

# TRADE WAR: ITS HISTORY AND PRESENT SCENARIO

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## Abstract

Trade war is an economic conflict between two or more nations regarding trade tariffs on each other. In this paper we will see the history of this Trade war and how it has been solved by nations and the current US- China trade war. How this trade war effect each other & how long it will effect India.

## Introduction

A trade war is an economic situation which arises when a nation makes an attempt to protect its domestic industry and create jobs by imposing tariff or quotas on imports from other countries; or by placing other restrictions on opposing country imports. Foreign countries retaliate with the similar form of trade protectionism. Trade war stand against the statement, “ International trade is growth to Economic Growth”. Tariff is a kind of tax imposed on imported goods and services to increase the price of imported goods and make it more expensive and less competitive against domestic goods and services. Tariffs are usually introduced as a tool to restrict trade from particular country or countries or for restricting and reducing the import of particular type of goods and services. Example :- To reduce and discourage the purchase of Italian leather handbags, US government introduced tariff of 60% that made the price of these bags so high that they lost competitive edge against domestic alternatives.

## Brief History of Trade War

### 1900- 1950

- 1913 :- Trade restrictions were relaxed. After the protectionist policies prevailing in late 19<sup>th</sup> century were overturned, the major economies of Europe engaged in increased trade.
- 1914 :- World War I started. It led to collapse in international trade and trade liberalization came to a halt. In 1914 major stock exchange across the world shuttered.
- 1918 :- World War I ended. With the existence of League of Nation in 1920 wartime trade protection measures are unwound. The main aim of League of Nation was to prevent wars via collective security , disarmament & settling international disputes via negotiations & arbitration.
- 1920 :- Global economic recession gave pause to the efforts of the League of Nations of faster greater trade liberalization.
- 1927 :- In 1927 League of Nations organized the first World Economic Conference to outline a multilateral trade agreement. 29 major states agreed to multilateral trade agreement which acted as precursor to the General Agreement on Tariff and Trade (GATT) in 1947.
- 1930 :- US enacted Smoot- Hawley Tariffs Spark Retaliation Act in 1930, levying 50% tariffs on imported goods. The Great Depression begins.
- 1934 :- US passes the Reciprocal Trade Act, 1934, which give power to President to negotiate bilateral trade deals with other countries without congress approval.
- 1939 :- World War II begins in 1939 leading to collapse in global trade.

- 1944 :- In 1944 United States, Canada , Western Europe, Australia & Japan agreed to Bretton Woods monetary policy framework. The system sought to maintain exchange rates by linking each country currency to gold (i.e. Gold Standard).
- 1945 :- World War II ended with surrender of Japan. In the aftermath of war, major states worked together to create greater cooperation in order to maintain international order. This led to the formation of United Nations & later GATT in 1947.
- 1947 :- GATT was established in 1947 aiming to liberalise global trade in post war era. General Agreement on Tariff and Trade was established among 23 countries for a “substantial reduction of tariffs and other trade barriers & the elimination of preferences on a reciprocal and mutually advantageous basis”.
- 1948 :- Under Marshall plan US provided aid to Western Europe to help rebuild in the aftermath of World War II. The treaty of Brussels was signed by Belgium, United Kingdom, Netherland, France, Luxembourg, leading to the formation of European Coal and Steel Community.
- 1949 :- The second round of GATT further liberalised trade resulting in an exchange of 5000 tariff concessions.
- 1950:- Korean War froze all US & Chinese trade. Third round of GATT negotiation reduced tariffs levels by 25% as compared to their level in 1948.

### 1951-1990

- 1951:- Treaty of Paris was signed by Belgium, France, Italy, West Germany, Netherland, Luxembourg.
- 1953 :- Korean War ended.
- 1956 :- Continued negotiation via GATT cut global Tariffs by \$2.5 bn.
- 1957 :- GATT negotiation results in establishment of European Economic Community through Treaty of Rome. The main aim of European Economic Community is to bring integration with Common market & Custom Union.
- 1961 :- Chicken War between Europe and US.
- 1964 :- The ‘Kennedy Round’ of GATT negotiation achieves tariff cut of \$ 40 bn through 1967.
- 1971 :- US opens doors of trade to China but exits Bretton Woods agreement established in 1944. US ended its participation in ‘Gold Standard’ & free floated its currency.
- 1977 :- US and Japan signed Orderly Marketing Arrangement to settle the dispute between the two countries.
- 1979 :- ‘Tokyo Round’ of GATT Negotiation results in a total \$190 bn worth of concession.
- 1980 :- US places embargo on grain exports to Soviet Union in response to soviet invasion of Afghanistan.
- 1985 :- Pasta war between US & Europe.
- 1987 :- US and Canada break down trade barrier for over a 10 years period. This is the predecessor to the North American Free Trade Agreement (NAFTA).
- 1990 :- Iraqi forces invades Kuwait.

