

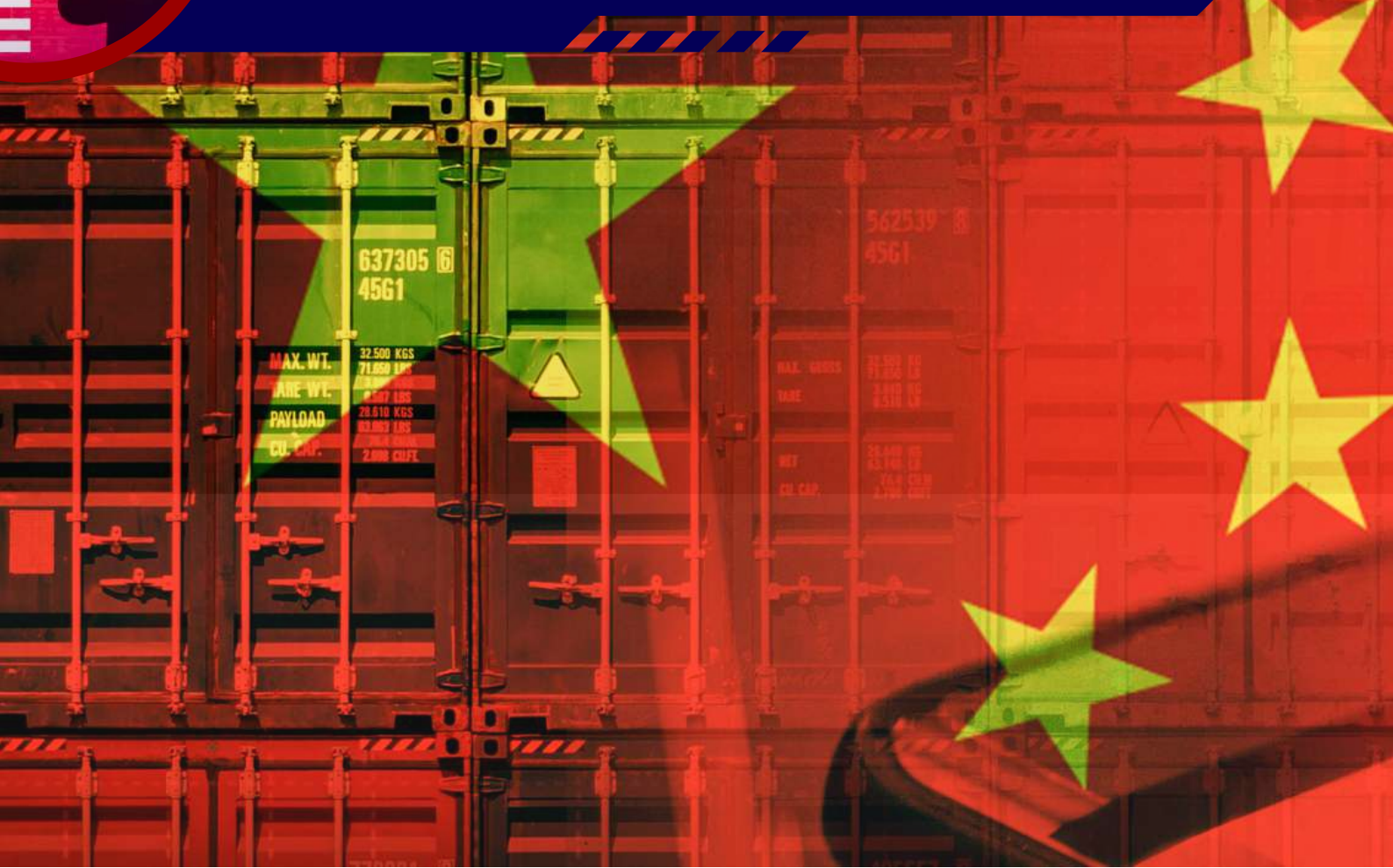


THE COMMERCE SOCIETY

SHRI RAM COLLEGE OF COMMERCE



TRADE WAR



MAX. WT.	32 500 KGS
TARE WT.	71 000 LBS
PAYLOAD	28 510 KGS
CU. CAP.	83 000 LBS
	2 000 CUFT

MAX. WGT.	32 500 KGS
TARE	71 000 LBS
NET	28 510 KGS
CU. CAP.	83 000 LBS
	2 000 CUFT



EXPERIENCE TRADITION, CHASE SUCCESS

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TRADE WAR

A trade war occurs when one country retaliates against another by raising import tariffs or placing restrictions on the country's imports. Trade war commences when a country perceives that another country is using unfair trade practices. In this scenario, domestic trade unions and industrialists can pressure politicians and diplomats of their home country to increase tariffs against another country.

