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## Issue Brief

# Trump's Global Trade War and China

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The antitrade rhetoric resonated among the millions of Americans during the election campaign where Donald Trump, the presidential candidate promised to rip off all such free trade agreements like North American Free Trade agreement (NAFTA), the recently negotiated Trans-Pacific Partnership (TPP) and many others which have caused millions of job losses in the US. Along with this, he urged to raise tariff rates on imports of certain goods from China. Initially it was China and Mexico where Trump urged to raise the trade tariffs up to 40% and 15% respectively, later he suggested 10% tariffs on imports from everywhere around the world.<sup>1</sup>

Trump believes that globalization has ruined the US economy resulting into more job losses and losses of the manufacturing sector for which he holds China mainly responsible due to its currency devaluation (or manipulation) leading to more trade deficit with China. He also signaled to be very tough on other US allies.

In this context, the appointments of Peter Navarro, a hard core China hawk, as head of the new National Trade Council and Wilbur Ross (who is a protectionist billionaire) as Commerce Secretary confirms that US President-elect Donald Trump is serious in getting tougher and harder on trade with China and other major US trading partners in the times ahead.

The most recent pick of a long time free trade critique, Robert Lighthizer, a former trade official in the Reagan administration to head the US Trade representative office is another sign that Trump is serious in his protectionist approach towards trade and business. This office is responsible for negotiating trade agreements with other countries and represents United States at the World Trade Organization.<sup>2</sup> Under the Obama administration, this office was responsible for negotiating the Trans-Pacific Partnership (TPP), a free trade deal between US and 11 other countries along the Pacific region. Under Lighthizer as head of the office, the future of TPP is murky.

Donald Trump's way of making 'America Great Again' while taking an isolationist approach will have far reaching effects in shaking the US-led world order carefully constructed after the Second World War. For the bilateral trade relation between US and China, the punitive import duties up to 40% on Chinese imported products along with the hawkish team would hurt both, but US will likely be in a bigger mess as compared to China. Few reasons for this are listed below:

- With high tariff rates, the most immediate effects will be on American companies' like Walmart which imports billions of cheap goods from China, which according to Economic Policy Institute amounted at \$49 billion in 2013.<sup>3</sup> This will have inflationary effect as prices will rise as

businessmen cover part of the cost in their profit margin making it inaccessible to the middle class in America.

- In high tech equipment, China manufactures most of the equipment, where large part of the profit goes to the American companies who design the equipment. A tougher trade policy under the Trump administration will hurt the American companies more than the Chinese manufacturers. The Chinese produced items like laptop, computers and cellular phones have growing demand in developing countries like Latin America and Africa and Asia.
- Among the US exportable to China, iPhones users in China have outnumbered their users in the US. There were more than 131 million iPhones in use in China at the end of 2015, making it a larger market for Apple than the US, which is estimated to have 110 million active iPhone users, according to data released earlier this year by Consumer Intelligence Research Partners.<sup>4</sup>
- According to Boeing report on annual China Current Market Outlook (CMO), there is a projected demand of 6,810 airplanes in the country over the next 20 years and that market alone will be worth more than \$1 trillion.<sup>5</sup> Boeing employs 150,000 workers in the US, so any adventurism will cost the US more than China.
- Lastly, the rupture of TPP under the new administration will bring China in a dominant economic and strategic position, which again is a win-win situation for China.

One hopes that Trump realizes that most of the economic woes to the US economy is not because of the of trade agreements or China's currency manipulation, there are other factors. Starting a trade war will have catastrophic effects on the US economy, as well as on the global economy.

## Notes and References

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  - <sup>2</sup> 'Why US pick of Robert Lighthizer as trade representative is a big deal' January 03 2017  
<http://www.vox.com/policy-and-politics/2017/1/3/14152712/trump-robert-lighthizer-trade-representative>
  - <sup>3</sup> <http://www.epi.org/>
  - <sup>4</sup> 'Just how popular is iPhone in China' a report published in Fortune Technology, May 19, 2016.  
<http://fortune.com/2016/05/18/apple-iphone-china/>
  - <sup>5</sup> Boeing report on annual China Current Market Outlook (CMO), September 16, 2016  
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