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Global Trade War and its impact on Trade and Growth: War between USA, China and EU

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Abstract: The United States of America (USA) and People's Republic of China are waging a war against each other in the field of mutual trade. Washington D.C. is a witness to the latest failed talks between the two. If the erstwhile open mutual trade gets replaced by a somewhat restricted trade, the economic consequences for both the countries will be disastrous and it will also affect the world trade negatively. The same will happen with EU, Mexico and Canada if the trend continues. The effect of this war will be a cause of concern for world Growth too. If this modern day commercial war keeps itself limited to US and China only still the negative impact on the global economy will be almost -0.5% on world GDP, but if other countries also start playing the same tune and the trade war moves forward than the world GDP is likely to get reduced by not less than 3%. This may lead to a major recession in the global economy. Can there be a truce in this war?

What could be the future of the world trade and growth if the war continues is the question?

KEY WORDS: Protectionism, Tariffs, Growth, Wto, Tech War, Dumping, Quotas

The Researcher, in this chapter wants to discuss the trade policy instruments in the rapidly changing world of International Trade. The main objective is on the importance of instruments of trade policy and its effect on international growth and trade. Another objective is to understand what exactly the trade relation between USA and China is and why is it taking a shape of war in the field of trade and how bad it is for both the economies in specific and for the world as a whole in general for trade and growth? To discuss how the Neo-protectionist Policies of The POTUS will affect its long-time allies like US, EU, Mexico, Canada, India and others. Can there be *a truce* in this war? What will be its direction and impact? What are the suggestions and recommendations researcher has?The Methodology of Research will be narrative based and the researcher will try to find out what will be the amount of damage to the world Trade and growth and will there be a lasting war between two most powerful trading nations and blocks?

Researcher will also try to find out with figures that what could be the possible impact of this trade war. Lastly, who will be benefited?

I. INTRODUCTION

What is a Trade War?

Whenever a nation make an attempt to protect its domestic industry by putting an extra tariff or quota on imported goods, a trade war begins. In short term this policy seems to be helpful for domestic producers and helps creating jobs but in long run it costs jobs and hampers overall trade and growth of all the countries involved.

Heavy imposed tariff increases the prices of goods in the domestic country which brings in the inflation. If one country increases tariffs and the other country retaliates in the same manner then the trade war escalates. This trade war is straining the global economy. In the whole world wherever tariffs are imposed it increased the consumer prices and worked as a deterrent to economic growth. Trade suffered a lot because if both the nations start increasing tariffs and quotas then the amount of import/export is bound to decrease. As the trade war escalates it creates obstacles in the shipments of goods and consumables all over the world which harms the growth and movement of trade. As president trump increased tariff on Chinese imports china retaliated. Now china, Canada and many countries of EU are planning to replace US suppliers. This will worsen the trade situation. Now the important question to answer: Does the trade policy matter in this ever competitive world of trade? In the changed regime in USA this question has taken a place of prominence as public support to trade has decreased and people of USA is fearful of losing jobs to Foreign Nationals.

II. REVIEW OF LITERATURE

Every Country wants to maximise her welfare. Sometimes she feels that giving protection to her own producers in the firm of tariffs or quotas might fulfil her objective. But this is a dangerous proposition because it starts or may start a trade was between partner Nations. The Country which start it, might feel herself in position of benefit in the beginning but later on its bad effects come into action. The researcher found that the literature about the free trade or trade is sparse. As it is well known that modelling or analysis of trade wars is not an easy job. Heckscher-Ohlin tried to give a model which was successful but in scope was limited. The primary work of this model was done by Eli Heckscher and Bertil Ohlin in 1933. Johnson (1953-54) demonstrated that any country may win the trade war if it has high elasticity of import demand relative to her trading partner. In this situation it can set a tariff which is non-zero and in spite of retaliation by her trading partner it may gain. Kennan and Riezman (1998) are of the opinion in their pioneer work "Do big countries win tariff war?" that big countries may win the tariff war because of their size of endowment state of the endowment of each good in the world. To win a tariff war is a function of their endowment of each good. Constntinos Syropoulos (2002), in his paper "On Tariff preference and delegates decision in customers: A Heckscher Ohlin approach" proud that an optional policy maker in a customs union can be identified and also demonstration that delegation decision over trade policy can be included

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in main stream trade theory. It also suggested that Kennan and Riezman (1988) case may be specific. Jhonson (1953) and many trade policy specialists tried to give justifications for different instruments of trade including Horwell (1966) for tariffs, Tower (1975) Rodriguez (1974) for different quotas and goods and arbitrary number of countries and goods in the writing of Kuga (1973). But these all economists tried to support Jhonson's main finding without much modification.

