

US-China trade war continues: global implications

■ Dr T. K. Jayaraman



The ongoing US-China trade war had its origin in 2012. It began then as a “cold war”, well before Donald Trump became the US President. The US began to experience growing imbalances from 2012 in its trade with the rest of the world, especially China. It was alleged that China was deliberately keeping its currency, the Yuan, low to encourage its exports by making them cheaper. The total US trade deficit in 2018 was \$ 621 billion. The deficit with China was \$323 billion. In 2018, the US imported a total of \$ 3.1 trillion worth goods and services from the rest of the world and exported \$ 2.5 trillion.

The deficit in 2018 was higher than what it was in 2017 and stood at \$ 552 billion. The reason was the US dollar was stronger in 2018 than it was in 2017, making other currencies weaker, allowing their exports to increase and widening the US’s trade deficit.

The US imports from China comprise computers and accessories, cell phones, apparel and footwear, most of which are from American manufacturing companies’ which send raw materials to China for low-cost assembly. Once shipped back to the US, they are considered imports. China imports commercial aircrafts, soybeans, and autos from the US.

In light of the growing trade deficit, President Trump began to implement his campaign promise of bringing “back jobs from China”. He wanted American companies to make their products at home for their consumers. In 2018, he imposed tariffs on Chinese steel exports and other goods. China quickly retaliated and cancelled its soybean import. The tit for tat

tariffs and twitter posts from President Trump from time to time have only added to the uncertainties.

Shrinking international trade volume means shrinking of world prosperity. States have grown because of producing more than domestically needed and exchanging the surplus goods for goods they cannot produce. In the process, they create jobs and increase incomes for their citizens’ consumption.

OECD forecast

Trade conflict, weak business investment and persistent uncertainties are weighing on the world economy and raising the risk of long-term stagnation. The 2019 world GDP growth is expected to be 2.9% this year - its lowest annual rate since the financial crisis - and remain at 2.9% and 3.0% in 2020 and 2021.

Stressing the need for establishing fair international rules on taxation and trade, the OECD claims it would be a mistake to consider that things can be addressed only with monetary or fiscal policies. Structural factors need coordination for trade and global taxation. In their absence, “uncertainty will continue to loom large and damage growth prospects”.

The forecast makes it clear th at the slowdown involves advanced and emerging market economies. Growth in the US will slow down to 2% in 2020 and 2021. In the Euro area and Japan, growth is expected to be around 1% and deceleration in China’s expansion would be 5.5% in 2021, compared with 6.6% last year.

Rivalry between two economic powers

China's ambitions were loud and clear. It became the world's second largest economy in late 2010. Its goal to reach the first place is clear, not only in trade, but also in services by gaining supremacy in new spheres like emerging technologies, artificial intelligence and 5G technologies. Rivalries also cover cyber space, intellectual property and national security. China was keen to enter the Regional Comprehensive Economic Partnership covering 10 ASEAN nations and other states including Japan, Korea, Australia and New Zealand. Certainly, China is the largest market in RCEP and its dominance is assured. The eventual trade surplus is assured and so too a new currency block. The Renminbi block would no longer remain a dream.

Countries such as Vietnam, Japan, South Korea and Taiwan have gained due to trade diversion following the trade conflict between the two super economic powers. They have gained from pushing exports to the US after tariffs were imposed on imports from China by the US. There is also a sign of investment diversion to Asia, aside from the shift of supply chain factories being relocated in smaller and labour-cheap countries such as Vietnam, Laos and Cambodia. Malaysia is also a gainer as its electric and electronic sector and machinery and equipment sectors are

now the new beneficiaries - due to the more than a year-old trade conflict.

Growing distrust

There is growing distrust of the US. Some countries in the ASEAN region are seen to be favouring Chinese companies for 5G rollouts.

President Trump knows he has overplayed his hand. He knows he is losing the support of the US farmers growing soybean and oilseeds for the Chinese market. He also seems to have lost the favour of domestic consumers, who have enjoyed cheap imports of consumer and semi-durable goods. His re-election prospects are getting dimmer. Chinas also keen to regain the US market. Both the countries want to strike a "phase one" deal soon. However, the trade talks continue to yo-yo.

This situation reminds one of the well-known Chinese proverb: When two elephants make love or fight, the ants get crushed. ■



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[The views expressed by the author in this article is his own.]