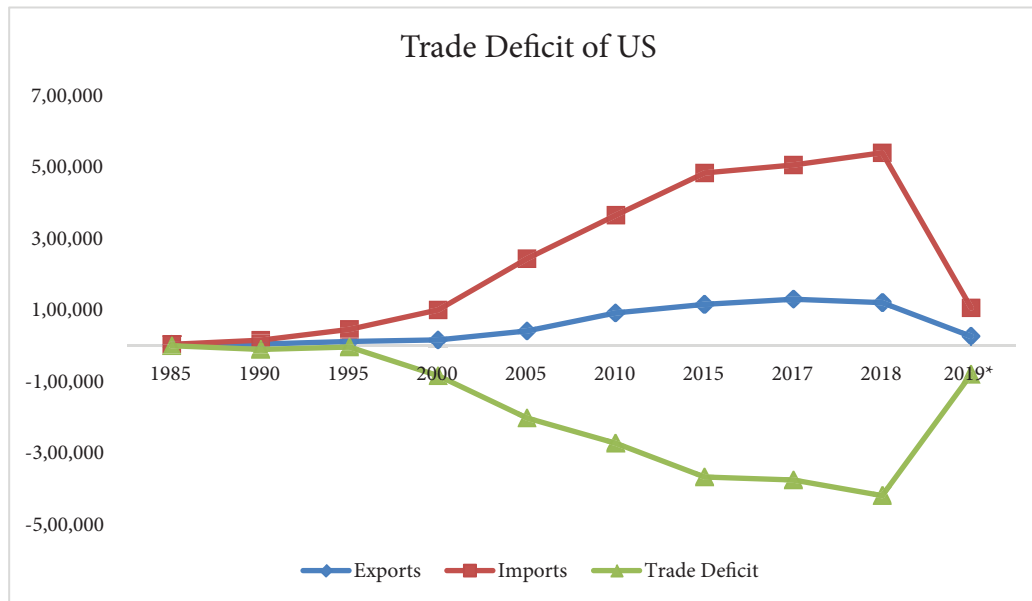
### 3. EXPORTS OF THE UNITED STATES TO CHINA

China was the United States' third largest goods export market in 2017 covering 106 US products as shown in Chart 2. The data show that US exports to China are increasing at a very slow rate while US imports from China are increasing at a very high rate leading to a US goods trade deficit. US goods exports to China have increased by 577% from 2001 (pre-WTO accession) to 2017. China joined as a member of the World Trade Organization (WTO) on December 11, 2001. The United States played an extremely important role in it and supported China's inclusion in the WTO, although some conditions were imposed on China to reform its economic and trade policies. US exports to China were 8.4% of total US exports in 2017. The main goods exported to China in the year 2017 were agricultural products, aircraft, aerospace products and parts, oil-seeds and grains, motor vehicles, semiconductors/electronic components, oil and gas, waste and scrap, navigation/measure/medical/control instruments, base chemicals, resin, synthetic rubber, artificial and synthetic fibers, pharmaceuticals, and medicines. China is the United States' second largest agricultural export market. It includes soybeans, cotton, hides and skins, coarse grains, and pork and pork products. As far as exports of services from the United States are concerned, in 2017 these were \$57.6 billion, and imports of services were \$17.4 billion. The United States had a trade surplus in services trade with China worth \$40.2 billion. US exports of services to China were up by 973% from 2001. The main services exports from the United States to China were in the areas of travel, intellectual property (trademark, computer software), and transport.

### 4. IMPORTS OF THE UNITED STATES FROM CHINA

China was the United States' largest supplier of imported goods in 2017. These imports from China accounted for 21.6% of overall US imports in 2017. These imports are up 394% from 2001 (pre-WTO accession). The main

**Chart 1. Exports of Goods, Imports of Goods, and Trade Deficit of the United States.**



Source: United States Census Bureau, Foreign Trade, US International Trade Data.

\*indicates (Till March only)

Chart 1: Exports of goods, Imports of goods and Trade Deficit of US

imports in 2017 were communication equipment, computer equipment, electrical machinery, household appliances and miscellaneous machines, furniture, kitchen cabinets and bedding, toys and sports equipment, footwear, and plastic products. China ranks at number four in the supply of agricultural goods such as processed fruit and vegetables, fruit and vegetable juices, snack foods, fresh vegetables, and spices to the United States. As far as services imports are concerned, these were up to 387%, in 2017 from 2001 (pre-WTO accession). The main services that were imported from China to the United States were in fields of travel, transport, and research and development.

Current trade deficit: In 2018, the US goods exports to China were \$120,341.4 million while goods imports from China were \$539,503.4 million. As a result, the trade deficit with China was \$419,162 million. In the first quarter of 2019—that is, up to March 2019—the US exports to China were \$25,994.4 million, and imports were \$105,973.9 million, leading to a deficit of \$79,979.5 million.