It is a known fact that politics and elections are costly affairs. Political leaders think about welfare of their countrymen but are interested in getting political donations for their election campaign too. Grossman and Helpman (1995) discussed the domestic political questions in the international trade analysis with keeping in mind the terms of trade with partners. This is an important thesis for world leaders including Trump and Xi Zinping(Mayer 1981, Riezman 1982 and Dixit 1987) tried to underline some conditions through which trade agreements may/may not improve global welfare after the trade war is over. WTO came in to existence in the year 1995. Bagwell and Staiger (2011) worked in length on WTOs multilateral system and tried to justify that. There are more lines of literature and research available. Countries provide subsidies to and also tax their firms in Export mechanism. Spencer and Brander (1983) argued that subsidies should be given for research and development of trade and trade practices where as Eaton and Grossman (1986) said that there must be equilibrium in the policies of nations which impose taxes on the exports of those firms who are designated as oligopolies in their spheres. Some researchers also made important contributions by collecting data from empirical studies of trade wars.

III. BACKGROUND

International rules, Institutions and Instruments for trade policies

For handling trade between countries International *Trade laws or rules* are made. These rules should not be used in legal writings or trade between private sectors. This field has become very competitive and exciting after the re-organisation of the World Trade Organization (WTO). An important part of the WTO activities is the transaction between private sectors of different countries. This branch of law is now a very important part of the academics and is under study in universities across the world. International Trade Law is different from the broader field of *International Economic Law*. The latter could be said to encompass not only WTO law, but also law governing the International Monetary System and currency regulation as well as the Law of International Development.

IV. International Economic Institutions

1. World Trade Organization

International trade has its apex body in the form of WTO ie World Trade Organisation. It is an important body for Consultations of member countries, Dispute settlement mechanism and a catalyst for world trade. In last two decades of its working it tried to reduce trade barriers all over the world. Subsidy on agriculture is always a point of conflict between trading partners as it reduces the cost of production to producers. In the same way theft of Intellectual property is very common. WTO has now 164 Members and mainly it settles the trade disputes among member nations.

2. International Monetary Fund

IMF with the World Bank is a brain child of Lord Keynes, a noted Economist. It is mainly working for the global monetary cooperation among the Nations of the world and to settle any imbalance in balance of payments. IMF also works to secure financial stability, reduce poverty, promote employment and to words securing sustainable economic growth. IMF was Establishment in 1945.

3. World Bank

It was establishment in 1944 on the initiation of Lord J M Keynes, the noted Economist. WB is working towards two main goals:

a) End extreme poverty

b) Promote shared prosperity by fostering growth

The Bank works to reduce the % of people living on less than dollar 1.90 a day to no more than 3%. This is the only way to tackle property in 21st century. It gives financial and technical assistance to developing and underdeveloped countries all over the world. Headquartered in Washington DC it has 120 offices worldwide.

4. United Nations Conference on Trade and Development

Poverty is a situation which is hampering Global growth. With the expansion of trade and rapid speed of globalisation millions of people came out of poverty all over the world. UNCTAD is working on this since its inception. UNCTAD is located in Geneva and has offices in Newyork and AdisAbaba. It is basically a forum for member Nations to meet and discuss better ways to integrate globally and how to access benefits of a global economy in a better way.

5. World Economic Forum

World Economic Forum is an important body and act as an economic Think Tank in the world affairs. It is a non-profit organisation and was founded in 1971 in Geneva. The speciality of WEF is its impartial stand and independent voice. It gives Importance to strive for good governance and respects moral and intellectual integrity. Every year it organises a meeting where Doyens of industry and government get together for achieving common goal of welfare of the world.

6. Instruments of Policy:

Trade policy is a collection of rules and regulation which pertain to trade. The purpose of trade policy is to help a nation's international trade run more smoothly, by setting clear standards and goals which can be understood by potential trading partners. There are various types of trade policy instruments which are given below:

Tariffs: A tariffs is a tax levied on imports. Tariffs may be levied in two basic ways:

a. *Specific Tariffs*: Are levied as a fixed charge for each unit of a good imported.

b. *Ad valorem Tariffs*: Are levied as a proportion of the value of the imported goods.A tariff raises the cost of imported products

i. Subsidies: It is a government payment to a domestic producer. Subsidies are provided in many forms including cash grants, low-interest, tax breaks and government equity participation in domestic production. Subsidies help producers compete against foreign imports and also help them gain export markets.

ii. Import quotas and voluntary export restraints: It is a direct restriction on the quantity of some good that may be imported into a **country**. It makes the quantity of imports limited in a specific period of time. It is typically set below the free trade level of imports which is called a **binding quota.** If a quota is set at or above the free trade level of imports it is called a **non-binding quota.**

iii. Local content requirements: A local content requirement demands that **some** specific fraction of a good be produced domestically. It helps domestic producers mainly:

➢ Physical terms (i.e. 75 per cent of component parts for this product must be produced locally)

➢ Value terms (i.e. 75 per cent of this product must be produced locally)

iv. Administrative policies: Countries design some **bureaucratic** rules which make it difficult for imports to enter into a **country**. For example in Japan, custom inspectors insist on checking every tulip bulb by cutting it vertically down the middle. Japanese are masters in imposing rules. It also helps domestic producers by lowering the Imports

v. Antidumping policies: It is very important measure and in the World Trade it has enormous value. It is defined as selling goods in a foreign market below production costs or selling goods in a foreign market below fair market value. Dumpling is mainly a result of unloading excess production in foreign markets.

