



# Increase of Protectionism between USA and China and Modern International Business

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## Abstract

The main aim of this paper is presentation the increase of protectionism between the United States and China and modern international business. The main objective of the research task is to give a comprehensive analysis of current trends in foreign trade theory and policy and in particularly the models of foreign trade policy, trade interests indicated by export orientation and import sensitivity, protectionist pressures in different political system, the level of protectionist pressures, new tendencies in international business, reasons for the USA to implement tariff sanctions. China will be significantly hurt by tariff trade war in all indicators, including welfare, gross domestic product (GDP), manufacturing employment and trade. However, it is pointed out that although there will be definite impacts on China, the costs should be maintainable and will not severely damage the Chinese economy. In regard to the United States, the simulation produced results that described, the US will gain on welfare, GDP and non-manufacturing production, but hurt employment and trade.

**Keywords:** USA; China; Protectionism; International business; Supply chains; Trade war

## Introduction

Both structural and micro-political economy analyses of foreign trade policy have missed the impact of changing ideas about protectionism and relatively unchanging institutions designed to handle domestic producer complaints. The political consensus on the supply of the trade policy and protectionism has changed over the time. During economic depression protectionism played important roles in the politics of political parties and increased the importance of bilateral agreements and regional agreements. This point of view is very important for the theory and practice of the contemporary international business also between USA and China. The necessity for companies to organize their supply chains across different countries has led to a demand for the regional agreements that cover more than preferential tariffs. The harmonization of standards and rules on investment, intellectual property and services has become a standard part of new trade agreements. The differences among companies which are involved in trade are also important for the future development. The concept that arises from the trade is that even if many companies are indirectly involved into the trade-related activities,

only relatively few of them are exporting or importing. Accordingly, these companies tend to be larger and more productive than others. Such companies also have a role in technology advancement and the diffusion of know-how through supply chains. It should be emphasised also that free trade in itself is not responsible for economic growth, but more significant are the determining macroeconomic stability and increasing investment. The international trade in the XXI century has been strongly affected by the force of the domestic interests like in the USA under President Donald Trump's administration with the principle America First. The changes are visible in the growing importance of international trade to national economies and domestic groups within those economies, in the closer linkages between trade and other international issues. Realistic point of view is the essential trends in the global trade regime during this time. The growing interdependence has led to increased competitiveness and greater inclinations to resort to strategic trade policy.

## Research and Methods

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The main objective of the research task is to give a comprehensive analysis of the potential implications increase of protectionism between the United States and China for international business. China will be significantly hurt by tariff trade war in all indicators, including welfare, gross domestic product (GDP), manufacturing employment and trade. However, it is pointed out that although there will be definite impacts on China, the costs should be maintainable and will not severely damage the Chinese economy. In regard to the United States, the simulation produced results that described, the US will gain on welfare, GDP and non-manufacturing production, but hurt employment and trade. The analysis problems were solved with the use of both quantitative and qualitative research methods. The main research method applied in this analysis, was a method of scientific study used for splitting the whole (of individual items, their sets, phenomena) by means of logical abstraction. It was also used the analogy (comparative) method, which consists in finding similarities and differences between the items under study, the documentation method and statistical methods. It were applied the descriptive method, as well as methods of descriptive statistics and forecasting. Additionally, it were used the methods of deductive and inductive forecasting.

## Results and Discussion

What indicates the importance and innovativeness of the research is presentation the potential implications increase of protectionism between the United States and China for international business. First of all it must underline that in the new theoretical terms in the demand for trade policy very important is factor specificity. Some factors are stuck in their present uses; therefore, factor returns are not equalized throughout a region's economy, but are industry specific. Trade policy coalitions should form along the lines of exporting versus import-competing industries. It must be emphasis that on a theoretical level, understanding the choice of trade policies between liberalism and protectionism is very important. Question is how can we recognize the type of power, the type of rule? First of all, we should investigate what level of resources a given government is going to achieve. If an authoritarian government is more or less corrupted than a democratic one, it will be creating the income, to a bigger or lesser degree, through protectionism. It will also appropriate some part of that income. Secondly, a given type of government may remain under the influence of different pressure groups. If an authoritarian government is trying, to some extent, to subordinate special pressure groups including the regulated labor sector, it will be, to some extent, generating incomes through protection and it will be turning over some part of them to those special pressure groups. It should be pointed out that there exists a close relation between democracy and an economic growth, There are well known examples of open

societies that stimulate the economic growth. This is true mainly in case of highly developed and strongly urbanized countries. In the countries with a developed democracy, the pressure groups have a bigger opportunity for acting. The research shows that the presence of trade unions helps to accelerate the economic reforms. The benefits resulting from liberalization of the international trade are bigger when the trade unions exist in the sector of the economy under protection. The growth of import abilities leads to the decrease of wage pressures, and when the trade unions agree to that, such a situation allows for a better allocation of labor force in the economy. This is true both in the case of active and passive trade unions, although the effects are better in case of active trade unions. The growing interdependence have led to increased competitiveness and greater temptations to resort to strategic trade policy. Trade policy takes on additional importance in economic battle of the valiant liberal reformers, fighting against self-dealing rent seekers profiting from inconsistencies of the transition economy. Many of the client policies that shelter rent seekers are impossible to maintain in the face of competition in the international business. On the other hand, high tariff walls, export licensing, and artificial exchange rates provide numerous sources of rents for business people who are trying to promote their own loyalties. The reduction or the elimination of trade restrictions stimulates significantly the growth of the world trade exchange, while the foreign trade, in turn, is an important factor of the economic growth of individual countries. However it should be stressed that free trade in itself is not responsible for economic growth, but more significant are the determining macroeconomic stability and increasing investment. It must be underline that if trade during the rise of global supply chains is perceived by a majority of voters as causing unemployment and/or increasing inequality, governments could refrain from pursuing further trade opening and may even be tempted by protectionism. Another possibility would be for governments to use more intensively public policies for protectionist purposes. With regard to trade negotiations, focusing exclusively on the efficiency effect of trade opening may no longer be possible. Distribution and labor-market effects will also need to be considered and accompanying measures may need to be proposed in order to win the support of a majority of voters for open trade by bilateral agreement especially in the conditions of the rise a global supply chains. During the rise of global supply chains the development of various firm models has made it possible to explore the effects of differences in firms on the political economy of trade. It must be underline that trade opening has two opposing effects on domestic firms within the same industry. First, the cost of exporting decreases, which allows more firms to export and increases the sales of established exporters. Secondly, competition increases, which harms domestic firms. Which of these channels dominates for an individual firm



depends on firm characteristics, such as size. As a result, lobbying competition arises not only between sectors but also within sectors in which some firms benefit and some lose due to trade. This effect might especially arise in the context of fixed costs because they rise entry costs and thereby shield existing producers or exporters from competition.

Current trends in the international business and global politics provide evidence that emerging markets have now arrived at the world economy, at last, bringing with it new patterns of uneven development, inequality and injustice. Its newly confident elites, now fully engaged in global circuits of trade, investment and finance, and in global governance too, appear to have left behind their previous role. It is clear that emerging economies have suffered less and recovered more quickly. Besides, it now seems that the patterns of political impact not in the sense of immediate crisis measures but of long-term huge shifts may be equally significant and unexpected.

