

Trade war: causes and consequences



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THE world is witnessing a fierce trade conflict between the US and China. It all started in January last year when US President Donald Trump ordered a 'section 301' enquiry against China for intellectual property theft.

Under this section, the American president can take all appropriate action, including retaliation, to obtain the removal of any act, policy, or practice of a foreign government that violates an international trade agreement or is unjustified, unreasonable, or discriminatory, and that burdens or restricts US commerce.

The US investigating committee concluded that, China's acts, policies and practices related to technology transfer, intellectual property and innovation are unreasonable and discriminatory.

Consequently, in April 2018, the US authority came up with a list of 1,333 Chinese goods, valued at \$50 billion, that would be subject to an additional 25 percent tariff. China hit back with reciprocal tariffs on a list of American goods of equal value, matching US threats on a dollar-for-dollar basis.

History suggests, trade wars are not that uncommon. There are number of precedence of such trade conflicts between these two countries. During the last thirty

years, America launched five 'section 301' investigations against China. In all those cases conflicts were resolved either by diplomatic ways or by the dispute settlement mechanism of WTO.

Disputes were settled quickly in the past as in most of the cases China did not want to annoy its biggest trade partner and, they lacked the bargaining power as well.

In 1991, when allegations were made against China for unfair trade barriers and not having adequate intellectual property protection; China immediately took measures to promote intellectual property protection and eliminating trade barriers unilaterally.

China faced two more 'Section 301' investigations in 1994 and 1996 for the same old reasons. This time it was not one-sided action taken by China only, rather efforts were made by both sides.

China promised to enhance intellectual property protection, and the US also agreed to provide more technical assistance to China.

Another investigation was launched against China in 2010. This time the dispute was resolved by WTO dispute settlement process.

As China became an economic superpower, naturally, they earned that bargaining power to negotiate things differently. It was quite evident during this ongoing crisis that, each time the US took any measure, China retaliated.

The US and China relationship has passed through several phases in last seven decades. First two decades after the inception of People's Republic of China was not that friendly between the two countries.

However, right after the visit of US President Nixon to China in 1972 their relationship entered into a new era. China became one of the key strategic allies of the US in its fight against Moscow and this warm rapport continued until the collapse of the Soviet Union in 1991.

Thereafter, the economic cooperation

between the two countries continued to get stronger. In the next 20 years China become the largest trade partner of the US. Bilateral relationship twisted once again when China under the leadership of Xi Jinping started to exercise a more assertive foreign and security policy across the globe.

Mistrusts started to creep in. A good

economically and politically because of the safeguard treaty signed in 1951.

However, as Japan started to recover its strengths they sought more equal relationship which eventually resulted in counter attacks from the US. Japan was literally forced to impose restrictions on its exports of a wider range of products like automobiles, colour

historic American landmark Rockefeller Centre. Dismayed US media portrayed this incident as 'Japan bought the soul of the United States!' The book titled 'The Japan That Can Say No' published by the former Chairman of Sony Corporation Akio Morita was a great testament to Japanese public sentiment on its overall status.

Japanese local industries were badly affected by the export restrictions. However, this opened up the opportunity to develop their global production facilities and upgrade of products.

For instances, since 1982, Japanese auto companies have set up a number of factories in the US, including the Toyota Kentucky plant, the Honda Ohio plant, and the Nissan Tennessee plant.

Toyota and GM established the largest joint venture in the automotive industry. At the same time, they started to produce high-end luxury cars. Brands like Lexus, Infiniti, Acura became very popular in the US market. These two actions, in fact, helped Japan to face the trade war successfully.

If the US-China trade war continues, IMF warned that, the GDP of the US and China will be reduced by 0.9 percent and 0.6 percent respectively, which would cause a 0.4 percent fall in long-term world GDP.

Few Asean countries can take the advantage of this situation as China might think of shifting their production units to these countries to avoid the additional tariff while exporting to the US. Indian exporters can also be benefitted as the US importers would look for alternate supply source.

Good news is that, efforts were underway from the top leaders of the two countries to come to a solution. Chinese President Xi Jinping rightfully said: "China and the United States both benefit from cooperation and lose in a confrontation."

The writer is the chairman and managing director of BASF Bangladesh. Views expressed here are personal.



REUTERS/FILE

Aides set up platforms before a group photo with members of US and Chinese trade negotiation delegations at the Diaoyutai State Guesthouse in Beijing.

number of thinktanks believe, the ongoing trade war is an outcome of the prevailing distrusts between the two economic superpowers. History has time and again proved that, trade disputes are not necessarily driven by economic reasons only, many a times politics do play critical role as well.

In this context, the US Japan trade war can be sighted as an example. After the second world war, Japan was essentially in a subordinate state not only militarily but also

televisions, semiconductors, textiles etc.

