

Essay on “Impact of the US-China war on the Chinese economy and its long term implications”

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## **Impact of the US-China war on the Chinese economy and its long term implications**

### **Executive Summary**

This essay will discuss in detail the Impact of the US-China war on the Chinese economy and its long term implications; which will bring into light two of the world's fiercest and strongest economies.

United States of America and China have been each other's arch enemy for long time now. While the difference and clashes have happened over several issues like division of power, army, situation in the middle east or China's proximity to Pakistan and Russia, trade has seen rising tension as well.

### **Background**

Trade between both the countries has been a matter of discussion and recently, the tension between the countries has increased. The tipping point of this situation was when China inflated their exchange rates with respect to the American Dollar in order to boost Yuan, their currency well in the international market, and US president Donald Trump threatened China with increased taxes on imports in America, or a total boycott of Chinese goods for some time. One thing led to another, and in a recent strike by the America president, the Trump administration has imposed an increased tax tariff on goods from china worth \$35 billion, which resulted in a huge market crunch in China.

Well, the logic behind doing so is simple. Once the very cheap Chinese goods become expensive for the America consumer to purchase, they will not only revert to buying goods produced in their own country which will give the US manufacturing unit a boom, but will also put Chinese market and supplier out of the US market as well. However, china was quick to respond on this. The Chinese government condemned this act done by USA, stating it to be the largest trade war ever. The Chinese government then imposed a 25% tax on US imports worth \$35 billion on products like automobile, becoming equal to what USA did and balancing the act as well (Aleem, 2018).

## Reason Behind Trade War

The US government justified their move in two ways: one, as a punishment for the act of inflating the FOREX rate for Yuan with respect to Dollar, and second as a answer to China's policy of pressuring American companies into reliving technology in return of market. While the practice has been highly unethical, however these trade barriers will have an impact which will set back China more than what it will cost to the US.

However, this is just the tip of the ice-berg. The situation is far worse than thought of and getting completely out of hand. The market in both the countries has been affected a lot, however the major impact has been suffered by China.



Fig 1: State of US trade with China

## The Chinese Economy and Market

The Chinese market is a Socialist Market Economy. This kind of a market works on public ownership and state owned market. This approach is based on Marxist theory, and believes in everyone's individual share. The market of China is a closed economy which makes it exceptionally difficult for business from all around the world to enter its market. This often results in China facing backlash from international community in names of trade barriers (Eckart, 2016).



Fig2: China GDP

### China Growth Statistics

China is known to be the only country to have developed an economy which is said to have pulled out maximum people out of economy and developing middle class consumers as well. While China has been successful in achieving these feats, it has been the centre of backlash as well, owing to its tough and immoral approach towards business that are not from China, specially any business from America.

### The US-China Face-Off

This has not gone down well with the America as well as the western economy societies. China has been warned several times because of this behaviours, but this July president Donald Trump finally acted on them and imposed the new tariff rule thus robbing China off a huge market in America and eventually a small, yet prominent economic crunch as well. While the fast rate of development of China has been well regarded by economists form all over the world, this rapid change has brought with it several other changes like rapid and high rate of urbanisation, higher demand from consumer all around the world, increase in work load, challenges to environmental sustainability and external imbalances caused by the feverishness to achieve high target goals. This has created a sticky situation for China from where it cannot retreat and has to eventually fulfil everything right from international consumer to the country's own demands as well.

## Impacts of the Trade War On World Economy

USA and China are extremely important and two of the most powerful economies of the world and their integration was resulting in some really well established policies and opening markets for not just both these counters but for the entire world. The US-China trade war is currently in its formative stages but has already affected people, organisation and countries from all over the world, specially both these countries themselves.