### Political Economy Model of Foreign Trade Policy

Traditionally, political economy models of trade policy have tended to focus on the demand for protection, with factor endowments driving political reactions to exposure to international trade. Such model simply assumed that adversely affected economic agents would organize to seek protection, which would be afforded to them by their elected representatives in the political system. The supply side for trade policy was either ignored or underspecified in most model [1]. In the new model of the foreign trade policy theory interesting are the reviews about the demand for trade policy in terms of the theoretical importance of factor specificity [2-6]. Factor specificity refers to the ease with which factors (land, labour, and capital) can move from one sector to another in an economy. The two dominant approaches to explaining the demand side of trade policy used radically different assumptions about the specificity of factors. The Heckscher-Ohlin model, used in his seminal contribution "Commercs and Coalitions", assumes very low-factor specificity [7-10]. The low specificity of factors means that factor returns are equalized throughout a region's economy. Producers should export goods that intensively use their abundant factors and import goods that intensively use their scarce factors, with the result that owners of abundant factors will favour free trade and owners of scarce factors will favour protectionism. Trade policy coalitions will therefore be organized along factor or class lines. On the other hand, the Ricardo-Viner assumes that some factors are stuck in their present uses; therefore, factor returns are not equalized throughout a region's economy, but are industry specific. Trade policy coalitions should form along the lines of exporting versus import-competing industries. Neither of these models explains how preferences over trade policies are actually translated into political action. In a discussion of the endogenous

tariff literature, notes that the mobility costs of the specific-factors model may be a result of productivity differentials, labour union activity, or individual preferences for membership in a given geographical area, industry, or firm (i.e., some form of solidarity). In all of these cases, one can derive a link to preferences for tariff policy, "but without additional information on why the specific-factor model is chosen, it does not tell us much about political organisation". One can begin to understand this process by assuming that rational individuals make cost/benefit calculations. The Heckscher-Ohlin and Ricardo-Viner models tell us the benefits that individuals hope to receive, but the costs of collective action also intervene as they organize to achieve those benefits in the political system. Argued that small groups with specialized interests are easier to organize and more effective in securing economic rents than large groups with diffuse interests [11,12]. Small groups are better able to control free riders than large groups, and groups with specific or homogenous interests can more easily coordinate and target their activities than groups with diffuse or heterogenous interests [13-26]. This approach is thought to explain the success of agricultural producer groups in developed countries in organizing for protection as well as the inability of agricultural producer group to organize in developing countries [27-29]. However, points out that we should not assume that organized interests will be equally responsive to all issues. Institutionalized interaction among actors may help to explain systematic patterns of action, especially as institutions created for specific historical purposes may outlive those purposes. Suggest that if a particular group has paid the fixed costs of establishing collective action and developed well-worn channels of access to public officials, it may defend its trade policy preferences even when the stakes are low because the marginal costs of action are low [30]. It may be the case that "a much more affected but inchoate group does nothing because the start-up costs of organization are too daunting". Past strength of an organization should therefore be an important intervening variable predicting group action on trade policy. Further, argues, once these institutions exist, supply-side interventions may also affect their usefulness as some are deemed legitimate or illegitimate aggregators of interest. Thus, we must examine the way in which economic institutions and political institutions interact. Most economic models simply assume that a model of the economy is a model of the demand side for trade policy, suggests that we must elaborate the mechanism by which demand is articulated to the suppliers of trade policy. For a good overview of this argument, especially as it pertains to agriculture. If the political systems rewards small sectoral groups, than individuals will not pay the costs of organizing large intersectoral coalitions. If the political system rewards large mass movements (i.e., majoritarianism), than individuals will have to pay the costs of organizing large intersectoral coalitions in order to achieve any benefits. Collective



action costs and political institutions are interactive with factor specificity. They suggest that Heckscher-Ohlin framework requires low factor specificity, low collective action costs, and domestic political institutions that favour mass movements. The Ricardo-Viner framework used by the endogenous tariff literature requires that factors are specific, collection action costs are high, and institutions are less majoritarian, with changes in any of these three variables also affecting the type of coalitions that form. In the state as a rational dictator model, the state may be seen as either pursuing “good government” goals along a social welfare function or intervening in the economy for their own self-interested model of the state views politicians as offering preferential trade policy to economic actors in exchange for political support [31,32]. On the other hand, pluralist theory typically view the state as a neutral aggregator of demands from groups in society. The supply of trade policy is then determined by the balance of power on any given issue. The supply side of trade policy is relatively undeveloped theoretically, and yet a crucial part of the equation. A variety of different characteristics of the political system are posited to affect the supply of trade protectionism, such as politicians incentives to cultivate personal votes, the size of electoral districts, party fragmentation, federalism, presidential versus parliamentary systems, and so on. On a theoretical level, understanding the choice of trade policies in countries is very important. A survey of economists in 1984 suggested that one of the few things they agreed on was that, under most conditions, tariffs, and quotas reduce the general welfare. The stubbornness of protectionism in the face of international and academic pressure against it has led economists to seek explanations. These explanations range from the simple ignorance of politicians to arguments about the rationality of protection for “infant industries” and “optimal tariff levels” in developing states. Faced either this frustrating question, scholars have increasingly turned to political answers in order to explain the choice of what would seem to be an “irrational” policy [33].

### **Protectionist Pressures in Different Political Systems**

It is important to indicate, that the role of trade unions in different political systems may be, to a high degree, different. In authoritarian systems it is, as a rule, smaller than in democratic systems. It would seem that if protectionist pressure on the part of trade unions is weaker, the situation for economic growth is much better. Following that line of reasoning we could come to conclusion that the authoritarian system is better for the effectiveness of the labor market. The examples of Chile, South Korea, Singapore and Turkiye from the seventies and early eighties could confirm that point of view. In many cases during those two decades the authoritarian regimes persecuted trade

unions and put restrictions on basic labor rights. During that period of oppression, South Korea, Singapore and Turkiye experienced a spectacular growth in the sector of processing industry and in the growth of demand for labor. Growing profits and the demand for labor in a processing industry, caused a general growth of prosperity of the employed. Although similar results were not noted immediately during the authoritarian phase of development in Chile, a number of observers express the opinion that the reforms introduced at that time helped to reorganize Chilean economy in the nineties. The application of democratic rules, on the other hand, may lead to lower productivity of labor force. In a number of years different democracies had to use significant financial resources for the employment of those who belonged to trade unions. A different point of view says that government legislation concerning the labor market may be applied more effectively in an authoritarian system than in a democratic one. The authoritarian regimes often make use of individual interests of given circles. In most democratic countries there is no broad enough basis that would allow to use labor market policy for gaining the support from pressure groups, the urbanized labor marked elite included. The major difference between authoritarian and democratic regimes lies in the level of the outside influence. In a well function democracy, the outside opinions are also taken into account and there occur some limitations which come from the outside, which restricts the achievements of given groups of interest. In a dictatorship, a government cares only that those groups are not too strong. There is, however, a number of democracies among the industrialized countries where an effective labor market exists. There is also a number of democracies with effective labor market policy among the developing countries. Similarly, in the countries in which the transformation from the authoritarian regime towards a democracy is taking place, avoiding unfavourable phenomena on a labor market is often a priority. For example, the Chilean government moved towards democracy and to free trade unions without home income growth. The end of oppression in South Korea, in 1987, started the partnership relations in full of conflicts industry [34]. It is worth considering which of the two points of view presented above should be given support, that is, which of them is the proper one. The analysis of that problem may be based on the Grossman and Helpman model this model describes economic development on the basis of two sectors - urbanized, regulated processing sector, and rural, unregulated agricultural sector. The protection of the labor market, especially of minimum wages, is usually applied in order to bring the benefits for the employees of the regulated sector, since the sector of unregulated employees does not come under the legislation concerning the labor market. The sector of regulated employees, and also the owners, demand from the government that it leads an economic policy that is favourable to



them. The employed demand high minimum wages, while capitalists demand high profits. Both groups demand the restrictions on the degree of economy openness. In a closed economy, higher market minimum wages and higher profits are usually connected with higher prices for home consumers, and this is not easy when those consumers are free to buy the substitutes in form of imported goods. Thus, incomes in an economy may be created by protection and later divided among the employees of the regulated sector and the capitalists, although sometimes the government itself takes a part of those incomes [34]. A government conducting an economic policy takes into account a number of factors. Firstly, it has to decide the degree of obtaining the resources, that is, how much from those resources it wants to obtain. Hence the importance of investments and of future economic growth, and also of defining the possibilities for keeping the power it is currently holding. Secondly, the government should define the scale of support from each of the pressure groups that can influence the situation. The position and importance of each group for the development of political processes should be considered. For example, in the country where the regulated labor market is divided, and politically weak, only the capitalists may have a deciding voice in political processes. And the contrary also happens - in the societies where the labor market is organized, it may play the important role in mobilizing voters. How can we recognize the type of power, the type of rule? First of all, we should investigate what level of resources a given government is going to achieve. If an authoritarian government is more or less corrupted than a democratic one, it will be creating the income, to a bigger or lesser degree, through protectionism. It will also appropriate some part of that income. Secondly, a given type of government may remain under the influence of different pressure groups. If an authoritarian government is trying, to some extent, to subordinate special pressure groups including the regulated labor sector, it will be, to some extent, generating incomes through protection and it will be turning over some part of them to those special pressure groups.

### Level of Protectionist Pressures

The above arguments show that the policy is defined by political factors (including the type of the government and the burdens resulting from obligations towards employees and capitalists), and by economic factors (wages, prices, the structure of production and consumption). On the basis of the present discussion, we can present two equations, one pertaining to the level of protection, and the second pertaining to the national economy and deformation of wages.

