Global Economy Under Trade War

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Abstract

This article argues the positions of the global trade partners and war trade enemies, the United States and China and how their actions are changing the worldwide trade relations. China is becoming a great power and its expanding economy imposes a threat to the Western monopolized international system. US imposes tariffs on import products but this doesn't mean trade decreases, it only shifts the markets. Partnerships are being built, new trade relations are getting shaped. The paper contributes to understanding the aspects of the trade war. As the conflicts continue, both these economic powers will bring uncertainty in the global trade market.

Key words: global trade, trade war, import tariffs,
J.E.L. classification: D81, F01, F13, N70

1. Introduction

The worldwide trade relations are changing lately. US withdrew itself from the Trans Pacific Partnership (TTP) and President Trump started to impose tariffs outside of the World Trade Organisation (WTO), as an instrument he uses in the economy strategy "putting America first", aiming to raise the American industry, protect the domestic products from imports, lower the trade deficit and expand the national economy overall. The protectionist measures started by imposing tariffs, firstly, on January 2018 on solar panels and washing machines, consequently in March 2018 on steel and aluminum (Bekkers, 2019) and from June 2018 imposed 25% tariffs on over 800 categories of Chinese products worth $34 billion and then increased the list to reach a worth of $200 billions in goods. China responded imposing tariffs on imports from US.

Karaganov (2018) argues that the economic powers changed and the new Cold War or Trade War must be analysed from geostrategic and historical points of view, considering the weakening of the West economic power and its dominance and the strengthening of the non-Western countries, specifically in a centralized power center.

2. Theoretical background

China disturbs the great economic powers through its fulminant economic ascents. This happened ever since Deng Xiaoping started in 1978 the economic reforms that had risen China from its lowest point and transformed it in one of the most advanced world economies, becoming "the fastest growing economy in the world" (Chang, 2001). It continued the trend after becoming a WTO member, in 2001. The problem with its high economic rise is with the way of doing business, like conquering markets aggressively with low prices and 'made in China' quality, which everybody knows what it means. Besides the tariffs, the US blacklisted the telecommunication enterprise, Huawei. A short story of this giant starts when it struggled to conquer the data internet Chinese market, owned by Cisco Systems in the 2000s and finally achieved 12 % of the total market share (Ahrens, 2013). Cisco sued Huawei for software theft and by the time they settled the conflict, Huawei owned 33% of the market.

The unfair trade practices of the Chinese government and state-owned enterprises (SOEs) are also permanent reasons of discontent in the European Union, together with the security risks concerns. As Plummer declared, (2019) US and UK share their mistrust and allegations of espionage via Chinese telecommunications firms and about Huawei particularly, due to (its founder) Ren Zhengfei links with the Chinese military (People's Liberation Army).

It is well known that at its origins, Huawei copied world biggest telecommunication companies (Mascitelli & Chung 2019), like Cisco and Fujitsu. But afterwards, Huawei managed to inovate and deliver quality products at much lower prices than its competitors and nowadays is considered to occupy the second position of telecommunication equipment producers, after Samsung and before Apple. This is a strong reason for impeding Huawei providing the 5G technology equipment in the US, Australia, UK, New Zeeland and Canada (the Five Eyes), but it doesn't mean that the other countries will not choose it. Furthermore, banning the Chinese producer does not mean that security issues are solved, as almost all telecommunication devices are made of components, most of them Chinese. What China understood is more important, meaning that in order to succeed it has to follow the global trading rules, offer quality and respect the regulations.

China's trade policy, oriented on export is not reliable for economic development. An excess on Chinese goods export brings also foreign reserve accumulation. The truce between US and China will reduce the trade surplus and this will be on China's benefit.

3. Findings

In 2017, America's trading partners were China, Canada, Mexico, Japan, Germany, South Korea and in 2018, the top changed in: Canada, Mexico, China, Japan and UK. The problem was the trade deficit, the highest imbalance and consequently the US dependency on China.

If the US imposes tariffs it doesn't mean trade decreases, it only shifting the markets. Partnerships are being build, new trade relations are get shaped. History changes and so are we; before, China and Russia used to be enemies, now they share markets and try to build international stability, by developing Eurasian trade and relations and trying to counteract the negative effects of the US actions, and neutralize them in the international market. Anyway, after the tariffs brought in the first quarter of 2019 over $75 billion on US budget, America started to build truces, with Japan and the EU and lately with China too, for free trade arrangements.