Trade war has its pros and cons. When a country is at a trade war then it's said that it is protecting its national interests, and domestic industries get benefits as their production expands. Further, it improves the trade deficit and promotes local job growth. However, critics say that extreme protectionism can choke the markets in the long run with limited choices for consumers. Hence leading to a contraction in economic growth and limited cultural exchange.

The most famous reference to trade war is USA v/s China when the USA former president Donald Trump started a trade war with the world involving multiple battles with China as well as American allies.



HISTORY OF TRADE WAR

Trade wars have been ongoing since the time the nations have started their trade with one another. In the 17th century, colonial powers struggled over the ability to trade exclusively with overseas colonies.

Such commercial wars have a lengthy history in the British Empire. The opium wars with China in the nineteenth century are an example.

When the Chinese emperor declared opium production in India illegal, the British continued to send it into China. After fruitless attempts to resolve the disagreement, the emperor dispatched troops to seize the narcotics.

However, the British navy's strength won out, and China agreed to let more Western trade into the country.

The Smoot-Hawley Tariff Act, enacted in 1930, raised duties to protect American farmers against European agricultural products. This measure boosted the already high import tariffs to over 40%.

As a result, some countries responded against the US by imposing higher duties of their own, and global trade fell. As the United States entered the Great Depression, spurred in no small part by disastrous trade policies, President Franklin D. Roosevelt began to enact legislation to lower trade barriers, including the Reciprocal Trade Agreements Act.



MECHANISM OF TRADE WAR

Trade wars are waged by erecting trade barriers, which can take many forms. These barriers can be erected in a variety of methods, but the end result is usually the same. The purpose of these trade obstacles is to reduce the amount of imports from the country with whom you are at war, or at the very least to raise the price of that country's products. Some of the most prevalent trade war tactics are as follows:



01 Tariffs

One of the most prevalent trade protectionist policies is tariffs. This entails levying duties on imported goods. Tariffs raise the price of imported goods while also bringing in money for the government. It is used as a protectionist policy since domestic producers of the taxed goods will benefit from less competition from foreign goods. Toll wars or customs wars are terms used to describe trade disputes that involve tariffs.



02 Embargo

An embargo is a policy that prohibits the commerce of a specific good with a specific country. This can be used to entirely prohibit imports and/or exports, or simply to restrict the good's commercial activities. This regulation is typically implemented as a form of protest.

03

Domestic Subsidies

They are intended to enable domestic producers to cut the price of local goods by allowing the government to use them. This improves the ability of domestic businesses to compete on pricing with global markets. Imports are deterred and exports are increased as a result of cheaper costs for local producers. Domestic subsidies are particularly successful in nations or companies with substantial export volumes



04

Import Quota

An import quota is a trade restriction that caps the amount of a certain product that can be imported. Quotas, unlike tariffs, don't generate revenue for the government. Domestic producers face less competition from international producers when they have quotas on a certain product. These domestic producers are protected by the quota.