- 1)  $\pi = f(e, l, k, R)$
- 2)  $\varphi = f_1(\pi, e, l, k, R)$ ,

The level of protection ( $\pi$ ) depends on the economic parameters ( $e$ ), a relative political importance of urbanized employees and capitalists ( $l$  and  $k$ , respectively), and on the type of the government ( $R$ ). Deformation of wages is, on the other hand, the function of  $\varphi$  and of  $e, l, k$  and  $R$ . In case of a small economy, economic parameters that can influence  $\pi$  and  $\varphi$  include flexible consumer and producer prices, demand flexibility, wages and the demand for labor force, and also the price of goods on an international market. One can expect, a priori, that the growth of  $\pi$  is dependent on  $l$  and  $k$ . If interest groups become stronger, the pressure to form incomes based on protectionism may become stronger. The influence of  $R$ , that is, the influence of a political authoritarianism on the level of protectionism, that is,  $\pi$ , depends on the fact whether the opinion, that the level of protectionism depends on the effects of democratization, is correct. It is also thought that the increase of the deformation of wages depends on  $\pi$  and  $l$ , while its decrease depends on  $k$ . As long as the incomes are obtained from trade protections, those incomes can be handed over to urbanized employees. An important problem in case of urbanized labor force as an interest group with growing strength is the fact that urbanized employees may gain a big share in the division of incomes but the growth of political importance of the capitalists may cause that the shared incomes, handed over to the labor force in regulated sectors of economy will become smaller. There is no doubt that it is easier for wealthy rather than poor societies to choose democracy. Since those wealthier societies at the same time have a tendency to a bigger openness, the direction of cause-result events may run from the openness of society to the political system, and not, as was suggested earlier, in the opposite direction. The research showed also that the level of education plays an important role in this respect. The countries with a higher level of education of labor force are more open. On the basis of the earlier considerations, one can come to the conclusion that authoritarian systems have a tendency towards a broader application of protectionism than democratic systems, and that, in turn, the trade restrictions accompany significant deformations of wages on the labor market. This opinion may be justified on the basis of the observations of the situation in a number of countries. Freedom of association is one of the elements of good management and the necessary condition for development. The authoritarian governments do not respect, however, the freedom of association, which is connected with the policy of trade restrictions and with the deformations on the labor markets. One cannot state, however, that improper or ineffective policy on the labor market belonged exclusively to authoritarian regimes or that authoritarianism automatically generates this kind of policy. There is a number of examples of authoritarian countries which do not conduct policies of that kind. The works of such authors as Fields or Freeman show that the repressions against the labor



force are not necessary, if one wants to achieve a required economic growth. Finally, it should be pointed out that there exists a close relation between democracy and an economic growth. There are well known examples of open societies that stimulate the economic growth. This is true mainly in case of highly developed and strongly urbanized countries. In the countries with a developed democracy, the pressure groups have a bigger opportunity for acting. The research shows that the presence of trade unions helps to accelerate the economic reforms. The benefits resulting from liberalization of the international trade are bigger when the trade unions exist in the sector of the economy under protection. The growth of import abilities leads to the decrease of wage pressures, and when the trade unions agree to that, such a situation allows for a better allocation of labor force in the economy. This is true both in the case of active and passive trade unions, although the effects are better in case of active trade unions. The trade unions active on an urbanized labor market had a significant influence on the decisions of governments, in the course of multilateral trade negotiations within WTO. It was especially evident in the negotiations on lowering customs duties and non-tariff measures in steel, shipbuilding, textile and clothing industries, and in coal mining. In the so-called "sensitive" industries, which were under special trade protection, the position of trade unions was very strong.

### **New Tendencies in International Business**

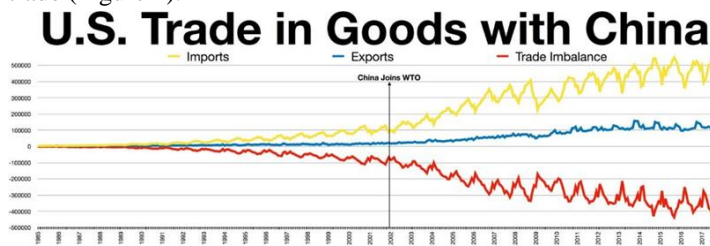
Countries and producers increasingly specialize in certain stages of production depending on their particular comparative advantage [35,36]. It is importance and magnitude of this development for foreign trade policy. It is also important to underline that transport and energy costs, for instance, are reasons why supply chains remain more regional than global. Increasing returns together with capital and labor migration and transport costs into one model [37]. Model has become a workhorse of economic geography and international trade. The model is too complex to explain here but the reasons for that complexity are clear to see – when everything becomes "endogenous" small initial differences can make for big effects. To minimize transport costs, for example, firms want to locate near consumers but consumers want to locate near work. Thus, there are multiple equilibria and at a tipping point the location decisions of a single firm or consumer can snowball into big effects. A related trend also is the new form of regionalism that is sometimes referred as integration process development [38]. It must be emphasized that openness to trade in China is associated with higher incomes and growth and there are the need for new approaches to trade cooperation in light of the forces that are currently re-shaping international business. A major factor, was the even more remarkable transformation of China, as market reforms opened up

its economy to foreign trade and investment, and unleashed an unprecedented growth dynamic that has continued, with only minor slowdowns. In the new circumstances for the development of the global economy and the global trade, People Republic of China seems to be a production superpower, able to change the world trade and influence on the rise of global supply chains. In many areas it possesses comparative advantages. China may continue their development to specialize in electronics and increasingly in services. It must be underline also the major trend in international trade which is the rise of a number of emerging economies and the associated increase in their shares in world trade. Especially China but also India and Brazil have transformed the balance of power in the multilateral trading system. Between 1980 and 2011, for example, China's share in world merchandise exports and imports increased tenfold, making the country the largest exporter of the world [39]. The industrialization and spectacular growth of emerging economies, together with the fast expansion of services trade and of FDI, are inextricably related to the next intensive growth of production. The focus here will be on how the rise of global supply chains has had an impact on the political economy of trade and countries motivations for bilateral cooperating on trade policies [40]. There is both theory and evidence suggesting that participation in global supply chains tends to strengthen anti-protectionist forces. The main impact, has been on unilateral tariff reductions (mostly among developing countries) and the proliferation of preferential trade agreements (PTAs) and bilateral investment treaties [41]. A considerable amount of trade opening has thus taken place outside the WTO. The internationalization of supply chains was very important for fast economic development and industrialization of developing countries. Before the emergence of supply chains – and the information and communication technology (ICT) revolution that underpinned it – industrialization involved building a strong industrial base often behind the protection of tariffs and other NTMs [42]. The unbundling of global production made it possible for countries to industrialize by joining international supply chains. This process also changed the political economy of trade policy, creating in many developing countries a strong incentive to undertake unilateral tariff reductions.

### **Structure of Political System**

The US claims, that the Chinese state-owned enterprises with characteristic communist party's directed planned economy and crony capitalism princelings gain the most benefits in most activities including the Belt and Road Initiative and Made in China 2025. The US, Japan, Canada, Mexico, the EU countries do not recognize China as a market economy, alleging market distortions. Irwin Stelzer, the economist, states that China's centrally directed economy with its goal to preserve communist

party control of the politics and economy is relevant to the US trade policy. Aaron Friedberg, the political scientist and the former White House national security officer has also said the communist party regime has expanded its use of state-directed, market-distorting, mercantilist policies, especially since 2008. The 2018 Congressional hearing “U.S. Tools to Address Chinese Market Distortions” discussed how “the Party leads everything” doctrine makes China’s economy hard for the trading rules to deal with and results in many US businesses bowing to pressure even though their decisions may jeopardize the future of their companies and the US economy as a whole. The structural problem of the Chinese Communist Party is the fundamental opposition to the free-market capitalism and fair competition and it is claimed by the US as the root of the US–China economic tensions. China is a totalitarian mercantilist regime in a state of an economic war with the West. Trade war by China against the United States has been going on for years”. China declared trade war on the US 18 years ago in control and command economies like China, a telephone call in the middle of the night from a monopoly commissar is all that it takes to get a business to do something. China is totalitarian regime and states China's unfair trade (Figure 1).



**Figure 1:** The rapidly increasing US trade imbalance with China.

The rapidly increasing US trade imbalance with China policies are kind of economic aggression and a direct result of its autocracy. The economic security is the national security and discusses trade in a broader geopolitical arena.

