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INTERNATIONAL BUSINESS STRATEGY AND POLICY

BY

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Abstract

The main aim of this paper is presentation of international business strategy and policy. The main objective of the research task is to give a comprehensive analysis of current trends in foreign trade theory and policy and in particularly, new tendencies in international business, reasons for the USA to implement tariff sanctions. China will be significantly hurt by tariff trade war in all indicators, including welfare, gross domestic product (GDP), manufacturing employment and trade. However, it is pointed out that although there will be definite impacts on China, the costs should be maintainable and will not severely damage the Chinese economy. In regard to the United States, the simulation produced results that described, the US will gain on welfare, GDP and non- manufacturing production, but hurt employment and trade.

KEYWORDS: *international business, strategy and policy, protectionism, bilateral agreements, supply chains, trade war*

INTRODUCTION

Both structural and micro-political economy analyses of foreign trade policy have missed the impact of changing ideas about protectionism and relatively unchanging institutions designed to handle domestic producer complaints. The political consensus on the supply of the trade policy and protectionism has changed over the time. During economic depression protectionism played important roles in the politics of political parties and increased the importance of bilateral agreements and regional agreements. This point of view is very important for the theory and practice of the contemporary international business also between USA and China.

The necessity for companies to organize their supply chains across different countries has led to a demand for the regional agreements that cover more than preferential tariffs. The harmonization of standards and rules on investment, intellectual property and services has become a standard part of new trade agreements. The differences among companies which are involved in trade are also important for the future development. The concept that arises from the trade is that even if many companies are indirectly involved into the trade-related activities, only relatively few of them are exporting or importing. Accordingly, these companies tend to be larger and more productive than others. Such companies also have a role in technology advancement and the diffusion of know-how through supply chains. It should be emphasised also that free trade in itself is not responsible for economic growth, but more significant are the determining macroeconomic stability and increasing investment.

The international trade in the XXI century has been strongly affected by the force of the domestic interests like in the USA under President Donald Trump's administration with the principle *America First*. The changes are visible in the growing importance of international trade to national economies and domestic groups within those economies, in the closer linkages between trade and other international issues. Realistic point of view is the essential trends in the global trade regime during this time. The growing interdependence has led to increased competitiveness and greater inclinations to resort to strategic trade policy.

RESEARCH AND METHODS

The main objective of the research task is to give a comprehensive analysis of the potential implications increase of protectionism between the United States and China for international business. China will be significantly hurt by tariff trade war in all indicators, including welfare, gross domestic product (GDP), manufacturing employment and trade. However, it is pointed out that although there will be definite impacts on China, the costs should be maintainable and will not severely damage the Chinese economy. In regard to the United States, the simulation produced results that described, the US will gain on welfare, GDP and non- manufacturing production, but hurt employment and trade.

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The analysis problems were solved with the use of both quantitative and qualitative research methods. The main research method applied in this analysis, was a method of scientific study used for splitting the whole (of individual items, their sets, phenomena) by means of logical abstraction. It was also used the analogy (comparative) method, which consists in finding similarities and differences between the items under study, the documentation method and statistical methods. It were applied the descriptive method, as well as methods of descriptive statistics and forecasting. Additionally, it were used the methods of deductive and inductive forecasting.

RESULTS AND DISCUSSION

What indicates the importance and innovativeness of the research is presentation the potential implications increase of protectionism between the United States and China for international business. It should be stressed that free trade in itself is not responsible for economic growth, but more significant are the determining macroeconomic stability and increasing investment.

During the rise of global supply chains the development of various firm models has made it possible to explore the effects of differences in firms on the political economy of trade. It must be underline that trade opening has two opposing effects on domestic firms within the same industry. First, the cost of exporting decreases, which allows more firms to export and increases the sales of established exporters. Secondly, competition increases, which harms domestic firms. Which of these channels dominates for an individual firm depends on firm characteristics, such as size. As a result, lobbying competition arises not only between sectors but also within sectors in which some firms benefit and some lose due to trade. This effect might especially arise in the context of fixed costs because they rise entry costs and thereby shield existing producers or exporters from competition.

Current trends in the international business and global politics provide evidence that emerging markets have now arrived at the world economy, at last, bringing with it new patterns of uneven development, inequality and injustice. Its newly confident elites, now fully engaged in global circuits of trade, investment and finance, and in global governance too, appear to have left behind their previous role. It is clear that emerging economies have suffered less and recovered more quickly. Besides, it now seems that the patterns of political impact not in the sense of immediate crisis measures but of long-term huge shifts may be equally significant and unexpected.

INTERNATIONAL TRADE

Countries and producers increasingly specialize in certain stages of production depending on their particular comparative advantage (Krist, 2013); (Jackson, 2013). It is importance and magnitude of this development for foreign trade policy. It is also important to underline that transport and energy costs, for instance, are reasons why supply chains remain more regional than global. Krugman (1991) brings increasing returns together with capital and labor migration and transport costs into one model. Krugman's (1991) model has become a workhorse of economic geography and international trade. The model is too complex to explain here but the reasons for that complexity are clear to see – when everything becomes "endogenous" small initial differences can make for big effects. To minimize transport costs, for example, firms want to locate near consumers but consumers want to locate near work. Thus, there are multiple equilibria and at a tipping point the location decisions of a single firm or consumer can snowball into big effects. A related trend also is the new form of regionalism that is sometimes referred as integration process development (Baldwin, 2012).

