

Impact Of The China-Us Trade War On The Global Value Chain Of Asia's Economies

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Abstract— The US-China trade war will significantly affect the world trading system. This paper evaluates the effect of the US and Chinese governments' successive rounds of tariff increases on the global value chain, including the concentration on the major economies of the Asian Region. This study simulates a trade war between the US and China that arose from the sanctions implemented by the US government and the tit-for-tat strategy adopted by China. How and to what extent changes in circumstances surrounding US-China trade affect the economies of various countries in the Asian Region. This study uses a qualitative method which is a method to explore phenomena intensively with a library research approach. The type of data used in this study is secondary data obtained from several literatures such as books, journals and other relevant literature. In this study it can be concluded that China is increasing its participation mainly as a seller to international networks, while US integration in the Global Value Chain is decreasing. Countries in the Asian region are increasing relations with the US and increasing regional integration in the Asian region.

Keywords— Global Value Chains, Trade war, Trade Policy, Economics.

I. INTRODUCTION

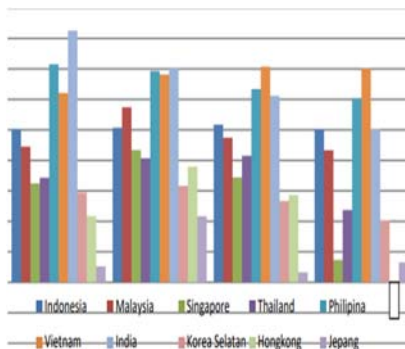
The aggressive unilateralism adopted by the Trump administration over the past year has resulted in protectionism returning to the global agenda and the antiquated protectionist tool, namely tariffs, back on the radar of trade analysts. From spring 2018 The United States imposed several sanctions in the form of increased tariffs mostly to China (Fusacchia, 2020) . The relationship between the United States and China is one of the important studies because of the great influence of the two countries in modern times. The United States has played the role of the world's leading superpower. In World War II, China was the country with the fastest growing economy in the world. Problems between countries usually have their own global consequences, among these problems is the trade war that started in 2018 (Bariah et al., 2020) .

In an open economy, export performance is one of the most important factors affecting economic growth. An increase in import tariffs increases the cost of importing intermediary inputs, prompting belligerent countries to rely more on domestic providers, and thereby lowering the import content of these countries' exports. So far , the United States has hiked tariffs on about 11,000 products imported from China totaling about \$250 billion . In retaliation Beijing hiked tariffs on about 2,000 US goods worth about \$110 billion.

More than half of trade is bilateral both economies suffered. Whether this is the biggest trade war in history, as the Chinese Ministry of Commerce implied , it is clear that trade barriers between the major players in global trade (Pujayanti, 2018) The question of who pays the cost of trade tariffs and who benefits from them becomes more important as global production is increasingly regulated in global value chains (GVCs) and intermediary trade is a dominant aspect of global trade, shaping developed and backward economies. in a global production network. Trade is limited to domestically produced goods. Increases in import tariffs can negatively affect the competitiveness of domestic producers in international markets because they limit

access to the most efficient inputs, and because the export revenue-generating role is highly dependent on the interchange of international intermediaries and services required to produce finished goods.

The United States trade war with China has hampered the economic growth of trading partner countries of the United States and China due to participation in international trade (Sari Mutiara et al., 2021).



source : World Bank, 2021

Figure 1. Economic Growth of several countries in Asia

Figure 1 shows that the value of economic development and growth in several Asian countries partnering with the United States and China has recorded a decline on average. Economic growth in these countries only grew by 4.29% and decreased by 3.20% in 2021 during the US-China trade war. This was due to global economic pressure and decreased demand for exports on global markets due to the impact of the US-China trade war, including Indonesia, Malaysia, Singapore, Thailand, the Philippines, Vietnam, India, South Korea, Hong Kong and Japan. In the event of a bilateral customs war, because bilateral trade between the two warring economies becomes increasingly high.

The trade war that occurred between the two countries which dominate the world economy and are also major economic powers will certainly have an impact on the global economy and of course the economy in the Asian Region. Therefore, this study will discuss how this trade war has an impact on the economies of several countries in the region. Asia and Indonesia's efforts through its monetary policy to deal with the trade war between the US and China.

II. LITERATURE REVIEW

Theoretical Review. National defense is a crucial aspect in safeguarding the sovereignty, security, and stability of a country. Broadly speaking, national defense often focuses on military threats, such as military attacks from foreign nations. Defense is vital for a nation as it can prevent conflicts, oppression, and poverty in developing countries, as well as ensure security in other parts of the world (Gompert et al., 2004).

International trade is one of the ways to fulfill the basic needs of a society in a country. Nations rely on international trade to obtain goods and services that they cannot produce themselves (Grozdanovska et al., 2017). Currently, international trade is a highly important element in the global economy and drives the economic growth of countries worldwide. International trade involves the buying (import) and selling (export) of goods or services between the participating countries. To achieve a trade surplus, a country strives to maximize exports through various policies.

