U.S. and Globalisation

What is the issue?

With U.S.-China trade war taking place here is an overview of the U.S.'s stance on globalisation and its effects over the global economy.

How has the U.S.'s stance on globalisation transformed?

- The United States government had pressured many a country to liberalise trade and globalise.
- But now, by launching a trade war against China, the U.S. seems to have turned against its own agenda.
- In a series of aggressive moves, the U.S. has put in place and widened the coverage of a protectionist shield.
- This is primarily aimed at stimulating domestic production and reducing the country's trade deficit.
- These moves initiated by the Trump administration were occasionally targeted at multiple countries.
- It also involved rewriting the North American Free Trade Agreement with Canada and Mexico.
- However, the focus of the trade and technology war of the U.S. has largely been China.

What were the key moves against China?

- China-specific tariff aggression began with a 25% tariff on imports worth $50 billion out of the total of $540 billion imported by the U.S. from China in July 2018.
- Soon, an additional $200 billion worth of imports from China were subjected to 10% tariffs, and these were also raised to 25% in May 2019.
- Most recently, the balance of around $300 billion worth of imports from China were subjected to a phased 10% levy, with a clear threat of raising it to 25%.
- China's responses to U.S. actions, in all, have led to the $120 billion of goods it imports from the U.S. being subject to a 25% duty.
- The U.S. has also imposed sanctions on and shut off business relations with individual Chinese firms, such as Huawei.
- The grounds for this vary from national security concerns to the alleged theft

of intellectual property from U.S. firms.
- On the other hand, the U.S. has also designated China as a currency manipulator.
- This was based on the allegation that the Chinese authorities have deliberately allowed the yuan to depreciate vis-à-vis the dollar to support its exporters.

What is the U.S.'s argument?

- The U.S. cites as the reason the imbalance of its trade with China, with imports from China accounting for more than a fifth of aggregate U.S. imports.
- Resultantly, the U.S. runs an annual trade deficit with China of around $420 billion, which 'imbalance' is attributed to Chinese policy.

Is this wholly justified?

- There are two important facts that the above argument misses.
- First, the gains to the U.S. from its economic relationship with China are inadequately captured by the trade figures.
- A major gain for U.S. companies, even if not for the U.S. per se, is the local sales by subsidiaries of American multinationals located in China.
- However, these sales do not get reflected in the trade calculations.
- Second, these subsidiaries are responsible for a chunk of China's exports to the U.S.
- Estimatedly, more than half of Chinese exports to the U.S. originate in foreign invested enterprises which are either U.S. multinational arms or firms with parents in other advanced economies.
- In other words, the U.S. trade deficit with China is the result of the off-shoring associated with globalisation.
- So saying that the Chinese policy was favouring its own firms is not wholly justified.

What is the larger impact of the trade war scenario?

- China has a key place in the global economy being a global manufacturing hub.
- Given this, the U.S.'s measures have disrupted global value chains and production networks that are the hallmark of globalisation.
- Deglobalisation may yet be a distant prospect.
- However, the world's leading superpower is willing to disrupt globalisation.
- This provides both an example and the justification to other governments that find the need to move in the deglobalisation direction.

Source: The Hindu