It must be emphasized that openness to trade in China is associated with higher incomes and growth and there are the need for new approaches to trade cooperation in light of the forces that are currently re-shaping international business. A major factor, was the even more remarkable transformation of China, as market reforms opened up its economy to foreign trade and investment, and unleashed an unprecedented growth dynamic that has continued, with only minor slowdowns . In the new circumstances for the development of the global economy and the global trade, People Republic of China seems to be a production superpower, able to change the world trade and influence on the rise of global supply chains. In many areas it possesses comparative advantages. China may continue their development to specialize in electronics and increasingly in services.

It must be underline also the major trend in international trade which is the rise of a number of emerging economies and the associated increase in their shares in world trade (Jackson, 2013). Especially China but also India and Brazil have transformed the balance of power in the multilateral trading system (Jackson, 2013). Between 1980 and 2011, for example, China's share in world merchandise exports and imports increased tenfold, making the country the largest exporter of the world (Jackson, 2013); (Kupchan, 2014).

The industrialization and spectacular growth of emerging economies, together with the fast expansion of services trade and of FDI, are inextricably related to the next intensive growth of production. The focus here will be on how the rise of global supply chains has had an impact on the political economy of trade and countries motivations for bilateral cooperating on trade policies (Jones, 2015). There is both theory and evidence suggesting that participation in global supply chains tends to strengthen anti-protectionist forces (Jones, 2015). The main impact, has been on unilateral tariff reductions (mostly among developing countries) and the proliferation of preferential trade agreements (PTAs) and bilateral investment treaties (Krist, 2013); (Jones, 2015); (Deudney, 2014). A considerable amount of trade opening has thus taken place outside the WTO.

The internationalization of supply chains was very important for fast economic development and industrialization of developing countries. Before the emergence of supply chains – and the information and communication technology (ICT) revolution that underpinned it – industrialization involved building a strong industrial base often behind the protection of

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tariffs and other NTMs (Jupill, Mattli, Snidal, 2013). The unbundling of global production made it possible for countries to industrialize by joining international supply chains (Jones, 2015). This process also changed the political economy of trade policy, creating in many developing countries a strong incentive to undertake unilateral tariff reductions.

STRUCTURE OF POLITICAL SYSTEM

The US claims, that the Chinese state-owned enterprises with characteristic communist party's directed planned economy and crony capitalism princelings gain the most benefits in most activities including the Belt and Road Initiative (Puślecki 2018a), (Puślecki 2020a), (Puślecki 2020b), (Puślecki 2021) and Made in China 2025. The US, Japan, Canada, Mexico, the EU countries do not recognize China as a market economy, alleging market distortions. Irwin Stelzer, the economist, states that China's centrally directed economy with its goal to preserve communist party control of the politics and economy is relevant to the US trade policy. Aaron Friedberg, the political scientist and the former White House national security officer has also said the communist party regime has expanded its use of state- directed, market-distorting, mercantilist policies, especially since 2008 (Puślecki 2008). The 2018 Congressional hearing "U.S. Tools to Address Chinese Market Distortions" discussed how "the Party leads everything" doctrine makes China's economy hard for the trading rules to deal with and results in many US businesses bowing to pressure even though their decisions may jeopardize the future of their companies and the US economy as a whole. The structural problem of the Chinese Communist Party is the fundamental opposition to the free-market capitalism and fair competition and it is claimed by the US as the root of the US–China economic tensions (Puślecki 2018a).

China is a totalitarian mercantilist regime in a state of an economic war with the West. Trade war by China against the United States has been going on for years. China declared trade war on the US 18 years ago in control and command economies like China, a telephone call in the middle of the night from a monopoly commissar is all that it takes to get a business to do something. China is totalitarian regime and states China's unfair trade policies are kind of economic aggression and a direct result of its autocracy. The economic security is the national security and discusses trade in a broader geopolitical arena.

President Trump in his 2018 U.N. speech stated the following: "China's market distortions and the way they deal cannot be tolerated", while also saying "socialism or communism... produces suffering, corruption... leads to expansion, incursion, and oppression. All nations of the world should resist socialism and the misery that it brings to everyone", which was seen as also targeting China. The White House criticizes China's market-distorting policies within China and around the globe. Both in the USTR White House report and Congressional report, Vice President Mike Pence's in his China-focused speech claims the forced installation of communist party committees and communist board members in all companies, state-owned, non-state-owned, and joint venture foreign companies, to implement its policies, influence and even form veto power in hiring, selecting leadership, and investment decision-making and can be inconsistent with market signals. China has chosen economic aggression, which has in turn emboldened its growing military. The administration's demands challenge all the core elements of China's economic system and its links to the constitution of the communist party.

China claims, that for a long time the US government has brazenly preached unilateralism, protectionism and economic hegemony, made false accusations against many countries and regions, particularly towards China, intimidated other countries through economic measures such as imposing tariffs, and attempted to impose its own interests on China through extreme pressure.

China had stolen the US intellectual property and bullied its way into acquiring critical US advances in technology. Tariffs aren't an end goal, but an important tool to end trade practices that kill American jobs and drive down American pay.

Many countries and companies have accused Chinese spies and hackers of stealing technological and scientific secrets through the planting of software bugs and by infiltrating to industries, institutions, and universities. China was also accused it benefited itself from stealing foreign designs, flouting of product copyrights and a two-speed patent system that discriminates against foreign companies with unreasonably longer times. Chinese intelligence service was accused of assisting Chinese companies by stealing company secrets.