7. Implications of Trade War on Global Trade

We know that when the trade war escalates, international trade is reduced. In the short term it may work. Tariffs are supposed to give a competitive advantage to domestic producers for products as their prices would be lower to imported goods after heavy tariffs are imposed. As a result, they would receive more orders from local customers. As their businesses grow, they would offer more jobs. But in the long run, due to a trade war economic growth is depressed for all the countries involved. It also triggers inflation when tariffs increase the prices of imports. The trade war is straining the global economy. In general, trade tariffs are detrimental to economic growth and trade war never produce winners.

V. MAIN FOCUS OF THE CHAPTER

Issues: Do trade policies still matter?The global trade environment is in the urgent need of refurbishment. The Eleventh Ministerial Conference (MC11) took place from 10 - 13 December 2017 in Buenos Aires, Argentina. It was chaired by Minister Susana Malcorra of Argentina. The Conference ended with a number of ministerial decisions, including on fisheries subsidies and e-commerce duties and a commitment to continue negotiations in all areas.

The United States of America got a new president and a new administration and the world has seen a major shift in trade and trade policies of the USA. At the same time changes in Indian and Russian leadership including China has turned the tables. This change in leadership of one of the biggest trade players of the world will initiate conflicts in the roles of major trade partners of the developed and developing countries of the world and it will get more difficult to reach on some compromise or conclusion while coping up the pressing needs of the trade. It clearly shows that to liberalize the world trade seems difficult in the changed scenario but this is also arguable that **should** nations ride the wave of public opinion which is based on a nationalist wave of thoughts and worthwhile to think for a new international trade order. In the 1990s Uruguay round came to an end and WTO came in to force. Now everyone is arguing about the force WTO exerts in the international trade and also about the body to settle disputes. USA is sceptical about this appellate body. American anxieties about trade are very vague and Trump is giving rise to Nationalist policies to put America in the fore front. It is trying to convince its citizens that trade deficit is really bad and China, EU, Canada, Russia, Mexico are looting their country and exploiting American trade policies. Those leaders who understood the benefits of trade policies and its importance in growth had provided a new direction to US and the world for its economic growth. But now in 23-years of its existence the World Trade Organization is facing the greatest crisis. China's rapid economic ascent is the most disturbing factor for the US president and he intends to change the rules that govern international trade. Trump has been repeatedly conveying that "The WTO is unfair to USA", he doesn't believe that the WTO can handle the problems created by Chinese uneven growth. But all said and done, Trade policy still matters.

Controversy: Rise of Nationalism: Is Economic Nationalism the best?

Except Trump and his supporters nobody is in consensus with the thought of United States' imposition of steel and aluminium tariffs on Canada and other US allies. Most of the prominent trade pundits opined that it is a big threat to world trade and world economic growth. President Trump is linking the tariff with national security and seeing it as a tool to bully other trade partners but he is forgetting that in today's world there is no much difference in the economy and polity of countries.

(Daniel dale Washington Bureau Chief, Bruce campion-smith Ottawa Bureau and Tonda maccharles Ottawa Bureau THE STAR, May 31, 2018) A famous newsmaker Mr. Dale wrote in an article that the Canadian Prime Minister Justin Trudeau is very angry and highly offended. Mr Trudeau termed it as a turning point. But then what is the solution and whom or which thought is to be blamed. What kind of turning point is this?

Some experts[i] are claiming that it is nothing new and this shall also pass once President Trump is gone. (Daniel dale et al. Para 4) Some experts are calling it the death of the North American Free Trade Agreement (NAFTA).Trump has damaged the partnership with Canada and more than it wrecked the long standing trade dealing between both the countries. He is killing the basic spirit of the trade theory in general and Canadian assumption as

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particular that free trade and minimal governance can deliver prosperity. President Trump is very angry and offensive. He is riding a wave of nationalism and his main slogan is "Make America great again." Time and again he is found saying that Canada is not treating American farmers and agricultural business at par with their Canadian counter parts. Hence he is bent up on to change the set equilibrium of trade. First, he is trying to impose his will in the matters of trade on the partners of trade and secondly he is trying to destabilise the global economy by creating structural changes. We all know that USA and Canada both are liberal economies and partners in NAFTA. The Agenda propagated by President Trump to close the border for immigrants from Mexico to USA and increase the tariffs on Canadian imports will hamper the trade balance between the three countries. USA is the most powerful among all the three and the smooth trade which is going on cannot keep on going if USA keeps on dictating terms. The newly invented Digital Economic Nationalism might be good for any country say for America in this case but it will be detrimental to global trade. USA positioned itself from the trade dominated economy to a Knowledge Economy in last decade. All the Production and manufacturing based economies are facing this problem Vis a Vis knowledge economies that the knowledge economy takes all the benefits of trade. When any country has control over data and intellectual property rights it is in a position to exert influence over its partners. This is the present day case with USA. To reduce trade deficits of America might be a good decision for USA but the whole world will suffer due to this. Such a notion is bad economics, but at the same time good politics. But President Trump fought elections on the wave of rising nationalism and put “America first.” so to think that he is going to change the pace of the things backwards is not appealing.