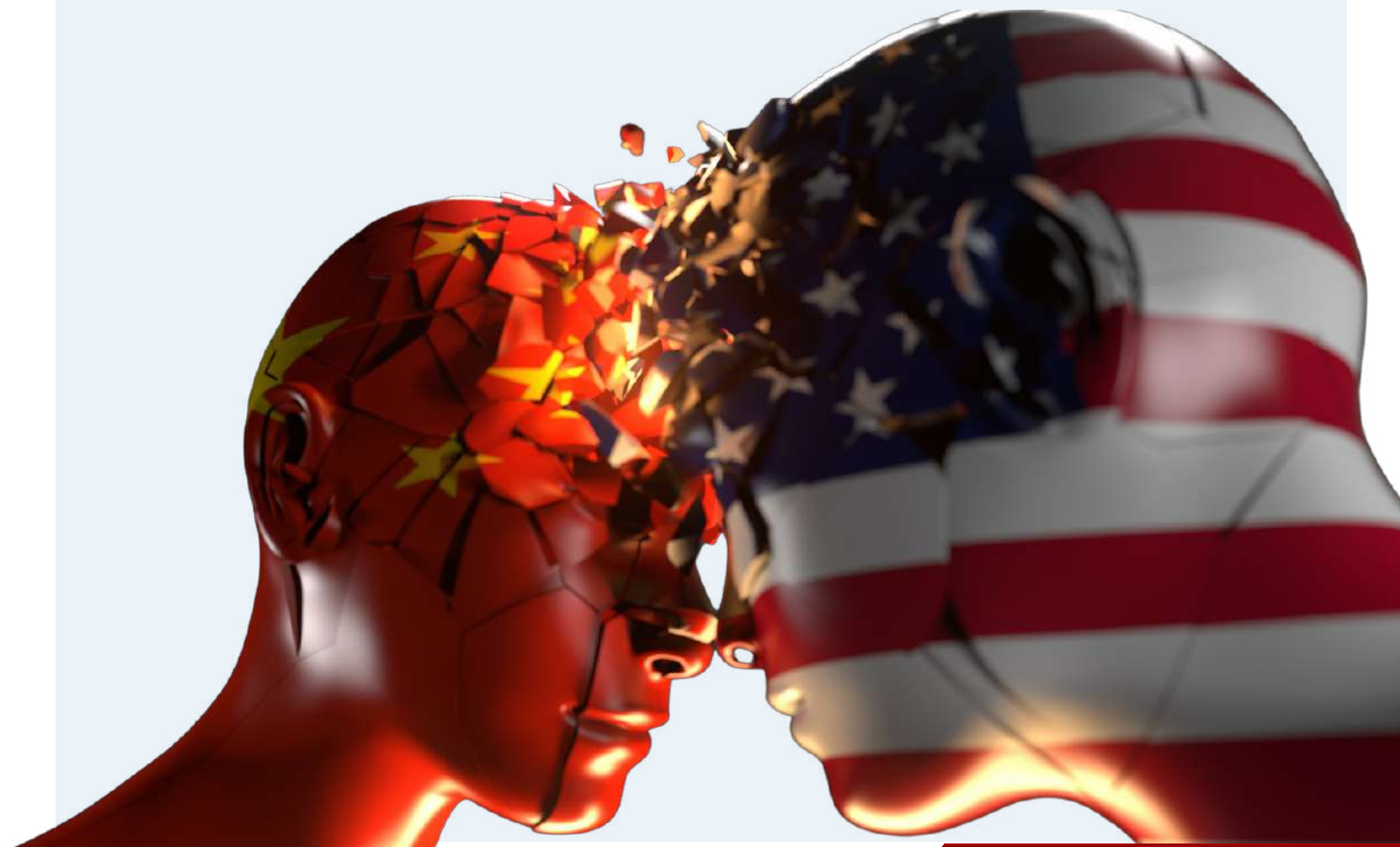
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Currency Devaluation

By devaluating the native currency with respect to foreign currency, domestic exports become more competitive in foreign countries as the exchange rate falls. Imports from other nations, on the other hand, become more expensive and less competitive in the domestic market.

CHINA VS USA

The trade war negatively impacted the economies of both the countries. It has resulted in higher expenses for the manufacturers, higher prices for consumers and financial challenges for farmers in the USA. The trade war in China has slowed the rate of economic and industrial output growth. Many American corporations relocated their supply lines to Asia, raising economic fears of 'economic decoupling' between the USA and China. It also caused stock market turbulence. World suffered the dual effects of this war. Some nations suffered from economic consequences of this trade conflict. However, other nations have profited from increasing manufacturing as production was relocated to them.