Chinese hackers had consistently stolen trade secrets from the US defense contractors. Chinese cybertheft of intellectual property is the greatest transfer of wealth in history. Chinese spies have gone after private defense contractors and subcontractors, national laboratories, public research universities, think tanks and the American government itself. Chinese agents have gone after the United States' most significant weapons, such as the F-35 Lightning, the Aegis Combat System and the Patriot missile system; illegally exported unmanned, underwater vehicles and thermal-imaging cameras; and stolen documents related to the B-52 bomber, the Delta IV rocket, the F-15 fighter and even the Space Shuttle. US opened a formal investigation into attacks on the intellectual property of the US and its allies, which cost the US alone an estimated $225–600 billion a year.

REASONS FOR THE USA TO IMPLEMENT TARIFF SANCTIONS

China and the United States are engaged in a trade war as each country continues to dispute tariffs placed on goods traded between them. The economic disputes occurred before China's entry to the World Trade Organization. In April 2018, the United States filed a request for consultation to the World Trade Organization in regard to concerns that China was violating intellectual property rights.

In adding various tariffs, the US administration is relying partly on Section 301 of the Trade Act of 1974 to prevent what

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it calls *unfair trade practices* and theft of intellectual property. This gives the president the authority to unilaterally impose fines or other penalties on a trading partner if it is deemed to be unfairly harming the US business interests, especially if it violated international trade agreements. In August 2017, the US opened a formal investigation into attacks on the intellectual property of the US and its allies.

The result is that the US believes Chinese laws undermine intellectual property rights by forcing foreign companies to engage in joint ventures with Chinese companies, which then gives the Chinese companies access and permission to use, improve, copy or steal foreign technologies. The US also raises concerns that China fails to recognize legitimate patents and copyrights, and discriminates against foreign imported technology, and that China has instituted numerous non- tariff barriers which have insulated sectors of the Chinese economy from international competition. Thus, the trade war is seen as largely focused on intellectual property in China, especially regarding technology.

China's technological progress is coming from terrific entrepreneurs who are getting the benefit of huge government investment in basic science. It's coming from an educational system that's privileging excellence, concentrating on science and technology. That's where their leadership in some technologies is coming from, not from taking a stake in some US company. China declared that its attitude toward the protection of intellectual property rights is clear and firm, and it has continuously strengthened protection at the legislative, law enforcement and judicial levels, and achieved remarkable results.

The US claims that China requires technology transfer through foreign direct investment (FDI) regime and required joint ventures: in many cases, technology transfers are effectively required by China's Foreign Direct Investment (FDI) regime, which closes off important sectors of the economy to foreign firms. In order to gain access to these sectors, China forces foreign companies to enter into joint ventures with Chinese entities they do not have any connection.

A number of experts have focused on what they claim is China's "theft" of intellectual property, and that it forces the US companies that want to do business there into transferring its confidential technology and trade secrets before having access to their market. Although that kind of transfer is disallowed by the WTO, the negotiations are usually conducted in secret to avoid penalties. The Commission on the Theft of American Intellectual Property states just agreeing to manufacture in China opens yourself to theft or forced technology transfer. It requires the US response based on "strength and leverage" .

In 2018 the American Chamber of Commerce in China learned that over half its members thought that "leakage of intellectual property" was an important concern when doing business there. Similarly, the EU Chamber of Commerce has also complained that European companies wanting access to the Chinese market often had to agree to transfer vital technology. China claims that the technical cooperation and other economic and trade cooperation between Chinese and foreign enterprises are completely based on the voluntary principle of contractual behavior, and both companies have obtained practical benefits, and over the years, American companies in China have received huge returns through technology transfer and licensing, and are the biggest beneficiaries of technical cooperation.

In June 2016, as presidential candidate, Donald Trump vowed to cancel international trade deals and go on an offensive against Chinese economic practices, describing his promise as a reaction against "a leadership class that worships globalism". Less than a year after he took office, the United States, European Union and Japan, agreed to work within the World Trade Organization (WTO) and other multilateral groups to eliminate unfair subsidies by countries, which create noncompetitive conditions through state-owned enterprises, "forced" technology transfers and local content requirements.

In April 2018, President Donald Trump denied that the dispute was actually a trade war, saying that war was lost many years ago by the foolish, or incompetent, people who represented the US. He added also that in the 2018 year USA have a trade deficit of $500 billion a year, with intellectual property (IP) theft of another $300 billion and that US cannot let this continue.

In January 2018, President Donald Trump underlined he wanted the United States to have a good relationship with China, but insisted that it treat the United States fairly. In his State of the Union Address a few weeks later, mentioned that America has also finally turned the page on decades of unfair trade deals that sacrificed prosperity and shipped away companies, jobs, and Nation's wealth. The era of economic surrender is over. From this time America expect trading relationships to be fair and to be reciprocal. United States will work to fix bad trade deals and negotiate new ones and US government will protect American workers and American intellectual property, through strong enforcement of US trade rules.

A number of government and industry experts have offered their own rationales about why the tariffs are, or are not, appropriate: John Ferriola, the CEO and President of Nucor, America's largest steel producer and its largest metal recycler, claimed that tariffs were not unfair, but were "simply leveling the playing field". He explained, that not only the European Union, but most countries in the world, have a 25 percent or greater VAT, on products going into their countries from the United States. So if the US impose a 25% tariff, all doing is treating them exactly as they treat the US.

Analyst Zachary Karabell claimed that the administration's desire to reject long-standing trade consensus in favor of a more nationalist approach will not succeed. A set of very public and punitive tariffs will not reverse what has already been transferred and will not do much to address the challenge of China today, which is no longer a manufacturing neophyte. Peter Navarro, White House Office of Trade and Manufacturing Policy Director, gave a number of the administration's explanations for the tariffs, among them are

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that they are "purely defensive measures". He claims that the cumulative trillions of dollars Americans transfer overseas as a result of yearly deficits, are then used by those countries to buy America's assets, as opposed to investing that money in the US.

