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We appreciate the continuous and generous support of all members of the Editorial Board, and those of CECCA and of supporting institutions. We hope the Journal will continue to provide a unique platform for discussion and debate.

On behalf of the editorial team,

Dr. Chi Zhang

Glasgow, UK

25th October 2021

1. Special Observer

***Editor's Note**: The trade dispute between the US and China since 2018 has draw great attention for both law and business scholars and practitioners, and it is predictable that the ongoing disputes and conflicts between the US-CHINA trade war will essentially impact or even change the world trade order in the following years. This report aims to focus on the China-US trade war that has been occurring since 2018 and the effect it has had on the two superpowers as well as the global economy. Moreover, the authors attempt to provide the most credible and up to date sources so as to maintain the highest level of accuracy in this report which will update readers' understanding of this globally influential trade-war between the two giants.*

The Impact of the Sino-US Trade War on the Global Economy

Authored by * Dr George Christou, *Dr. Pengfei Zhang, and **Dr Lijun Zhao

Achoknowlegment: All authors contributed equally to this article.

Introduction

Before one begins to analyse the effects of the recent trade dispute between the US and China on the world economy, it is necessary to define what a trade war means. A trade war

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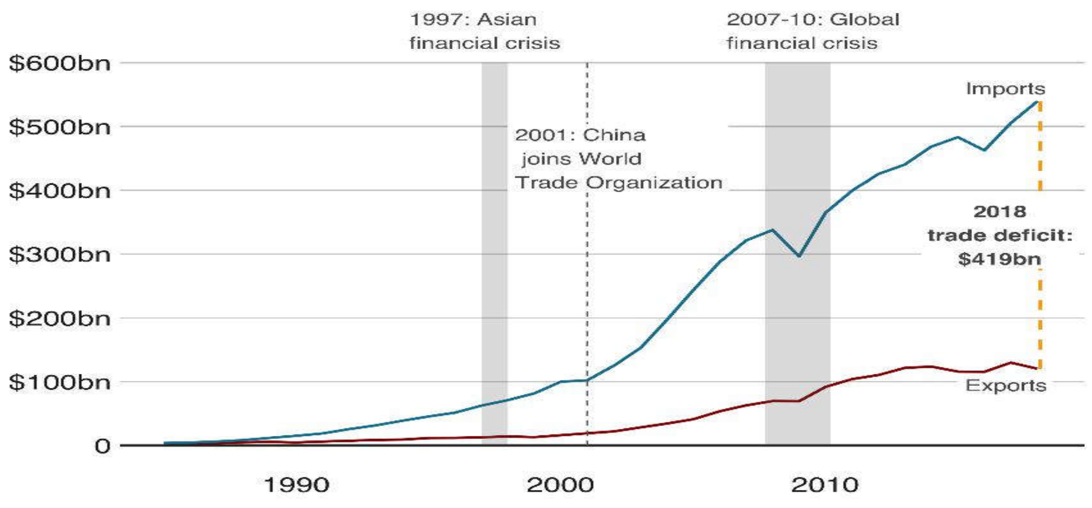
can be defined as increased import tariffs from one country aimed at another and the ensuing retaliation from the latter nation. The 'America First' platform that got Donald Trump elected as US president in 2016 has seen a number of recent trade fights with other countries, namely Mexico, Canada and the EU, among others, to incentivise the purchase of American goods in an attempt to reduce the massive US trade deficit of $621 billion (Amadeo K, 2019). This has led to retaliations of increased tariffs on US goods by the countries mentioned above. This article aims to focus on the China-US trade war that has been occurring since 2018 and its effect on the two superpowers and the global economy. This article focuses on analysing this particular trade war as the largest US trade deficit by country is China by far, at $378 Billion in 2018 before dropping to $345 Billion in 2019, due to the tariffs that will be discussed below. What is important to note, and will become evident throughout this article, is that a trade war is a lose-lose situation for both countries involved, as less exchange of goods occurs and leads to less consumption for both sides. The first part of this article aims to discuss the sanctions placed by both countries and their effect on a global scale, while the second part of this article will analyse the winners and losers of this ongoing dispute. It is important to note that it is extremely difficult to calculate the precise financial impact of these tariffs; thus, credible sources have been used to provide a rough estimate. Additionally, this trade dispute is still ongoing. Therefore, this article will attempt to provide the most credible and up-to-date sources to maintain the highest level of accuracy.