President Trump in his 2018 U.N. speech stated the following: “China's market distortions and the way they deal cannot be tolerated”, while also saying “socialism or communism... produces suffering, corruption... leads to expansion, incursion, and oppression. All nations of the world should resist socialism and the misery that it brings to everyone”, which was seen as also targeting China. The White House criticizes China's market-distorting policies within China and around the globe. Both in the USTR White House report and Congressional report, Vice President Mike Pence's in his China-focused speech claims the forced installation of communist party committees and communist board members in all companies, state-owned, non-state-owned, and joint venture foreign companies, to implement its policies, influence and even form veto power in hiring, selecting leadership, and investment decision-making and can be

inconsistent with market signals. China has chosen economic aggression, which has in turn emboldened its growing military. The administration’s demands challenge all the core elements of China’s economic system and its links to the constitution of the communist party. China claims, that for a long time the US government has brazenly preached unilateralism, protectionism and economic hegemony, made false accusations against many countries and regions, particularly towards China, intimidated other countries through economic measures such as imposing tariffs, and attempted to impose its own interests on China through extreme pressure. China had stolen the US intellectual property and bullied its way into acquiring critical US advances in technology. Tariffs aren’t an end goal, but an important tool to end trade practices that kill American jobs and drive down American pay. Many countries and companies have accused Chinese spies and hackers of stealing technological and scientific secrets through the planting of software bugs and by infiltrating to industries, institutions, and universities. China was also accused it benefited itself from stealing foreign designs, flouting of product copyrights and a two-speed patent system that discriminates against foreign companies with unreasonably longer times. Chinese intelligence service was accused of assisting Chinese companies by stealing company secrets. Chinese hackers had consistently stolen trade secrets from the US defense contractors. Chinese cyber theft of intellectual property is the greatest transfer of wealth in history. Chinese spies have gone after private defense contractors and subcontractors, national laboratories, public research universities, think tanks and the American government itself. Chinese agents have gone after the United States’ most significant weapons, such as the F-35 Lightning, the Aegis Combat System and the Patriot missile system; illegally exported unmanned, underwater vehicles and thermal-imaging cameras; and stolen documents related to the B-52 bomber, the Delta IV rocket, the F-15 fighter and even the Space Shuttle. US opened a formal investigation into attacks on the intellectual property of the US and its allies, which cost the US alone an estimated \$225–600 billion a year.

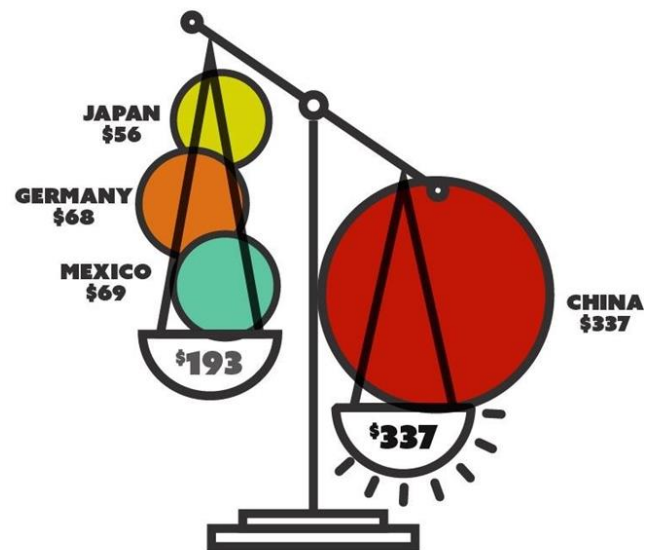
## Reasons for the USA to Implement Tarriff Sanctions

China and the United States are engaged in a trade war as each country continues to dispute tariffs placed on goods traded between them. The economic disputes occurred before China's entry to the World Trade Organization. In April 2018, the United States filed a request for consultation to the World Trade Organization in regard to concerns that China was violating intellectual property rights. In adding various tariffs, the US administration is relying partly on Section 301 of the Trade Act of 1974 to prevent what it calls unfair trade practices and theft of

intellectual property. This gives the president the authority to unilaterally impose fines or other penalties on a trading partner if it is deemed to be unfairly harming the US business interests, especially if it violated international trade agreements. In August 2017, the US opened a formal investigation into attacks on the intellectual property of the US and its allies. The result is that the US believes Chinese laws undermine intellectual property rights by forcing foreign companies to engage in joint ventures with Chinese companies, which then gives the Chinese companies access and permission to use, improve, copy or steal foreign technologies. The US also raises concerns that China fails to recognize legitimate patents and copyrights, and discriminates against foreign imported technology, and that China has instituted numerous non-tariff barriers which have insulated sectors of the Chinese economy from international competition. Thus, the trade war is seen as largely focused on intellectual property in China, especially regarding technology. China's technological progress is coming from terrific entrepreneurs who are getting the benefit of huge government investment in basic science. It's coming from an educational system that's privileging excellence, concentrating on science and technology. That's where their leadership in some technologies is coming from, not from taking a stake in some US company. China declared that its attitude toward the protection of intellectual property rights is clear and firm, and it has continuously strengthened protection at the legislative, law enforcement and judicial levels, and achieved remarkable results. The US claims that China requires technology transfer through foreign direct investment (FDI) regime and required joint ventures: in many cases, technology transfers are effectively required by China's Foreign Direct Investment (FDI) regime, which closes off important sectors of the economy to foreign firms. In order to gain access to these sectors, China forces foreign companies to enter into joint ventures with Chinese entities they do not have any connection. A number of experts have focused on what they claim is China's "theft" of intellectual property, and that it forces the US companies that want to do business there into transferring its confidential technology and trade secrets before having access to their market. Although that kind of transfer is disallowed by the WTO, the negotiations are usually conducted in secret to avoid penalties. The Commission on the Theft of American Intellectual Property states just agreeing to manufacture in China opens yourself to theft or forced technology transfer. It requires the US response based on "strength and leverage". In 2018 the American Chamber of Commerce in China learned that over half its members thought that "leakage of intellectual property" was an important concern when doing business there. Similarly, the EU Chamber of Commerce has also complained that European companies wanting access to the Chinese market often had to agree to transfer vital technology. China claims that the technical

cooperation and other economic and trade cooperation between Chinese and foreign enterprises are completely based on the voluntary principle of contractual behaviour, and both companies have obtained practical benefits, and over the years, American companies in China have received huge returns through technology transfer and licensing, and are the biggest beneficiaries of technical cooperation. In June 2016, as presidential candidate, Donald Trump vowed to cancel international trade deals and go on an offensive against Chinese economic practices, describing his promise as a reaction against "a leadership class that worships globalism". Less than a year after he took office, the United States, European Union and Japan, agreed to work within the World Trade Organization (WTO) and other multilateral groups to eliminate unfair subsidies by countries, which create non-competitive conditions through state-owned enterprises, "forced" technology transfers and local content requirements. In April 2018, President Donald Trump denied that the dispute was actually a trade war, saying that war was lost many years ago by the foolish, or incompetent, people who represented the US. He added also that in the 2018 year USA have a trade deficit of \$500 billion a year, with intellectual property (IP) theft of another \$300 billion. And that US cannot let this continue (Figure 2).

### U.S. TRADE DEFICIT BY COUNTRY IN BILLIONS OF DOLLARS



SOURCE: OFFICE OF THE U.S. TRADE REPRESENTATIVE

Figure 2: US Trade Representative.