**5. CAUSES OF THE US TRADE DEFICIT WITH CHINA**

The most important reason is that China produces low-cost consumer goods because of lower labor cost. China has an exchange rate that is partially fixed to the dollar. China has a strong influence on the dollar. It has become the largest loan provider to the US government by buying US treasury notes. In December 2018, the US debt to China was \$1.12 trillion. It amounts to 28% of total public debt owned by foreign countries. China is buying US treasury notes. It helps to keep US interest rates low. If China stops buying US treasury notes, it will lead to an increase in the interest rate and then recession in the United States. However, this would be against the interests of China as well, as US citizens would buy fewer Chinese exports.

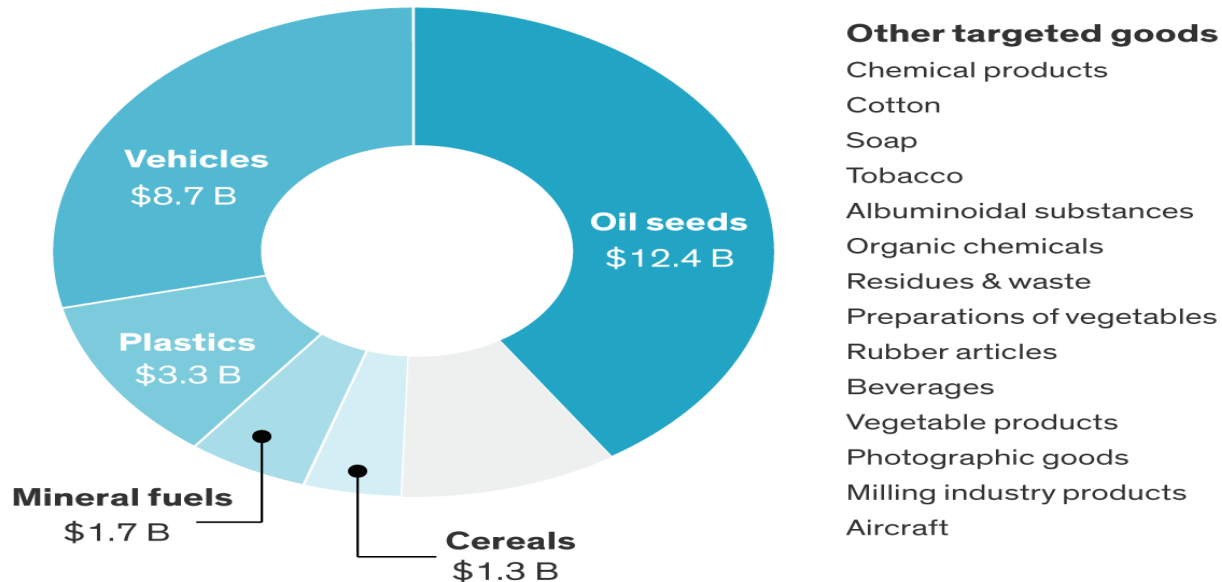
US companies try to outsource jobs to China or India for cost cutting. It increases unemployment in the United States. US manufacturing declined between 1998 and 2010, so jobs also declined by about one-third during this period. It has reduced US competitive ability in the global market. Now, the United States does not produce certain goods that are very popular with Americans such as consumer electronics. The decision to impose tariffs on Chinese goods by President Trump has led to a protectionist policy.

It was announced by President Trump on March 1, 2018, that he would impose a 25% tariff on steel imports and a 10% tariff on aluminum. On July 6, 2018, these tariffs were implemented on Chinese products

Chart 2. US Products Targeted by Chinese Government.

## The 106 U.S. products targeted by the Chinese government

Value of Exports to China, 2017\*



Source: Ministry of Commerce, China.

worth \$50 billion. China immediately reacted by canceling all soybeans import contracts. China imports American soybeans and other agricultural goods. The United States has not imposed tariffs on Chinese-made cellphones, as there is a huge demand for them by Americans.

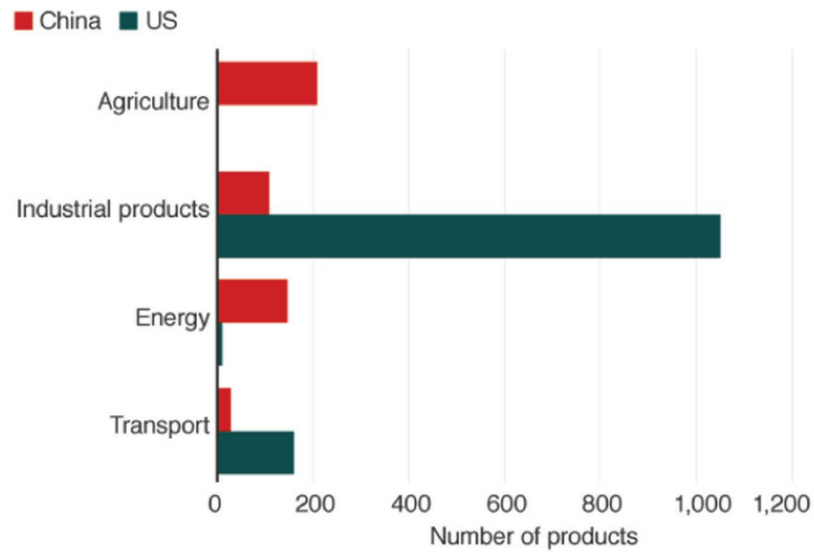
Under the Bretton Woods systems, the dollar could be converted into gold. Whenever there was a deficit in the US foreign trade, a self-correcting mechanism worked, and it led to monetary contraction. As a result, exports increased, and imports reduced. In 1971, the US dollar was decoupled from gold; therefore, the self-correcting measure has disappeared. From then onward, the US deficit in goods trade with China has continuously increased.