Brief History of US-China Relationship

Historically, US and Chinese relations were strong in the past, so long as China was a cheap factory for US multinational corporations, therefore its growth and emergence as a new market was welcomed at first. However, as the country has slowly evolved into a global power and replaced the US as a goods supplier to most of the world through the Belt and Road Initiative among other reforms, tensions grew between the two superpowers. As mentioned above, Trump's 'America First' platform was centred around the massive US trade imbalance; besides, accusations of intellectual property theft, lack of market access and an unlevel playing field caused by China's subsidies for favoured local companies were the catalysts for the ensuing trade war. Figure 1 below illustrates how the US trade deficit to China has multiplied over the years, at a time when Chinese manufacturing was cheap, which has become the reasoning behind the US protectionist stance and the subsequent trade war in recent years.

Figure 1- US Trade Deficit with China



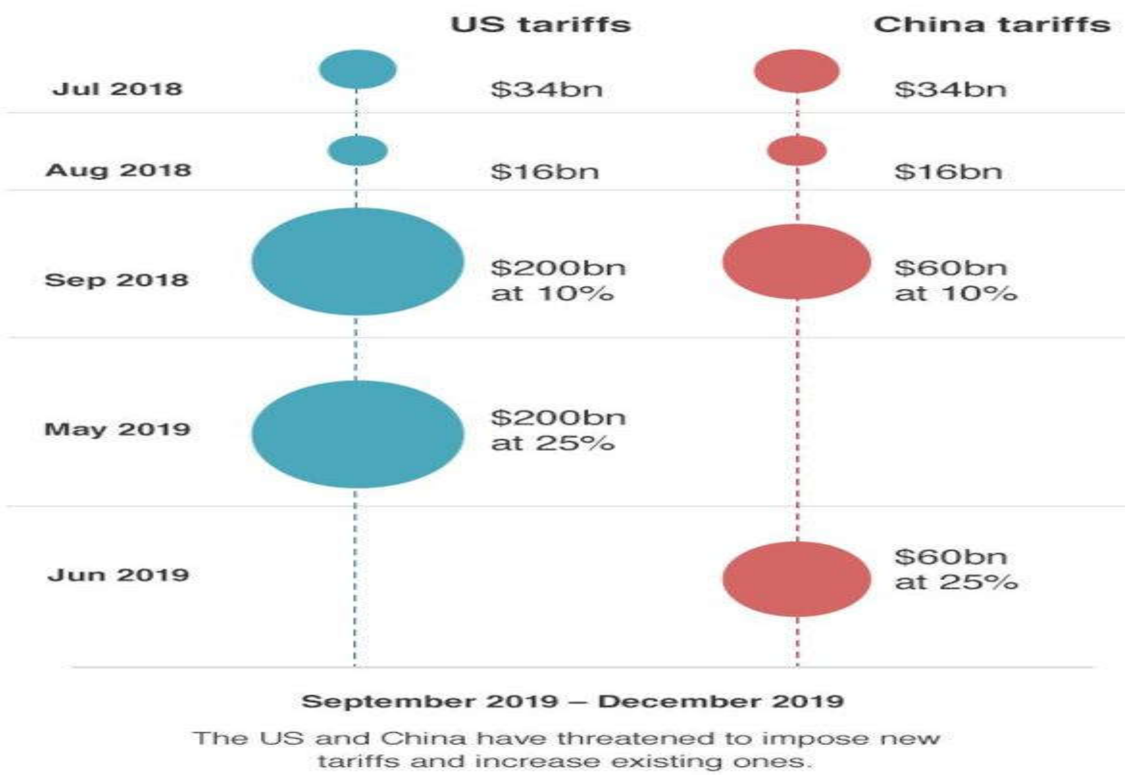
Source- (Palumbo D and Da Costa A, 2019)

This new animosity between these two nations has altered the global landscape by disrupting global supply chains worldwide and has created two rival and separate spheres of influence in both trade and technology, which will be discussed further below.