Stricter policies are yet to come in the name of Nationalism.

VI. PROBLEMS

US Government’s intervention and its Implication on relations between stake holder Nations

VII. USA and CHINA

The world is witnessing trade conflicts between US and its trading partners mainly china and EU. But Mexico and Canada are also hit by the trade policies of Trump. So far however, retaliation is small by other countries. The average US tariff could be 6.5 per cent higher from 1.5 per cent, before the trade offensive began, if all imports from China were dragged into the net. It will only lower global growth by about 0.25 percentage points. Protectionism boosts economy for some time but it cannot be long lasting. There are dangers in this contention and most important is that the protection will spread far further. USA and China are in a trade war, where retaliation begets retaliation. At the same time the US conflicts with Mexico, Canada, and the European Union are in a temporary ceasefire but can remerge any time in near future. Trump’s decision to impose further tariffs on China, and equal and opposite reaction from China, the stock market rose. This may be the result of short sightedness of the market but more likely the overall economic impact of trade policy disruptions could be limited even if trade tensions escalate. The long-term effects are yet unknown. In March 2018, Trump increased tariffs on the imports of steel (25%) and aluminium (10%) and in June 2018 China responded by imposing tariffs on US exports (worth of **US$ 3 billion).**

We can see that in **Graph-02** the Impact on Trade when US increases the tariff rates of 25% on steel and 10% on Aluminium imports from China under Section 232 the bilateral trade decreases. President Trump imposed 25% tariffs on $50 billion in Chinese goods. China, which is very insecure about its trade, had warned of retaliation, responded with 25% tariffs on $50 billion in U.S. exports particularly on agriculture and cars. President Trump responded with 10% tariffs on an additional $200 billion on Chinese goods (intermediate goods, capital goods, and consumer goods) which was declared to be effective from September 24 and will rise further to 25% on January 1, 2019.Chronologically we can see it like this:January: US placed tariffs on Chinese solar panels and washing machines’ imports March: US placed tariffs on the imports of steel (25%) and aluminium (10%)

June: China responded by imposing tariffs on US exports worth of **US$ 3 billion** June: US placed tariffs on US imports worth of **US$ 34 billion**July: China retaliated by imposing tariff of **US$ 34 billion** worth of US goods

We can see that clearly in the **Graph-01** that US has traded heavily with China and having a whooping trade deficit of $375 Billions with China. This deficit is $71 Billion with Mexico.

Now there can be **four main Situations** if the trade war goes on:Situation 01(Section 232): effects on welfare are positive for the US and negative for China

Situation 02(Section 232): effects on welfare are negative for both China and the US

Situation 03(Section 301): effects on welfare are positive for the US and negative for China

Situation 04(Section 301): effects on welfare are negative for both the US and China We will describe these situations like this:In situation 01: US implements 25% additional tariff rate on Chinese steel imports, and 10% additional tariff on Chinese aluminium imports.In situation 02: 128 US export products with tariff rates of either 15% or 25% on agriculture products and a few manufacturing products.

In situation 03: US retaliate by increasing 25% additional tariff rate on selected manufacturing products from china.

In situation 04: China retaliates against US with mainly 25% tariff on agriculture products. We all know that USA has a comparative advantage in services and has a surplus with the rest of the world, including China, in trade services. The current trade conflicts bring a situation where the U.S. (and its companies) may find them out of the growing Chinese market, potentially for a very long time. Trade policy has also created tensions with key allies, of USA like Canada, Mexico, and the European Union. Everybody knew that President Trump could simply pull US out of the North American Free Trade Agreement (NAFTA). But there is a catch. It’s not clear whether it is within the power of the President or not? Article II-Section 2 of the American Constitution gives the President the authority on treaties, but Article 1-Section 8 gives authority on commerce to the Congress. Now it is debatable that NAFTA is a

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treaty or does it regulate commerce? That issue will be decided by the Supreme Court, which would take some time.

It is a fact that Tariffs actually are not paid by the foreign country. It is a tax on home consumers. US consumers and businesses are going to bear that. Higher input costs may not be passed along fully, which eventually will hurt manufacturer profit margins in US.

The 20% tariff on imported washing machines in the US led to a 20% rise in the price of domestically produced washing machines but it nullifies with a rise in the price of steel and aluminium after import duty or tariff on steel and aluminium is imposed. Tariffs increase consumer price inflation in short term, but not necessarily over the long term. The important decision to be taken by the US Fed will be about inflation. Economists are predicting that tariffs may give some positive gains in near future but in long term the economy may get fixed in a *recessionary trap*. Steel and aluminium tariff hike will increase prices of metals in the United States, and this will be disastrous for investment scenario.

