

The China-US Trade War and South Asian Economies

Edited by Rahul Nath Choudhury
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One of the overwhelming issues in the global economy has been China-US trade war. The edited book by Rahul Nath comprises of chapters on different dimensions of the trade war. AS the crisis emerged between two economic powers of East (China) and West (US), it had substantial consequences on South Asian economies. The chapters identify key challenges as the outcome of China-US trade war. While building on the consequences of the conflict, the book traces on the impact on trade barriers, both tariff barriers and non-tariff barriers. The empirical evidences examined identify the spill over effects on the South Asian economy. Amid China-US trade war, the litmus test has been for the WTO as there has been rise in preferential trade agreements. The authors have examined these issues in detail.

Keywords

China-US Trade War, Tariffs, South Asia, Preferential Trade Agreements, Industrial Policy

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1. Introduction

The book addresses an important issue of China-US trade war and the possible implications on the South Asian Economies. Particularly, the focus of different chapters is on the challenges faced by the South Asian economies amid and post US-China trade war. Tracing the developments amid the tussle between China and the US with respect to tariff competition and import duties, the book encapsulates economic spillover among South Asian economies. The opening of the book traces the timeline of the trade war and how the regional economies responded. There were opportunities for few South Asian economies in certain specific sectors and challenges for others in general. The book traces the impact of the conflict on not just economies but the consumers and producers as well. Among the South Asian economies, India and Bangladesh have been the biggest beneficiaries of the trade war as they were able to exploit the void created by the trade war.¹ These countries were quick to offer adjusted tariffs for importing goods from the US that became expensive to import from China. The chapters in the book serves a great need of the world to understand the aftereffects of the conflict that arises out of trade barriers particularly tariff regimes. As a research-based book, each chapter considers an important element of trade war in different perspective. The chapters will keep readers intrigued by the recent evidences linked with fundamental concepts and conventional theories of tariff regimes.

2. Editors' Main Intentions

An overview of the preface, introduction and contents will inform the reader that the book is all about challenges and implications posed by the trade war between China and the US. With the reading of the subsequent chapters, however, it becomes clear that the book is not restricted to theoretical issues of trade war, but also empirical evidences pertaining to the different economic indicators for South Asian economies. First part of the book focus on global implications of the trade war such as “global

¹ RAHUL CHOUDHURY (ED.), THE CHINA-US TRADE WAR AND SOUTH ASIAN ECONOMIES 4 (2021).

economic impact,”² “new order or secular trend,”³ “analysis of trade relations,”⁴ and “global economy, free trade and WTO.”⁵

The first part provides an in depth understanding of why the trade war was an eye opener to the global economy. Second part of the book build on the relationship between trade war and regional economy that includes chapters such as “an opportunity for India,”⁶ “implications of trade war on India,”⁷ “impact on Bangladesh,”⁸ and “trade and investment implications for Sri Lanka.”⁹

The second part explores and examines the implications for the regional economies in South Asia. The preferential trade agreements have been on the rise in Asian region with CPTPP, ASEAN, RCEP, etc. and the third section of the book address this issue. It includes chapters on “RCEP negotiations,”¹⁰ “Trade War and FTA partners trade.”¹¹ Fourth part of the book examines the technological supremacy argument as the basis of trade war. Chapters 11 and 12 address the issue such as “US-China technology conflict” and “technology rent and great game.”

Editors have included these chapters that highlight the current challenges in the global economic environment - post trade war. With trade war and technological tussle at the same time, the new challenges that emerged for the South Asian economies have been included in these chapters. With the advent of Preferential Trade Agreements and Regional Trade Agreements, regional integration has increased undermining the WTO. Presence of two chapters on technological rivalry and economic cost has induced the relevance and utility of the book. A skimming reading discloses that the editors have picked up issues in synchronization with the concerns of the economies in times of tariff war/conflict. This not only is required by South Asian economies, but also extends to other developing and underdeveloped economies. New lines of economic policy are required to tackle such crisis in the future, ignoring to learn from the US-China trade war can increase the possibility of repeating such crisis. The empirical evidences suggest the losses incurred by majority of the South Asian crisis and these chapters serves as a basis to identify the loopholes in the trading system

² *Id.* ch. 1.

³ *Id.* ch. 2.

⁴ *Id.* ch. 3.

⁵ *Id.* ch. 4.

⁶ *Id.* ch. 5.

⁷ *Id.* ch. 6.

⁸ *Id.* ch. 7.

⁹ *Id.* ch. 8.

¹⁰ *Id.* ch. 9.

¹¹ *Id.* ch. 10.

that is currently too much focused-on tariff negotiations. A new line of thinking can emerge by brainstorming the topics that are dealt in the book.

3. Critical Assessments

The content of the book is promising as it highlights the key implications of trade war on economies, trading systems, tariff regimes, technology competition, digital finance, etc. Each chapter touches upon a critical aspect of economic challenges in light of trade war issues.

Chapter 1 deals with persistent tensions between China and the US before the trade war started. Just after the war, the prediction was that GDP by nearly USD 150 billion would vanish. The prediction came true as the US's GDP fell by 0.65% that is more than USD 120 billion with varied sector level impacts.¹² For Asia Pacific region, construction sector was at benefit while for other sectors it was a decline. For Least Developed Countries, textiles, wearing apparel, and plant fibers witnessed a decline. The study identified that tax revenue may not get a boost as fall in imports outweighs the rise in tariff rates. The chapter is short and does not build upon strong theoretical framework, even the review of past studies has been limited. The chapter also excludes a discussion on the political aspect of trade war.

