REALISTIC VIEW ON TRADE WARS: US-CHINA TRADE CONFLICT & IMPACT ON EMERGING ECONOMIES'

https://doi.org/10.47743/jopafl-2023-29-04

AHMED Saeed
Bucharest University of Economic Studies,, Faculty of International Business and Economics, Bucharest, Romania
saeed.ahmed.khilji@outlook.com

Abstract: *The United States former President Donald Trump announced in July 2018 that the United States had imposed tariffs on specific Chinese goods. This led to increased tensions between the two countries and eventually set the ground for the US-China trade war, as both nations contributed fairly to the rise in import duties on one another's goods. The strife has had serious knock-on effects on global trade. According to the chief economist of the Asian Development Bank, China is expected to lose 0.5% of its Gross Domestic Product, while the United States will lose less than the above-mentioned percentage. The US–China trade war serves as a benchmark for examining the outcomes of conflicts between two major nations of this scale. The objective of this research article is: to analyze war from the perspective of the realistic theory in international relations; to shed light on and identify the opportunities for developing economies to seize a substantial share of United States imports; possible scenarios for developing and struggling economies in case this war prolongs and how much it has impacted the protagonists.*
Keywords: *Trade, United States, China, Economic Nationalism, International Conflict, realism.*
JEL Classification: *F1, F520, F510*

Introduction

In today's interconnected world, international relations and global economics play a crucial role in shaping the trajectory of nations and their development. One of the defining phenomena of recent years has been the emergence of trade wars, which have captured the attention of policymakers, economists, and scholars alike. These conflicts, characterized by retaliatory trade restrictions and tariffs, have far- reaching implications for the global economy and the nations that benefit, particularly those classified as emerging economies. This study delves into the intricacies of trade wars, their impact on emerging economies, and their analysis through the lens of Realistic Theory in International Relations. Investigating how the key terms interact can result in a deeper comprehension of the complexities inherent in international trade dynamics and the behaviors of nations within today's interconnected global context. Firstly, a "trade war" is a multifaceted phenomenon where nations engage in a cycle of trade barriers and tariff hikes, often in response to perceived economic imbalances or strategic considerations. This economic skirmish, characterized by escalating protectionist measures, can lead to profound consequences for global trade networks (World Trade Organization). According to the WTO, a trade war is characterized as a scenario in which nations attempt to undermine each other's trade, usually through the imposition of tariffs or quota restrictions. Secondly, "emerging economies" refer to nations in the midst of rapid industrialization and robust economic growth, transitioning from low- income to middle-income status. These economies are typically marked by dynamic changes in market conditions, infrastructure development, and rising global influence (International Monetary Fund). Lastly, the paper adopts the

realistic approach, a dominant theoretical perspective in international relations. Realism's focus on state-centric behavior and power dynamics is integral to comprehending the motivations and actions of nations in the international arena (Waltz, 1979).
In light of these foundational definitions, the research question emerges: From a realistic theory standpoint in the field of International Relations, what is the tangible positive effect of trade wars on emerging economies? This question forms the core of the study, as the purpose is to unravel the intricate interplay between trade conflicts, state interests, and the economic fortunes of nations in the emerging world, with the specific focus on the case study of the US-China trade war. The aim is to shed light on the motivations behind trade wars and their consequences for countries striving to ascend the global economic hierarchy. This study investigates a current and very important issue that might have some very complex effects. The findings could impact policy makers in their decisions, improve people's general understanding of international economic trends, and add to the ongoing discussion about the dynamics of economics and international relations in a constantly changing world.

Literature Review

Throughout history, scholars have been drawn to the study of trade wars primarily due to their extensive political and economic ramifications, and the challenge to quantify the effects. While there are numerous similarities between past trade wars and the most recent ones, the latter seem less likely to be effectively controlled or contained. Authors like David S. Jacks and Dennis Novy (2019) argue that the trade conflicts in the early 1930's were predominantly waged against all trading partners, and they unfolded in a notably disorganized manner, with only sporadic and infrequent cases of bilateral retaliation. The political and economic crises would often trigger protectionist policies. Many nations rushed to establish protective barriers against all entrants and subsequently tried to create exemptions through bilateral negotiations for preferential trade arrangements (Jacks & Novy, 2019). Fajgelbaum (2023) emphasizes how in the modern trade war, while the United States and China imposed tariffs on each other, the average country expanded its worldwide exports on specific products compared to those not subject to tariffs. Consequently, the trade conflict generated new trade opportunities instead of merely redirecting trade among different destinations. On the other hand, Baldwin and Evenett (2019) argue that trade wars disrupt the supply chains, with negative knock-on effects on the global economy. The US and Chins have employed economic pressure, using tariffs and trade restrictions as strategies to pursue their goals and compel the opposing party to make concessions. Irwin (2020) focuses on the importance that the dynamics of retaliation has for policymakers, who aim to effectively control and reduce tensions in trade disputes, namely the role of international institutions in managing trade wars. Bagwell and Staiger (2020) contend that a multilateral strategy, involving organizations such as the World Trade Organization, could serve as a mechanism for resolving disputes, offering the potential to alleviate the negative impacts. However, it is essential to acknowledge that the study of trade wars continues to evolve, given the ongoing changes in global trade relationships.
As for realism, one of the oldest and most influential theoretical frameworks in the field of international relations, it offers valuable insights into the motivations and conduct of states in the context of trade wars. The theory primarily focuses on states as the primary and

dominant international actors, driven by power and self-interest in all their decisions. During a trade war, these decisions may refer to actions taken in order to protect domestic industries, gain economic advantages or power in the global system. States make economic decisions based on their need to secure jobs, industries, and resources for their citizens. One excellent illustration of this is the actions the United States has implemented since the beginning of the trade conflict with China. Numerous studies have attempted to quantify the trade war' effects on different economies, with mixed results. While some have found that the conflict has hurt global growth, others have argued that it has had only a marginal impact. It is worth mentioning that a growth slow in the rate of commerce worldwide was almost impossible to avoid, with the innocent bystander countries that are damaged by the trade wars. But there are some economies, the emerging ones, which have and continue to benefit from the conflict.