The US Trade Representative Robert Lighthizer, after a seven-month investigation into China and intellectual property, explained that the value of the tariffs imposed was based on the US estimates of the actual economic damage caused by China's alleged IP theft and the forced transfer of technology to Chinese companies. In response, Chinese Premier Li Keqiang promised in March 2018 to henceforth protect the rights of foreigners investing in its economy, followed in April by an announcement by China that it would eliminate laws that required global automakers and shipbuilders to work through state-owned partners. President of China Xi Jinping reiterated those pledges, affirming a desire to increase imports, lower foreign-ownership limits on manufacturing and expand protection to intellectual property, all central issues in Trump's complaints about their trade imbalance. Trump thanked Xi for his "kind words on tariffs and automobile barriers" and "his enlightenment" on intellectual property and technology transfers.

It is claimed that China has instituted an array of non-tariff barriers meant that some critical sectors of the Chinese economy remained relatively insulated from international competition. China has controlled imports by having different standards for private, foreign companies than for Chinese State Owned companies: Lee G. Branstetter, a professor of economics and public policy at Carnegie Mellon University, listed some of the ways that China has misappropriated foreign technology. In a report issued March 22, 2018, the US cited numerous instances of forced technology transfer and the failure of companies and the government to protect the US intellectual property from infringement or theft. Soon after the report came out, the US announced plans to impose tariffs on up to $60 billion worth of Chinese exports to the United States and tighten the rules governing Chinese investment in the United States.

Amid doubts over the costs of the US comprehensive strength and leverage, alleged security implications, China's allegedly terrible human rights records, the Clinton administration in 2000 approved China's entry to the World Trade Organization. However, the US claims that China has failed to fulfill its promise for reforms and requirements to be a WTO member, further claiming that flaws in the rules of the current trading system lets China limit imports with high tariffs and discriminatory regulations, subsidize exports with an inexpensive currency and generous credit through state controlled banks, bully foreign investors, pirate western intellectual property, which allegedly gives it trade advantages. The US claims that the WTO for a long time didn't punish China's "cheating".

The threatened tariff increase on the additional $200 billion in Chinese goods by the US, and the retaliatory increase in tariffs on American goods, was postponed in early December 2018. During the 2018 G20 Buenos Aires summit, Donald Trump and Xi Jinping agreed to delay their planned increases in tariffs for 90 days, starting on December 1, to allow time for the two countries to negotiate their trade disputes. According to the Trump's administration, if at the end of [90 days], the parties are unable to reach an agreement, the 10 percent tariffs will be raised to 25 percent. The US Trade Representative's office confirms the hard deadline for China's structural changes is March 1, 2019. If China fails to do reform which supposed done years ago, the 25% tariffs on $200 billion of Chinese goods will be imposed since 12:01 a.m. Eastern Time Zone on March 2, 2019 scheduled date of a tariff rate increase on $200 billion worth of Chinese goods to 12:01 a.m. EST (0501 GMT) on March 2, 2019.

China had agreed to purchase "a very substantial" amount of soy beans and other agricultural, energy, industrial, and other products from the US. China had agreed to reduce the 40% tariff on cars coming into China from the US, although Beijing had not confirmed that by December 4, 2018. Chinese government was considering a reduction in the auto tariff but provided no specifics. Two leaders had agreed to immediately begin negotiations on structural changes with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft, services and agriculture. Two heads of state reached consensus to halt the mutual increase of new tariffs" and the country would increase its purchases from the US to "gradually ease the imbalance in two-way trade". The official announcement from Beijing did not confirm the plan for such purchases, but said that both leaders were striving for a mutually-beneficial agreement.

On October 17, 2018, the United States announced its withdrawal from the Universal Postal Union, in order to renegotiate international shipping rates for mail and small packages. China had been paying lower rates because it was considered a developing nation; the United States seeks to charge the same rates for all countries. The withdrawal can be rescinded if an agreement is found within one year.

INFLUENCE OF USA-CHINA TRADE WAR ON INTERNATIONAL TRADE US EXECUTIVE BRANCH

The planned Chinese tariffs only reflected 0.3% of the US gross domestic product. The moves would have "short-term pain" but bring "long-term success". Tariffs may be self-defeating and that renegotiating China's membership in the WTO (Puślecki 2021) would be more effective that tariffs. The US economy stay strong in 2019. Increases in the interest rates was necessary to maintain the economy. Given this outlook of strong growth, strong labor market and inflation near US goal and taking account all the various risks around the outlook, and do expect further gradual increases in interest rates was best sponsor a sustained economic expansion.

A self-appointed group of billionaires related to Goldman Sachs or Wall Street pressed on the White House, claiming that it was a part of a Chinese government influence operation that weakens the US negotiating position. Unregistered

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foreign agents for supposedly interfering with negotiations and violating the Foreign Agents Registration Act, urging them to invest in Dayton, Ohio and America factory towns where a rebirth of manufacturing base is needed.