CONSEQUENCES

OF

USA

V/S

CHINA

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TRADE WAR

IN COVID ERA

International trade played a crucial role during the pandemic time as western nations were able to import millions of masks and other personal protective equipment (PPE) from Asian countries but after the outbreak of covid-19, many countries started implementing protectionist measures. For example, many nations-imposed export restrictions on medical equipment and other essential goods like agriculture and food products to boost local availability which has the effect of limiting the supply for other countries that were not able to fully utilise their medical equipment manufacturing capacity either due to labour shortages or mobility restrictions. Export restrictions are often imposed in the form of an outright ban on the export of certain products, special licensing requirements, and guaranteed purchase or requisitioning of goods.

According to the WTO, 85 nations imposed a total of 156 export controls on medical supplies and medicines and 27 nations implemented about 38 export controls on agriculture and food products since the outbreak of the pandemic. Further, export restrictions could lead to retaliation measures that hurts another area of supply chain because most leading exporters are also the major importers of leading supplies. For instance, the United States imposed export restrictions on the supply of respirators, surgical masks and other medical equipment but is vulnerable to retaliation in other areas as the European Union is the major foreign supplier of America's hand sanitizer, x-ray machines, breathing masks, and CT systems.

WHAT IF

The USA stops trading with China?

WHAT IF

The trade deficit with China for the year 2020 was \$310.3 billion. The reason behind this is that US imports from China were \$506 billion while the US exports to China were only \$151 billion. If the USA cut ties with China, it would have a hugely damaging impact on the economic growth of both the countries but the country with the highest trade surplus would get hit the hardest, which is China in this case, in the short term. It would also increase the costs of American businesses and eventually products of these companies would become more expensive thus reducing their ability to compete globally. This is because most of the American companies outsource their product parts manufacturing to different countries having cheap labour, especially China. If the USA completely cuts ties with China then the USA companies that conduct business in China will have to rethink their business strategies and find a new trading partner because companies would not prefer moving back to the US due to its huge costs. Over the years the US companies have developed complex supply chains and it would be very difficult and costly to alter them. A sharp separation policy from China could cause the USA to fall \$1 trillion short of potential growth and American investors would also lose \$25 billion a year in capital gains. The US is heavily reliant on China for electrical machinery and rare earth metals and without these key inputs production of the many US companies would come to halt.

IMPACT OF US CHINA

TRADE WAR ON INDIA

International Trade is an exchange of goods and services across the nation. International Trade is becoming one of the most important issues not only in developing countries but also in developed countries because of trade deficit, the balance of payment deficit, heavy import and export duties. The main reason for the transformation of the cold war between the US and China to trade war is because of rising Chinese international trade, economic aggression, and declining shares of the United States of America in the market.

The Trade war between the US and China, the world's two biggest giants, slowed down the world economies at a larger scale. The US has had a huge trade deficit with China for a long time now and the effect of the trade war is much more than a deficit because it is a battle of power and economic dominance among the top two countries. The trade tensions between the US and China have resulted in some opportunities for Southeast Asian nations and the Indian economy could be a beneficiary too. The Indian Government has sound relationships with other countries. The United States is one of India's biggest military partners and on the other hand, China is one of its biggest economic partners. India has developed and maintained a good rapport with international organisations. Firstly, this trade war will help India to tap the international markets very easily by increasing its trade particularly on which the US has imposed heavy tariffs on Chinese goods and services. The Indian economy is the 6th largest economy in the world and has the potential to deal with international markets. India is the only country in the world that can match the scale of operations after China and can meet the market requirements on time. Diversification of investment flows in automobile, agriculture, equipment, healthcare, electronics & garments manufacturers to seek India as one of the sound alternative manufacturing destinations.