Theoretical Framework

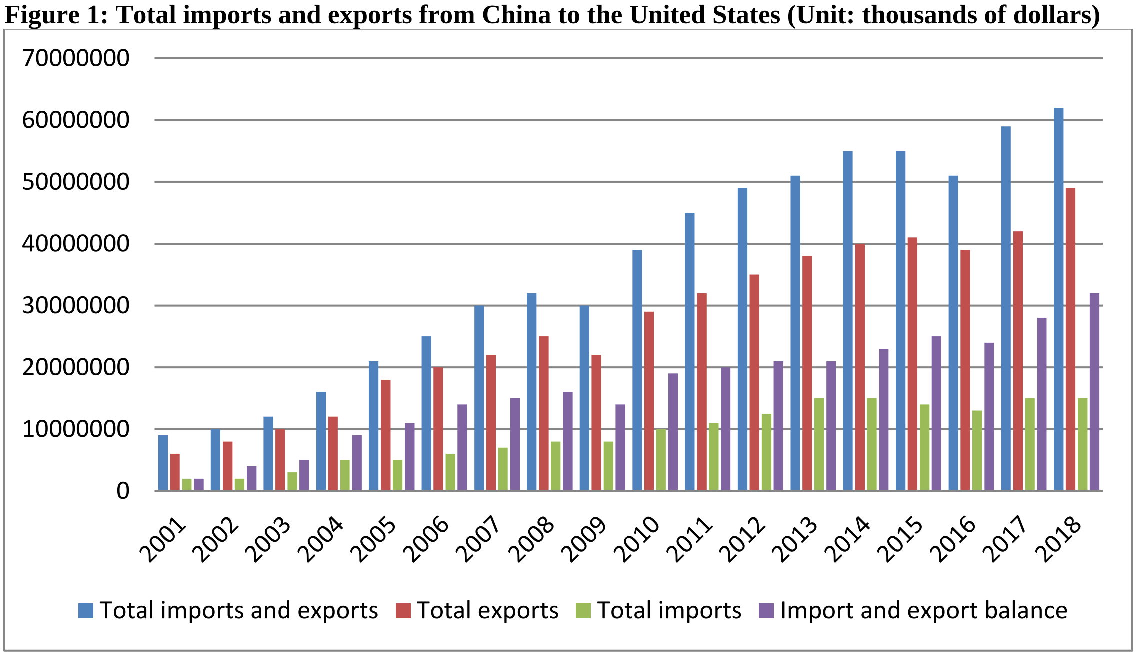
Realistic theory can be used to study trade wars and their impact on emerging economies by analyzing the tangible impacts of the trade war on both China and the US, along with specific developing economies. Emerging countries that are not involved in a trade war can benefit from the change in demand for goods and services in sectors where they have strengths (Carvalho, Azevedo & Massuqueti, 2019). The realistic approach highlights the role of power and security considerations in international relations. When performing a detailed analysis of trade wars, one must be aware of the general belief that powerful nations often instigate such conflicts to safeguard their own economic and strategic interests. Developing economies, in spite of their economic growth, may remain susceptible to the actions of more influential nations. The above-mentioned theoretical framework highlights the fact that trade wars are not exclusively driven by economic factors, but that they are to a great extent influenced by geopolitical power struggles. The international relations arena is depicted in terms of a win-lose context, wherein one state's gain comes at the expense of another. When states impose tariffs, trade restrictions or any other trade barriers in pursuit of a competitive advantage, retaliation by other states is to be expected. This can only lead to the escalation of the existing conflict. In the midst of trade wars, states usually contend that safeguarding specific industries or supply chains is imperative for their strategic interests. One of the most significant aspects found at the core of the realistic approach is enhancing bilateral relations and alliances. The states that take part in trade wars may seek to form certain alliances that will allow them to gain economic power. The same realistic perspective brings about preserving national security as a fundamental right. The United States has invoked national security issues, including concerns regarding intellectual property theft and technology transfer, to justify its trade measures imposed on China. The latter, has also portrayed its own trade policies as vital for its economic and national security. There is a widely shared belief that realists typically harbour doubts regarding the efficacy of multilateral agreements as well as institutions, which they see as limited by the self-interest of individual states. In the context of trade wars, this skepticism may manifest in a preference for bilateral deals or a willingness to disregard international trade norms and organizations when they conflict with a state's perceived interests. The U.S. and China have at times been reluctant to rely on multilateral mechanisms like the World Trade Organization (WTO) to resolve their disputes, opting for unilateral actions instead.

Case Study: US-China Trade War

The 21st century has been a time of great economic change, one in which global economy underwent a major shift, with two undeniable giants emerging as dominant forces: China and the US. As both are considered world's two largest and most influential economies, these nations have consistently held center stage in discussions on global economic dynamics, trade, and geopolitical relations. The juxtaposition of the two countries as superpowers represents, to many experts, a critical juncture in setting a direction for the evolution of international order, with implications for both nations and the world at large. Historically, the United States has long been recognized as a leading economic powerhouse, tracing its ascendancy back to the late 19th and early 20th centuries.

The US have been fostering global economic stability, and promoting a free- market ideology that has left indelible mark on the world economy (Irwin, 2017). In stark contrast, China's trajectory to economic eminence is a relatively more recent phenomenon, characterized by a rapid and unprecedented rise. Since adopting market-oriented reforms in the late 20th century, China has consistently achieved remarkable economic growth rates, lifting hundreds of millions of its citizens out of poverty. With its vast population, abundant resources, and a strategic focus on export-led growth, China emerged as an economic juggernaut in the 21st century (Fig. 4.1.). Therefore, the complex nature of the relationship between these two nations will have a considerable impact not just on their economy, but also on the global one.

