# US Versus China: Trade War

This ‘trade war’ has drastically changed trade patterns around the world and has inspired protests from many industries in both the US and China.

The tariffs affect consumers through two major avenues: a rise in prices for consumer goods and deadweight loss in the economy. Consumers have not yet dealt with the price increase directly, as larger companies have been able to absorb the costs till now. But a reallocation of costs is inevitable. Long term consequences and the final increase in prices remains to be seen, as companies have yet to adopt mitigation strategies and seek alternative sources for their materials. Doing so will likely increase US prices further, at least for a short period, as industries shift their investments out of China to other nations. Free trade is beneficial to all. A trade war will ultimately harm the United States and its consumers. The consumers will have to pay higher prices. Moreover, a prolonged trade war will lead to slower global growth recovery. An article by the NY Fed estimates that the deadweight loss per household in the US will be $620, for a total annual cost of $79 billion. (Newyorkfed, 2019)

Unlike domestic consumers, U.S manufacturers and businesses have been directly impacted by the tariffs; largely because much of the targeted commodities have been intermediate goods. These mark-ups also have a profound impact on small businesses. Who are more sensitive to changes in consumer demand. Furthermore, they may not be able to absorb costs while the economy and consumer preferences slowly shift. Furthermore, a study by the Brookings Institute estimated that about 2.1 million jobs would be disrupted by the following retaliatory Chinese tariffs across 40 industries in the US (Liberty Street Economics, 2020)

Trump not only wants Beijing to remove that retaliation, but to increase its purchases of American goods to reduce the U.S. trade deficit with China, which hit a record $419 billion in 2018. U.S. Treasury Secretary Steven Menuhin has spoken of $1.2 trillion in additional Chinese purchases over a number of years, but Trump is believed to want an even bigger number that he can tout on the campaign trail. (Terence Tai-leung Chong and Xiaoyang Li, 2019)

Analysis by trade Partnership, a consultancy suggests tariffs would cause nearly 13 jobs to be lost for every one gained in the steel and aluminium production.

‘Trump and Xi decide that negotiation is not an option; neither side wants to look weak and both sides look to establish their own cold war-type camps. Escalating tariff and non-tariff barriers make it impossible for Chinese firms to do business in the US and vice versa’. (Palmer, D, 2019)

High tariffs raise costs for suppliers, manufacturers, retailers, and consumers – albeit disproportionately in the US market. As prices increase, production volumes decrease, profit margins diminish, companies go out of business, and jobs are lost.

China begins to invest aggressively in its market ties with Europe, Africa, Asia, and Latin America. The US does the same. American firms seek to shift their supply chain ecosystem out of China into Southeast Asia – in part or wholesale. Similarly, Chinese firms divest their

operations in the US.

The scenario is improbable as both sides will incur huge costs. Businesses will exert greater pressure on both governments to draw-back, which propaganda machinery won't be able to cushion. The US-China tariff war has established a new reality in international trade relations and introduced systemic risks to businesses. Companies who are overly dependent on China for sourcing, manufacturing, or both find themselves confronting rising costs, fluctuating tariffs, market restrictions, tighter regulatory oversight, and dwindling profits.

US and China are the world's largest economies, biggest markets, and are at the heart of the global industrial supply chain. The two countries won't be able to sustain a trade war unscathed, and an all-out trade war could trigger a new global recession.

Frequent rounds of meetings between trade negotiators, trade and business lobby groups, consultations with high-ranking officials in both governments will be the clearest indicator that the two countries are serious about reaching a new trade deal.

In other words, it is important to assess whether the two countries are talking to each other or at each other. Securing some form of trade deal or a compromise deal may be prioritized by Trump as he is running for a second term as president. The biggest winner from the US-China trade war is Southeast Asia as multinational companies acknowledge the need to reduce their over-reliance on China's supply chain ecosystem.

In most trade negotiations, both sides "win" by increasing overall trade and investment between the countries involved in the negotiations. A stable commercial relationship would allow Xi to refocus his attention on domestic priorities, while reducing the uncertainty American companies now face. A deal that requires China to change its laws and open its market to more foreign competition would hurt some entrenched Chinese interests. But it also could create a more competitive environment that would be beneficial to stronger Chinese companies and raise productivity and overall economic growth.

The two presidents would also be able to both take credit for a big deal, which would strengthen their domestic political positions, he said. That's important for Trump as he gears up for his 2020 re-election bid and for Xi as he presses ahead with plans to serve a third term as president and leader of the Chinese communist party.

To sum up, in the worst-case scenario we construct, where the bilateral trade between China and the US goes down by 27%, China's GDP, employment, and reserve assets will face different degrees of negative shocks. The biggest impact is on employment, where around 1.1% of job positions will be lost. In terms of output, China's economy is expected to suffer a decrease of US$ 121.6 billion, representing around 1% of the total GDP. Due to capital regulation policies and abundant reserves, the influence on China's reserve assets is relatively muted. (economyria, 2020). The China-US trade war has received widespread attention, not only because of its labyrinthine nature, but also because of the vastness of the economies involved. Academic researches and professional forecasts indicate that the trade war will have a remarkable impact on China, the US, and even the world economy.

Trade wars are harmful to the country and global economy. It creates inefficiency, trade diversion, misallocates resources, and harms international trade and global economic growth

and stability. Trade wars have no winners unless a trade partner has high elasticity of imports than the other partner. The world faces now two scenarios, either the worst one of continuing retaliatory tariffs and escalating trade war which will impact the individual economies and the global economy negatively, or the best one of reaching agreements like the recent negotiations between Trump and Bing, the Chinese president, to mitigate trade war repercussions and settle their disputes.