

# Trade | How real is the truce in the US-China trade war?

**The US-China deal would, at least temporarily, arrest further decline of the global trade scenario and may even stop multiplication of negativity in a recessionary setting.**

**Moneycontrol Contributor** [@moneycontrolcom](mailto:@moneycontrolcom)



## **Sachin Chaturvedi**

The recently-concluded agreement between the United States and China on trade cooperation has attracted perspectives ranging from as “momentous” and “remarkable” and “righting the wrongs of the past” to even being described as a deal which actually is “an uneasy truce.” The US media is largely divided on party lines and is seeing this as another tool by the Donald Trump administration as campaigning for the next round is likely to pick up soon.

Whatever way it is described the reality is that it would, at least temporarily, arrest further decline of the global trade scenario and may even stop multiplication of

negativity in a recessionary setting. It would help avoid undue polarisation and retaliation. As several research papers have clearly established, both the US and China were losing out at this conflict. The US losses are largely related to the higher prices for consumers, while China's losses are related to significant export losses (almost 25 per cent) to Taiwan, Mexico and Vietnam.

At the substantive level, the agreement stipulates that 'China shall ensure' that its purchases meet the \$200 billion figure by 2021. The conflict with the US and western powers is also about intellectual property. According to the current deal, China would also open up for imports of manufactured goods, energy items and agriculture commodities. China is also expected to restrain its companies from acquisitions, intended to acquire technology and, thereby, cooperate with the US respecting intellectual property and address the issue of counterfeiting.

Very often, western businesses worry about stealing of trade secrets and acquiring technologies through government entities in an assertive manner. These are time and again done in the name of reviewing the processes of production, in order to do safety checks for Chinese consumers. The cases related to such efforts for accessing technology are evident in sectors such as solar panel production, wind turbine technology and also in the case of car and auto components.

The McKinsey Global Institute's (MGI) new China-World Exposure Index shows that the world's relative exposure to China has increased, while China's to the world has fallen. This is important for China to be mindful of as they are already facing a contraction with a rising domestic consumption. According to the MGI, in 11 of the 16 quarters since 2015, domestic consumption contributed more than 60 per cent of total GDP growth. In 2017 to 2018, about 76 per cent of GDP growth came from

domestic consumption, while net trade made a negative contribution to GDP growth, which was 8 per cent in 2008.

The United Nations Conference on Trade and Development (UNCTAD) has raised concerns about rising tariffs in China. According to a study by them, the average tariffs from China have gone up to 10.6 per cent in 2017, which actually were brought down at the time of China's access to the WTO in 2000 to about 9 per cent in 2008.

China's urge to capture technology is also generating fear across various partner countries. The conflicts are not helping China and it would have to position itself, where its rise is not seen as a threat or as a destabilising entity. It is all the more important when China has also witnessed an unprecedented slowdown in the last 30 years. The growth slowed to 6.1 per cent last year, which is likely to go down to 6 per cent this year.

In this context, India's options are limited, both at national and at international levels. In one view, India should continue to work for a strong and robust multilateralism and bring in other developing countries, particularly those committed for South-South cooperation in the ambit of strong multilateral and liberal global trade order. India's proposal for the WTO reforms should be widely shared for larger public debate. Apart from the South, probably Japan, Australia and the European Union (EU) may also provide support in this endeavour.

At the national level, efforts should be made for enhancing competitive character of firms and enterprises reducing logistics based production and shipment costs, and paving way for a fresh look at trade agreements, both at regional level and also at the trans-continental level. It is in this respect, India should reconsider options with the Regional Comprehensive Economic Partnership (RCEP).

In September, Africa is going to launch its continental free trade agreement (CFTA). In the long run, India cannot afford to remain out of these initiatives. As emerging economies are trying to find place in the evolving world order, India should put her house in order and move on with firm footings.

***Sachin Chaturvedi is Director General, Research and Information System for Developing Countries (RIS), New Delhi. Twitter: @sachin\_chat. Views are personal.***

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