Figure 1: Total imports and exports from China to the United States (Unit: thousands of dollars)



Source: CEIC.data.com, General Administration of Customs

Decreasing the trade debt was included in Trump policies from 2016 to produce more job chances in the state (Table 1). Therefore, in 2018 the Administration under President Trump initiated a series of tariffs which ignited a trade dispute between China and the United States. Many US officials asserted that Beijing (China) has benefitted from the trade relaxation and its membership in the World Trade Organization to pursue unfair trade practices, while also manipulating its currency and shielding its domestic market from international competition (Kapustina et al., 2020). According to a 2019 report by CNBC, the Trump Administration claimed that Beijing (China) has adopted a predatory approach to facilitate Chinese corporations in attaining dominance in cutting-edge technologies, electric vehicles, and robotics. Beijing`s strategy involves hacking towards computers of States companies along with stealing trade confidences, forcing international companies to pivot to susceptible technology in exchange for access to Chinese markets (Ibrahim, 2021).

Table 1. Consequences of the US-China Trade War

Date	Event/Action	Details
July 6, 2018	U.S. imposes tariffs on Chinese imports	The United States imposed 25% tariffs on $34 billion worth of Chinese imports, mostly targeting industrial goods and machinery. China retaliated with tariffs of its own on U.S. exports.
August 23, 2018	U.S. imposes additional tariffs on Chinese imports	The United States imposed 25% tariffs on an additional $16 billion worth of Chinese imports, mostly targeting electronic components and semiconductors. China again retaliated with tariffs of its own.
September 24, 2018	U.S. imposes more tariffs on Chinese imports	The United States imposed 10% tariffs on $200 billion worth of Chinese imports, including consumer goods such as electronics, furniture, and toys. The tariffs were later raised to 25%. China again retaliated with tariffs on U.S. exports.
May 10, 2019	U.S. raises tariffs on Chinese imports	The United States raised tariffs on $200 billion worth of Chinese imports from 10% to 25%. China again retaliated with tariffs on U.S. exports.
August 1, 2019	U.S. announces more tariffs on Chinese imports	The United States announced that it would impose 10% tariffs on an additional $300 billion worth of Chinese imports, including consumer goods such as clothing and electronics. Later that month, the U.S. postponed some of the tariffs until December 2019.
August 5, 2019	China devalues its currency	China allowed its currency, the yuan, to fall to its lowest level in more than a decade, making Chinese exports cheaper and potentially offsetting the impact of U.S. tariffs. The U.S. Treasury Department labelled China a currency manipulator in response.
January 15, 2020	U.S. and China sign Phase One trade deal	The United States and China signed a partial trade deal, with China agreeing to purchase more U.S. goods and services and make certain structural changes to its economy. The deal did not remove existing tariffs, but did include a commitment to further negotiations.
February 14, 2020	China announces tariff exemptions for some U.S. goods	China announced tariff exemptions for a range of U.S. goods, including medical devices and certain chemicals, in a move seen as a goodwill gesture ahead of further trade negotiations.
February 28, 2020	U.S. raises tariffs on Chinese imports due to COVID-19 pandemic	The United States announced that it would raise tariffs on certain Chinese imports, citing the economic impact of the COVID-19 pandemic.
January 13, 2021	U.S. adds more Chinese companies to blacklist	The United States added nine more Chinese companies to its economic blacklist, citing their alleged ties to the Chinese military.
March 18, 2021	U.S. and China hold high-level talks	The United States and China held their first high-level talks since the Biden administration took office, with both sides agreeing to continue discussions.

July 30, 2021	U.S. issues advisory on risks of doing business in Hong Kong	The United States issued a business advisory warning companies of the risks of doing business in Hong Kong, citing China's imposition of a national security law and its potential impact on Hong Kong's autonomy.

Source: Authors' research

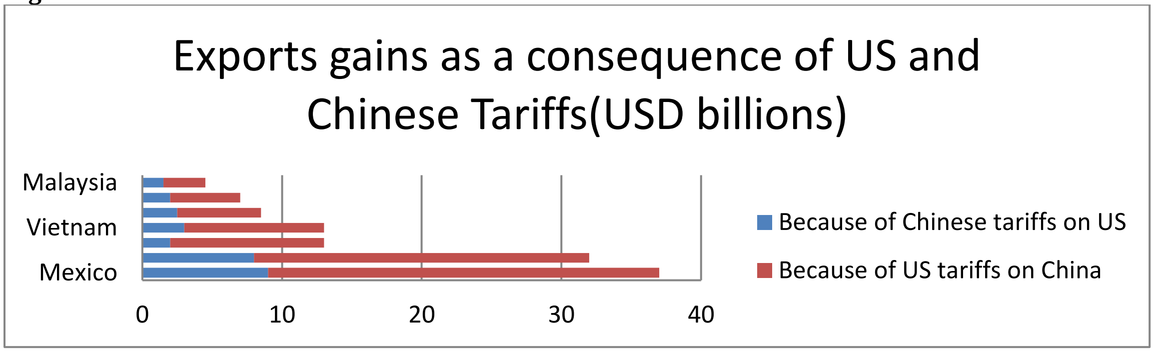
China vehemently rejected the allegations levelled by the United States during the course of the trade war, categorizing them as "unjust" and "unilateral." As a way of retaliating, China's officials alleged that the US was engaged in protectionist measures aimed at stifling China's economic progress (Mazarr, Heath & Cevallos, 2018). Furthermore, China contended that the tariffs imposed by the US were detrimental to American consumers and businesses and argued that they would not effectively accomplish their intended purpose of rebalancing the trade relationship (Redden, 2018).