The 1985 Plaza Accord was again a big blow to Japan's economic progress as this treaty intervened the country's exchange rate policy. Yet, Japan continued to gain its potencies economically. As the demand for equal rights became stronger the bilateral trust between the two countries deteriorated.

Mistrust further escalated when a Japanese company Mitsubishi Real State bought the

Hong Kong protests and China's tightening grip rattle business community

REUTERS, Hong Kong

CHAOTIC scenes of protesters rampaging through Hong Kong's legislature, trashing furniture and daubing graffiti over walls have sent jitters through the business community, which worries about the impact on the city's status as a financial hub.

Plumes of smoke billowed among gleaming sky-scrapers early on Tuesday as police fired tear gas to disperse protesters in the heart of the Chinese-ruled city, home to the offices of some of the world's biggest companies, including global bank HSBC.

Escalating unrest over a controversial extradition bill, which would allow people to be sent to mainland China for trial, grabbed global headlines and clouded the former British colony's outlook as a finance hub, one of the city's main pillars

Daniel Yim, a 27-year-old investment banker, said both sides needed to sit down and work things out.

"I think the most effective way to address this will be that the government will ... actually tackle this and speak to the people, and I guess, you know, both sides sit together and come up with ... the appropriate solution."

Others raised concerns about the future of human rights and the judiciary. Many did not want to use their full names.

"To me, the biggest worry is how Hong Kong is losing its independence bit by bit and is getting dangerously close to a country that doesn't value human rights and that doesn't have an independent judicial system," said Edward, an Australian citizen who has worked in the financial sector for 10 years.

The extradition bill, now suspended

India's budget likely to hike spending to combat slumping growth

REUTERS, New Delhi

INDIAN Prime Minister Narendra Modi's government on Friday will unveil a budget that is expected to cut taxes on business and raise spending in a bid to shore up consumption and faltering economic growth.

Analysts say Modi, boosted by a sweeping election victory, hopes to use the budget to restart reforms and deal with a series of economic woes.

In January-March, annual growth slumped to 5.8 percent, the slowest pace in 20 quarters. Growth for the financial year that ended in March was 6.8 percent, also a five-year low, and indicators such as plummeting industrial output and automobile sales have stoked fears of a deeper slowdown.

A shortfall in monsoon rains, pivotal for the farm sector that employs nearly half of India's workers, has increased concerns of rural distress and strengthened the case for intervention, a leader of Modi's ruling Bharatiya Janata Party (BJP) said.

"The focus of the budget will be to boost domestic consumption, address the rural crisis and support small manufacturers," Gopal Krishna Agarwal, BJP's economic affairs spokesman, told Reuters.

Shilan Shah at Capital Economics in Singapore said in a note "Given the recent economic slowdown, the finance minister is likely to announce more accommodative tax and spending measures." In February, then-Finance Minister Piyush Goyal presented an interim budget for the year beginning April 1, to maintain government functions while a weeks-long election was under way.

On Friday, new minister Nirmala Sitharaman will present a full-year budget that Agarwal said could lower corporate taxes for small and medium-sized businesses as well as personal ones to revive consumption by the middle class that gave Modi a second term, while withdrawing some tax exemptions.

In 2018, Indian government reduced the corporate tax rate to 25 percent from 30 percent for companies with annual turnover of 2.5 billion Indian rupees (\$36.3 million) or less.

Following election promises, the government could present a plan for investing up to 100 trillion rupees (\$1.45 trillion) on highways, railways and ports while budgeting another 25

trillion rupees for increasing farm productivity over five years, BJP officials said.

To meet the funds required for all that, Sitharaman may need to increase February's 3.4 percent target for fiscal deficit to gross domestic product to 3.6 percent, said a senior government official. A Reuters poll showed economists expected a 3.5 percent target.

Sitharaman is also likely to seek a higher dividend from the central bank, draw up plans to raise funds from a 5G telecom auction and propose more privatisation, sources said.

After becoming prime minister in 2014, Modi improved public finances, trimming the fiscal deficit to 3.4 percent from 4.5 percent in 2013/14, mostly through cuts in subsidies and higher retail taxes on fuel. However, he is now under pressure to loosen the purse strings to meet election promises and jack up the growth rate.

"A large part of the economy is facing a recession with a fall in rural demand and private investments," said Ashwani Mahajan, chief of the economic wing of the Rashtriya Swayamsevak Sangh, the ideological parent of Modi's ruling group.

"It is the right time to expand the fiscal deficit up to 4 percent of GDP," he said adding the budget could provide tax incentives for food processing, logistics and small businesses as well as affordable housing.

Private investment in India rose an annual 7.2 percent in January-March, down from 8.4 percent the previous quarter. Capital investment growth slowed to 3.6 percent from 10.6 percent.