The US trade deficit (in billions, goods and services) by country in 2017 In January 2018, President Donald Trump underlined he wanted the United States to have a good relationship with China, but insisted that it treat the United States fairly. In his State of the Union Address a few weeks later, mentioned that America has



also finally turned the page on decades of unfair trade deals that sacrificed prosperity and shipped away companies, jobs, and Nation's wealth. The era of economic surrender is over. From this time America expect trading relationships to be fair and to be reciprocal. United States will work to fix bad trade deals and negotiate new ones and US government will protect American workers and American intellectual property, through strong enforcement of US trade rules. A number of government and industry experts have offered their own rationales about why the tariffs are, or are not, appropriate: John Ferriola, the CEO and President of Nucor, America's largest steel producer and its largest metal recycler, claimed that tariffs were not unfair, but were "simply levelling the playing field". He explained, that not only the European Union, but most countries in the world, have a 25 percent or greater VAT, on products going into their countries from the United States. So if the US impose a 25% tariff, all doing is treating them exactly as they treat the US. Analyst Zachary Karabell claimed that the administration's desire to reject long-standing trade consensus in favour of a more nationalist approach will not succeed. A set of very public and punitive tariffs will not reverse what has already been transferred and will not do much to address the challenge of China today, which is no longer a manufacturing neophyte. Peter Navarro, White House Office of Trade and Manufacturing Policy Director, gave a number of the administration's explanations for the tariffs, among them are that they are "purely defensive measures". He claims that the cumulative trillions of dollars Americans transfer overseas as a result of yearly deficits, are then used by those countries to buy America's assets, as opposed to investing that money in the US. The US Trade Representative Robert Lighthizer, after a seven-month investigation into China and intellectual property, explained that the value of the tariffs imposed was based on the US estimates of the actual economic damage caused by China's alleged IP theft and the forced transfer of technology to Chinese companies. In response, Chinese Premier Li Keqiang promised in March 2018 to henceforth protect the rights of foreigners investing in its economy, followed in April by an announcement by China that it would eliminate laws that required global automakers and shipbuilders to work through state-owned partners. President of China Xi Jinping reiterated those pledges, affirming a desire to increase imports, lower foreign-ownership limits on manufacturing and expand protection to intellectual property, all central issues in Trump's complaints about their trade imbalance. Trump thanked Xi for his "kind words on tariffs and automobile barriers" and "his enlightenment" on intellectual property and technology transfers. It is claimed that China has instituted an array of non-tariff barriers meant that some critical sectors of the Chinese economy remained relatively insulated from international competition. China has controlled imports by having different standards for

private, foreign companies than for Chinese State Owned companies: Lee G. Branstetter, a professor of economics and public policy at Carnegie Mellon University, listed some of the ways that China has misappropriated foreign technology. In a report issued March 22, 2018, the US cited numerous instances of forced technology transfer and the failure of companies and the government to protect the US intellectual property from infringement or theft. Soon after the report came out, the US announced plans to impose tariffs on up to \$60 billion worth of Chinese exports to the United States and tighten the rules governing Chinese investment in the United States. Amid doubts over the costs of the US comprehensive strength and leverage, alleged security implications, China's allegedly terrible human rights records, the Clinton administration in 2000 approved China's entry to the World Trade Organization. However, the US claims that China has failed to fulfil its promise for reforms and requirements to be a WTO member, further claiming that flaws in the rules of the current trading system lets China limit imports with high tariffs and discriminatory regulations, subsidize exports with an inexpensive currency and generous credit through state controlled banks, bully foreign investors, pirate western intellectual property, which allegedly gives it trade advantages. The US claims that the WTO for a long time didn't punish China's "cheating". The threatened tariff increase on the additional \$200 billion in Chinese goods by the US, and the retaliatory increase in tariffs on American goods, was postponed in early December 2018. During the 2018 G20 Buenos Aires summit, Donald Trump and Xi Jinping agreed to delay their planned increases in tariffs for 90 days, starting on December 1, to allow time for the two countries to negotiate their trade disputes. According to the Trump's administration, if at the end of [90 days], the parties are unable to reach an agreement, the 10 percent tariffs will be raised to 25 percent. The US Trade Representative's office confirms the hard deadline for China's structural changes is March 1, 2019. If China fails to do reform which supposed done years ago, the 25% tariffs on \$200 billion of Chinese goods will be imposed since 12:01 a.m. Eastern Time Zone on March 2, 2019 scheduled date of a tariff rate increase on \$200 billion worth of Chinese goods to 12:01 a.m. EST (0501 GMT) on March 2, 2019. China had agreed to purchase "a very substantial" amount of soy beans and other agricultural, energy, industrial, and other products from the US. China had agreed to reduce the 40% tariff on cars coming into China from the US, although Beijing had not confirmed that by December 4, 2018. Chinese government was considering a reduction in the auto tariff but provided no specifics. Two leaders had agreed to immediately begin negotiations on structural changes with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft, services and agriculture. Two heads of state reached consensus to halt the mutual increase



of new tariffs” and the country would increase its purchases from the US to “gradually ease the imbalance in two-way trade”. The official announcement from Beijing did not confirm the plan for such purchases, but said that both leaders were striving for a mutually-beneficial agreement. On October 17, 2018, the United States announced its withdrawal from the Universal Postal Union, in order to renegotiate international shipping rates for mail and small packages. China had been paying lower rates because it was considered a developing nation; the United States seeks to charge the same rates for all countries. The withdrawal can be rescinded if an agreement is found within one year.

### **Influence of USA-China Trade War on International Business Us Executive Branch**

The planned Chinese tariffs only reflected 0.3% of the US gross domestic product. The moves would have “short-term pain” but bring “long-term success”. Tariffs may be self-defeating and that renegotiating China's membership in the WTO would be more effective than tariffs. The US economy stayed strong in 2019. Increases in the interest rates were necessary to maintain the economy. Given this outlook of strong growth, strong labor market and inflation near US goal and taking account all the various risks around the outlook, and do not expect further gradual increases in interest rates was best sponsor a sustained economic expansion. A self-appointed group of billionaires related to Goldman Sachs or Wall Street pressed on the White House, claiming that it was a part of a Chinese government influence operation that weakens the US negotiating position. Unregistered foreign agents for supposedly interfering with negotiations and violating the Foreign Agents Registration Act, urging them to invest in Dayton, Ohio and America factory towns where a rebirth of manufacturing base is needed.

### **Strong Bipartisan Pushes for Firm and Further Actions against China**

Higher tariffs against China's alleged taking advantage of the US. It was opinion that Democrats, Republicans, Americans of every political ideology, every region in the country should support these actions. In the meanwhile, he warns Trump administration not to let China play them and President Trump should not back off his pledges to punish Beijing. Most Democratic senators, including Committee ranking members Bob Menendez (Foreign Relations), Sherrod Brown (Banking), and Ron Wyden (Finance), claimed that Americans confront rampant theft of the US intellectual property, forced data storage localization policies, agricultural policies that disadvantage American farmers, dumping shoddy goods, restrictions on market access for the US service providers and manufacturers, and mercantilist industrial policies that have cost the US workers their jobs. They ask

sanction on Chinese companies, such as ZTE, that has allegedly sold sensitive US technologies to Iran and North Korea and repeatedly made false statements. Democrats call on putting American workers, farmers, businesses, innovation and national security ahead of China and remain steadfast in enforcing America's laws for claimed predatory and abusive behaviours. Ahead of the G-20 negotiation, the Senators ask the administration to stand tougher for pushing real meaningful structural reforms in China. China is a more real threat to American manufacturing and high-tech industries, claiming that regarding espionage. There's no country that's even close to China. China is claimed to be responsible for 50~80% of cross-border intellectual property theft worldwide, and over 90% of cyber-enabled economic espionage in the US. The US must take strong, smart and strategic action against China's brazenly unfair trade policies must do much more to fight for American workers and products far more is needed to confront the full range of China's bad behaviour. Beijing's regulatory barriers, localization requirements, labor abuses, anti-competitive policy and many other unfair trade practices require a full and comprehensive response must show the moral courage to use its economic leverage to not only guarantee free trade for American products in Chinese markets, but also to advance human rights in China and Tibet. A brief reduction in the trade deficit was doing nothing to solve the main challenges of the trade relationship and called for “targeted sanctions” on Chinese companies, non-tariff restrictions, and upgraded protection for US and intellectual property innovation. It was the opinion in US to keep position against most favoured nation status for China and trade war against China was supported.

### **Markets and Industries**

By early July 2018, there were negative and positive results already showing up in the economy as a result of the tariffs, with a number of industries showing employment growth while others were planning on layoffs. In anticipation of tariffs going into effect, stock prices in the US and China sustained significant losses for four to six weeks prior. Trade war fears had led to a bear market in China where by late June the total value of the country's stock markets was 20% lower than it had been at the beginning of 2018 when it reached record levels. The Japanese Nikkei also suffered a “three-week pullback”. On July 6, 2018 when the tariffs went into effect, markets rebounded and rallied due to positive jobs report in the US-Asian markets similarly rebounded, ending the day in a high note. According to the Associated Press, the positive reaction to the tariffs in the US and Asian markets was because of an end to uncertainty and, according to Investor's Business Daily, because “markets had largely priced in the impact”. Announcements of escalation of tariffs by the US and China, representatives of several major US



industries expressed their fears of the effects on their businesses. Organizations critical of the intensifying trade war included National Pork Producers Council, American Soybean Association, and Retail Industry Leaders Association. Several mayors representing towns with a heavy reliance on the manufacturing sector also expressed their concerns. In September, a business coalition announced a lobbying campaign called "Tariffs Hurt the Heartland" to protest the proposed tariffs. Proponents of the increased the US tariffs included Scott Paul, president of the Alliance for American Manufacturing.