Further perspectives on China's reaction to the United States claims consist of the release of a comprehensive white paper in July 2018, in response to the US allegations. The document asserted that China's trade practices in fact align with the principles of openness, transparency and adherence to World Trade Organization regulations. China accused the US of hypocrisy, highlighting instances where the US had imposed tariffs on Chinese steel and aluminum imports, despite the absence of evidence indicating dumping in the US market. China argues that the US tariffs were in violation of WTO regulations, a stance supported by a WTO ruling that deemed these tariffs discriminatory and contrary to WTO norms. According to the White House, these penalties are the beginning of a process that could result in a third of Chinese imports entering the US being subject to tariffs (Figure 4.1). The US will encounter numerous challenges in its effort to close the bilateral trade gap with China. This is primarily due to the fact that the majority of US firms have moved their production facilities to mainland China, where labor-intensive production is less expensive. Additionally, China has eliminated many of the import restrictions it had in place in the past, which has reduced the gap between the two nations. Due to the intricate nature of global trade networks, the current US administration's credo of bringing back the outsourced industries to the American shores through trade protectionist policies would encounter challenges (Marsman, 2020). In 2015, the Chinese Communist Party introduced the "Made in China" (MIC2025) policy, which is a national strategic plan and industrial policy aimed at advancing the development of China's manufacturing sector. The plan aimed to make China a prominent player in advanced technology manufacturing on a global scale by 2025. To achieve this goal, for increased investment in research and development is mandatory, the development of a skilled workforce, and the creation of a favorable business environment for manufacturing firms, thus becoming less dependent on foreign technology. China's investment in research and development has increased significantly since the launch of MIC2025. Eight years ago, China's spending on research and development was $280 billion. By 2020, it had reached $440 billon. There are many experts who see this policy as one that helped lay the foundation for the US-China trade war. It is precisely this policy that seeks to position China as a global leader in advanced technology manufacturing, calling for increased investment in research and development for manufacturing companies. Across the Atlantic, the US government has expressed their concern, arguing that the policy is unfair and moreover, it will give China an unequal advantage in the global economy. The current trade battle thus proves to have an uneven impact on both the world and the region. In the worst case scenario, China's GDP would decrease bt nearly 0.5%, while the US@ GDP would decrease by 0.3%. Research findings indicate that Mexico and Canada would experience economic setbacks, with the latter's GDP projected to decline by 0.11%, resulting in a welfare loss of 3.7 billion USD. Conversely, the trade dynamics with the United States would not have a widespread impact on its other trading partners. This is because the reduction in U.S. trade competitiveness would create opportunities for gains in trade such as China, Japan, the European Union, and South Asian countries. Because commerce in electronics and textiles has been redirected, some emerging economies from Asia have somewhat benefited greatly from the trade battle.

Global Impact

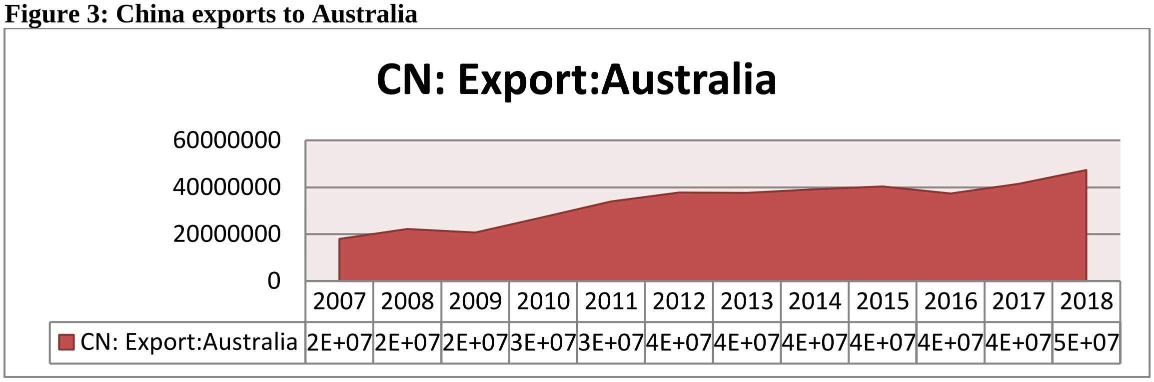
The US-China trade war has created ripple effects on global trade, the economy, and the geopolitical landscape. According to the World Trade Organization, global trade growth was 2.6% in 2019, down from 3% in 2018, all due to the US – China trade war (WTO, 2020). The same war has reconfigured the global supply chains. A report by Nomura Research Institute states that the US- China trade war has led to a decline in the role that China plays in global supply chains, and a corresponding proportional rise in the significance of countries from Southeast Asia (Nomura Research Institute, 2019). In 2019, an estimation by the International Monetary Fund (IMF) showed a reduction in GDP by 0.8% by 2020 (IMF, 2019). Consequently, the uncertainty caused in the financial markets increased volatility in stock markets and exchange rates. It has had a knock-on effect on commodity prices, particularly agricultural commodities. In one of its reports, the United Nations mentioned that the trade dispute has caused a fall in prices of agricultural commodities such as soybeans, cotton, and corn (UNCTAD, 2020), which has negatively impacted farmers in both the US and China, as well as in other countries that export agricultural commodities. The commercial war has also affected the relationship between the US and its allies in the region, particularly Japan and South Korea. The US has pressured these countries to reduce their economic ties with China, leading to tensions in their bilateral relationships. Similarly, China's relationship with its neighbors was reshaped, particularly in Southeast Asia, where China has sought to increase its economic and political influence. Fajgelbaum (2020) draws attention to the fact that when the US imposes protectionist measures, it can hurt its allies' economies. This can lead to tensions between the US and its allies, and it can make it more difficult for them to cooperate on other issues. This can make it more difficult for emerging nations to export their goods and services to the US, which can hurt their economies. For the USA, the gains are not as significant as they claim. Despite the potential modest domestic improvements in employment and other areas, the gain is insignificant when weighed against the harm. Chinese exports to Mexico have grown gradually and they include various economic sectors (Figure 4.2). On the other hand, Mexican exports to China have recorded a much slower increase and not as diversified. The unequal trade relationship has been emphasized since the beginning of 2000 and every study seems to indicate that there is a high possibility that the tendency will persist in the medium term. Considering the tangible effects that define the business connection between the two nations, there is one crucial factor that holds significant importance for both countries: trade with the US. Amidst such a clash between these major economies, accompanied by escalating tariffs, Mexico has emerged as the primary economic ally of the US, pushing China to second place in the rankings. In a historic development in 2019, Mexico achieved a milestone by reaching a trade volume of 614 billion dollars. In the immediate term, Mexico clearly benefits from external factors, particularly the rise in tariffs and consequent decline in Chinese exports to the US market. However, this scenario may not be advantageous for the country in the long run if the trade war comes to an end, unless it reconsiders its trade relationship with China (Maya, 2021). As far as the impact on African nations is concerned, the countries that benefitted the most from the trade war were those that export raw materials, such as oil and minerals, and agricultural products, as China has increased its demand for these commodities. Similar to Africa, Sri Lanka is a developing nation that could be negatively impacted by the trade war because China is its main importer and the United States is its top export destination, but if they come up with a wise and effective strategy they can entice foreign investment from both China and the US. By offering tax breaks and access to free trade zones, Sri Lanka has to find ways to entice them to the nation and continue doing business there. Exports will rise and eventually, the GDP will too, which may have a positive impact on the country's trade balance because at present Sri Lanka has a negative trade balance as there are more imports than exports. This is because Sri Lanka has a comparative advantage over other countries in the apparel and textile sector. According to Zhou (2019), Sri Lanka might benefit from exports if Chinese manufacturers choose Sri Lanka as the production location and send their goods to the United States and Europe. Chinese direct overseas investors might consider this opportunity. Additionally, Sri Lanka and India have a free trade agreement, which would assist Chinese manufacturers in exporting their goods to India because it has a larger market. This course of action may be advantageous to both China and Sri Lanka. China also purchases one third of Australia's exports and the country has gone nearly a quarter of a century without recession, more than any other nation (figure 4.3). Australia could not possibly have achieved this unless it had access to the economic growth of China (B. Collie), the US – China Trade War and the Impacts on Australia). Since the implementation of a ban on foreign political donations in 2017 and the subsequent exclusion in 2018 of Chinese technology giant Huawei from Australia's 5G network, the economic ties between China and Australia have experienced a severe decline. Nevertheless, the relations between the two countries notably worsened in 2020 due to enquiries surrounding the origins of the Covid-18 outbreak, which only increased existing tensions. Professor Jane Golley, from the Australian National University, specialized in Chinese economy, suggests that from China's point of view, the foreign policy adopted by Australia has already been oriented toward the United States (Dobson, 2021).