STRONG BIPARTISAN PUSHES FOR FIRM AND FURTHER ACTIONS AGAINST CHINA

Higher tariffs against China's alleged taking advantage of the US. It was opinion that Democrats, Republicans, Americans of ever political ideology, every region in the country should support these actions. In the meanwhile, he warns Trump administration not to let China play them and President Trump should not back off his pledges to punish Beijing. Most Democratic senators, including Committee ranking members Bob Menendez (Foreign Relations), Sherrod Brown (Banking), and Ron Wyden (Finance), claimed that Americans confront rampant theft of the US intellectual property, forced data storage localization policies, agricultural policies that disadvantage American farmers, dumping shoddy goods, restrictions on market access for the US service providers and manufacturers, and mercantilist industrial policies that have cost the US workers their jobs. They ask sanction on Chinese companies, such as ZTE, that has allegedly sold sensitive the US technologies to Iran and North Korea and repeatedly made false statements. Democrats call on putting American workers, farmers, businesses, innovation and national security ahead of China and remain steadfast in enforcing America's laws for claimed predatory and abusive behaviors. Ahead of the G-20 negotiation, the Senators ask the administration to stand tougher for pushing real meaningful structural reforms in China.

China is a more real threat to American manufacturing and high-tech industries, claiming that regarding espionage. There's no country that's even close to China. China is claimed to be responsible for 50~80% of cross-border intellectual property theft worldwide, and over 90% of cyber-enabled economic espionage in the US.

The US must take strong, smart and strategic action against China's brazenly unfair trade policies must do much more to fight for American workers and products far more is need to confront the full range of China's bad behavior. Beijing's regulatory barriers, localization requirements, labor abuses, anti-competitive policy and many other unfair trade practices require a full and comprehensive response must show the moral courage to use its economic leverage to not only guarantee free trade for American products in Chinese markets, but also to advance human rights in China and Tibet.

A brief reduction in the trade deficit was do nothing to solve the main challenges of the trade relationship and called for "targeted sanctions" on Chinese companies, non-tariff restrictions, and upgraded protection for US and intellectual property innovation. It was the opinion in US to keep position against most favored nation status for China and trade war against China was supported.

MARKETS AND INDUSTRIES

By early July 2018, there were negative and positive results already showing up in the economy as a result of the tariffs, with a number of industries showing employment growth while others were planning on layoffs. In anticipation of tariffs going into effect, stock prices in the US and China sustained significant losses for four to six weeks prior. Trade war fears had led to a bear market in China where by late June the total value of the country's stock markets was 20% lower than it had been at the beginning of 2018 when it reached record levels. The Japanese Nikkei also suffered a "three-week pullback". On July 6, 2018 when the tariffs went into effect, markets rebounded and rallied due to positive jobs report in the US–Asian markets similarly rebounded, ending the day in a high note. According to the Associated Press, the positive reaction to the tariffs in the US and Asian markets was because of an end to uncertainty and, according to *Investor's Business Daily*, because "markets had largely priced in the impact"

Announcements of escalation of tariffs by the US and China, representatives of several major US industries expressed their fears of the effects on their businesses. Organizations critical of the intensifying trade war included National Pork Producers Council, American Soybean Association, and Retail Industry Leaders Association. Several mayors representing towns with a heavy reliance on the manufacturing sector also expressed their concerns. In September, a business coalition announced a lobbying campaign called "Tariffs Hurt the Heartland" to protest the proposed tariffs. Proponents of the increased the US tariffs included Scott Paul, president of the Alliance for American Manufacturing.

INCREASE OF PROTECTIONISM BETWEEN USA AND CHINA

To stay afloat on both global and national markets, corporations will look for ways to protect their margins by avoiding paying hefty tariff bills. The costly price of building manufacturing infrastructure in the US means corporations will now turn their eyes toward other countries hungry to entice US manufacturing and jobs to their country. Many companies are already beginning to look to relocate manufacturing to China's close neighbor, Vietnam. The global news magazine, *Foreign Policy*, reports that Goertek, a Chinese company known for supplying Apple Air Pods have already begun relocating their machines to Vietnam. Goertek looks to escape the tariffs by manufacturing in Vietnam instead, as talks between the US President Trump and Chinese President Xi Jinping continued on November 1st, 2018.

This is a decision that many companies will be forced to make. Coi Rubber's President, David Chao, has said that he too had already been considering offshoring manufacturing to other countries near China prior to the trade war talks. The passage of recent tariff laws only solidified Mr. Chao's decision to relocate their China based factory to other competitive countries to escape unreasonable tariff costs and maintain the company's global expansion trajectory. Coi Rubber will

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continue to operate their three factories in China but will make Vietnam their primary factory. Although the tariffs may impact many manufacturers initially, Mr. Chao sees this as an opportunity to invest in Coi Rubber's future by building their 4th factory in Vietnam, thereby allowing them to save costs in not only tariffs but in labor costs as well.

The decision of the US administration to impose a new round of tariff increases on imports from China has taken the US-China trade dispute to a new level. The new list is subject to a 10 percentage point increase in import tariffs, which would be eventually raised to 25 percentage points at the end of the year 2018. It represents a large expansion in the range of Chinese products included in the first two tranches of US import tariff hikes implemented on 6 July and 23 August 2018. The policy has triggered retaliation. China raised tariffs by 25 percentage points on similar amounts of imports from the US on the same dates that the US tariffs came into force.

This protectionist tit-for-tat can have consequences for the economies of the warring parties, as the experience of the Great Depression illustrates (Eichergreen and Irwin 2010), (Puślecki 2019a), (Puślecki 2019b). At the same time, it can also affect third countries, especially those more economically linked to the US and China. In this column, we provide novel partial equilibrium estimates of the potential trade and investment impacts of the US-China trade dispute, focusing on East Asia (Guangyuan 2020). Countries in this region are the most exposed to the dispute given their integration with Chinese-led supply chains and the similarity of their export baskets with China. We focus on the impact on these countries of US tariff hikes on Chinese production (Puślecki 2022). .