Economists expect spending to rise as the government plans to expand cash benefits to farmers and inject more funds into state-run banks - saddled with nearly \$150 billion stressed assets - to support lending.

Modi has set an ambitious target of turning India into a \$5 trillion in the next five years from \$2.7 trillion, which will require an annual growth rate of over 10 percent, economists said.

But that will require a big second wave of reforms that Modi shied from during his first term, economists say. To unlock potential and growth more robustly, in their view, India needs to make land acquisition easier and amend labour laws that make hiring and firing of workers difficult.



Anti-extradition bill protesters stand behind a barricade during a demonstration near a flag raising ceremony for the anniversary of Hong Kong handover to China, in Hong Kong on July 1.

of growth.

"I think there will be damage to the reputation of Hong Kong," said Yumi Yung, 35, who works in fintech. "Some companies may want to leave Hong Kong, or at least not have their headquarters here."

Around 1,500 multinational companies make Hong Kong their Asian home because of its stability and rule of law. Some of the biggest and most violent protests in decades could change that perception.

Hong Kong returned to Chinese rule in 1997 under a "one country, two systems" formula that allows freedoms not enjoyed in mainland China, including freedom to protest and an independent judiciary. Monday was the 22nd anniversary.

Beijing denies interfering but, for many Hong Kong residents, the extradition bill is the latest step in a relentless march towards mainland control. Many fear it would put them at the mercy of courts controlled by the Communist Party where human rights are not guaranteed.

"If this bill is not completely scrapped, I will have no choice but to leave my home, Hong Kong," said Steve, a British lawyer who has worked in Hong Kong for 30 years.

but not scrapped, has also spooked some tycoons into moving their personal wealth offshore, according to financial advisers familiar with the details.

An Australian businesswoman who has worked in Hong Kong for 16 years lamented what she saw as Beijing's tightening grip.

"China is just taking away more and more freedom from Hong Kong," she said.

"I feel sorry for Hong Kong people, especially Hong Kong people ... (here) for more freedom, a better economy, a better life, and now it's going backwards," the woman said.

Such concerns came as China's top newspaper warned on Wednesday that outbreaks of lawlessness could damage Hong Kong's reputation and seriously hurt its economy.

Calm has returned for now, but the events of recent weeks have set many people thinking.

"If it had escalated, I would consider moving elsewhere," a 44-year-old hedge fund manager said of the ransacking of the legislature. "I employ four to five people in Hong Kong so yes, I would consider moving."



Labourers work at the site of an under-construction metro railway flyover in Ahmedabad, India.

Automakers report dip in US sales through midyear

AFP, New York

US automakers reported a dip in sales for the first half of 2019 on Tuesday as higher vehicle costs offset generally solid economic conditions.

General Motors, Fiat Chrysler and Toyota all experienced drops in sales through the year's midpoint, although Fiat Chrysler won a modest gain in sales in June.

The results were roughly in line with analyst forecasts and reflective of an auto market that has cooled somewhat but remains at solid levels, especially for larger autos.

"June auto sales aren't hitting the same levels that they did last year but they aren't dropping off a cliff either," Jeremy Acevedo, Edmunds' manager of industry said last week, forecasting a 2.5 percent drop in overall industry sales through the end of June.

"The strength of the economy has kept retail demand in decent shape despite the higher interest rates, rising vehicle costs and other headwinds that have been placing pressure on the new vehicle market so far this year. But we're expecting to see the industry continue to settle into a slower sales pace as we head into the rest of 2019." General Motors reported a 4.2 percent drop in first-half sales of 1.4 million following a 1.5 percent dip in second quarter.

The company's fleet of larger crossover vehicles sold well, along with fully available versions of the Chevrolet Silverado and GMC Sierra, two popular pickups that were recently revamped.

However, overall sales of both the Sierra and Silverado fell compared with the year-ago period because some versions of the vehicles are still not widely available. A GM spokeswoman said more vehicles would be on the market in

the second half of 2019.

"The US economy continues to grow at a healthy pace," said GM Chief Economist Elaine Buckberg. "If the Fed cuts rates, as widely expected, lower financing costs will provide further support to auto sales." Fiat Chrysler's auto sales for the first half of the year were down two percent at 1.1 million.

A two percent gain in June was propelled by a 45 percent surge in Ram truck sales, which offset declines in the company's other brands, including Jeep, Chrysler, Dodge and Fiat.

Toyota North America reported a 3.1 percent drop in first-half sales to 1.2 million, with a 3.5 percent decline in June sales.

The company pointed to higher June sales of its RAV4 crossover vehicle. Sales of the company's luxury Lexus brand fell during the quarter but rose slightly during the first half of the year.