### Increase of Protectionism between USA and China

To stay afloat on both global and national markets, corporations will look for ways to protect their margins by avoiding paying hefty tariff bills. The costly price of building manufacturing infrastructure in the US means corporations will now turn their eyes toward other countries hungry to entice US manufacturing and jobs to their country. Many companies are already beginning to look to relocate manufacturing to China's close neighbour, Vietnam. The global news magazine, Foreign Policy, reports that Goertek, a Chinese company known for supplying Apple Air Pods have already begun relocating their machines to Vietnam. Goertek looks to escape the tariffs by manufacturing in Vietnam instead, as talks between the US President Trump and Chinese President Xi Jinping continued on November 1st, 2018. This is a decision that many companies will be forced to make. Coi Rubber's President, David Chao, has said that he too had already been considering offshoring manufacturing to other countries near China prior to the trade war talks. The passage of recent tariff laws only solidified Mr. Chao's decision to relocate their China based factory to other competitive countries to escape unreasonable tariff costs and maintain the company's global expansion trajectory. Coi Rubber will continue to operate their three factories in China but will make Vietnam their primary factory. Although the tariffs may impact many manufacturers initially, Mr. Chao sees this as an opportunity to invest in Coi Rubber's future by building their 4th factory in Vietnam, thereby allowing them to save costs in not only tariffs but in labor costs as well. The decision of the US administration to impose a new round of tariff increases on imports from China has taken the US-China trade dispute to a new level. The new list is subject to a 10 percentage point increase in import tariffs, which would be eventually raised to 25 percentage points at the end of the year 2018. It represents a large expansion in the range of Chinese products included in the first two tranches of US import tariff hikes implemented on 6 July and 23 August 2018. The policy has triggered retaliation. China raised tariffs by 25 percentage points on similar amounts of imports from the US on the same dates that the US tariffs came into force. This protectionist tit-for-tat can have consequences for the economies

of the warring parties, as the experience of the Great Depression illustrates [43]. At the same time, it can also affect third countries, especially those more economically linked to the US and China. In this column, we provide novel partial equilibrium estimates of the potential trade and investment impacts of the US-China trade dispute, focusing on East Asia. Countries in this region are the most exposed to the dispute given their integration with Chinese-led supply chains and the similarity of their export baskets with China. We focus on the impact on these countries of US tariff hikes on Chinese production. We estimate the expected import response to the tariff increase. To do so we combine HS-8 digit US import data for 2017 from the US Census Bureau of Statistics, HS-6 digit product-level price elasticity of US imports and the published lists of Chinese products subject to the three tranches of US tariffs. We assume the price of import to increase proportionately with the tariff, which is then multiplied by the relevant elasticity and the import value to obtain the expected reduction in US import from China. Our calculations suggest that the total US imports from China in the affected products amounted to \$234.8 billion in 2017, of which \$188.9 billion have been targeted in the last tranche of tariffs (Table 1).

**Table 1:** Value of US imports from China targeted by the tariff measures.

	Value of targets imports in first announcement (in \$ bn)	Value of targets imports at effective dates (in \$ bn)
1 <sup>st</sup> Tranche	32.3(April 3 <sup>rd</sup> )	32.3(July 6 <sup>th</sup> )
2 <sup>nd</sup> Tranche	13.8 (April 3 <sup>rd</sup> )	13.7 (August 23 <sup>rd</sup> )
3 <sup>rd</sup> Tranche	197.2 (July 10 <sup>th</sup> )	188.9 (Sep. 24 <sup>th</sup> )
Total		234.8

Based on the data we use, the tariffs would reduce US imports from Table 1 Value of US imports from China targeted by the tariff measures China by \$68.6 billion, equivalent to 13.6% of total US imports from China and 3% of global Chinese merchandise exports. This expected drop in Chinese exports would translate into a reduction in domestic value added by \$41.4 billion, a relatively modest 0.3% of Chinese GDP. This is an upper bound of the direct impact on Chinese exports, as it does not consider the possible re-direction of these exports towards third markets. The bulk of the affected imports is concentrated in electronic equipment and machinery and their components. Electronic and optical equipment (including TV and sound) (Figure 3).

Expected drop in US imports from China due to US tariffs hike, by HS-2 digit sector (\$ million) recording devices) and their components, as well as machinery, boilers and mechanical appliances account for almost half of the expected drop in US imports from China. A significant amount of the import drop is also expected in consumer products, such as furniture, vehicles,

leather articles and fish and crustaceans, which may have some direct impact on parts of the US household consumption basket. The upside of the reduction in Chinese exports to the US is the potential diversion of US imports towards non-Chinese suppliers, particularly in East Asia, where export structures present some similarities with China.

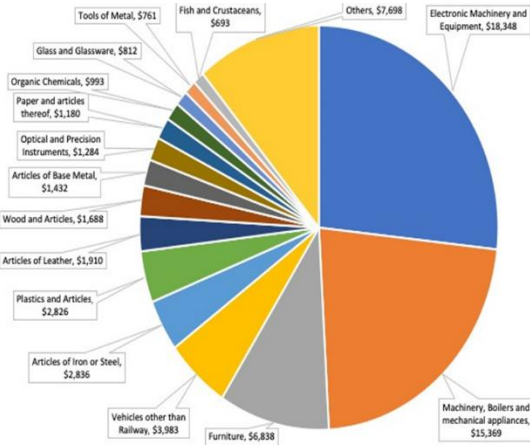


Figure 3: Expected drop in US imports from China due to US tariffs hike, by HS-2 digit sector (\$ million).

o get a sense of these potential export opportunities, we identify the Chinese products (at the HS-8 digit level) that are subject to higher tariffs in the US market and which happen to be also exported to the US by other East Asian countries for a value of at least \$10 million in 2017. The intuition is that a country which is already exporting a non-negligible amount of the same product to the same market would be more likely to replace an existing exporter in that product-market pair. According to this metric, the replacement potential of Chinese exports in the US by East Asian countries – especially emerging economies – is quite significant. Vietnam, the Philippines, and Cambodia are the East Asian countries with the largest replacement potential relative to the size of their economy. The estimated drop in Chinese exports to the US (Figure 4).

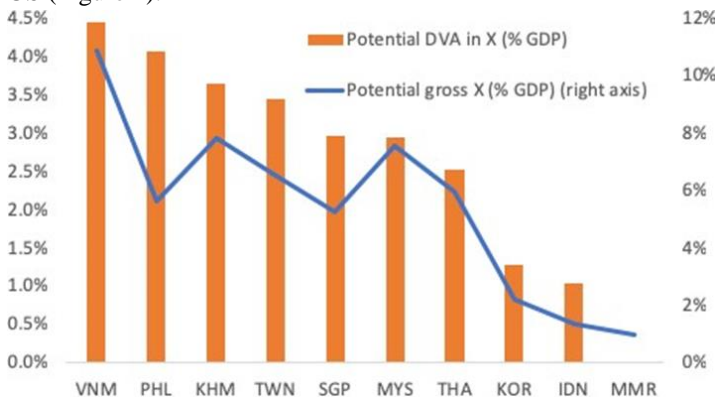


Figure 4: Potential replacement of Chinese exports to the US, by countries (% of GDP).

Potential replacement of Chinese exports to the US, by countries (% of GDP) in products which Vietnam already supplies to the US for at least \$10 million is worth 10.9% of Vietnam's GDP, or 4.4% of GDP when considering the associated domestic value added of these exports. The largest opportunities lie in those products where both the expected Chinese export drop and the existing Vietnamese exports to the US are large, such as chairs, insulated ignition, shrimp and prawns, travel bags, parts of seats, television cameras, wooden furniture and handbags (Figure 5).