Chapter 2 explores the new order phenomenon and builds on the argument that China started becoming stronger economy close to the US after joining the WTO. The other dimension is the secular decline of the US that may have pushed for a trade war. The Chinese emergence amid acceptability of liberal democracies raised concerns of the economies. As time passed, however, countries started imitating the industrial policies of China without adopting western style liberal economy. The political expansion of China through economic collaborations as well as geopolitical strategies such as the Belt and Road Initiative has been a bottleneck for western hegemony and this provided an argument for trade war. Chapter 2 ignores the inclusion of Chinese Yuan (CNY) in the basket of the IMF currencies and the impact on political rise of China. Also, the differences in the tariff regimes for the two countries, the US and China, has largely been ignored.

Chapter 3 encapsulates the conflict from trade relations perspective between the US and China. One of the major reasons for Trump to push for tariff increase was the

¹² *Id.* at 5.

burgeoning trade deficit with China. A trade analysis of the US with partner country as China, South Asian countries and South East Asian countries reveal that trade deficit with these countries shows a pattern where, in the long run, the US can be at the fault line. However, all these countries currently are very important for the US as major share of the US's exports has been towards these countries.

Chapter 4 is all about the impact of trade war on global economy and the WTO, where the role of institutionalization is considered. As the US and China are the two biggest economies of the world, an economic tussle between them will have significant emphasis on the operations of multilateral organizations. The study identified the usage of Section 232 of the 1962 Trade Expansion Act to increase the tariffs on Chinese goods.¹³ The role of the WTO in such situations was not as expected and to avoid such crisis in future a lesson should be learned. This chapter is well written and comprehensive in analysis.

Chapter 5 introduces the reader to an important issue that is the impact of trade war on regional economy. The authors use the data from Reserve Bank of India and the UNCTAD to trace empirical evidences related to the impact on regional economies. The study finds that trade war opened up opportunities for regional economies such as India and the exports surged in specific sectors. Based on revealed comparative advantage,¹⁴ the possibility of trade diversion from the US and China was found. India benefitted in commodities such as cotton, cereals, feeding stuff for animals, and man-made fibers. The authors would have added a few more regional countries to be included in the sample for drawing inferences for South Asian regional economies.

Chapter 6 specifically focuses on India's position and adjustments due to trade war. The authors considered three classes of goods; intermediate, final, and capital goods. India's imports are dominated by petroleum and products. Considering the fact, India's response would have been different from that of China. Unfortunately, that was not the case with India. The chapter would have been better in case that empirical testing with dummy effect for trade war would have been included.

Chapter 7 addresses the potential impact of the trade war on Bangladesh. There has been an uneven impact of trade war on economies. The changing supply chain dynamics and investment patterns can benefit Bangladesh if policies are made to target the areas of opportunities. Bangladesh should focus on infrastructure modernization to capture the global value chains amid trade war. The chapter ignores the institutional impact on Bangladesh economy due to the US-China conflict as it

¹³ 19 U.S.C. §1862. For details, see *Section 232 of the Trade Expansion Act of 1962*, CRS IN FOCUS (Apr. 1, 2022), <https://sgp.fas.org/crs/misc/IF10667.pdf>.

¹⁴ *Id.* at 92 (Table 5.5) & 93 (Table 5.6).

depends on both the countries for imports.

Chapter 8 deals with the investment and trade implications for Sri Lanka due to the trade war. Trade indicators of Sri Lanka as per simulation shows textiles, clothing, rubber and plastics to be the beneficiaries of the trade war. However, there is not much evidence beyond 2019 regarding investment diversion to Sri Lanka. To quote the authors, “Sri Lanka’s lack of readiness to promote the destination and provide conducive facilitation, as well as the domestic political, security, and economic conditions, hampered the success of these efforts.”¹⁵ Thus, trade war would have benefitted Sri Lanka if policies were made in that direction. The authors have provided a comprehensive view of Sri Lanka’s economy at the time of trade war and how it performed after that.

Chapters 9 and 10 deal with Preferential Trade Agreements (PTAs) in the times of the US-China conflict. The PTAs has become regional trend with countries clubbing and signing the agreements on trade and investment. Chapter 9 specifically deals with trade war and RCEP negotiations. As the first round of RCEP was linked to the US through various channels, the trade changed the scenario. After trade war, China’s dominance in RCEP-I increased which was not very good from the perspective of western economies. Although China was not closely linked to the Global Value Chains of the RCEP-I, the trade war opened the gates of opportunity for China. China exploited the opportunity and with the ratification of second round of RCEP, trade war outcomes benefitted the region to unite. The conflict between the US-China will result in trade diversion to other regional countries and push neighboring countries to go for the PTAs of their own. Meanwhile, Chapter 10 examines the Free Trade Agreements between the trading partners of China and the US. The protectionist policies adopted during trade war has had negative impact on the US and China. This leads to disruption of global value chains and product cycles. To quote the findings of the authors, “The study clearly shows the changes in the post-tariff period, the moves of China’s trade in the direction of its FTA partners are greater in all selected sectors than those of the US to its FTA partners.”¹⁶ The study also highlights that trade war has not benefitted all the FTA partners of the two countries. Those who were close to high GDP countries felt the positive impact of trade war. The last two chapters focus on technological content of the trade war.

¹⁵ *Id.* at 150.

¹⁶ *Id.* at 210.

4. Conclusion

The book is well written, almost no typing errors are there, and the quality of pictures and graphs is also good. The book is important for students, researchers, policy-makers and academics in the area of international law, economics and business. It fills an important research gap to understand the implications of the US-China trade war on South Asian economies. The arrangement of the sections is appropriate and the methods and datasets used in the book are important for future research and provides an opportunity for researchers to know the intricacies of collecting data on such themes. The reviewer would conclude that, due to trade war, substantial loss to global trade, investment and GDP was witnessed. In addition, new economic order is the future of the world trading system.

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