We may treat that these are only some examples of impact of trade war on the global trade and growth. The USA is at the risk of retaliation from the whole world after President Trump's move of increasing tariffs on imports of china. China is so agitated that it claimed this move to be one of the largest trade wars in economic history. China has said that it will also impose tariffs of similar value on imports from America. It is well-known that America is thriving on its superiority of patents in "industrial intellectual property." Hence America is hitting such Chinese products which have industrially significant technologies, like Jet engines, robotics etc. China also imposed tariffs on American Agro imports and other products like soya bean, medical equipments etc. Chinese authorities are also delaying the delivery of American imports in china. China retaliates against US with mainly 25% tariff on agriculture products. We can see in **Graph-04 and Graph-05** the impact on welfare and impact on Employment (agriculture wages) due to this Chinese retaliation

What will be the affect of this war?

At this rate of increase in tariffs the growth rate of both the partner countries may decline by 0.1 to 0.2 percentage points. Due to sheer size of both the economies ie USA and China this loss may amount between $30bn and $60bn.

We can see that in **Graph-03** the Impact on income when 25% tariff rates on selected manufacturing production from China are increased by USA under Section 301 the GDP growth decreases. Chinese firms which are exporting to the US will suffer badly due to this war. If Trump Administration increases Tariff to all Chinese goods imports then even the American producers like Apple Inc. will also get affected who have a major out sourcing production base in china. In this way the US imports will also get costly and the US consumers will also suffer. This US-China tariff war will destroy the thread of international trade so badly that it will take a long time to repair the damage.

How this will affect the rest of the world?

The most worrying factor is that President Trump is targeting China with additional tariffs as of now, but Canadian, European and Mexican steel and aluminium exporters to USA are also on his scanner. There might be some tariff on US's imports of cars and auto parts. This will have disastrous impact on the European auto industry, including that of the UK. Since Trump took office, his designs of the separation wall along the border with Mexico is creating anxiety and uncertainty. Sales have fallen in Mexico because prices have risen. In response to Trump's tariffs on steel, the Mexican government recently imposed a 20% tariff on American apples. This will make the situation worse, for both the countries.

VIII. USA and EU

May 31, 2018 was the day when Trump administration said that there will be a 10% tariff on the imports of aluminium from Canada, Mexico, and the EU. (Kimberly amadeo, the balance, January 02, 2019) sited in her article on trade wars that ,The U.S. Aluminium Association In a furious retaliation said the move will disrupt the supply chains of aluminium industry so much that more than 97 percent of US aluminium industry jobs might get affected. After this Germany proposed an end to the EU's 10% tax on US auto imports and gave a clear signal that now the US administration must not think of even about imposing a 25% tax on European auto imports as there is already a US tariff of 25% on light trucks. The EU imposed a tariff on $3.2 billion of American products. US administration was badly hit. Some good news came in July. On July 25th 2018, the US and EU agreed not to impose any new tariffs, and also promised to assess the existing tariffs. Further they are in conversation towards a regime of no tariff on non-auto industrial goods.

With all these rapid changes in the relationship between US and EU the world is also facing threats on its existence, as both are fighting to prove its hegemony on trade and want to twist the arm of WTO. There is a new WTO reform system proposed by EU to safeguard dispute settlement system which is under threat by the USA. The European Union has given a proposal that seeks to stave off paralysis of the World Trade Organization's dispute settlement system by unblocking the appointment of its appellate body members. The proposal is backed by Australia, Canada, China, Iceland, India, Korea, Mexico, New Zealand, Norway, Singapore and Switzerland. The proposal cannot go forward until US and the rest of the WTO's 164 members agree to amend its dispute settlement system. But USA seems to be reluctant. EU is battling for new rules to be made for outgoing appellate body members of WTO, defining when they can stay on to complete ongoing proceedings. The signals are clear that the bilateral tensions between US and China and multilateral tensions between US, China and EU are going to stay.

Issues faced by WTO today

As we know that the World Trade Organization (WTO) is a quasi judicial body which provides oversight of international trade rules. Underlying are the details of some of the WTO's most significant *current* issues in international commerce.

Dumping

It is a priority concern for the WTO because it disrupts international retailers by artificially manipulating the prices of goods. Dumping is when a foreign trade partner floods a domestic market with goods that are being sold well below the prevailing price in the domestic market.

Intellectual Property Theft and Counterfeiting

This type of theft occurs when customers are made to believe that they are getting a genuine product while it is not so. Another common area of intellectual property theft can be seen in multimedia products like software, movies, and music, which are often *copied illegally and then re-sold.*

IX. SOLUTIONS AND RECOMMENDATIONS

America and china are two biggest economies and they are very much adamant on the question of trade. To crack a deal which is acceptable to both the economies is a big challenge for the trade experts of both the countries. WTO suggests many deals and even it has a disputes settlement mechanism also but president trump do not have faith in it. In the all past agreements China is guilty of not keeping its promises and it failed not to make transfer of technology a condition of access into their market. Hence this time China has to deliver and adhere to its promises otherwise it has to face grave consequences.

During a working dinner in G-20 meet on December 1st, Trump wanted a deal with President Xi Jinping of China. Both the presidents announced to assemble journalists, about a "highly successful" negotiation."This was an amazing and productive meeting with unlimited possibilities for both the United States and China," said Mr Trump.