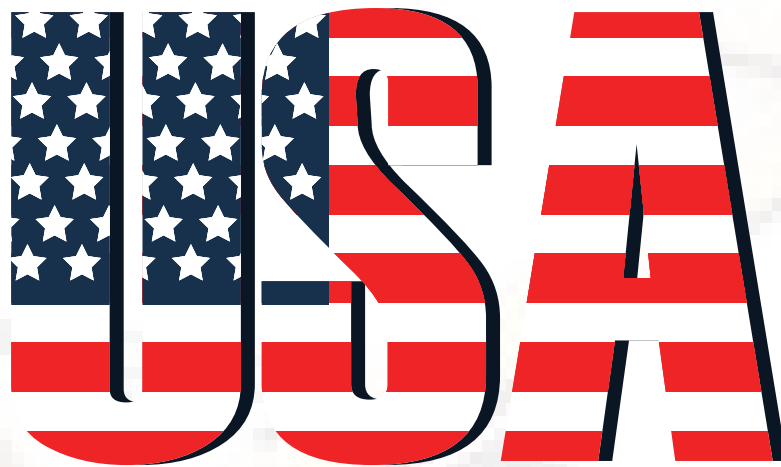


IMPACT OF US-CHINA

TRADE WAR ON GLOBAL ECONOMY

Countries imposing tariffs and countries subject to tariffs would experience losses in economic welfare, while collateral damage will be experienced by the countries on the sideline. If tariffs remain in place, losses in economic output would be permanent, as distorted price signals would prevent the use of the concept of specialisation that maximises global productivity. In the short run, trade war attempts to protect its domestic industry and create jobs. Tariffs are supposed to give a competitive advantage to domestic producers of that product which would ultimately lower down the prices as a result, they would receive more orders from local customers which would lead to the growth of the business and job creation. But, in the long run, trade war costs jobs. It depresses economic growth for all countries involved and also triggers inflation when tariffs increase the price of imports.

CONSUMPTION DURING TRADE WAR



The Bureau of Economic Analysis reported that US consumer spending was on track for an all time high of US\$14.67 trillion in 2019. Private expenditures constitute 68% of the US economy and two-thirds of spending is on services like housing and health care, which are largely unaffected by the trade war. The remaining third is spent on non-durable goods - clothing and groceries and durable goods - cars and appliances.

Despite analysts' predictions that trade disputes would cause US consumers to become cautious, the index shows a trend of rising consumer confidence since 2009. This confidence leads to excessive spending as American consumers continue to fill their real and online shopping carts.

CHINA

China's Singles Day sales far outstrip Black Friday and Cyber Monday sales combined. In fact, China and the USA's consumer confidence index look similar.

It is believed that household consumption will drive most of China's future economic growth. China's consumer spending is not much dependent on imports, consumer imports comprise just 13% of China's overall imports.

Nearly 80 percent of Chinese respondents to a survey expressed caution about spending and a preference for saving. The government cut personal income taxes and began offering subsidies for large ticket energy-saving home appliances and energy efficient vehicles aiming to increase household spending.



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CONCLUSION

Michael Pettis, an expert on China's economy quotes for the Carnegie Endowment For International Peace article, "The real problem is that, over the past two decades, it has become increasingly difficult for the world to fix its massive trade imbalances; the very mechanisms that created them also make them harder to absorb. That is because trade surpluses and deficits are mainly the result of domestic savings surpluses and deficits, which are themselves a result of domestic income inequality. Until such inequality is substantially reversed, high-saving countries will continue to use trade as a way to pass the effects of their distortions onto other nations, such as the United States. This makes global trade conflicts nearly inevitable—regardless of who sits in the Oval Office. For the United States, the only way out may be by reconsidering how willing it is to absorb everyone else's excesses."

This comes as one of the reasons why "Trade wars are Inevitable". Various viewpoints on the existence of trade wars keep on coming from various scholars who have their own explanation, reasoning, fact file analysis and conclusions.

Mostly, the world considers trade war as a strategy to protect domestic trade and flourish better (also known as Trade Protectionism). This may sound different from what Michael Pettis has to say.

Any economic phenomenon or strategy creates opportunities for some and generates a threat for another. Trade wars also bestow awards on one and impose penalties on some others. The nations which identify the opportunities and dodge the threats are the winner. But is that it? Do trade wars really are the way forward? They definitely need to be catered to by international peace makers because the costs associated with them are phenomenal. Stakeholders involved do suffer from the indefinite cycle of tariffs, impositions and hindrances to trade. The nations involved in the war which are not a direct part of the dispute suffer.

Thus, the unilateral approach is narrow and a multilateral approach should be considered.

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