We estimate the expected import response to the tariff increase. To do so we combine HS-8 digit US import data for 2017 from the US Census Bureau of Statistics, HS-6 digit product-level price elasticity of US imports (estimated by Kee et al. 2008) (Puślecki 1984), (Puślecki 2001), (Puślecki 2003), (Puślecki 2013) and the published lists of Chinese products subject to the three tranches of US tariffs. We assume the price of import to increase proportionately with the tariff, which is then multiplied by the relevant elasticity and the import value to obtain the expected reduction in US import from China.

Our calculations suggest that the total US imports from China in the affected products amounted to $234.8 billion in 2017, of which $188.9 billion have been targeted in the last tranche of tariffs. Based on the data we use, the tariffs would reduce US imports from China by $68.6 billion, equivalent to 13.6% of total US imports from China and 3% of global Chinese merchandise exports (Puślecki 2018a). This expected drop in Chinese exports would translate into a reduction in domestic value added by $41.4 billion, a relatively modest 0.3% of Chinese GDP. This is an upper bound of the direct impact on Chinese exports, as it does not consider the possible re-direction of these exports towards third markets.

The bulk of the affected imports is concentrated in electronic equipment and machinery and their component. Electronic and optical equipment (including TV and sound recording devices) and their components, as well as machinery, boilers and mechanical appliances account for almost half of the expected drop in US imports from China. A significant amount of the import drop is also expected in consumer products, such as furniture, vehicles, leather articles and fish and crustaceans, which may have some direct impact on parts of the US household consumption basket.

The upside of the reduction in Chinese exports to the US is the potential diversion of US imports towards non-Chinese suppliers, particularly in East Asia, where export structures present some similarities with China. To get a sense of these potential export opportunities, we identify the Chinese products (at the HS-8 digit level) that are subject to higher tariffs in the US market and which happen to be also exported to the US by other East Asian countries for a value of at least $10 million in 2017. The intuition is that a country which is already exporting a non-negligible amount of the same product to the same market would be more likely to replace an existing exporter in that product-market pair (Puślecki 2022).

According to this metric, the replacement potential of Chinese exports in the US by East Asian countries – especially emerging economies – is quite significant.

Vietnam, the Philippines, and Cambodia are the East Asian countries with the largest replacement potential relative to the size of their economy. The estimated drop in Chinese exports to the US in products which Vietnam already supplies to the US for at least $10 million is worth 10.9% of Vietnam's GDP, or 4.4% of GDP when considering the associated domestic value added of these exports. The largest opportunities lie in those products where both the expected Chinese export drop and the existing Vietnamese exports to the US are large, such as chairs, insulated ignition, shrimp and prawns, travel bags, parts of seats, television cameras, wooden furniture and handbags. A much smaller set of products fulfils these characteristics for Cambodia, including plywood sheets, handbags, travel and sports bags, lighting sets for Christmas trees, dog or cat food, parts of seats and bicycles, reflecting the high concentration of its export basket. Taiwan, Singapore, Malaysia, and Thailand also have non-negligible exports replacement potential (Zhang 2021). The potential replacement is more limited for Indonesia. The drop of Chinese gross exports in products also exported by Indonesia to the US is worth 1.3% of GDP, with an associated domestic value added of 1.0% of GDP.

By raising the cost of serving the US market from China, the trade war could also lead to diversion of investments towards third countries (Guangyuan 2020). This diversion would likely concern mainly Chinese investments seeking to by-pass US import tariff hikes. The extent to which investments may relocate towards other countries to serve the US market would partly depend on each country's ability of producing the same set of affected products for the relevant market and perceptions about the duration of the trade war. We measure this ability through the correlation index between the expected drop in

US imports from China and the US imports from each East Asian country (Guangyuan 2020). in the HS 8-digit products subject to the tariffs. The value of the index is highest for Taiwan, followed by Thailand, Malaysia, Vietnam, and the Philippines. Indonesia and Myanmar have the lowest value of the index. While this ranking tries to capture only one of the several criteria used for investments choices, it is suggestive of the variation in the relative attractiveness across potential destinations for investments based on existing similar export basket as China.

While China has progressively absorbed large chunks of the value chain in various sectors (Kee and Tang 2016), (Puślecki 2018a) it still relies on imports of foreign intermediates and final inputs for some of its production). East Asian countries are key suppliers of such intermediates and inputs to China (Guangyuan 2020). Hence, the expected drop in Chinese exports to the US may have knock-on effects on these countries via backward linkages. The extent of this impact would depend on what parts of the value chain each country contributes to. This in turn determines what intermediates and raw materials countries provide to China in the production of the products affected by the tariff hike (Puślecki 2022).

In order to gauge the importance of this channel, we match our estimated drop in Chinese exports at the HS-8 digit level with the country-specific shares of domestic value added in Chinese gross exports to the US in those products (available from OECD TiVA data). Taiwan and Malaysia are the East Asian countries (Zhang 2021) that appear most vulnerable to the drop in Chinese exports via the supply chain with an estimated GDP loss of 0.24% and 0.20% respectively. That is mainly due to the countries' provision of inputs for Chinese exports to the US in electronic and optical equipment as well as electrical machinery, which account for two third of this loss. Singapore and South Korea, and Thailand are all expected to lose more than 0.1% of their GDP via this channel, while the effect for Cambodia, Indonesia and Vietnam are relatively muted given the low participation in Chinese-led global value chains (Guangyuan 2020).