China earns dollars in trade surplus from the United States that are channeled back to the United States; consequently, Americans purchase more foreign goods. China has a surplus with the United States, but China has a trade deficit with many countries such as South Korea, South Africa, Brazil, and Japan. China has the availability of cheap labor, so it imports unfinished products and convert them into final products for exports.

There has been significant improvement in industrialization, and a great achievement has been made in transforming and reforming China's industrial structure. China-US trade deficit measured by traditional/value-added method has increased from 40% in 2000 to today's 70%. (OECD, 2018)

China alleges that there is an overestimation of China's surplus with the United States. According to *Xinhua Headlines*, dated March 27, 2018, the US "record trade deficit" with China is not a correct figure; it is exaggerated. According to US Census Bureau data, trade deficit with China was \$375 billion in 2017, but China's custom data showed the country's surplus with the United States stood at 1.87 trillion yuan (about \$298 billion). The basic reason for this gap is differences in statistical approaches. According to the minister of commerce, Zhong Shan, such differences have inflated the US calculation of its trade deficit with China by about 20% every year. An iPhone is only assembled in China by getting components made in different countries, but in calculation, it is considered as an import from China (*Xinhua Headlines*, 2018).

**Chart 3. The Potential Products to be Affected by Tariff Imposition on China and the United States.**



Source: Peterson Institute for International economics, BBC research.

China's Ministry of Commerce has claimed that China imports a large number of services from the United States and that it has a service trade deficit with the United States. It was \$40.5 billion, with US services exports to China \$58.9 billion and service imports from China \$18.4 billion in 2018.

The main cause of US trade deficit is that in the past decades, US businesses have shifted their manufacturing bases to those countries where there is a low cost of production due to cheap labor. American consumers prefer cheaper Chinese consumer goods. The US economic structure is such that it favors high consumption and low savings. US companies lack competitiveness. In the United States, a lack of innovation and the high cost of labor leads to a high cost of production.

There are restrictions on exports of high-tech goods from the United States to China, which is one of the causes of the trade deficit with China. China's minister of commerce, Zhong Shan, quoted one US research report in March 2018, which estimated that the trade deficit with China will fall by 35%, in case of relaxation of export restrictions by the United States.

China's industrial strategy is aimed at a shift from "Made in China" to "Made by China." Xi Jinping has declared a Made in China 2025 plan that aims at restricting the outsiders while increasing Chinese investment in other countries. China aims at becoming self-sufficient in key infrastructural materials. It plans to self-produce 40% required material by 2020 and raise it to 80% by 2025. It is going to hurt foreign producers.

There is no doubt that China uses unfair trade practices. China's corporations take advantage of US open markets while keeping their own markets closed to US products. This has resulted in factory closures and job losses in the United States. Currently, Chinese companies in many sectors limit foreign investors to 49% of the business. Foreign companies must seek a collaborative joint venture with Chinese firms. Chinese corporations grab technology from their US counterparts. It is the official reason for the US-China trade war. The unofficial reasons of this trade war are China's fast technological progress and China's continuous attempts to dominate in the field of digital technologies (Mourdoukoutas, 2019).

The United States has been a technological leader of the world for many decades, but China is now focusing on developing artificial intelligence, robotics, and 5G networks to become the world's new technological superpower by 2025. China's technological rise in recent years has been proved by many surveys. Cornell University has published a survey very recently in January 2019, which ranks America as 6 and China as 17 this year. China is improvising its growth strategy. Earlier, the emphasis was on a labor-intensive and export-driven economy; now the focus is to develop a consumption-driven economy. China wants to



compete with the United States in technology also, apart from in labor-intensive products. It will further intensify the trade war between the United States and China.

China is a planned economy directed by the Communist party, fundamentally opposed to capitalism and free and fair competition. The Chinese government determines economic targets and achieves them with the help of industrial policy and state-owned enterprises and proper allocation of resources. The government provides subsidies to state-owned enterprises and supports Chinese companies on its own territory and in foreign lands. This policy leads to excess production, which is dumped overseas—for instance, in the case of steel and solar PV, there was an adverse effect for the United States and global industries in terms of output and innovation (Lawder, 2018).