There is another angle to this trade war and *the researcher* finds that this angle is most important. The trade war is nothing but an eye wash and hence the trade war will not go long. It will end when its purpose is over. This angle is of supremacy in technology and not the trade. Nobody is scared of trade or current account deficit. The trade war is basically a technology war between US and China where both nations want to have edge over each other. From Artificial Intelligence to Network Equipments, from semi conductors to cloud computing, it seems everything is important and fair. Chip industry is the battle field where both the countries are fighting this war and the increase in tariffs seems to be a hoax. We can say that in this digital age chip is the plinth of Digital Economy and National Security. The USA is having South Korea and Taiwan as its allies in chip technology and hence has hegemony on this very important industry. On the other side China is still struggling for having a strong foot in this industry and consequentially spending more money on the import of chips than POL.

In top 15 companies of Semi conductor there is not a single Chinese manufacturer. China's ambitious plans are 'No doubt' putting the whole world in crisis in this field. China wants to increase the income of semi conductor industries from 65 Billion USD in 2016 to 305 Billion USD in 2030. The Barak Obama Administration also banned Intel's sale of chips to which hampered the Chinese dream of hold in this industry. Even US allies like South Korea and Taiwan are making policy against the technology transfer to China in this field.

President Trump is very aggressive in this war and he stopped the takeover of *Qualcomm* by Chinese agents. Trump clearly understands the fact that not 10% or 25% tariff but it is the supremacy in technology which gives power to the US over Chinese. Trump is trying to arm twist China by waging a trade war but basically he wants to pressure China in the technology war by diverting china's attention. China's economic growth was lowest in third quarter of 2018 after 2009. Experts feel that if the tension continues then the situation might get worse. All the big corporations look towards chine for its growth and development but if this war continues then the Chinese economy will get weaken and this will create bigger problems for big players. This trade war is creating problems for many big corporations including Google, Apple and Huawei. Chinese president Xi Jinping clearly says that, "No one is in the position to tell Chinese people that what they should do and what they shouldn't." Trump clearly understands that manpower, communism dominated economic policies and growth, in all these fields China is either challenging US or taken over US. But technology is a field where China is still lagging behind.

US have three pronged strategy for this:

1) To make pressure on any Chinese trade policy in WTO with its allies in Asia and Europe and if found wrong then throw Chinese direct investment from US and Europe.
2) Increase investment in chip research and attract intelligentsia for all over the world.
3) Improve the testing technology and increase the date handling standards so that Chinese chip makers have to struggle in following the norms.

Can this war be stopped? Or can a truce be achieved? The conditions of truce are dictated by both sides. There are two important points in the scheme of things. America is insisting that China should increase import of some important goods from America like energy and energy equipments, farm produce and some industrial goods. In exchange America will delay an escalation in tariffs, from 10% to 25% on $200bn on goods planned for January 1st 2019. This escalation will be on hold until March 1st 2019. But the experts believe that the talks between could fail.

China had committed that it will raise purchases of American goods by a substantial amount. It might reduce America's bilateral trade deficit with China. But it will require the Chinese government to manage import in a way which should not be treated by America as a market un-friendly way.

The researcher argues and recommends that the US-China war on trade is not on solid grounds and hence there is always a chance to follow the policy of wait and watch. Trust Levels are low and hence the possibility of deal getting signed up is not high. In theory they have time until March 2019 but in practice it is the most difficult task for both to fulfil the made promises. If the multi lateral partners of America like EU and Japan are agreeing on many demands of America and are ready to amend their rules to appease America then Mr Trump will not give much attention to China's hue and cry. America realised the fact that it can mend the Chinese ways by exerting even a small force. It shows that this war is not over yet.

CONCLUSION

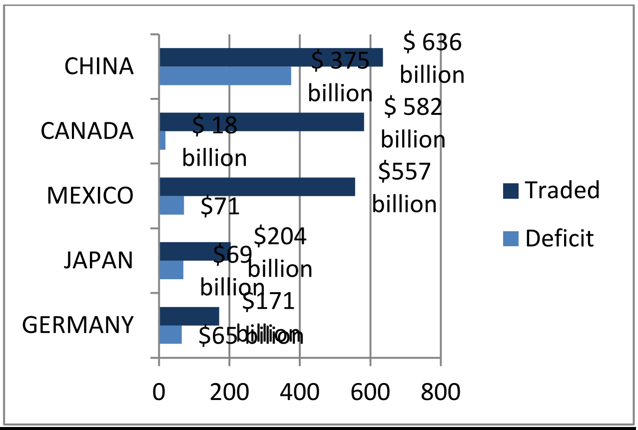
Every country in the world has to do trade if it wants the benefits of global trade and growth but no country can ever be benefitted from the trade war, rather the country which starts a trade war it gets worst hit if the partner country retaliates. It is estimated that a trade war limited to the US and China and to goods valued at up to US$200 Billion would result in GDP losses for those two countries of up to 0.6% in the near term and 0.2% in the longer term. The global economic growth may also get a hit but EU and Japan would face smaller proportionate losses.