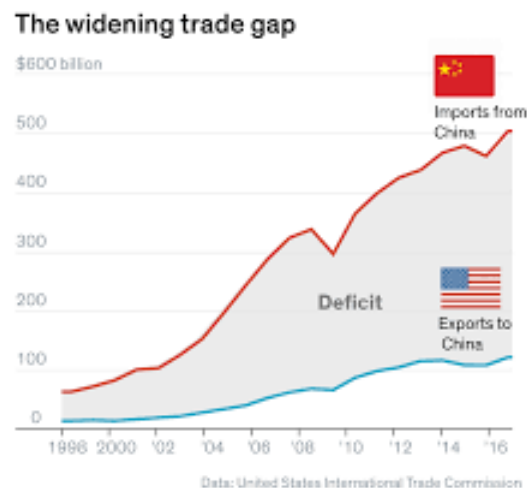


Fig 3: Widening Trade Gap

What is surprising as to how the countries are ready to take on the loss and not succumb to ego, by finding a middle way out. Both these countries have in their ability to sit down diplomatically and come up with solutions to this problem that they are currently seeing, and provide relief to each other, without any trouble (Tahn, 2018). The global financial crisis has brought both these countries in the epicentre of world's attention making them the holders of the cause. It is as if people have started expecting them to be the reason of this financial crisis and then considering or rather expecting them to bring the world out of it as well. It is a confusing state where suddenly out of 180 independent countries only two of them are considered to be the reason of economic stability in the world. Indeed, the U.S. and China together epitomize the sources and dangers of global macroeconomic imbalances. U.S. regulatory and macroeconomic policies may well bear a lion's share of the blame for the current crisis (Prasad, 2009).

## Solutions to the Problem

In order to bring peace to the situation a very strategic as well as peaceful approach has to be taken. China will probably suffer the most from this trade war, owing to the fact that its manufacturing and production sector will take a huge blow after what president Donald Trump has done. If America stops buying from China, the production of Chinese goods will come to a huge haul, creating a market deficit for both the countries. Even though China has a socialist economy and a closed market, it still does not cushion the effect which will come after the American blow. There are several ways in which both America and China can sort this situation out, however bringing both the countries on a common diplomatic platform without fireworks will be impossible (Solomon, 2016)

## Problem in Leadership and its Effect on Economic Situations

This problem can be attributed to the attitude issues of both the leaders of the countries as well. Even though the leaders are fairly well in the knowledge of the impacts of this situation on both of the countries and on world economy, but none of them is ready to take a step back. This is a state of extreme intolerance and irresponsibility and has to be resolved by both these leaders at the earliest possible convenience. In the economic as well as social interest of both the countries it has become important to see as to how the decision makers of both the countries try and find a mid-way out of this muddy situation without creating more harm than what is already done by them. If this happens, a lot of wastage of money, resources and commodities will be avoided and a more comprehensive and sustainable trade relation can be formed between both China and America (World Bank, 2017).

## US-China Trade War Facts

As US was (or still is) China's largest exporter by trade volume it has become all the more important for China to take a step back and set things right or else the economic crash it has suffered will only increase in magnitude over time. World community is aware of certain unethical practices implemented by China in order to boost their currency (the act of inflating the FOREX rate for Yuan with respect to Dollar) which did not go well down with the USA, however amends have to be made at the earliest to avoid a scenario like the 2008 market fall, only this time it will be exclusive to China. Chinese exports to the U.S. rose from \$100 billion in 2000 to \$338 billion in 2008, while imports rose from \$16 billion to \$71 billion, showing how much the countries were dependent on each other at a certain point of time, and

how proper balance was maintained in the international economy as well because of this purpose. There are several countries ready to make the best of this souring relationship, however such an act will only add to China's trouble and can definitely not be a good sign.

## Recommendations

The exchange rate issue has been highly publicised now and deserves no more attention that it has been getting already, from some time now. What we can infer from this situation is how bad the economic policies of China have turned out that rates of Yuan with respect to US Dollar have been falling constantly. The use of protectionist policies by china have been the reason for this fall in the value of Yuan as on the FDI front China is the least like or preferred country by international investors from all around the world without a doubt (Financial Times , 2018). This war can cause a lot of causalities, and has the ability to destabilise the economy of not just China, but several other dependent economies as well. A solution centric approach is the only way out of this trouble, before time runs out. Economic stability in today's time is one of the most important thing which all world leaders look forward too, and any incident like this has the potential to damage the growth to a lot of extent and can even push it back down.

## Conclusion

We can thus conclude by understanding how the three factors have been instrumental in shaping the world's biggest trade war between America and China; the issue regarding the FOREX Rate, China's closed market and protectionist policies and the lack of FDI and investor trust in China. While USA is simply working on lines of maintaining ethics and implementations of trade rules against all the mal practices of china, both the countries have to find a middle way out of this economic mess that they have created which has the ability to impact the people and economies all around the world as well. Both these countries have in their ability to sit down diplomatically and come up with solutions to this problem that they are currently seeing, and provide relief to each other, without any trouble (Lau, 2018). China will probably suffer the most from this trade war, owing to the fact that its manufacturing and production sector will take a huge blow and many people in China will probably end up losing jobs or incurring huge losses as well. In the economic as well as social interest of both the countries it has become important to see as to how the decision makers of both the



countries try and find a mid-way out of this muddy situation without creating more harm than what is already done by them.

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