The Trade War Timeline

Considering the massive trade imbalance that figure 1 above demonstrates, it stands to reason that US sanctions are much more substantial than the Chinese retaliations that followed, which this part of the article aims to criticise. Figure 2 below provides a rough timeline of the three main rounds of tariffs that have transpired in the past two years between the rival superpowers and perfectly illustrates how quickly the situation escalated with increasing tariffs. This part of the article aims to analyse figure 1 below and dive into more detail on the events that have been transpiring during the trade war and the reasoning behind them.

Figure 2- A Timeline of the Sino-US Trade War



Source- (BBC, 2020)

As shown above, the trade war began on the 6th of July 2018 when the American government imposed a 25% duty tax on $34 billion worth of a variety of Chinese imports from cars to aircraft parts. In turn, China imposed a similar 25% tariff on $34 billion of various US goods such as agricultural products (SCMP Reporters, 2020). Following the initial tariffs, in the next month, the US administration imposed another 25% tariff on a further $16 billion of Chinese goods, this time targeting steel and various machinery, to which China responded by implementing an identical 25% tariff on $16 billion of US imports of Harley-Davidson motorcycles and bourbon. In a massive escalation that followed, the US implemented a 10% tax on $200 billion of a variety of 4,745 Chinese goods in September 2018 with threats to increase it to 25% on the 1st of January 2019, while China retaliated with more tariffs on a further $60 billion on US goods.

During negotiations at the G20 summit in Argentina, some progress was made to find a solution when a postponement on the upcoming $200 Billion worth of Chinese goods tariff was agreed and in the days that followed China suspended tariffs on US cars and resumed purchasing US soybeans, thus fuelling hope of ending the trade war (SCMP Reporters, 2020). In the following months, relations only improved as China agreed to purchase more US goods so as to reduce the trade deficit to which the US responded by dropping the looming threat of the 25% tariff at least temporarily.

Unfortunately, the trade negotiations fell through in the months that followed when China decided to backtrack on the draft trade deal. The fallout of this was the US implementing the aforementioned 25% tariff on $200 billion worth of Chinese goods, to which the Beijing government retaliated with $60 billion worth of tariffs to be implemented on 1st of June 2019. What is more, at the same time the US department of commerce declared that US companies are banned from selling goods to Huawei without approval by adding it to its 'entity' list, and China decided to establish its own 'entity' list of unreliable companies.

Figure 1 above only demonstrates the trade war up to this point, but this article aims to go further and delve into the threats mentioned from both sides in figure 1, which will be provided below. This back and forth and sudden shifts in the situation perfectly illustrate the unpredictability this trade war has caused on a global scale, and the troubles continued even after the G20 meeting in Japan when a trade war truce was temporarily agreed upon, and China declared unspecified purchases to be made on US agricultural products. However, on the 1st of August, the US president announced an escalation of a 10% tariff on $300 billion worth of Chinese goods after talks led to little progress, and accused China of currency manipulation after artificially weakening the yuan to below 7 compared to the dollar. This led to China halting the purchase of US farm goods and the weakened currency caused equity markets to sharply fall, having massive implications on the global economy, not just the US.

In a slight turn for the better, the aforementioned proposed $300 billion tariffs were partly discarded, with a 10% tariff on $155 billion worth of Chinese electric devices being delayed until the 15th of December. However, keeping up with this back and forth, China then announced a 5% tariff on $75 billion of US goods to be implemented on the 1st of September and increased it to 10% on the 15th of December, with promises to reinstate tariffs on US cars and car parts on the same day as well (SCMP Reporters, 2020). Due to these threats, the US president then decided to implement the US tariffs on the initial date of 1st of September on $125 billion worth of Chinese products.

The Global Shockwaves Caused by the Trade War

The sheer complexity and unpredictability revolving the trade war between the two nations illustrated above has had a magnitude of effects in the global economy, which this part aims to discuss. While the losses to both nations and the global economy are clear to see and will be discussed further below, it is essential to note that some have benefited from the trade war, which this article also aims to discuss. Before delving into the winners and losers of the Sino-US trade war, one should first comprehend the overall advantages and disadvantages of a trade war and the reasoning governments use when implementing such strict import measures.