### Top 5 infamous trade wars in history

1. **Opium war** :- Opium war was fought between the Qing dynasty and the British Empire .The first opium war was fought during 1839-1842 when British East India company was banned on trafficking of the substance to China. As a result of this china lose Hong Kong to Britain. In second Opium war during 1856-1860, Britain along with France forced China to open all of China to foreign merchants and exempt foreign import duties.
2. **The Smoot-Hawley Tariff Act, 1930** :- Smoot- Hawley Tariff Act,1930 was introduced by Senators Reed Smoot and Willis C. Hawley. It was originally introduced to protect the US farm sector. It was signed by US president Herbert Hoover to protect the falling stock market & domestic industry. However the scope of the act was expanded by the president to include nearly 20000 products from various sectors.Though US sucessfully reduced its import dependence over next couple of year, the protective measures taken by

other countries led to 61 % dip in US export by 1933. This trade war brought the Great Depression. This act was repealed by enactment of the Reciprocal Trade Agreement Act ,1934.

3. **Chicken War** :- In early 1960's , higher tariff was imposed was on American chickens by France and Germany as demand for European Chicken fell with people liking cheaper American Chickens. By imposing higher tariffs on various commodities including French brandy and Volkswagen buses US retaliated to Europe. US even threatened to cut Nato troops of Euope. However , Germany and France didn't get into the pressure. Consumers from both the countries were real losers.
4. **Pasta War** :- In 1985, the Regar Administration of US raised tariff on pasta from Europe. Europe retaliated with higher tariffs an American lemon and walnuts. Both sides signed an agreement ending citrus dispute in August 1986 and ended Pasta dispute in 1987.
5. **Banana War** :- In 1993, Europe imposed heavy tariffs on imports of latin American banana to restrict import of bananas to its colonies in Africa & Caribbean. US companies own most of the banana farms in Latin America, thus US filed 8 separate complaints in the WTO. In 2009 EU agreed to gradually reduce tariff on banana from latin America. In 2012 EU and 10 Latin American countries signed an agreement to end all the 8 WTO cases, ending 20 years long banana war.

### Events which leads to present tradewar between China & USA

- **2011** :- On September 11,2011 Trump tweeted “ China is neither an ally or a friend- they want to beat us and own our country.”In his tweet he criticized China's trade practice.
- **2016** :- During campaigning for the Republican Party's presidential nomination, Trump says “ We can't continue to allow China to rape our country and that's what they're doing. It's the greatest theft in the history of the world.” This is one of the example of statements given by Trump during his campaign trail about China's trade practices.
- **2017** :-
  - a) On April 6-7, 2017 Xi visits Trump in Florida where they agree to set up a 100 Day Action Plan to resolve trade difference.
  - b) On April 28,2017 USTR (United State Trade Reprmentatives) is authorised to investigate in whether steel/aluminium imports pose threat to national security.
  - c) On May 22,2017 US and China agree to deal according to which US firms will get greater access to China's agriculture, energy & financial markets while China gain access to sell cooked poultry to the US.
  - d) On August 18,2017 USTR initiates an investigation into certain acts, policies, & practices of Chinese government relating to technology transfer, intellectual property and innovation.
  - e) On November 8-10 , 2017 Trump pays a “State visit plus”.
- **2018** :-
  - a) On Feburary 7 US implement 'Global safeguard tariffs'- by placing 30% tariff on all solar panel import, except for those from Canada worth US\$ 8.5 billion & 20% tariff on washing machine imports.
  - b) On March 22 Trump signs a memorandum directing following act:-
    - i. To file WTO case against China for their discriminatory licensing policy;
    - ii. To restrict investment in key technology sectors;
    - iii. To impose tariffs on Chinese products such as areospace, information communication technology & machinery.
  - c) On March 23 US imposes tariff of 25% on all steel imports except from Argentina, Australia, Brazil & South Korea & a tariff of 10% on all aluminium imports except from Argentina and Australia.
  - d) On April 2 China imposes 15-25% tariffs on 128 products including fruits, wine, seamless steel pipes, pork.