Figure 2 Countries that benefitted from the US-China trade war in USD billion



Source: UNCTAD/PRESS/PR/2019/002/Corr.1

Figure 3: China exports to Australia



Source: CEIC.data.com, General Administration of Customs

Countries that benefited from US-China Trade War

The US - China trade war is a continuing dispute that hasn't shown any indications of ending or ceasing. It seems clear that the trade conflict will persist over the coming ten years. The global economy particularly that of poorer nations has suffered as a result of this trade conflict. The nations must devise some form of plans of action to lessen their undesirable characteristics. If the developing economies act strategically, they could and some of them have already been astute enough to use this trade dispute to their benefit (Table 2). They can take advantage of the free trade zone, which is a region within a nation where some common trade restrictions, such as tariffs and quotas, are removed, and administrative burdens are reduced in the hopes of luring new companies and foreign investors. States may also pursue bilateral negotiations or alliances to gain economic advantages or exert pressure on specific trading partners. They may prioritize their relationships with key trading partners based on their relative economic power or strategic importance. Both the U.S. and China have sought to negotiate directly with each other and engage in bilateral talks to address their economic grievances. They have also tried to build alliances or coalitions with other countries to gain leverage in the trade dispute. The majority of the US businesses that left China were drawn to Southeast Asian nations like Malaysia, Indonesia, Vietnam, and the Philippines. The initial predictions for Malaysia were rather gloomy in the context of the trade war. Malaysia not only possesses a significant inclination towards trade and investment, which contributes to its high dependence on international trade, but a substantial portion of its trade is deeply integrated within global supply chains. The majority of big companies in the country and almost half of all medium-sized to small enterprises actively participate in global value chains. Moreover, Malaysia exhibits a substantial level of vulnerability to the Chinese economy, given that China served as its most reliable trading partner, as well as the primary source of tourists in 2018. Consequently, any supply chain will swiftly reverberate and impact Malaysian exports. Approximately 40 % of jobs in the country are directly linked to activities that involve exporting goods. Malaysia has gained lots of advantages due to the concentrated imposition of US tariffs on electronic and electrical components and circuits, being one of the countries that benefitted the most from exporting such products (Cheng, 2019). In fact, being considered the main producer of semiconductor assembly has turned Malaysia into an undeniable beneficiary of the US-China trade war. Furthermore, the same author conveyed to the press that, given the limitations on China's chip imports from the US, the country finds itself compelled to establish a domestic semiconductor ecosystem to meet its domestic chip needs. In 2021, Malaysia launched a five-year action plan aimed at enhancing the nation's competitiveness and improving its export rankings. The plan incorporates tactics aimed at minimizing redundancies among government agencies through the establishment of unified websites for exporters, promoting the "Made in Malaysia" brand, and encouraging companies to adopt e- commerce and digitalization (Ilim, 2021).