First of all, it is inarguable that a well-crafted and effective policy can provide competitive advantages to the nation that implements it by promoting internal production and stimulating employment and money circulation. Particularly in the case of the US, a trade war aims to overcome their massive trade deficit and punish China for what the US administration considers to be unfair trading practices, mentioned above. Supporters of this protectionist stance claim that it aims to protect local companies from unfair competition and increases demand for domestic goods, therefore promoting the country's self-sufficiency.

On the other hand, critics of this type of foreign policy argue that it can be harmful to the very entities it aims to protect by choking off potential markets and dampening economic growth. When implemented poorly, a trade war can be detrimental to diplomatic relations with other countries and limit the cultural exchange critical for economic development for millennia (Chen J, 2019). The companies that continue to trade and absorb the increased tariff costs can hurt their profit margins or be forced to increase their prices, thus leading to inflation and

slow economic growth in the long run. Lastly, by preventing the import of various goods, customers might end up with limited choice, or with no choice if the now protectionist country does not have a ready substitute to cover the demand. With that in mind, this article will now discuss the winners and losers of this trade war to reach a valid argument of its effect on the global economy.

Winners

What is important to consider regarding the trade war is that trade between the US and China does not just disappear altogether. However, it is rerouted to other countries, which can be beneficial to them in the short run, or in the longer run should the relationship between the US and China continue to deteriorate. The National Bureau of Economics estimated in early 2019 that around $165 Billion of trade would have to be rerouted every year to avoid even the original tariffs placed at the end of 2018. Closer to the present day, the trade war has indeed benefitted not only developing Asian countries but also various EU nations and Taiwan, Mexico, and Japan to name a few that have been covering some of the lost supply.

Focusing on the EU first, it is estimated that the EU alone exported an additional $2.7 billion worth of goods to the US in the first half of 2019 to mitigate for the lack of machinery imports from China. China exports to the EU increased by 6.6% year on year in December 2019, indicating the trade rerouting that has been a by-product of the trade war. Gordon Cheung, a Future Forum attendee and Durham University professor, has noted that more Chinese students now choose to study in UK universities as US-China relationships continue to sour. The author of this article has noticed in recent years. However, this can only be considered a short-term occurrence should Sino-US relations improve once more. A fact that goes a long way in proving the ineffectiveness of the trade war is the recent trade agreements between various nations that exclude the US, thus highlighting the negative effect of protectionism isolating the country implementing it. Such trade agreements include the ones the EU has signed with Mexico and Japan in April and July 2018, respectively both of which aim to remove almost all tariffs and therefore stimulate trade between the signing countries, covering around $152 billion of goods, thus making it the largest bilateral trade agreement in existence. This comes at the expense of the US and China as they are left out of such vital trade agreements.