It is the root cause of the strained economic relations between the United States and China. The Clinton administration approved China's entry to the WTO in the year 2000. China declared a trade war against the United States from then onward. China's trade policies are unfair, and it is economic aggression. There are faults in the rules of the current trading system of the WTO, which allows China to limit exports with high tariffs and making its exports at relatively cheaper rates, making available a large amount of credit exports through state-owned banks, intimidation of foreign investors, and piracy of Western intellectual property. The United States claims that the WTO did not punish China's cheating.

Richard Trumka, president of the AFL-CIO (The American Federation of Labor and Congress of Industrial Organizations), said that China had stolen US intellectual property and acquired critical US technology through intimidation (AFL-CIO, 2018). It has been estimated that China's theft of US intellectual property is \$225-600 billion a year. US firms must transfer secret technology and trade secrets to do business in China's markets. Chinese hackers plant software bugs and steal scientific and technology secrets from industries, institutions, and universities. The Chinese intelligence service also assisted Chinese companies in stealing company secrets. Chinese hackers have stolen trade secrets from US private defense contractors and subcontractors, national laboratories, and even the US government itself. They have stolen documents related to the most significant weapons such as F-35 lightning, B-52 bomber, the Delta IV rocket, the F-15 fighter, and even the space shuttle. China forces foreign firms to form joint ventures with Chinese firms to facilitate transfer of technology, reduce prices, and help Chinese companies to ensure that China's military and government companies dominate in new technology such as artificial intelligence.

## 6. REASONS FOR IMPOSING TARIFF SANCTIONS BY THE UNITED STATES

In June 2016, Donald Trump contested the US presidential elections; he promised to eliminate the unfair trade and economic practices of China. A report issued on March 22, 2018, mentioned many cases of forced technology transfer and theft of US intellectual property by Chinese companies. Immediately after the report, it was announced by the United States to impose tariffs on up to \$60 billion worth of Chinese exports to the United States and the rules to govern Chinese investment in United States were made stricter (Branstetter, 2018).

## 7. TARIFF IMPOSITION

On January 22, 2018, President Trump imposed a 30% tariff on foreign solar panels that were to be reduced to 15% after 4 years. China is the largest producer and buyer of solar panels. Tariffs of 20% were imposed on imports of washing machines for the first 1.2 million units during the year 2018. On March 1, 2018, President Trump imposed tariffs of 25% on steel and 10% on aluminum. A list of over 1300 Chinese imports was prepared for imposition of tariffs that included various types of imports ranging from aircraft parts, batteries, and flat-panel televisions to medical devices, satellites, and various weapons.

On April 2, 2018, China also retaliated and imposed tariffs on 128 American products, including aluminum, airplanes, cars, pork, and soybeans (25% tariff), and fruits, nuts, and steel piping (15%). China canceled all the soybean import contracts. It used to import \$12 billion in US soybeans. US farmers used to sell almost 50% of their crop to China. In July 2018, soybean prices declined drastically for US farmers.

On April 5, 2018, Trump threatened to impose further tariffs on an additional \$100 billion of Chinese imports. The next day China requested the WTO for a consultation with the United States.

On May 4, 2018, the United States asked China to (1) stop giving subsidies to tech companies, (2) stop stealing US IPR, (3) reduce tariffs on US goods by 2020, (4) allow more American investment in China, and (5) reduce trade deficit by \$200 billion by 2020. On May 20, 2018, China agreed to purchase more US products and reduce the trade deficit after the Chinese vice premier's visit to Washington.

On June 15, 2018, the United States announced a 25% tariff on Chinese goods worth \$50 billion with industrially significant technology. It was also announced that \$34 billion would start from July 6, 2018, and the rest \$16 billion would start later. China also threatened to respond by increasing tariffs on US imports from July 6, 2018. On June 18, 2018, Trump declared that the United States would impose an additional 10% tariff on Chinese imports of \$200 billion if China retaliated against these US tariffs.

On June 19, 2018 China also threatened to retaliate by imposing tariffs on US goods of \$50 billion and claimed that the United States had "launched a trade war." On July 6, 2018, the United States imposed tariffs on Chinese goods worth \$34 billion. China retaliated with a 40% tariff on the US automobile industry. On August 23, 2018, the United States imposed a 25% tariff on 279 Chinese goods worth \$16 billion. China also imposed tariffs on American goods of equal value. China filed a complaint with the WTO on August 14 and August 27, 2018, against the imposition of increased tariffs by the United States.

On September 17, 2018, the United States announced its 10% tariff on Chinese goods worth \$200 billion would start from September 24, 2018, increasing to 25% by the end of the year. China retaliated on September 18, by imposing 10% tariffs on \$60 billion of US imports.

On December 1, 2018, the announced increases in tariffs were postponed for 90 days after the meeting of the heads of the two countries. China has been given the deadline of March 1, 2019, to do reforms; otherwise, 25% tariffs on Chinese goods worth \$200 billion will be imposed from the next day itself.