However, South Asian nations have faced difficulties in meeting the requirements of businesses that are relocating from China. The absence of a well-defined framework for establishing investment-friendly regulations is a common issue shared almost by all countries. Challenges such as customs clearances, skilled labor, investment approval, taxes, and labor efficiency are among the many obstacles that need to be tackled. Bangladesh is one of the countries that have benefited from the trade war. The nation has attracted investment from US companies looking to produce garments and other labor-intensive goods. This has led to an increase in employment and wages in Bangladesh. India has also benefited but to a lesser extent than Vietnam and Bangladesh. The country has attracted some investment from US companies, but it has also faced higher tariffs on its exports to the US. According to the United Nations, during the first half of 2019, India saw an increase of approximately $755 million in its exports to the United States, primarily in the categories of chemicals, metals and ore (Singh, 2019). The US-China trade war has had a mixed impact on the Philippines. Some sectors have benefited from the trade war, while others have been harmed. Sectors that have benefited from the trade war include: electronics, agriculture and tourism. The Philippines is a major exporter of electronics and agricultural products to the US, and the trade war has led to an increase in demand for Philippine electronics as companies look for alternative suppliers to China. As a popular tourist destination, the trade war has led to an increase in tourists from the US. The Philippines has many young and skilled workers and has made big investments in infrastructure. If the economy can successfully attract increased trade from the nations affected by the trade war, the electronics sector within the country's manufacturing industry could anticipate a growth ranging from 0.2 to 0.7 percent (Chan, 2019). One can conclude from looking at the graphs below that the issue does not pertain to productivity. As can be seen in the first graph, Vietnam, which has benefited the most from the trade war, also has the lowest labor productivity rate among the nations examined below (figure 4.4). The trade war led to many US companies moving their manufacturing operations to Vietnam to avoid the tariffs imposed on Chinese goods. This led to a boom in the

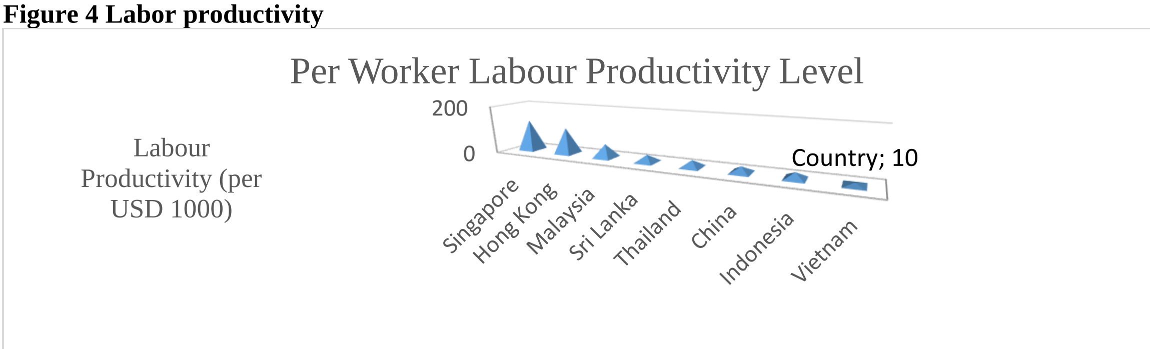
Vietnamese economy, with GDP growth reaching 7.3% in 2020. Vietnam has a number of advantages that made it attractive to US companies looking to move their manufacturing operations: low wages, which makes it a cost-effective place to manufacture goods, a young and growing workforce, which provides a large pool of potential workers, a favorable business environment, as the country has a relatively open and free market economy, which makes it easy for businesses to operate, and last but not least, strong government support in terms of foreign investment, having provided tax breaks and other incentives to attract businesses (Kwon, 2022). Since the US-China trade war began, Vietnam's GDP growth reached 7.3% in 2020; the highest in Southeast Asia, foreign direct investment (FDI) reached $18.7 billion in the same year, a 12% increase from the previous year, while manufacturing exports from Vietnam reached $260 billion in 2020, an increase of 15% from 2019. Other than Vietnam, African nations have also shown a working plan to draw in businesses. By creating a dozen industrial zones to draw in international investment, Ethiopia has taken the lead. Based on official figures released by the Vietnamese government, they have surpassed China’s reported growth rate of 6, 2 percent in 2019, achieving a growth rate of 6 and 7 percent. When compared to 2018, foreign direct investment went up 26%. The best market recovery in South East Asia was noted at the time. This resulted from the movement of US businesses to Vietnam. Chico's, Sentient Technologies, car parts supplier Genuine Parts Company, industrial machinery manufacturer Ingersoll-Rand, Dell, Apple, and Nintendo are among the businesses that have already migrated to Vietnam. The country has always welcomed foreign investors by changing its rules and regulations to reduce the costs of doing business within the country. The most efficient strategy has proven to be the incentives system: corporate income tax incentives for all investors, local or foreign, incentives based on location, sector and land rental exemptions. As a result, the FDI level skyrocketed in 2020. (Fig. 4.5) Education and tax breaks were two key factors when determining what Vietnam did properly to attract the attention of the businesses leaving China. To develop skilled labor, they implemented a skill-based economic structure. Vietnam also has a political system, which is an advantage. The legislature is above the country's executive and judicial branches. It is a single- party state that resembles China in its political structure. There won't be any additional obstacles after the legislature has approved a project. Companies founded in China are subject to high taxes and could not be worth anything if they export to the US. This is because those goods won't have a competitive advantage. After all, they can't compete with goods that are imported duty- free into the US. Countries like Vietnam, Malaysia or Sri Lanka get access to the market with subsidiary tax rates as a result of the GSP facility provided by the US. Even though there isn't a trade war with Europe, Chinese companies could take advantage of the chance to access the European market with the least amount of taxation. Finally, India has also been a beneficiary of the commercial trade. The Indian government has implemented policies to encourage foreign investment and promote exports, particularly in the electronics and textile sectors. As a result, India’s exports across the Atlantic to the United States rose by 32.7% in the first six months of 2019, with significant growth in products such as machinery, chemicals, and pharmaceuticals (UNCTAD, 2019). The country’s growth rate has also shown improvement, with GDP growth reaching 4.2% in 2019, up from 3.4% in 2018 (World Bank, 2020) Overall, some countries have managed to capitalize on the situation and increase their exports to the US as a result of the trade tensions. As the trade war continues though, it will be interesting to see how other countries adapt to the changing economic landscape and whether they too will be able to take advantage.