While these negative effects are smaller than the estimated (positive) export replacement potential, the two figures are not necessarily comparable. The latter are upper bound estimates of the potential for replacement. In fact, the true dimension of the replacement effect is likely to be considerably smaller for two reasons: first, each country would compete for the same potential market; second, any such replacement would hinge on the supply response in each country-product pairs, which could be relatively small (and even zero) in many cases. On the other hand, the effects via the supply chain are likely to provide a more precise order of magnitude of the actual losses (Puślecki 2022).

This type of analysis could help policymakers in East Asia (and beyond) identify the potential winners and losers among domestic producers from the US- China trade war (Guangyuan 2020. Governments could help the former replace Chinese exports in the US markets through measures such as facilitating access to imported inputs, which are heavily used by East Asian exporters, and ensuring the availability of finance, including trade finance, required for the additional production and exports (Puślecki 2022). At the same time, assistance to potential losers to reallocate their production and/or their labor could help minimize the domestic costs of the trade war (Calì, 2018).

USA AND THE OTHER TRADING PATNERS IN TRADE WAR WITH CHINA

After almost a year of going it alone, President Trump finds himself with a surprising weapon in his trade confrontation with China: allies. Pressure from Europe and Japan is amplifying the president's vocal complaints about Chinese trade practices that he says discriminate against foreign companies and threaten the US economic growth — as fresh economic data in the end of 2018 year in Beijing showed the economy slowing more than expected.

To eliminate one major irritant, Chinese leaders already have begun scaling back an industrial policy aimed at dominating 10 technology industries, after concluding the president's objections were widely shared and could not be resolved merely by waiting out the mercurial US leader. "One thing the Chinese have had to acknowledge is that it wasn't a Trump issue; it was a world issue", said Jorge Guajardo, senior director at McLarty Associates and a former Mexican ambassador to China. "Everybody's tired of the way China games the trading system and makes promises that never amount to anything".

Administration officials deserves credit for driving a harder line towards Beijing both domestically and foreign. Attacking Chinese protectionism (Puślecki 2018a), (Puślecki 2021) now has bipartisan support in Washington, Germany, and the United Kingdom joined the United States in 2018 year in tightening limits on Chinese investment. But critics say the President has not done enough to capitalize on those shared grievances, instead alienating European and Japanese officials in 2018 year by imposing tariffs on their shipments to the United States of steel and aluminum.

Trump's resolve to pursue his confrontation with China is doubted amid administration infighting and suggestions that the United States might settle for increased Chinese purchases of American products rather than demand wholesale changes to China's economic system in ongoing trade talks. "It makes sense to get the other countries more involved. But they don't know how serious Trump is on the systemic reform bits", said Chad Bown, a senior fellow at the Peterson Institute for International Economics.

China has tried to defuse the global irritation over its mercantilist stance by signaling a willingness to revise a program of state subsidies and market share targets called "Made in China 2025". The new flexibility comes as Chinese industrial production figures in the end 2018 year fell short of economists' expectations and retail sales grew at their slowest rate in 15 years. Analysts in China and the United States say China is modifying the Made in China program because of

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pressure from all its major trading partners.

In September 2018 year, trade ministers from the United States, European Union and Japan issued a joint statement that blasted the use of subsidies in turning "state owned enterprises into national champions and setting them loose in global markets". The statement, which did not name any country, also rejected forced technology transfer and cyberattacks — underscoring key elements of the president's attacks on Beijing.

The US Trade Representative Robert E. Lighthizer has described the subsidy program, which sets market share goals for Chinese industry, as imperiling US technology leadership. China wants its semiconductor manufacturers to provide 70 percent of domestic needs, up from less than 20 percent today, threatening the $6 billion in annual US exports. But roughly a dozen other countries are even more dependent on high-tech manufacturing and exports of advanced factory gear, and are more exposed to China's desire to replace purchases of foreign products with domestic alternatives, according to the Mercator Institute for China Studies in Berlin.

The pushback from other trading partners is a really important piece of the dynamic development of China. That's because the Made in China 2025 program is more of a threat to Germany, South Korea and Japan than it is to the United States. External pressure drove China in 2018 year to open markets for financial services and automobiles, according to economist Andrew Polk, a partner in Trivium China, a Beijing-based consultancy.

In the end of 2018 year, the Chinese government also temporarily rolled back a tariff increase on the US autos, implementing part of a trade-war truce Chinese President Xi Jinping and Trump agreed to during their meeting in Buenos Aires. Chinese authorities have eliminated the foreign ownership cap for life insurers, approved foreign financial institutions underwriting domestic bond offerings and agreed to lift limits on foreign stakes in automotive joint ventures by 2022. It's the only bipartisan issue in Washington. It's a concern for Brussels and Canberra and that recognition is what has helped drive accelerated market openings.

From the outset, the President has pursued his plans for an "America First" remake of the US trade policy with little regard for sentiment abroad. He withdrew the United States from the 12-nation Trans-Pacific Partnership as one of his first official acts, and he has imposed unilateral tariffs to a degree unseen since the 1930s. His attacks on the World Trade Organization also undermined any chance that China's trading partners would unite in a comprehensive complaint in Geneva. The United States did win the EU and Japanese support for a complaint to the WTO alleging China has violated the US intellectual property rights. But rather than use the global trade body for a broader attack on China, the administration has demanded changes in the way the organization operates. To critics, the administration missed an opportunity to marshal China's trading partners behind an across-the-board indictment of its state-led economy (Puślecki 2022).