The tariffs taxes are to be paid on imports, that means that China does not pay them directly but they are resurrecting on the US firms enrolled on US customs for the goods they import in the country and of course the costs pass to their customers manufactures and concludes in rise consumers prices in the US.

The United States are not anymore a hegemony power, although are still an influential one. The sectors influenced by the US trade policies will have to adjust and switch trade trying to find the equilibrium in the trade market, in the context of global integration with the US not playing anymore a main role in world trade.

According to OECD, the US trade war affected global growth and global business investment will only grow with 1.7% in 2019 and 2020, compared with 3.5% in the 2017- 2018 period (OECD, 2019).

The world's real GDP growth is now projected to slow from 3.6% in 2018 to 3.3% in 2019. (IMF, 2019) And there are several reasons for this, excepting trade war.

Table no. 1 Real GDP growth

Real GDP growth (Annual percent change)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
China, People's Republic of	7,3	6,9	6,7	6,8	6,6	6,3	6,1	6	5,7	5,6	5,5
Japan	0,4	1,2	0,6	1,9	0,8	1	0,5	0,5	0,5	0,5	0,5
Russian Federation	0,7	-2,5	0,3	1,6	2,3	1,6	1,7	1,7	1,6	1,6	1,6
United States	2,5	2,9	1,6	2,2	2,9	2,3	1,9	1,8	1,6	1,6	1,6
European Union	1,9	2,4	2,1	2,7	2,1	1,6	1,7	1,7	1,6	1,6	1,6
World	3,6	3,4	3,4	3,8	3,6	3,3	3,6	3,6	3,6	3,6	3,7

Source (©IMF, World Economic Outlook, 2019)

4. Conclusions

In the end the import protectionist measures, withdrawal from world economy, as the above table shows, has direct and indirect effects on manufacturing which are rather negative than positive, all trade sectors are downshifting. The best move for the US partners would be to not retaliate in the trade war, conforming to the protectionist imposed measures and try to gain markets from the trade shift, increasing trade liberalization (Robinson, Thierfelder, 2019).

Trade actions decreased the Chinese GDP and will continue to affect the economy, slowing it further down from a 6.6 % in 2018 to 6,3% in 2019 and going under 6 until 2022. The Chinese Government will shift on the growth support policy.

- In Japan private consumers and exports fell down and GDP is projected to slow down, as 19% of its exports go to China and the US.
- Russia seems to be the surprise winner of the trade war, being able to cover China's demand on agriculture products. India is on an ascending way, ready to surpass Japan on the top economies in the world.
- The European's economy is stable although there are many trade and politics concerns. Germany breached the EU antitrust rules, colluding on emissions technology on passengers' cars in European market, through his giants VW, Daimler and BMW. Italy is in political turmoil, France confronted to numerous conflicts with gilets jaunes at the beginning of the year and Brexit uncertainty is another factor of European Union's irascibility. The EU needs improved relations on global trade.

China is changing towards a free economy, using baby steps, but still going forward. It started by allowing foreign companies owning shares in local companies. The Chinese prime-minister already allowed a 51% shares control by foreign financial firms and promised that by 2020 they will allow full control of foreign investors, through the program Bond Connect (launched in 2017), allowing shareholders to invest through Honk Kong market infrastructure. Goldman Sachs estimates an insertion of $11 trillion by the end of the year 2019, compared to $1,6 trillion 11 years ago, becoming the third biggest actor in bond market. In April 2019, domestic China bonds were included in Bloomberg-Barclays Global Aggregate Index, the last move in the attraction of more billions in the Chinese bond market by attracting investors in buying shares and bonds on local market.

China can anytime fight back against the American protectionist measures, with an alarming weapon for the US economy. In recent years, China became the biggest government debt holder of the US, in 2018 reached a quantum of $1,8 trillions, about 25% of the debt owned by foreign countries. Being on trade surplus, consisting in dollars waiting to be spent, China wanted to make safe investments and bought scores of US treasury bonds and collecting billions of dollars in interest payments. So, if China decides to spend those bonds as a response to US president actions, it can cause chaos on international markets. The biggest impact will be on interest rates and bond prices. On consequence, the incomes will fall, the yields will rise and then the loans will get more expensive for US consumers and companies that will result in economy decrease. In the end, tariff war is not the best move for the US.

In the Osaka G20 Summit, President Trump opens up on trade peace, announcing the tariffs get raised and that American companies could sell again equipment to Huawei and also the agricultural product will be available for Chinese market. Of course no guarantees can be made, and by 2020 until the reelections in America, everything is possible, as a war can continue with new battles and peace episodes.

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