- e) On April 3 USTR releases an initial list of 1334 proposed products subject to 25% tariff.
- f) On April 4 China reacts to USTR initial list and proposes 25% tariff on 106 products worth US\$ 50 billion on goods such as soybeans, automobile, chemicals.
- g) On April 16 US Department of Commerce concludes that Chinese telecom company ZTE violated US sanctions.
- h) On April 17 China announces antidumping duties of 178.6% on imports of sorghum from the US.
- i) Between May 3-7 US- China engage in trade talks in Beijing where the US demands that China reduce the trade gap by US \$ 200 billion within two years.
- j) On May 13 Trump promises to help ZTE in a tweet.
- k) On May 18 Chinese commerce ministry announces that it will stop tariffs on US sorghum at negotiation.
- l) On May 20 US- China agree to put hold on trade war after china agree to buy more US goods.
- m) On 4-5 June trade talk between US and China held in Beijing.
- n) On June 7 US & ZTE agree to deal that will allow ZTE to resume business.
- o) On June 15 initial list is modified, 25% tariff on reduced number of product from 1334 to 818. List 2 of 284 new products is also announced.
- p) On June 16 China revise its initial list to now include a 25 % tariff on 545 products. China also proposes a second round list of 25 % tariffs on a further 114 products
- q) On August 3 China announces second round of tariffs on US products. 25% on 2493 products like agricultural products, textile, chemical, metal products, machinery; 20% on 1078 products like foods, paper board, chemical waork of art ; 10% on 974 products like agricultural products, chemicals, glassware; 5% on 662 products like chemicals, machinery, medical equipment.
- r) On August 14 China lodged formal case at the WTO against the US for its tariffs on solar panels, alleging that US tariffs have damaged China's trade interests.
- s) On September 24 US & China implement third round of tariffs & on October 25 US & China official resume contact.
- t) On December 14 China temporarily lower tariffs on US autos & resumes buying US soybean exports.
- **2019 :-**
  - a) On January 7-9 US & China engage in three days trade talks in Beijing. The discussions were divided into two areas:- 'Trade issues' & 'Structural issues'. Trade issues include trade imbalance in certain sectors & Structural issues include forced technology transfers, intellectual property right, & non-tariffs barriers.
  - b) On January 30-31 US & China hold two days trade talk in Washington D.C.

### Is "Trade-War" actually helping US?

- Till date trade-war has impacted the US economy positively.
- The US gross demestic production is growing at a 3% plus rate.
- The unemployment rate is near 50 years low.
- Stock Market has hiked 27% amid a surge in corporate profit.
- But many experts argue that is not sustainable & predict that the US could even see a recession in 2020.

### Advantages that China holds

- Over the long period of time, taking advantage of low costs, US companies have increased dependence on China for their supply chain needs and manufacturing.
- Over 50% of the product such as of HP, IBM, Dell, Cisco, Microsoft & Intel or their supplies com from China.
- China is the second largest exporter of auto component to the US auto giants after Mexico.
- The US is already pushing ICT players to reduce their dependence on China.

- The list of sectors dependent on china is very long.

### **Positive Impact of Trade war on India**

1. India which runs a \$ 51.08 billion trade deficit with china may stand to benefit. China imports 100 million metric tons of soybean which serves as a protein source of feeds its food processing industry, this present a huge opportunity for India.
2. It will provide India a platform to engage with countries US & China & increase its presence in the region
3. Reduced US-China trade relation could have positive results for India from a trade perspective.

### **Negative Impact of Trade war on India**

1. This tradewar might lead to downside of steel and aluminium industry owing to inundation of steel and aluminium due to excess production.
2. Higher tariffs will have bad impact on Indian Banking System which is already weakened by bad loans and scams.
3. India export worth US \$ 1 billion of steel and aluminium to US , so high tariff rate have negative impact on the economy.
4. It will crippled the growth prospects of developing nation like India whose production and consumption of steel is inward looking.
5. Biggest negative impact is on Indian Rupee .
6. Rising price of oil threatens to wider India current account deficit , effecting macroeconomic stability of nation.

### **Opportunities for India**

1. This protectionism step by USA present a clear opportunity for Indian companies, since the USA and India see each other as natural allies.
2. Opportunity is clearly seen in automobile sector as US companies have already started making enquiries about sourcing from Indian players especially in auto component space.
3. India may seek opportunity to reduce its trade deficit against China by exporting Soyabean and alike products.
4. India may be able to gain in textile, garments, gems & jewellery if Chinese export to US slow down.

### **Way Forward :-**

As we have seen brief history of tradewar and some unpopular events, it seems tha it would be advantageous to both the countries to negotiate the issue amicably & not put free trade under threat . India need to be cautious as its strategic relationship with both the countries needs to be nurtured.