China has agreed to buy large quantities of soybeans and other agriculture products, energy, and industrial products from the United States. China has also reduced the tariffs on imports of US cars from 25 to 15% with effect from July 1, 2018. The senators of the United States want China to make structural reforms to stop activities such as stealing US intellectual property, dumping poor-quality goods, restrictions on entry of US producers and service providers, agricultural policies that are against US farmers, and industrial policies that have reduced jobs in the United States. They are advocating for sanction on Chinese companies, such as ZTE, that has been found to be guilty of selling sensitive US technologies to countries such as Iran and North Korea. It has been claimed that China is responsible for 50-80% of cross-border intellectual property theft in the whole world and over 90% of cyber espionage in the United States.

The European Union has also complained in the WTO against China in that it forces them to establish joint ventures with Chinese companies to enter into the Chinese market and that their companies must surrender their hard-earned knowledge in China. It is violation of the international rules of the WTO. The G20 summit concluded that multilateral trading system has not been able to achieve its objectives. Countries are preferring bilateral trade agreements. President Trump signed a new free trade agreement with South Korea on September 24, 2018, in New York and the revised US–Mexico–Canada Agreement was signed on November 30, 2018.

On January 28, 2019, the US Justice Department accused Chinese telecom firm Huawei and its chief financial officer, Meng Wanzhou, of indulging in mischievous activities such as stealing trade secrets, blocking a criminal probe, and evading economic sanctions on Iran. Huawei is accused of stealing robotic technology from T-Mobile Inc. It has been alleged that Huawei causes a threat to national security of the United States. A high-level Chinese trade delegation arrived in Washington for 2 days of talk to resolve the trade war between the two countries. (*Times of India*, 2019)

President Donald Trump told reporters on February 23, 2019, that he will postpone the March 1 deadline. US Secretary of State, Mike Pompeo, said on March 4, 2019, that he was expecting a deal in the coming weeks between the United States and China to make trade fair and reciprocal: China will have to make significant changes to its laws to ensure protection of US intellectual property. It will have to ensure that there are no forced transfers of US technology to Chinese firms, reduce industrial subsidies, and open its domestic market to US companies (Lawder and Blanchard, 2019). It will have to remove all tariffs on US agricultural products immediately. The Potential Products to be Affected by Tariff Imposition on China and the United States are shown in Chart 3.



## 8. IMPACT OF TRADE WAR

There have been positive and negative effects of tariffs imposed on Chinese goods by the United States. In some US industries, employment has increased, whereas, in others, there have been lay-offs. This trade war has dealt a blow to American toys, putty, and art-and-craft items. Consumer products have become costlier. A report published in the *New York Times* dated January 2, 2019, says that Apple reduced its revenue expectations for the first time in 16 years because of poor iPhone sales in China, as there is a slowdown in China and trade war with the United States. In the last quarter of 2018, the shipment of Apple's iPhone has declined by 20% in China. The US-based company's revenue from the iPhone declined by 15% in the last quarter of 2018.

Stock prices in the United States and China declined due to trade-war fears. In China, stock markets declined by 20% in June 2018, as compared to its value in January 2018. On June 27, 2018, the Chinese yuan declined to a 6-month low in terms of the dollar. European shares also fell due to this trade war. Aerospace and defense sectors in the United States have been affected by this trade war. The share prices of Boeing, the largest exporter in the United States, have been hit, as China has started taking an interest in the European rival, Airbus. There are many US companies such as mobile phones, computer equipment, semiconductors, and clothing, which are vulnerable and will be affected if China retaliates (Rao, 2018).

Per the latest news, dated May 11, 2019, the *Times of India* reported that President Trump hiked tariffs from 10 to 25% on Chinese goods worth \$200 billion from May 10, 2019, Friday, after failure of high-level trade talks. This is expected to raise prices for American companies and their customers across many sectors. Global stock markets are expected to fall. Trump has renewed the trade war. He is encouraged to keep the trade war going, as China's exports to the United States have declined, and as a result, the US monthly trade deficit with China dropped to its lowest level in March 2019, for the first time since 2014. China has threatened to retaliate. It is very tough for China to impose high tariffs on US products because it will escalate the costs of Chinese consumers and companies. The Chinese authorities are trying to reach a "cease-fire" arrangement to stop the situation from worsening.