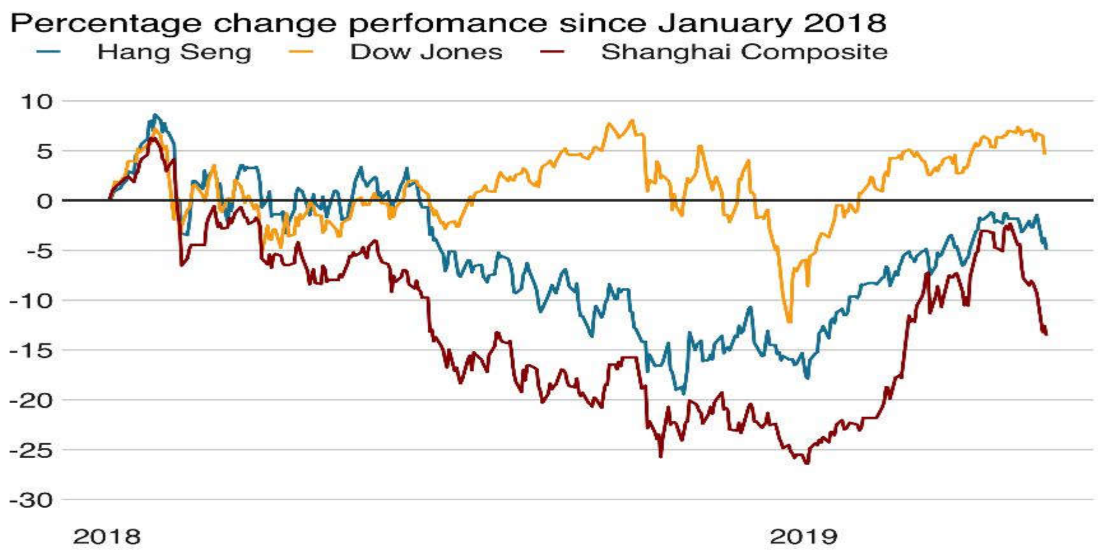
Before the coronavirus pandemic hit the world stage, it is inarguable that Taiwan in particular was benefitting the most from the trade war, as this part of the article will demonstrate. In the last quarter of 2019, Taiwan's economy grew by a significant 3.31%, much of said growth can be accredited to the US-China trade war. This statement has been corroborated by the United Nations Commission on Trade and Development, which announced that *"no economy had been benefiting more from trade diversion in the face of unilateral, reciprocal and retaliatory US and Chinese Tariffs"* . What is more, the tariffs mentioned above and trade barriers had led to certain Taiwan-based manufacturers returning to Taiwan after relocating their operations to mainland China and were thought unlikely to return before the trade war and its effects reached Taiwan. This combination of both short and long term benefits could have potentially provided Taiwan with a significant comparative advantage in the future, had it not been for the corona virus pandemic, however the impact of Covid-19 on Taiwan's economy falls outside the scope of this article and will therefore not be discussed further.

Another prime example of the trade war benefiting other countries, instead of the ones participating in it is Japan, as mentioned above, Murata Manufacturing to be exact. The condenser and capacitor producer is praised by analysts as being perfectly positioned to not only capitalise on the emergence of 5G networks but is also in the perfect position to be the leading supplier of both Apple and Huawei, two of the largest buyers for Murata's products. Analysts estimate at Tokyo's CLSA that Apple alone is responsible for around 20% of Murata's leading products sales. Meanwhile, the Chinese region is responsible for about 56% of Murata's sales, making it vital to their profitability. The president of this company has expressed worries that Murata will simply become another vivid example of how the trade war benefits no one, but the facts speak for themselves. Before the trade war, Murata lost market share to US competitors until the US restricted access to American components, thus forcing Chinese phone manufacturers to find alternative sources for raw materials needed. This is where Japanese and even Taiwanese companies such as Murata come in, which have now occupied a sweet spot between the two superpowers and have the ability and capacity to supply both countries with the vital components their phone manufacturers need.

Losers

What is vital to understand in this trade war, is that a lot of the benefits for the winners mentioned above have been at the expense of the US and China and their citizens, as this part of the article will discuss. What is important to note for the purposes of this article, is that even if the trade war ends on a positive note for either country, at the present it is proving detrimental to their economic growth and has been a source of uncertainty for years now, thus disincentivising investors and has led to massive stock price fluctuations, as figure 3 indicates below.

Figure 3- Stock Markets Since US-China Trade War Began



Source- (Palumbo D and Da Costa A, 2019)

Looking at the US first, as the original instigators of the trade war, it becomes increasingly evident that these tariffs have mostly hurt the American economy and many citizens it claimed to want to help. The US federal reserve has estimated that this ongoing trade war is costing the average American household $1,245 per year in inflation and lost economic growth. What perfectly highlights the potential ineffectiveness of these tariffs is the 'Tariffs Hurt the Heartland' coalition formed by several US companies in late 2018 after suffering from increased costs of importing the materials they need to operate. This fact has been echoed by Robert Zymek, a University of Edinburgh lecturer and Future Forum attendee, who anticipates that any improvements in the US trade deficit caused by the trade war will be offset by declining US exports as a direct result by-product of all of these trade wars and retaliatory strikes.