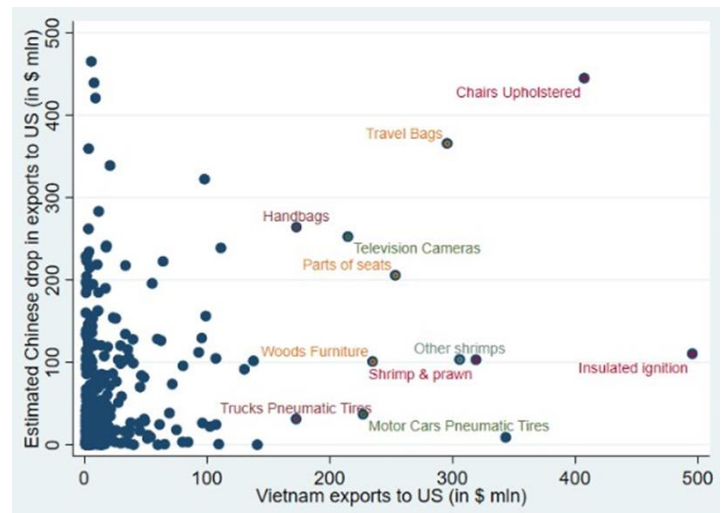
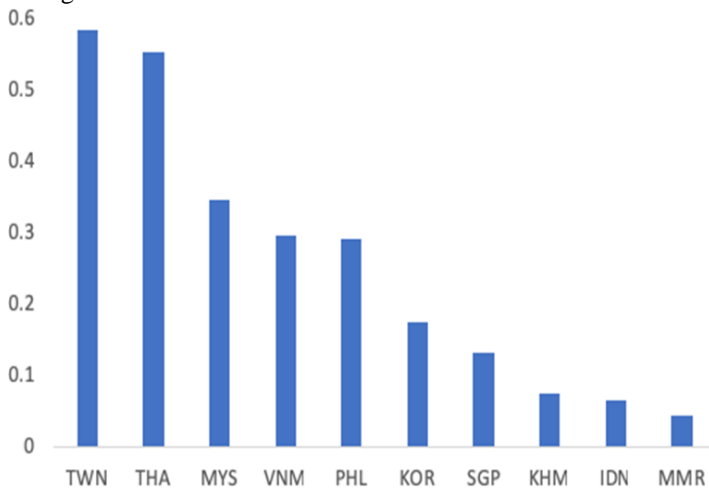


Figure 5: Main potential products where Vietnam could replace Chinese exports in the US.

A much smaller set of products fulfils these characteristics for Main potential products where Vietnam could replace Chinese exports in the US Cambodia, including plywood sheets, handbags, travel and sports bags, lighting sets for Christmas trees, dog or cat food, parts of seats and bicycles, reflecting the high concentration of its export basket. Taiwan, Singapore, Malaysia, and Thailand also have non-negligible exports replacement potential. The potential replacement is more limited for Indonesia. The drop of Chinese gross exports in products also exported by Indonesia to the US is worth 1.3% of GDP, with an associated domestic value added of 1.0% of GDP. By raising the cost of serving the US market from China, the trade war could also lead to diversion of investments towards third countries. This diversion would likely concern mainly Chinese investments seeking to by-pass US import tariff hikes. The extent to which investments may relocate towards other countries to serve the US market would partly depend on each country's ability of producing the same set of affected products for the relevant market and perceptions about the duration of the trade war. We measure this ability through the correlation index between the expected drop in US imports from China and the US imports from each East Asian country in the HS 8-digit products subject to the

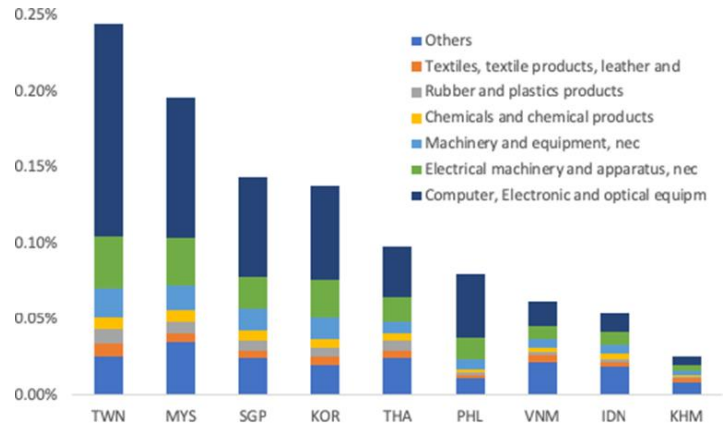
tariffs. The value of the index is highest for Taiwan, followed by Thailand, Malaysia, Vietnam, and the Philippines (Figure 6).

Degree of similarities of export baskets to the US with China for affected products (index of correlation at HS-8 digit) and Myanmar have the lowest value of the index. While this ranking tries to capture only one of the several criteria used for investments choices, it is suggestive of the variation in the relative attractiveness across potential destinations for investments based on existing similar export basket as China. While China has progressively absorbed large chunks of the value chain in various sectors it still relies on imports of foreign intermediates and final inputs for some of its production. East Asian countries are key suppliers of such intermediates and inputs to China. Hence, the expected drop in Chinese exports to the US may have knock-on effects on these countries via backward linkages.



**Figure 6:** Degree of similarities of export baskets to the US with China for affected products (index of correlation at HS-8 digit).

The extent of this impact would depend on what parts of the value chain each country contributes to. This in turn determines what intermediates and raw materials countries provide to China in the production of the products affected by the tariff hike. In order to gauge the importance of this channel, we match our estimated drop in Chinese exports at the HS-8 digit level with the country-specific shares of domestic value added in Chinese gross exports to the US in those products (available from OECD TiVA data). Taiwan and Malaysia are the East Asian countries that appear most vulnerable to the drop in Chinese exports via the supply chain with an estimated GDP loss of 0.24% and 0.20% respectively (Figure 7).



**Figure 7:** Estimated effects of US-China trade war on GDP via supply linkages.

Estimated effects of US-China trade war on GDP via supply linkages. That is mainly due to the countries' provision of inputs for Chinese exports to the US in electronic and optical equipment as well as electrical machinery, which account for two third of this loss. Singapore and South Korea, and Thailand are all expected to lose more than 0.1% of their GDP via this channel, while the effect for Cambodia, Indonesia and Vietnam are relatively muted given the low participation in Chinese-led global value chains. While these negative effects are smaller than the estimated (positive) export replacement potential, the two figures are not necessarily comparable. The latter are upper bound estimates of the potential for replacement. In fact, the true dimension of the replacement effect is likely to be considerably smaller than what is reported in figure 4 for two reasons: first, each country would compete for the same potential market; second, any such replacement would hinge on the supply response in each country-product pairs, which could be relatively small (and even zero) in many cases. On the other hand, the effects via the supply chain are likely to provide a more precise order of magnitude of the actual losses. This type of analysis could help policymakers in East Asia (and beyond) identify the potential winners and losers among domestic producers from the US-China trade war. Governments could help the former replace Chinese exports in the US markets through measures such as facilitating access to imported inputs, which are heavily used by East Asian exporters, and ensuring the availability of finance, including trade finance, required for the additional production and exports. At the same time, assistance to potential losers to reallocate their production and/or their labor could help minimize the domestic costs of the trade war [44].

## USA and the Other Trading Patners in Trade War with China

After almost a year of going it alone, President Trump finds himself with a surprising weapon in his trade confrontation with



China: allies. Pressure from Europe and Japan is amplifying the president's vocal complaints about Chinese trade practices that he says discriminate against foreign companies and threaten the US economic growth — as fresh economic data in the end of 2018 year in Beijing showed the economy slowing more than expected. To eliminate one major irritant, Chinese leaders already have begun scaling back an industrial policy aimed at dominating 10 technology industries, after concluding the president's objections were widely shared and could not be resolved merely by waiting out the mercurial US leader. "One thing the Chinese have had to acknowledge is that it wasn't a Trump issue; it was a world issue", said Jorge Guajardo, senior director at McLarty Associates and a former Mexican ambassador to China. "Everybody's tired of the way China games the trading system and makes promises that never amount to anything". Administration officials deserves credit for driving a harder line towards Beijing both domestically and foreign. Attacking Chinese protectionism now has bipartisan support in Washington, Germany, and the United Kingdom joined the United States in 2018 year in tightening limits on Chinese investment. But critics say the President has not done enough to capitalize on those shared grievances, instead alienating European and Japanese officials in 2018 year by imposing tariffs on their shipments to the United States of steel and aluminium. Trump's resolve to pursue his confrontation with China is doubted amid administration infighting and suggestions that the United States might settle for increased Chinese purchases of American products rather than demand wholesale changes to China's economic system in ongoing trade talks. "It makes sense to get the other countries more involved. But they don't know how serious Trump is on the systemic reform bits", said Chad Bown, a senior fellow at the Peterson Institute for International Economics. China has tried to defuse the global irritation over its mercantilist stance by signalling a willingness to revise a program of state subsidies and market share targets called "Made in China 2025". The new flexibility comes as Chinese industrial production figures in the end 2018 year fell short of economists' expectations and retail sales grew at their slowest rate in 15 years. Analysts in China and the United States say China is modifying the Made in China program because of pressure from all its major trading partners. In September 2018 year, trade ministers from the United States, European Union and Japan issued a joint statement that blasted the use of subsidies in turning "state owned enterprises into national champions and setting them loose in global markets". The statement, which did not name any country, also rejected forced technology transfer and cyberattacks — underscoring key elements of the president's attacks on Beijing. The US Trade Representative Robert E. Lighthizer has described the subsidy program, which sets market share goals for Chinese industry, as imperilling US technology leadership. China wants its