The trade tensions between the United States and China may continue for 5-10 years. The United States will build barriers for China so that it cannot acquire key technologies and components. There may be a shift from globalization toward polarization (*Business Times*, 2018)

Tariffs are being used by the United States to protect its industries. In this digital age, the battle for economic supremacy is being fought for global leadership in artificial intelligence and machine-learning methods. The US government has acknowledged that China has more scientific publications in AI research than the United States. China has already declared that it will become the global AI superpower by 2030. AI will add \$16 trillion to the global GDP by 2030, and it is expected that China will take almost half (\$7 trillion) of it whereas the United States will have less than a quarter \$3.7 trillion. (Jagannathan and Lagos, 2019)

There are various commercial, financial, and production links, integrated between the United States and China. Critics of the Trump administration's decision to raise tariffs have warned that aggressive US actions against China will adversely affect American firms, workers, and consumers. It will have ramifications for businesses in the whole world. All companies want to produce at minimum cost so that more varieties of goods can be made available to consumers at cheaper rates. Due to technological advancement, companies may organize their production across nations, mainly for reason of cost efficiency. Many US companies have moved their production to China due to the low cost of labor and the low cost of production. The main reason of decline in sales of American cars, domestically as well as in export markets, is not "unfair" trade practices but the lack of competitiveness of American cars. If American carmakers want to increase production and exports, they will have to produce cars that can compete with others in quality, design, and prices. American firms have developed technology in many areas such as cinema and television shows, popular culture, financial services, and university education and have an edge over foreign competitors.

Higher tariffs on imports of Chinese goods and goods from other countries will lead to higher prices for American consumers. It will lead to an increase in inflation and interest rates. Moreover, imposing high import tariffs on goods from China means US companies such as Apple and Dell, will have to pay, as they assemble their products at low cost in China and then export them to US consumers. If firms relocate their production back to the United States, labor and other costs will increase, and consumers will face higher prices.

The US government should invest in technology heavily, and private firms must be encouraged to invest in technology, if it wants to remain the global economic leader. China has cleverly copied, improved, and commercialized technologies developed in the United States. When Apple released iPhone X, with the feature of facial recognition technology, 450 million Chinese customers were already using an app “Alipay” with facial recognition to access their mobile digital accounts. In fact, China is the single largest seller of advanced technology products (ATP) to the United States. China’s own middle-class market is estimated to be three times as big as the US middle class, so progressive technology firms in China are focusing on their domestic market.

China is dependent on the United States and US allies for its sustained economic growth. China mainly imports intermediate goods and, after final assembly, exports these goods to other countries. China is the center of the international supply chain, so the trade war will disrupt this chain. The US–China trade war has pushed supply chains from China to ASEAN, with Malaysia, Thailand, Vietnam, and the Philippines, the main beneficiaries. According to the recent United Nations Conference on Trade and Development (UNCTAD) report, European Union countries are looking forward to benefit very much from this trade war, as their exports are expected to increase by \$70 billion. Japanese exports will increase by more than \$20 billion and Canadian exports will increase by \$20 billion. Export gains for India will be 3.5%. UNCTAD report has alerted that global commodities and financial markets may become unpredictable. East Asian producers will be affected badly, and the region’s exports are expected to contract by \$160 billion. There is a risk of eruption of currency wars, making dollar-denominated debt more difficult to service (Warner, 2018).

## 9. US–CHINA TRADE WAR: IMPACT ON INDIAN SUBCONTINENT

There is an opportunity for Indian companies. The United States and India are natural allies. US companies have started looking for sourcing from Indian companies, particularly in the auto-component space. It is expected that Indian exports to the United States will increase, as prices of Chinese goods in the United States have increased due to high tariffs. On the other hand, China has reduced tariffs on soybean imported from India, South Korea, Bangladesh, and Sri Lanka from current 3 to 0%. India can increase exports to China and reduce its trade deficit. Engineering export promotion council (EEPC India) has started working with the government for exploring new openings for engineering exports. EEPC India is planning to get short-term gains by increasing exports with improved competitiveness of exporters and preparing a medium- to long-term strategy (Ghosal, 2018).

The short-term plan is to emphasize increase in exports by increasing the competitiveness of exporters. It would help in reducing India’s current account deficit on the one hand and create more jobs, particularly in the small and medium enterprises engaged in the export sector on the other. India can gain significantly by exporting auto components, textiles, garments, leather, and gems and jewelry to the United States. The government should give incentives to these sectors in a “Make in India” program to lower the manufacturing cost. There should be an improvement in infrastructure to reduce logistic costs. Efforts are being made by improving port infrastructure and connectivity through Sagarmala and Bharatmala programs. The government is initiating various steps to enhance coastal shipping and develop inland waterways to boost transportation. The World Bank assessed 190 countries for ease of doing business. According to the latest World Bank Doing Business Report (DBR, 2019), India has improved its rank in “Ease of Doing Business” from 100 in 2017 to 77. Still reforms in labor laws and the land-acquisition process are needed to reduce costs further. Indian entrepreneurs must exploit the situation to their advantage and invest vigorously. They must invest in India rather than abroad. India should not miss this opportunity of expanding manufacturing, as India already missed two chances in the 1980s and 1990s that were appropriated by China, Hong Kong, Singapore, South Korea, and Taiwan (Madhavan, 2018).