The EU agreed in the end 2018 year to establish a new screening mechanism for foreign investments, motivated largely by a sharp increase in Chinese activity on the continent (Puślecki 2021a),(Puślecki2021b). Yet the EU measure leaves final decisions to national governments and falls short of the Committee on Foreign Investment in the United States. The German government in July 2018 blocked two potential acquisitions by Chinese investors, following similar action by Canada two months earlier, and lowered to 15 percent from 25 percent the foreign ownership stakes that require review. British Prime Minister Theresa May's government also announced plans for closer scrutiny of investments by foreign entities. Despite his reputation as a global loner, Trump's views on China are becoming the conventional wisdom.

The rest of the world knows that China has been violating common trade practices, WTO trading practices and laws (Puślecki 2018a), (Puślecki2021a),(Puślecki 2021b). The rest of the world knows full well about the issues of IP theft and forced transfers of technology. They know that and they've said so. This idea that other countries are not with us — it's just not true", said National Economic Council Director Larry Kudlow. "The rest of the world knows this, and China knows the rest of the world knows this". The US and Chinese officials are racing toward a self-imposed March 1, 2019 deadline to negotiate a trade deal that would involve changes to China's state-directed economy. Many Trump allies are skeptical China will agree to turn away from its state-directed system and embrace additional market changes.

With the United States and China locked in a geopolitical competition. It is easier for revision-minded officials to advocate changes in programs like Made in China 2025 by citing shared concerns among all the country's major trading partners. Chinese authorities have changed course under pressure before. In 2015, regulators scrapped plans to require foreign financial institutions to install Chinese software amid complaints from the US, European and Japanese diplomats and business groups. Some administration officials scoff at the proposed changes as cosmetic and designed to sap the US negotiating willpower. Plans to allow foreign companies a greater role in the Chinese technology program "an influence operation at its best. Chinese laws would mean much so long as the courts remained under the control of the Communist Party. What the Chinese are talking about are really just baby steps (Lynch 2018).

On June 1, 2018, after similar action by the US, the European Union launched WTO legal complaints against China's alleged forced ownership- granting and usage of technology that is claimed to discriminate foreign firms and undermine the intellectual property rights of the EU companies (Puślecki 2021a), Puślecki 2021b). They are allegedly forced to establish joint ventures in order to gain access to the Chinese market. The European Commissioner for Trade Cecilia Malmström said "We cannot let any country force our companies to surrender this hard-earned knowledge at its border. This is against international rules that we have all agreed upon in the WTO. American, European and Japanese officials have discussed joint strategy and taken actions

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against unfair competition by China (Puślecki 2021a). The 2018 G20 summit in Buenos Aires concluded the multilateral trading system "is currently falling short of its objectives... necessary reform of the WTO to improve its functioning" (Puślecki 2020b), (Puślecki 2021a).

CONCLUSIONS

The foreign trade policy plays a key role in the maintenance of both economic and political liberalisation. The prominence of rent seeking in a country can have far- reaching implication for its economic development. Especially in underdeveloped or transitional countries, rent seeking takes scarce resource out of productive areas in the economy, using them to promote and/or perpetuate further rents. Structural and micro-political economy analyses of foreign trade policy in the context of the sustainable development have missed the impact of changing ideas about protectionism and relatively unchanging institutions designed to handle domestic producer complaints.

China will be significantly hurt by tariff trade war in all indicators, including welfare, gross domestic product (GDP), manufacturing employment and trade. However, it is pointed out that although there will be definite impacts on China, the costs should be maintainable and will not severely damage the Chinese economy. In regard to the United States, the simulation produced results that described, the US will gain on welfare, GDP and non-manufacturing production, but hurt employment and trade (both export and import). Since each nation maintains a large economy, their actions affect not only each other but also the entire world. As a result of the trade war, the simulation predicts that the rest of the world will also see impacts within their economies.

For most large and developed nations, they will see positive benefits from a US-China trade war. As trade decreases between the United States and China, the trade will presumably increase between other nations as a result. For example, within the rubber industry, both Chinese and international companies are readying the restructure of their supply chains by shifting the manufacturing of rubber products from China to neighboring Asian countries, Vietnam and Malaysia.

However, smaller nations will see significant negative impacts. For example, World total welfare, GDP, manufacturing production and employment, export, import, and total trade are expected to decrease since many of these nations are highly trade dependent.

The 21st-century initiative is not merely for China to romanticize its historical legacies: it carries major strategic economic and geopolitical calculations. Realistic point is important trends in the trade regime. The commercial relations are too important to become hostage to political grandstanding or airy rhetoric by politicians performing for domestic galleries. Disturbing this relationship would have ramifications for sales, growth, and employment. Commercial interests in autocratic regimes like China cause political dilemmas.

The Global Crisis was a total shock to the comparison in cost savings. Global supply chains became more costly when the risk of a non-delivery of an input good increased substantially after the Global Crisis. Firms may have also expected higher tariff rates after the Global Crisis, which shrinks advantage of GVCs as input goods pass the border several times. At the same time, the Global Crisis made robot adoption less costly, with the sharp decline in interest rates relative to wages when central banks started to fight the adverse effect of the crisis. As a result, many firms in rich countries like USA started to re-shore production back to their home country and invested in robots instead.

In the wake of the Global Crisis, uncertainty in the world economy led many firms to reassess their business models. Rather than relying on global supply chains, an increasing number of firms invested in robots, which prompted a renaissance of manufacturing in industrialized countries like USA. Changes in the world economy make a V-shaped recovery from the coming recession unlikely, more likely is U and in services L. Instead, new conditions will accelerate the process begun after the Global Crisis by encouraging firms to re-shore activity back to rich countries like USA.

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