Table 2. Countries that benefitted from the US-China Trade War

Country	Estimated Gains/Losses (USD)	Details
Vietnam	Gain of $10 billion to $20 billion	Vietnam has seen a surge in exports to the United States as companies move production out of China to avoid tariffs.
Taiwan	Gain of $4 billion to $7 billion	Taiwan has also seen an increase in exports to the United States, particularly in the tech sector.
Mexico	Gain of $3 billion to $5 billion	Mexico has also benefited from companies relocating production from China, particularly in the auto sector.
Canada	Gain of $2 billion to $3 billion	Canada has also seen some benefits in terms of increased exports to the United States.
European Union	Loss of $11 billion to $18 billion	The EU has seen a decline in exports to both the United States and China, particularly in the auto and machinery sectors.
Japan	Loss of $5 billion to $10 billion	Japan has also seen a decline in exports to both the United States and China, particularly in the auto and electronics sectors.
South Korea	Loss of $3 billion to $8 billion	South Korea has seen a decline in exports to both the United States and China, particularly in the auto and tech sectors.

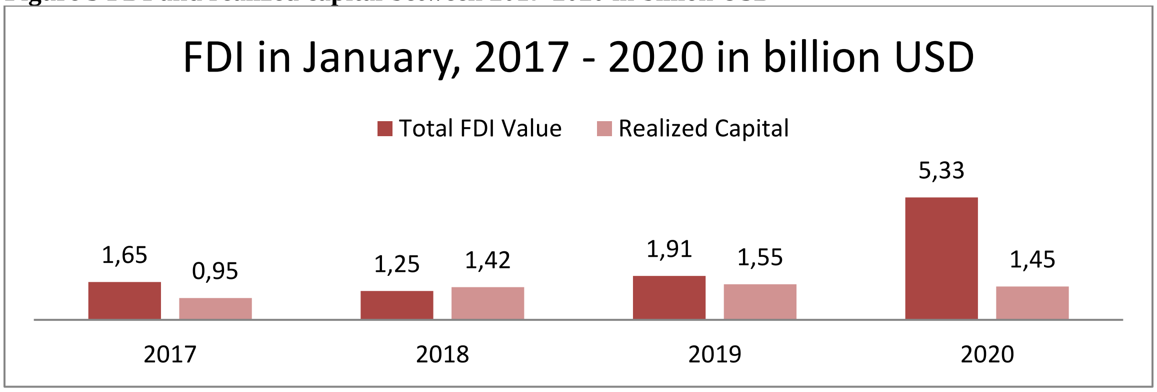
Source: Authors' research

Figure 4 Labor productivity



Source- APO Productivity database 2018, www.statista.com

Figure 5 FDI and realized capital between 2017-2020 in billion USD



Source: Vietnam Ministry of Planning and Investment

Conclusion

The economic clash between the US and China has significantly reshaped the global economic stage, with developing economies playing crucial roles in the economic turbulence. Delving how trade wars affect emerging economies with a primary focus on the US-China case study within the framework of the realistic theory in international relations, reveals a multi-dimensional and intricate terrain. The US-China trade war serves as a testament to the realist perspective, where states prioritize their own economic and strategic interests above all else. As both the US and China engaged in a "war" of tariffs and other protectionist measures, the repercussions were felt worldwide. Emerging economies, which often rely heavily on global trade, faced significant challenges as supply chains were disrupted, and markets became increasingly uncertain. While some emerging economies managed to exploit the situation by diversifying their trading partners and filling the void left by reduced US-China trade, many others struggled to adapt. The realist theory's emphasis on power and self-interest underscores the notion that these trade wars are driven by a struggle for global dominance and economic supremacy, where emerging economies are often caught in the crossfire. Furthermore, major players in international relations have sought to align themselves strategically with either the United States or China to secure their own interests. This balancing act further complicates the dynamics of trade and diplomacy in the modern world.

Countries like Mexico may not experience long-term benefits from tariff increases if the trade war ends unless they reevaluate their trade ties with China. In contrast, nations like African countries have greatly benefited and are expected to continue reaping the rewards from increased Chinese demand for raw materials like oil, minerals, and agricultural products. There are also countries that could potentially capitalize on this situation by attracting foreign investments from both China and the US if they develop a prudent and effective strategy. As emerging economies continue to navigate this unsettled ground, the lessons from the US-China case study underscore the need for a nuanced and strategic approach to international trade and diplomacy.

References

1. Abiad, A., Baris, K., Bernabeet. al (2018). The Impact of Trade Conflict on Developing Asia. SSRN Electronic Journal. [online] Retrieved from: https://www.adb.org/sites/default/files/publication/471496/ewp-566-impact-trade-conflict-asia.pdf.
2. Bagwell, K. & Staiger, R.W. (2020), Multilateral Trade Bargaining: A First Look at the GATT Bargaining Records, American Economic Journal: Applied Ecoomics 12(3): 72-105, retrieved from https://www.jstor.org/stable/26921829
3. Bown, C.P.(2019). The US –China trade war: A review of the evidence. Journal of Econnomic Perspectives, 33(4), pp. 187-210
4. Carvalho,M. Azevedo, A. & Massuqueti, A. (2019) Emerging Countries and the Effects of the Trade War between US and China, Economics Department, UNISINOS, São Leopoldo 91.330-002, Brazil, retrieved from https://www.mdpi.com/2227-7099/7/2/45
5. Chan, R. (2019).The US-China Trade War Intensifies: Is it Time to Move Your Business to the Philippines? Retrieved from https://enterph.com/blog/us-china-trade-war-business-opportunities-philippines/
6. Chen, Z., & Zhang, J. (2019). What caused the US-China trade war? Journal of International Trade & Economic Development, 28(1), 1-14.
7. Chong, T.T.L. and Li, X. (2019). Understanding the China–US Trade war: causes, Economic impact, and the worst-case Scenario. Economic and Political Studies, 7(2), pp. 185–202.