One of the worst hit US sectors can be considered to be farming, as retaliatory tariffs from the EU and China have hampered US exports of agricultural goods and have led to a loss of $11.8 billion in Wisconsin, Illinois and Indiana farmers' income between January and March

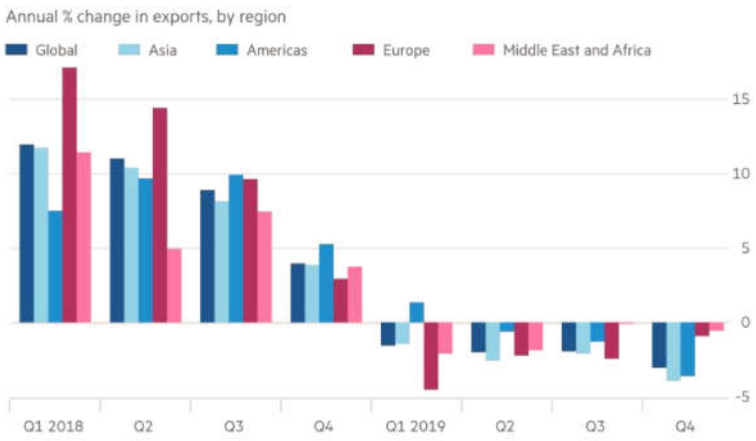
2019. This comes after just two years prior when the same states produced half of all US food (Amadeo K, 2019). Not only have these trade wars not helped US farmers, instead they have hurt their livelihood by keeping them out of global trade agreements mentioned above and has forced the US government to give a total of $28 billion in bailout funds in the past two years in response to the sharp increase in bankruptcies as a direct result of the trade war (Amadeo K, 2019). Other US-based companies released statements in October 2018 on how harmful they expect retaliatory tariff costs to be on their sector in 2019 and include the following:

- Ford: $1 Billion
- 3M: $100 Million
- United Technologies: $200 Billion

This again highlights how much these trade wars are hurting the US economy and the global economy by extent.

Considering China's vital role as a cheap manufacturer of goods in the past, it stands to reason that small business owners in the US will suffer by being forced to pay a much higher tariff to import their products from China in a span of just a few months. Tariffs skyrocketed from an *"already expensive"* 17.6% to 42.6% as of August 2019, with the figure constantly fluctuating as the trade war evolves. This means prices increase for the companies that sell these commodities and for the customers who are forced to absorb some of the increased costs and are even left with less market choice as imports dwindle in the face of the trade war. All of these hindrances to trade and economic growth have led to Goldman Sachs predicting a recession as a direct result of trade wars and decreased trade, as shown in figure 4 below by the sharp decrease in global trade in 2019, especially compared to the growth noticed in 2018. Gross Domestic Product in the US has already dropped by 0.6% and can drop further if this mutual destruction policy continues. The US waging trade wars not only with China but also with the EU and other major global economies has promoted uncertainty in the global stock trade due to the possibility of the world's three largest economies entering a trade war and has contributed to a loss in investor confidence and therefore, financial losses as stock prices fluctuate constantly, also shown in figure 3 above.

Figure 4- Global Trade In 2018 and 2019



Source- (Colback L, 2020)

Considering the goal of the US trade war with China was originally aimed at decreasing the US trade deficit with China and the aim of this article is to discuss the effect of the trade war, this next part will discuss the effect these tariffs have had on the Chinese economy. First of all, it has been estimated by the US Federal Reserve that the Chinese economy has fallen by 0.25% due to the sharp decrease in demand for Chinese goods in the US. What is more, the fallout from the trade war has led to China's exports only increasing by 0.5% in 2019, compared to a 10% increase in the previous year, as announced by Chinese customs data. Even though exports to the EU increased to 6.6% year on year in December 2019, as well as an improved 3.4% decline compared to 7.9% in the previous year regarding exports to Japan, the 14.6% decrease in US exports was still enough to hamper the Chinese economy and put pressure on the Chinese government.