It is very clear that if trade war limits itself to the US and China, it would not have as serious an impact on the global economy. However, if other trade blocks also join this trade war, the global scenario may be worse off. A full-blown trade war would plunge the global economy into a deep recession. Let us wait till March 2019 which is the time limit for both the nations to reach upon an agreement. This is a good sign for the International Trade because it shows that good sense will prevail and the trade war may stop. The point to be noted by all the economic trade blocks and economies is that even in the event of an actual Trade War between the US and China, it would be best for other countries to stay out of the dispute.

What will happen next?This trade war is the brain child of White House and he has pronounced many times that "trade wars are easy to win" and believes, though mistakenly, that US runs a trade deficit with the rest of the world and it means that the rest of the world has much more to lose than US. Therefore he might end up ultimately dictating terms to all the trading nations. There may be a meek possibility that a domestic US backlash might force President Trump to back down. To make it a reality all the whole trading nations must initiate a fight. We must not forget that it is always important to consider the consequences of international trade for inequality and the distribution of the gains from trade – there are no guarantees that those gains will be evenly distributed – the end result is higher overall global economic growth. In general, trade imbalances are driven by natural market forces and reflect efficient borrowing and lending across the globe. Trade deficit is a problem which is due to government borrowing from countries with weak economic and political institutions, or in smaller countries where free capital flow might be destabilizing. But for well-functioning economies world over, trade deficit is not an inherent problem. In fact, we can conclude that economies can be better off having trade deficits than imposing tariffs and restrictive trade policies to prevent them.

[ii]**APPENDIX-1**

US –China Trade Disputes



Graph-01

US Trade Balance with Top Countries

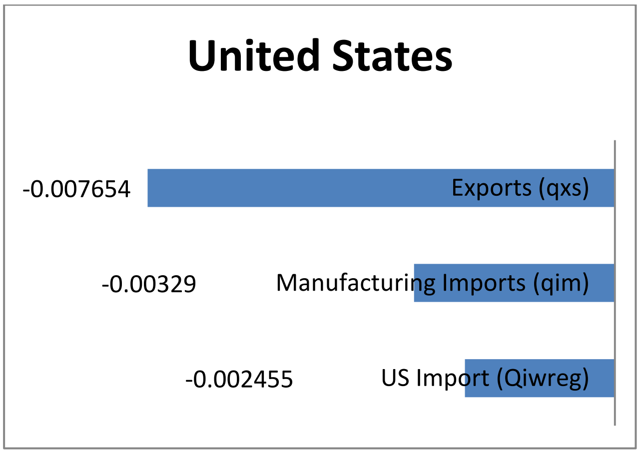
Impact on Trade when US tariff on Chinese steel and aluminium imports (section 232) 25% on steel 10% on aluminium

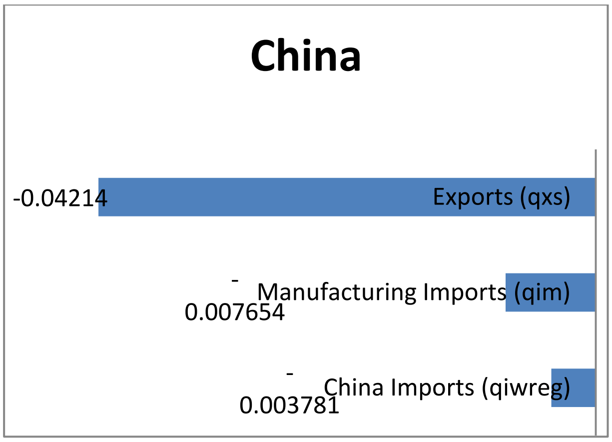
Chinese Manufacturing exports decrease by 0.042%

US Manufacturing imports decrease by 0.003%

Graph-02

Bilateral Trade Deteriorates

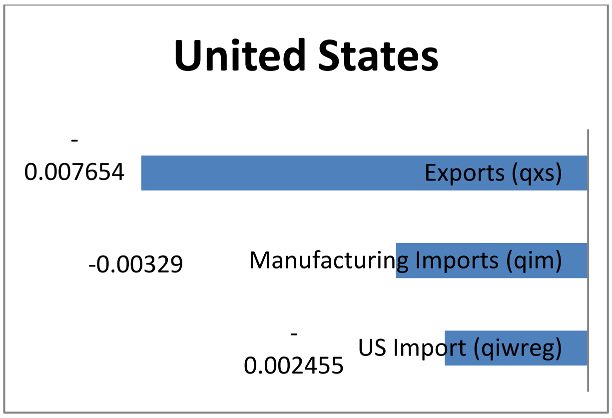


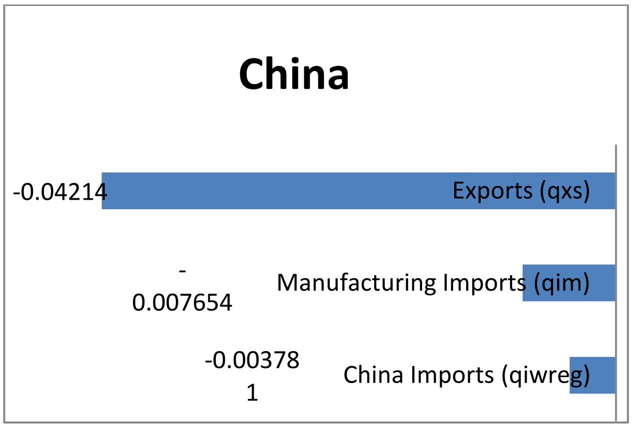


Impact on income when US increases the tariff rates of 25% on selected Manufacturing production from china (Section 301)