8. Eichengreen, B. (2018), "Can a Trade War be Averted?", https://www.projectsyndicate.org/commentary/averting-trump-trade-war-by-barry-eichengreen-2018-04
9. Evenett, S.J. Protectionism, state discrimination, and international business since the onset of the Global Financial Crisis. J Int Bus Policy 2, 9–36 (2019). https://doi.org/10.1057/s42214-019-00021-0
10. Fajgelbaum, P. D., P. K. Goldberg, P. J. Kennedy, and A. K. Khandelwal (2020). "The Return to Protectionism," The Quarterly Journal of Economics, 135 (1), 1–55.
11. Freund, C., Maliszewska, M., Mattoo, A. et al. (2020): „The impact of the China-US trade agreement on developing countries". The impact of the China-US trade agreement on developing countries | VOX, CEPR Policy Portal. Retrieved am 20.06.2020 from https://voxeu.org/article/impact-china-us-trade-agreement-developing-countries.
12. Jiang, S. (2020). The US-China trade war: An economic analysis. International Journal of Economics, Commerce and Management, 8(5), 16 – 28.
13. Holland, Ben; Sam, Cedric (2019): „The U.S.-China Trade War's Global Economic Impact". Retrieved from https://www.bloomberg.com/graphics/2019-us-china-trade-war-economic-fallout/.
14. Irwin, C. (2017): Clashing over Commerce: A History of U.S. Trade Policy. University of Chicago Press.
15. Kwon, E. (2022). The US–China Trade War: Vietnam Emerges as the Greatest Winner, retrieved from https://www.airuniversity.af.edu/JIPA/Display/Article/3111127/the-uschina-trade-war-vietnam-emerges-as-the-greatest-winner/
16. Marsman, Dean (2020). 'Manufacturing is moving from China to the United States', retrieved from BlogIndustries News: https://princemanufacturing.com/manufacturing-is-moving-from-china-to-the-united-states/
17. Mazarr, M., Heath, T., & Cevallos, A.S. (2018), China and the International Order: Retrievedfrom:https://www.rand.org/content/dam/rand/pubs/research_reports/RR2400/RR2423/RAND_RR2423.pdf
18. Mesquita, Mario (2019): „How a trade war would impact global growth". World Economic Forum. Retrieved on 20.06.2020 from https://www.weforum.org/agenda/2019/01/how-trade-war-would-impact-global-growth-tariff/.
19. Mor, S.&Shyam, L. (2019): US – China Trade Conflict: On a Misty Path, Interdisciplinary Journal of Economics and Business Law,retrieved from https://www.researchgate.net/profile/Surender-Mor/publication/333310105_US China_Trade_Conflict_On_a_Misty_Path/links/5ce62cb0a6fdccc9ddc70853/US-China-Trade-Conflict-On-a-Misty-Path.pdf
20. Redden, E., 2018. "China's Long Arm,' Inside Higher Education Shoulberg, W., 2019. Vietnam Is Becoming The Big Winner In The China Trade Wars. Forbes. Available at: https://www.forbes.com/sites/warrenshoulberg/2019/10/16/us-finally-succeeds-in-vietnam-as-more-companies-move-sourcing-there.
21. Singh, A. et al., 2020. As companies flee China, Vietnam is taking away the cake India so desperately wishes to have. TFIPOST. Available at: https://tfipost.com/2020/04/as-companies-flee-china-vietnam-is-taking-away-the-cake-india-so-desperately-wishes-to-have.
22. Singh, Y. (2019). US China trade war impact: India gained $755 million additional exports to the US. Retrieved from https://www.livemint.com/news/india/us-china-trade-war-impact-india-gained-755-million-additional-exports-to-us-11573047787150.html
23. Sun, I., 2019. Vietnam's gain: Why factories leaving China aren't coming to South Asia. Business Standard. Available at: https://www.business-standard.com/article/economy-policy/vietnam-s-gain-why-factories-leaving-china-aren-t-coming-to-south-asia-119100600400_1.html
24. Tellis, A., Szalwinski, A. and Wills, M. (2020). US-China Competition for Global Influence. [online] The National Bureau of Asian Research. Available at: https://carnegieendowment.org/files/SA_20_Tellis.pdf.
25. Wijesinha, A.(2019): „Slow Trade Growth, America's Tariff Fallout, and Implications for Sri Lanka". Retrieved on 20.06.2020 from https://lki.lk/blog/slow-trade-growth-americas-tariff-fallout-and-implications-for-sri-lanka/
26. Waltz, K. N. (1979), "Theory of International Politics." McGraw-Hill Humanities

Other references

Congressional Budget Office (2021). The effects of the US-China trade war. Retrieved from https://www.cbo.gov/publication/56991
International Monetary Fund, 2019
United Nations Conference on Trade and Developmenthttps://unctad.org/press-material/trade-wars-pain-and-gain-0
World Economic Outlook, October 2019
World Bank, (2020) retrieved from https://www.worldbank.org/en/publication/global-economic-prospects
https://onlinelibrary.wiley.com/doi/full/10.1111/aepr.12276
https://www.nber.org/papers/w29562