

## Chapter 3

# The Effect of the U.S.–China Trade War on Global Trade

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### ABSTRACT

*If one country attacks another country's trade with taxes and quotas, it is defined as a trade war. It is aimed to protect the domestic market from competition. The U.S.-China trade war begun on March 1, 2018, and was centered on the customs duty of 25% for the imported steel and 10% for the imported aluminum. The protectionist measures against each other in both countries have increased day by day. However, the impact of these protectionist measures on global trade is not yet known. In this chapter, the effect of the U.S.-China trade war on global trade is analyzed. For this reason, the export data of the U.S. to China and the global export data yearly is compared. According to the results of the linear regression analysis, if the value of the goods export of the U.S. to China increase 1 unit, the value of global export of the goods increases to 58 units. While the trade wars decreased the goods export from the U.S. to China, it has decreased global goods exports too. In 2018, developments in global commodity exports and the U.S. goods exports to China were observed in the same direction.*

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## **INTRODUCTION**

Trade war is defined as an attack to a country's trade using protectionist policies, quotas and taxes. It is aimed to protect the domestic market from competition. China-the U.S. the trade war has begun on March 1, 2018, depended on custom duty 25% on imported steel and 10% imported aluminum. The protectionist measures against each other in both countries have increased day by day. However, the impact of these protectionist measures on global trade has not known yet.

There are samples of the trade war from the historical aspect. In the 1980's there was a trade war between the U.S. and Asian countries. In 1986, there was a trade war between the U.S and Japan. And the last trade war has been between the U.S. and China in 2018. The effect of the trade wars on global trade and the economies of the countries have not known yet.

In this research, the effect of the U.S.-China trade war on global trade is analyzed. For this reason, the export data of the U.S. to China and the global export data is compared by yearly. It is aimed to determine whether the U.S.-China trade war has an impact on global trade or not.

## **BACKGROUND**

A trade war is defined as an attack on a country trade with protectionist policies implemented with taxes and quotas. When a country raises tariffs, the other country will respond with escalation and raise its tariffs ("Trade wars, Trump tariffs and protectionism explained," 2018). The conservationist policies of the two countries are applied mutually.

A trade war is a result of the protectionist policies, it occurs when the country raises its imports tariffs on another country's goods and that protectionist measures are applied using by tariffs. Tariff is tax on imported goods and services. Trade wars can start if a country perceive another country's unfair practices on trade or if domestic industries want to be protected by making expensive and less attractive imported goods. Trade war eliminates the advantages of free trade ("Trade War," n.d.).

As a result of trade wars, the protectionist policies applied by raising tariffs lead to an increase in prices. However, it is stated that the countries implementing these policies have gained competitiveness in certain sectors. With these policies, it is aimed that domestic enterprises are protected from competition. The impact of the protectionist policies in economies is the research topics. According to some studies in the literature, increasing the tariff causes welfare loss in countries. In addition, it is stated that both countries suffered from losses in tariff increase. For instance, according to Ossa (2014), if the optimal tariffs are 62% and when this rate to be 63%

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