Impact on GDP and farmer's income% change relative to baselines

Graph-03
GDP Growth rate Decreases in the USA and China



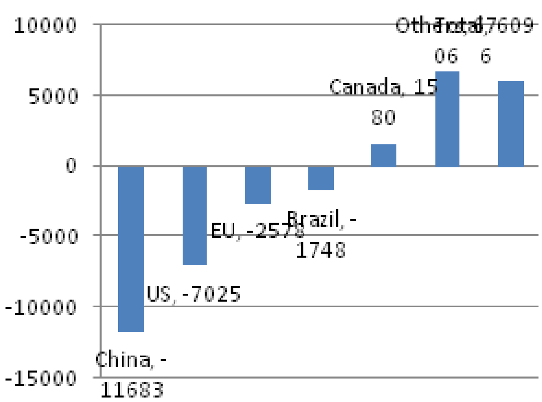


Impact on welfare when China retaliates against US with 25% tariff on Agri products (section 301)

As theory suggests, trade wars are negatively affecting global welfare, with China losing most in this dispute with the US

Impact on welfare,
% change relative to baseline

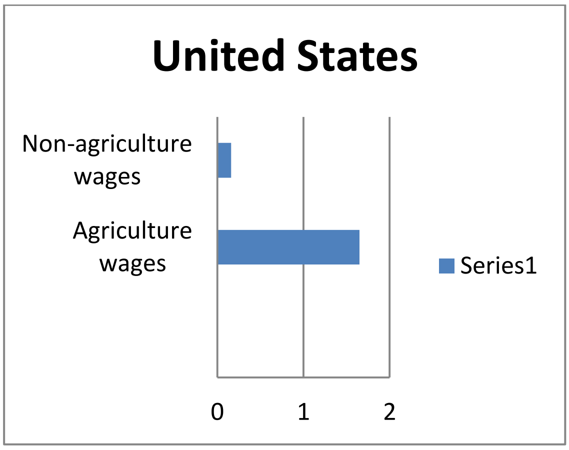
Graph-04
Winners and losers in terms of welfare

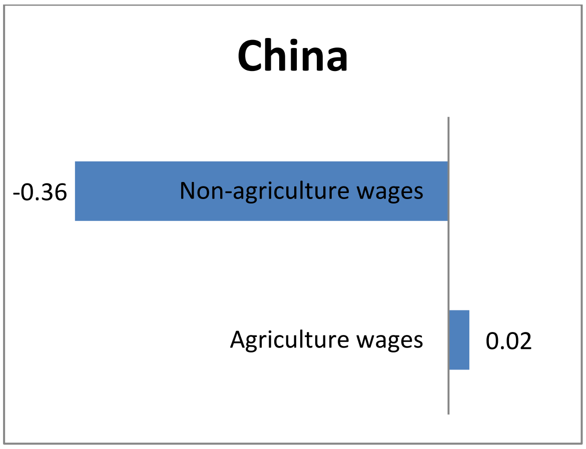


Impact on Employment when China retaliates against US with 25% tariff on Agri products (section 301)

Impact on wages,
% change relative to baseline

Graph-05
US Agriculture wages fall by ~2%





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KEY TERMS AND DEFINITIONS

Anti-dumping Duty: A duty imposed by an importing country to nullify or reduce the price effect of dumping which is treated to be harmful to domestic producers.

Contract: An agreement in writing which the law will enforce.

Copyright: A right in the form of Protection granted to the authors and creators of literary, artistic, dramatic and musical works including sound recordings.

Counter-trade: A general expression meaning the sale or barter of goods on a reciprocal basis. There may also be multilateral transactions involved.

Dumping: Sale of an imported commodity at a price lower than that at which it is sold within the exporting country

Export Quotas: To make stable or to increase their prices in world markets Specific restrictions or ceilings are imposed by an exporting country on the value or volume of certain exports designed
Export Subsidies: Monetary support provided to domestic producers or exporters by the government, contingent on the export of their goods and services.
Intellectual Property: A collective term used to refer to new ideas, inventions, designs, writings, films, and so on, **protected** by copyright, patents and trademarks.
Patent: A right that entitles the patent holder to protect his/her **invention** for a set period of time within the country which grants or recognizes the patent
Subsidy: An economic benefit granted by a government to producers of goods/services
Surcharge: A tax on imports in addition to the existing **tariff** for protection of domestic producers

ENDNOTES

[i] James Nealon, the former U.S. embassy deputy chief of mission, Canada
[ii] Graphs and data from GTAP, Center for Global Trade Analysis, Dept of Agriculture Economics, Purdue University

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