
20th Century Trade War – the Reality

A high-intensity trade dispute between two of the world's largest economies -- China and the US -- is all set to effect global trade policies this year with the main focus being on protectionism. Although it seems there is still a chance the two sides will choose a fair deal over a trade war, but the odds are bleak. On April 3rd America put forward a list of 1,300 Chinese products it proposed to hit with tariffs of 25%. China had no intentions of backing down. Just a day later, China hit back as it produced its own list of items covering 106 categories. As America banned Chinese goods worth \$46 billion, China responded by banning US goods worth \$50 billion in 2017. The trade war which began as a tussle to modify the power equation in the global scenario was finally reduced to a mere show of muscle between these two nations.

US President Donald Trump continued to portray his dominance by further imposing 25% and 10% tariffs on steel and aluminum, respectively before temporarily exempting almost everyone, except for Russia, China, and Japan. The Communist Party-run governments countered further by releasing a list of goods slated for tariffs, including cars and farm products that had the potential of causing a political damage for Republicans. Fate resides mostly on how far Trump is willing to go to fulfill his goals. He has already made his intentions clear of imposing tariffs on an additional \$100 billion of Chinese goods. US justifies the bans as a punishment on China for abusing American intellectual-property rights. This might be one of Trump's many policies of reducing \$376-billion trade deficit in goods with China.

The US is mostly banking on Beijing to blink first in the showdown over tariffs. However, such an outcome can be foreseen nowhere in the distant horizon. It could be a while before any side backs down. In some recent developments, some US representatives have shown interest in talks with Beijing. "Our hope is that it doesn't lead to a rash reaction from China," U.S. Trade Representative Robert Lighthizer said in an interview with the Fox Business Network when the tariffs were made public. "We hope that this leads to further negotiations and we hope it leads to China changing its policies." he added.

However, the world is a far more complicated place than most people can contemplate. In the present scenario, there are several reasons why Trump might be both right and wrong. China's theft of intellectual property, their aggressive Belt and Road initiative, the deeply troubling China 2025 initiative which violates international trade laws can be easily cited to validate the US stance. That being said, there are far better and less risky propositions compared to the current adopted tactics, including the WTO where the US has almost never lost a case against China.

A few of the possible solutions are cited below:

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1. Both Sides Back Down

A short-term truce can be a plausible option. U.S. has shown signs of accepting a modest increase in purchases by China of American products. They are mainly looking for structural changes to the way China deals with technology. They want Beijing to stop forcing American firms to transfer know-how. Although Beijing has shown no signs of accepting any major changes to its Made-in-China 2025 goal, a middle ground can be reached by prolonged diplomacy and mindful bargaining.

2. China Blinks

In the ongoing trade war, China has a lot at stake. As Xi Jinping's government lays emphasis on a gradual slowdown putting more emphasis on consumer spending, any sudden change in the power equation has the potential of disrupting Beijing's carefully crafted balanced economy, which has already shown signs of slow growth last May. In a situation like this it might be a wise decision on China's part to back down on technologies and open its market to US goods.

3. U.S. Blinks

With the U.S. push to overhaul the North American Free Trade Agreement still in limbo, Trump's negotiating powers are still left open to the public to judge. Critics undermine Trump's high-profile meetings North Korean leader Kim Jong Un citing lack of constructive outcomes. It's quite possible that China will call Trump's bluff, given the president's love for a strong US economy. The concern for US rises further with the list of Chinese banned products including agricultural items like soybeans, sorghum and cotton, a potential blow to rural states that backed Trump in the 2016 presidential election. For US to back down and initiate a peace discussion might be a wise choice.

4. All-out Trade War

Given the technical and economical prowess these two nations hold, this might be the only solution that will logically follow. There's reason to believe the U.S. and China will not solve this soon. Neither side wants to be portray themselves as weak With Trump's midterm elections in Congress in November, he's under pressure to appease his political base. On the other side of the table, turning China into a global technology leader is one of Xi's main aspirations. As Bloomberg Economics estimates that although a trade war would have limited direct impact on growth in both countries, but that could escalate if the conflict hurts business and growth. As Michael Smart, managing director at Rock Creek Global Advisors correctly pointed out "A trade war can

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be anything from a minor skirmish to a full-blown battle, with lots of collateral damage to American workers, farmers and consumers. We're not there yet, but it's scary, because it seems like we're on a path toward major conflict, and it's hard to see the off ramp."

Whatever be the outcome of this ongoing tussle, one thing can be stated certainly that the equations of Global Politics will change and many new superpowers will emerge. New markets will open up and new trade links will be established. Change is the only thing constant in the 21st century.

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