semiconductor manufacturers to provide 70 percent of domestic needs, up from less than 20 percent today, threatening the \$6 billion in annual US exports. But roughly a dozen other countries are even more dependent on high-tech manufacturing and exports of advanced factory gear, and are more exposed to China's desire to replace purchases of foreign products with domestic alternatives, according to the Mercator Institute for China Studies in Berlin. The pushback from other trading partners is a really important piece of the dynamic development of China. That's because the Made in China 2025 program is more of a threat to Germany, South Korea and Japan than it is to the United States. External pressure drove China in 2018 year to open markets for financial services and automobiles, according to economist Andrew Polk, a partner in Trivium China, a Beijing-based consultancy. In the end of 2018 year, the Chinese government also temporarily rolled back a tariff increase on the US autos, implementing part of a trade-war truce Chinese President Xi Jinping and Trump agreed to during their meeting in Buenos Aires. Chinese authorities have eliminated the foreign ownership cap for life insurers, approved foreign financial institutions underwriting domestic bond offerings and agreed to lift limits on foreign stakes in automotive joint ventures by 2022. It's the only bipartisan issue in Washington. It's a concern for Brussels and Canberra and that recognition is what has helped drive accelerated market openings. From the outset, the President has pursued his plans for an "America First" remake of the US trade policy with little regard for sentiment abroad. He withdrew the United States from the 12-nation Trans-Pacific Partnership as one of his first official acts, and he has imposed unilateral tariffs to a degree unseen since the 1930s. His attacks on the World Trade Organization also undermined any chance that China's trading partners would unite in a comprehensive complaint in Geneva. The United States did win the EU and Japanese support for a complaint to the WTO alleging China has violated the US intellectual property rights. But rather than use the global trade body for a broader attack on China, the administration has demanded changes in the way the organization operates. To critics, the administration missed an opportunity to marshal China's trading partners behind an across-the-board indictment of its state-led economy. The EU agreed in the end 2018 year to establish a new screening mechanism for foreign investments, motivated largely by a sharp increase in Chinese activity on the continent. Yet the EU measure leaves final decisions to national governments and falls short of the Committee on Foreign Investment in the United States. The German government in July 2018 blocked two potential acquisitions by Chinese investors, following similar action by Canada two months earlier, and lowered to 15 percent from 25 percent the foreign ownership stakes that require review. British Prime Minister Theresa May's government also announced plans for closer scrutiny of



investments by foreign entities. Despite his reputation as a global loner, Trump's views on China are becoming the conventional wisdom. The rest of the world knows that China has been violating common trade practices, WTO trading practices and laws. The rest of the world knows full well about the issues of IP theft and forced transfers of technology. They know that and they've said so. This idea that other countries are not with us — it's just not true", said National Economic Council Director Larry Kudlow. "The rest of the world knows this, and China knows the rest of the world knows this". The US and Chinese officials are racing toward a self-imposed March 1, 2019 deadline to negotiate a trade deal that would involve changes to China's state-directed economy. Many Trump allies are sceptical China will agree to turn away from its state-directed system and embrace additional market changes. With the United States and China locked in a geopolitical competition. It is easier for revision-minded officials to advocate changes in programs like Made in China 2025 by citing shared concerns among all the country's major trading partners. Chinese authorities have changed course under pressure before. In 2015, regulators scrapped plans to require foreign financial institutions to install Chinese software amid complaints from the US, European and Japanese diplomats and business groups. Some administration officials scoff at the proposed changes as cosmetic and designed to sap the US negotiating willpower. Plans to allow foreign companies a greater role in the Chinese technology program "an influence operation at its best. Chinese laws would mean much so long as the courts remained under the control of the Communist Party. What the Chinese are talking about are really just baby steps [45]. On June 1, 2018, after similar action by the US, the European Union launched WTO legal complaints against China's alleged forced ownership- granting and usage of technology that is claimed to discriminate foreign firms and undermine the intellectual property rights of the EU companies. They are allegedly forced to establish joint ventures in order to gain access to the Chinese market. The European Commissioner for Trade Cecilia Malmström said "We cannot let any country force our companies to surrender this hard-earned knowledge at its border. This is against international rules that we have all agreed upon in the WTO [46-50]. American, European and Japanese officials have discussed joint strategy and taken actions against unfair competition by China. The 2018 G20 summit in Buenos Aires concluded the multilateral trading system "is currently falling short of its objectives, necessary reform of the WTO to improve its functioning" [51-78].

## Conclusions

The foreign trade policy plays a key role in the maintenance of both economic and political liberalisation. The prominence of rent seeking in a country can have far-reaching implication for its economic development. Especially in underdeveloped or

transitional countries, rent seeking takes scarce resource out of productive areas in the economy, using them to promote and/or perpetuate further rents. Structural and micro-political economy analyses of foreign trade policy in the context of the sustainable development have missed the impact of changing ideas about protectionism and relatively unchanging institutions designed to handle domestic producer complaints. The political consensus on the supply of foreign trade policy and protectionism has changed over time. In the economic depression tariffs revenues and protectionism played important roles in the politics of political parties. At the same time in the market economy even during the economic depression one can observe a little support for liberal foreign trade policy. It is necessary to emphasize that in the foreign trade policy there are not pure liberalism and pure protectionism. In the high economic growth there are tendencies to liberalism in foreign trade policy and in the economic crisis there are tendencies to protectionism. China will be significantly hurt by tariff trade war in all indicators, including welfare, gross domestic product (GDP), manufacturing employment and trade. However, it is pointed out that although there will be definite impacts on China, the costs should be maintainable and will not severely damage the Chinese economy. In regard to the United States, the simulation produced results that described, the US will gain on welfare, GDP and non-manufacturing production, but hurt employment and trade (both export and import). Since each nation maintains a large economy, their actions affect not only each other but also the entire world. As a result of the trade war, the simulation predicts that the rest of the world will also see impacts within their economies. For most large and developed nations, they will see positive benefits from a US-China trade war. As trade decreases between the United States and China, the trade will presumably increase between other nations as a result. For example, within the rubber industry, both Chinese and international companies are readying the restructure of their supply chains by shifting the manufacturing of rubber products from China to neighbouring Asian countries, Vietnam and Malaysia. However, smaller nations will see significant negative impacts. For example, World total welfare, GDP, manufacturing production and employment, export, import, and total trade are expected to decrease since many of these nations are highly trade dependent. The 21st-century initiative is not merely for China to romanticize its historical legacies: it carries major strategic economic and geopolitical calculations. Realistic point is important trends in the trade regime. The commercial relations are too important to become hostage to political grandstanding or airy rhetoric by politicians performing for domestic galleries. Disturbing this relationship would have ramifications for sales, growth, and employment especially in the time of COVID-19. Commercial interests in autocratic regimes like China cause political dilemmas especially in the time of COVID -19. The

Global Crisis was a total shock to the comparison in cost savings. Global supply chains became more costly when the risk of a non-delivery of an input good increased substantially after the Global Crisis. Firms may have also expected higher tariff rates after the Global Crisis, which shrinks advantage of GVCs as input goods pass the border several times. At the same time, the Global Crisis made robot adoption less costly, with the sharp decline in interest rates relative to wages when central banks started to fight the adverse effect of the crisis. As a result, many firms in rich countries like USA started to re-shore production back to their home country and invested in robots instead. In the wake of the Global Crisis, uncertainty in the world economy led many firms to reassess their business models. Rather than relying on global supply chains, an increasing number of firms invested in robots, which prompted a renaissance of manufacturing in industrialized countries like USA. Changes in the world economy due to COVID-19 make a V-shaped recovery from the coming recession unlikely, more likely is U and in services L. Instead, COVID-19 will accelerate the process begun after the Global Crisis by encouraging firms to re-shore activity back to rich countries like USA.

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