Another potential issue for the Chinese economy is the possibility of some companies with operations in China choosing to relocate to avoid the increased tariffs. This statement is corroborated by the American Chamber of Commerce in China and Shanghai, a recent survey of which found that 40% of respondents are considering leaving or have already left China and have set up factories in other Asian countries. Ripple effects of the trade war are still felt in these countries, however, as mentioned below. However, the main indicator of the Chinese economy's potential downturn can be the struggling Chinese share market. Increasing credit strains and struggling lenders are a clear indication of a weakening economy and equity market, directly attributed to the Sino-US trade war. As mentioned above, Japanese suppliers have been able to capitalise on weakened trade between the US and China and of course this comes at the expense of the two superpowers, however it is important to note the fears expressed by Tsuneo Murata, president of Murata Manufacturing, of prolonged falling Chinese consumer demand and decreased capital investment as a result of the trade war and the uncertainty it breeds, which has been added on to by UBS Securities' Shingo Hirata who stated *"There are risks of overall demand falling"* .

While the facts above speak for themselves, a pretty strong case can also be made regarding the resilience of the Chinese economy due to beating analyst forecasts in the later months of 2019. As mentioned above, Chinese trade did take a hit in 2019, however, it was a softer hit than expected, as Reuters economists expected a 3.9% fall in exports and an 8.9% fall in imports compared to the previous years, whereas real figures only fell by 0.9% and 6.4% respectively according to Chinese customs. In October 2019, the Chinese trade balance stood at $42.81 Billion, compared to a forecast of $40.83 Billion but even still, the impact of the trade war is nevertheless felt by the Chinese economy and weakening consumer sentiment.

In an interview, Writer and former diplomat Kishore Mahbubani stated that while the 20^{th} century was US centric concerning global power and influence, the 21^{st} century has and will be Asia centric, which could potentially provide an opportunity for massive economic growth for Singapore in the next fifty years. Semiconductors are manufactured in large volumes in Singapore, a lot of which are used in electronic devices made in China, therefore ripples of the trade war have been affecting the small nation as well, according to Ang Wee Seng, the executive director of Singapore's semiconductor industry association. The semiconductor industry was already faced with a global slowdown in demand. However, the ongoing trade dispute has exacerbated the situation. It has highlighted concerns in the industry and Singapore in general, as 2019 growth forecasts fall from 2.1% to 0.6% due to the trade war. The same forecasters expect the trade war to negatively impact Singapore's economic growth in 2020, with growth forecasts at 1.6%, compared to predictions at 2.4% in June 2019, with a unanimous agreement between analysts that the primary cause behind this is slowdown being the trade war. Considering China is Singapore's largest trading partner, at 50%, it is no surprise that the trade war seems to be just as detrimental to their economy as the Chinese one and the increasing unpredictability of the Trump administration has complicated efforts to determine the precise effects of the trade war on Singapore. The fact remains that the longer the trade war goes on, the worse off Singapore will be in terms of economic growth and the longer it will take to recover, showcasing the global impact of the trade war once more.

The Ensuing Trade Deal

Recent months have sparked hopes that the two parties would return to the negotiating table in hopes of reaching a trade deal. Common ground was found as China announced tariff exemptions on 16 types of various US imports on the 11th of September, paving the way for the US president to delay new tariffs being implemented the following month in a gesture of good will to commemorate the 70th anniversary of the People's Republic of China. China announced tariff exemptions for various agricultural commodities such as pork and soybean imports in the days that followed. Moving closer and closer towards a preliminary trade deal, the US trade representative issued a tariff exclusion on around 400 Chinese imports the following week.

In December 2019, an official agreement was announced by both administrations where China agreed to protect US intellectual property and improve access to US financial services to their market, while committing against currency devaluations and buy an additional $200 billion in US goods and services over the next two years so as to help reduce the US trade deficit. In return for these allowances, the US halved tariffs on $120 billion of Chinese goods and withdrew upcoming tariffs on a further $156 billion of goods. The phase one trade deal was officially signed on the 15th of January and would take effect on the 15th of February. However, it is essential to note that this new deal did not cover any of the primary sources of discontent between the two countries, such as the extensive use of subsidies in China and cybertheft, as well as the main bulk of US imposed tariffs, namely 25% on $250 billion worth of goods. The US administration addressed this by stating that these issues would be tackled in the phase two deal in the future. However, as the following part of this article will demonstrate, this is becoming increasingly unlikely.