## 10. CONCLUSIONS

Historically, the United States has been an advocate of global trade. The United States has succeeded in convincing an enormous number of economies to undergo the cross-border trade. Now a flip side of the

United States has been observed in the recent past. Moreover, the retaliatory move and duty imposition by China is further an impediment to this era of globalization. The “America-first” policy should not hurt the “globalization policy” gifted by the United States. In 1930 also, the United States initiated a trade war, and consequentially, Russian trade amplified. Diplomatic solutions are expected for sustainable trade ties ahead between both nations. The mediation by the dispute redressal mechanism via the WTO route might favor smoother trade relations. It is time for both the United States and China to end this trade war. There should be harmonious relations between the two countries to improve the future health of the global economy, as the 21st century global economy is interconnected. The International Monetary Fund (IMF) has warned that a large-scale trade war would have adverse effects on the global economy. Both countries will have to take steps to resolve it. It has been continuing from July 2018 onward. The report by the US Chamber of Commerce and the Rhodium Group, a research firm, said that Mr. Trump’s tariffs on \$250 billion worth of Chinese goods have reduced the competitiveness of the companies that manufacture computers, electronics, and telecom equipment and provide services such as cloud computing, computer-aided design, and customer relations (Swanson, 2019). China’s hacking and forced acquisition of technology cost American companies at least \$50 billion a year alone.

China is experiencing a decline in employment, weakening of the manufacturing sector, and domestic consumption and financial sector reforms. To avoid closing of factories, large-scale unemployment, falling demand, and large-scale unrest among people, China must take steps toward negotiations instead of retaliation. It must push substantive economic changes such as rolling back subsidies to its companies and reducing barriers to foreign competition. China should enforce intellectual property rights and promote transparency. It should build environmentally sustainable firms and more global brand names. China has initiated changes in the rules on foreign investment.

The United States cannot rely only on high tariffs. These are defensive strategies. The US long-term strategy is to focus on government investment in science, technology, and entrepreneurship. Negotiations continued between the United States and China for the last one year, but both sides could not come to an agreement. So President Trump raised tariffs on \$200 billion worth of Chinese imports from 10 to 25%, from May 10, 2019. As monthly trade deficit of the United States with China is falling, Trump is encouraged to keep it going. China is preparing to take retaliatory measures against the United States.

President Trump has been emphasizing a “Buy American, Hire American” strategy. Prime Minister Modi’s “Make in India” policy clashes with it. India exports goods such as jewelry, vehicle parts, and electric motors worth \$5.6 billion free of US tariffs under the Generalized System of Preferences (GSP) program. Moreover, 121 developing countries have easy access to the US consumer under the GSP program. India’s exports to the United States last year were more than \$50 billion and imports from the United States were \$30 billion. The United States wants to cut this deficit, so the United States has also imposed tariffs on steel and aluminum, which have affected India adversely. India announced its own tariffs on US goods worth \$240 million in retaliation but has yet to impose them. On June 2, 2019, President Trump announced that with effect from June 5, India will be terminated from its designation as a beneficiary developing country. The termination of GSP benefits is likely to adversely affect about \$5 billion of India’s annual exports to the United States. This amounts to 10% of India’s total exports to the United States. This would not have a serious effect on India’s exports, but the prices of exports of these sectors will increase, and these will have to face the challenge of competing with other countries in the American market. This trade war will weaken the rupee value against the US dollar. If oil and other imports become expensive, it would result in inflation and increase in the current account deficit. India’s imports such as nuclear reactors, boilers, mineral fuels, aircraft, spacecraft, and medical equipment from the United States are very critical. If duties are increased on these products, it will impact India’s key sectors, and it would be difficult to absorb such high costs. It is essential that the situation should remain under control. Both India and the United States need to talk continuously and solve knotty trade issues (Stracqualursi and Borak, 2019). The Indian government is also considering retaliatory duties on US goods such as apples, almonds, and boric acid from June 16, 2019, or later. The government is also considering ways to enhance support to sectors impacted by the US government’s decision to end the preferential trade status to India. According to the Federation of Indian Export Organization (FIEO), the sectors such as imitation jewelry, leather articles, chemicals and plastics, pharmaceuticals, and surgical instruments could be worst affected by the US decision. The affected sectors will be given benefits under the Rebate of State and Central Tax Levies Scheme (RoSCTL).

This continuous trade war between the United States and China will help India to find new export opportunities in both the United States and China in areas such as garments, agriculture, automobile, and machinery. India can use this opportunity to considerably increase its exports in information and communication technology (ICT) and the automotive sector. The FIEO said that India is getting the advantage of this trade war. The FIEO president said India's exports to the United States went up by 11.2% in 2018, and exports to China increased by 31.4% in 2018. China is opening its market to India to impress upon its citizens the negligible impact of the tariff war. It is a god-sent opportunity for India to receive large foreign investment from companies located in China. Indian agricultural exports will also be increased to both these countries. There are enormous opportunities for increasing engineering and machinery products. India can increase footwear exports to the United States. India's footwear exports to the United States is about \$300 million, and Chinese exports to the United States is \$13.9 billion in 2018. Even if India gets 10% of this, India's exports to the United States can grow four times. It is a golden opportunity for India in this new cold war to improve her trade policies to increase exports to China, the United States, and Europe.