The Coronavirus Complication

When the phase one deal was signed, President Trump claimed that negotiations on the phase two deal aimed at tackling the aforementioned remaining issues, however, the rapid spread of covid19 has halted negotiations for the foreseeable future. This fact, coupled with the US president's unwillingness to ease the remaining tariffs so as to mitigate some of the damage caused by the virus have raised uncertainty once again around the trade war due to China being unable to honour their side of the commitments under a force majeure, or just be unwilling to do so.

To make matters worse, the US president has been making claims that the virus may have been intentionally released by the Chinese government, with conspiracy theorists in the US pointing towards the Chinese administration's insistence on including a force majeure clause in the deal. This force majeure clause provides the Chinese government with a safety net as they are unlikely to meet the trade deal commitments, thus destabilising the relationship once more. Fears of another trade war sent ripples around the world once more, and led to share prices in the London FTSE100 to fall 2.5%, while the Dow Jones average fell by 2% in Wall Street in early May. Meanwhile, the Nikkei index in Japan fell by as much as 2.8%. The progress made during the first deal has dissipated, with Joshua Mahony, an IG trading senior market analyst stating that *"a trade war is the last thing markets want right now*". Furthermore, the two administrations openly criticising each other, with the US president stating that China misled the world regarding the infectiousness and risk of the disease, even going as far as to threaten further tariffs, while China has accused US officials of *"shifting responsibility of their poor handling of the epidemic to others"* have only raised concerns of the relationship deteriorating once more in the future.

Conclusion and Discussion

Conclusively, it has become evident that this ongoing trade war has not only not helped the US economy as it intended to, it has instead been detrimental to it and the global economy as a whole through decreased trade among the world's leading economies and increasingly protectionist stances. Throughout this article it has been noticed that advantages of the trade war have been few and far in between, and at the expense of other nations as the trade war continues to evolve. What is vital to understand in why the trade war has been so ineffective, is that the "*real cause of the US trade deficit is a result of imbalance between saving and spending, not Chinese trade practices*" as stated by Kishore Mahbubani, a writer and former diplomat in an interview.

Considering the short term implications of the trade war, as mentioned above, trade will not simply disappear, it will simply be diverted to other countries, as this article has already discussed. Moreover, even though an initial trade deal has been signed, the strain that Covid19 has placed on the Sino-US relationship has led to worries of a reignited conflict, along with the fact that China will not be able to meet the criteria of the trade deal due to the virus spreading in recent months. As this article has found, a trade war is detrimental to economic growth, therefore the possibility of a reignited conflict between the two superpowers could further hurt an already struggling economy in the midst of the Covid19 situation.

With that in mind, in the medium term, another sustained trade war can further harm investor confidence and can lead to uncertainty paralysis. The world uncertainty index noticed a spike in the final quarter of 2019, directly due to the trade war and the impact it has had on a global scale. This uncertainty can lead to diminished investment and can therefore contract the economy further. Additionally, as the trade war has evolved, companies can be forced to switch suppliers so as to ensure stability in the supply chain, an invaluable asset when opting for sustained competitive advantage. However, complexities arise from different suppliers due to potentially having to pay higher prices and building up trust and logistical networks from scratch. As reliance on China has been found to be dangerous due to the unpredictable nature of China-US relations, more companies are outsourcing their raw material needs to other countries, as shown above, where the countries that have benefitted the most from the trade war include Mexico, Taiwan and the EU, rather than the countries directly involved in it.

Considering the long term effects of the trade war, especially with worries of a continuation of the conflict arising once more, the growing two separate spheres of influence touched upon above, can cause friction on a global scale. This division is not purely economic, but involves cultural and military dimensions centred around two superpowers. Being forced to change suppliers is only the beginning, and the longer the conflict goes on for, the need for an entire capacity shift becomes ever present. Relocating entire factories can be extremely difficult, considering the sunk costs of doing so and having to absorb increased production costs, something many companies may not even be able to do. As countries become more and more introverted, the ones who suffer most are the consumers as costs of goods continue to increase and supply diminishes through decreased trade. The only potential upside noticed from relocating production, is the possibility of entering fast-growing markets and stimulate developing countries in the future. This continued decoupling has been detrimental to the exchange of knowledge that can propel technology forward. The overarching threat has been found to be that China can recover technological innovations and expertise, whereas the US cannot recover lost cheap production and manufacturing skills.