#### **Acknowledgment**

No financial or material support.

#### **Conflict of Interest**

None.

#### **References**

- Biggest iPhone assembler warns trade war may last a decade. 2018, December 5. BusinessTimes.
- Branstetter LG. 2018, June. China's forced technology transfer problem- and what to do about it. Peterson Institute for International Economics. Available at: <https://www.piie.com/system/files/documents/pb18-13.pdf>
- Criminal Charges on Huawei in U.S. 2019, January 30. TheTimes of India.
- Ghosal A. 2018, October 23. India responding well to U.S.-China trade war: EEPIC India. The EconomicTimes.
- Jagannathan R, Lagos PH. 2019, February 12. Battle for tech dominance. TheTimes of India. Available at: <https://timesofindia.indiatimes.com/blogs/toi-edit-page/battle-for-tech-dominance-china-has-appropriated-the-us-economic-playbook-can-the-us-reclaim-it/>
- Lawder D. 2018, March 1. IMF's Lagarde says China needs to do more to cut steel capacity. Reuters News. Available at: <http://www.reuters.com/article/us-imf-lagarde-china-steel>
- Lawder D, Blanchard B. 2019, March 5. US, China 'on the cusp' of possible end to trade war: Mike Pompeo. The Economic Times. Available at: <https://economictimes.indiatimes.com/news/international/business/us-china-on-the-cusp-of-possible-end-to-trade-war-mike-pompeo/articleshow/68264167.cms?from=mdr>
- Madhavan N. 2018, November 8. Can India capitalize on U.S.-China trade war. The Hindu Business Line. Available at: <https://www.thehindubusinessline.com/opinion/can-india-capitalise-on-us-china-trade-war/article25446070.ece>
- Mourdoukoutas P. 2019, January 24. U.S.-China trade war: the official and unofficial reasons behind it. Forbes. Available at: <https://www.forbes.com/sites/panosmourdoukoutas/2019/01/24/us-china-trade-war-the-official-and-unofficial-reasons-behind-it/#36e7b8b746da>
- OECD, Goldman Sachs, Wind, Ha Jiming. 2018. China-U.S. trade conflict: causes and impact. CF40-PIIE Joint Report. Available at: <https://www.piie.com/system/files/documents/ha20180611ppt.pdf>
- Rao S. 2018, June 27. Global Markets- Bears prowl world markets, maul Chinese stocks as trade tensions simmer. Reuters. Available at: <https://www.reuters.com/article/global-markets/global-markets-bears-prowl-world-markets-maul-chinese-stocks-as-trade-tensions-simmer-idUSL4N1TT2OQ>
- Stracqualursi V, Borak D. 2019, June 2. Trump removes India from special trade status. CNN. Available at: <https://edition.cnn.com/2019/06/01/politics/trump-india-trade-status/index.html>
- Strategic Tariffs against China Are Critical Part of Trade Reforms to Create More Jobs and Better Pay. 2018, March 22. AFO-CIO press release. Available at: <https://aflcio.org/press/releases/strategic-tariffs-against-china-are-critical-part-trade-reform-create-more-jobs-and>
- Swanson A. 2019, March 17. Trade fight with china enters overtime. With tariffs a costly sticking point. The New York Times. Available at: <https://www.nytimes.com/2019/03/17/business/trade-war-china-tariffs.html>
- Truth behind China-U.S. trade "imbalances": 2018, March 27. Xinhua Headlines. Available at: [http://www.xinhuanet.com/english/2018-03/27/c\\_137069649.htm](http://www.xinhuanet.com/english/2018-03/27/c_137069649.htm)

Warner J. 2018, March 28. How could a U.S.-China trade war impact markets. Market Analyst, London. IG Trading. Available at: <https://www.ig.com/no/markedsnyheter-og-analyse/trading-opportunities/how-could-a-us-china-trade-war-impact-markets--180328>

World Bank Report. (2019). Doing Business 2019: Training for Reform (DBR 2019) Report: United States, 2019 (Report No. 16).

### **Autobiographical Notes**

**Dr. Usha Kashyap** did her postgraduation in economics from the Delhi School of Economics. She did her MPhil from Delhi University and PhD from C.C.S. University, Meerut. She is an associate professor at Shyam Lal College, Delhi University. She has been teaching economics for the last 41 years. Her lectures on various topics of microeconomics were telecast on Doordarshan by the UGC. Her e-lesson on microeconomics has been uploaded on the DU website of Institute of Life Long Learning. She has presented papers in international conferences. She has also cochaired sessions in conferences. Recently, she has also contributed a paper in the Bloomsbury publication "Towards a Sustainable Future."

**Neha Bothra** has earned her master's and bachelor's degrees in commerce from the University of Delhi. She has submitted her doctoral thesis to the Department of Financial Studies, DU. She has presented a series of research papers at national as well as international arenas. Her research articles have been published by journals of repute. Currently, she is an assistant professor in the Department of Commerce, Shyam Lal College, University of Delhi.