The United States and China are two countries with the largest economies globally. In 2018, these two nations became involved in a conflict (Kalsie & Arora, 2019). This trade tension is known as the U.S.-China Trade War, causing disruptions in the global trade market and economic relations worldwide.

III. DATA AND METHODOLOGY

Research according to (Sugiyono, 2017) is a scientific way to obtain data with a specific purpose or use such as understanding, solving, and anticipating a problem. This research uses a qualitative method which is a method for intensively exploring phenomena with a literature study approach (Taguchi, 2018). Qualitative research is a method used to explore various phenomena that exist in research subjects and is described in the form of words with a special context (Sugiyono, 2017).

The type of data used as a reference in this study is secondary data obtained through literature studies in the form of books, journals, internet-based news articles and various other literature relevant to this research in order to obtain a theoretical basis for comparison and to analyze in depth. Analysis of the data in this study used qualitative analysis, which is a qualitative description of the data in the form of sentences and statements to facilitate reading and understanding of the data.

IV. RESULTS AND ANALYSIS

International Trade

International trade is an activity that involves trade in the production of goods and services between countries. International trade can be a driving force in increasing a country's economic growth (business as an engine of growth). Costs incurred in international trade are one of the most important sources of financing for gross domestic product (Dewi, 2019). International trade, in its initial process, is an exchange based on trade in labor, other goods and services, followed by trade in goods and services now (when transactions occur) and completion of goods and services in the future (Wulandari & Zuhri, 2019).

Global Value Chain (Global Value Chain)

A global value chain is a network consisting of several entities involved in the production of goods or services offered globally. Each entity in the value chain is responsible for providing one of the stages in the production process, such as collecting raw materials, processing raw materials into semi-finished products, or completing the final product. (Kafasaskya, 2020). Global value chains allow entities to take advantage of the skills and resources available in different countries. It also helps entities save costs by eliminating certain stages of the production process to countries with lower labor costs. However, global value chains can also create problems, including economic inequality and influences on domestic industries (Mulachela, 2020).

US-China Trade War

Trade wars are the result of various protectionist initiatives between countries that can harm various parties doing business with these countries (Henry, 2020). One of the policies prohibited in the Free Trade Agreement (FTA) is protectionism. In this policy, each country is not allowed to apply protectionism policies to other countries. This is because international trade and economic cooperation between developed and developing countries can be established and developed countries can help the economies of developing countries (Azmi, 2021).

The US-China trade war is a situation where the two countries engage in a cycle of tariffs and other trade barriers in response to each other's trade policies. This trade war began in 2018, when US President Donald Trump announced a 25% import tariff on products from China. China then imposed retaliatory tariffs on products from the United States. This trade war has caused an economic slowdown in both countries and reduced the volume of global trade. The two countries have also experienced problems with increasing prices for goods subject to tariffs, as well as declining profits of companies involved in international trade.

In 2020, the two countries reached an agreement to reduce tariffs and reduce trade tensions, but issues related to trade and technology are still being debated. The existence of this trade war can reduce the volume of world trade. Exports from countries in Asia to the United States and China could be affected. Imports from these two countries can have an impact on competition with domestic products in countries in the Asian region due to the low prices of imported products along with an increase in the number of imported goods entering the Asian region.

Impact of the Trade War between the United States and China to the Asian Region

The trade war that occurred between the United States and China has been detected since the leadership of Donald Trump. At the time of the campaign, Trump had talked a lot about changing the goals of the United States economy to protectionism. In this policy, countries that implement it can regulate export-import activities by regulating export-import duties, subsidies, tariffs, quotas, and export-import bans. The beginning was Donald Trump's announcement that import tariffs would be increased to 15% for steel and 10% for aluminum which was then reciprocated by the Chinese government which imposed import tariffs on the United States of up to 25%.

The trade war between China and the United States has had a significant impact on both countries and globally. In China, the trade war has slowed economic growth and caused a decline in demand for Chinese export products, especially in the

manufacturing sector. This has also led to a decline in the exchange rate of China's currency, namely the yuan. In the United States, the trade war has led to rising prices of goods imported from China, especially technology and electronic goods. This can increase production costs for American companies that import raw materials from China, reducing their profitability. The trade war has also led to slower economic growth in the United States and caused some companies to decide to shift their production to other countries (Arianto, 2021)

Globally, the trade war between China and the United States has led to concerns about slower global economic growth and increased volatility in financial markets. It can also increase political tensions between the two countries and hinder economic cooperation between other countries (Dewi, 2019). The occurrence of a trade war between the two countries can reduce the volume of international trade, especially in the Asian region. The existence of a trade war between the United States and China allows many global companies to consider producing and assembling their various commodities in China, and then the Asian region, especially Southeast Asia, will benefit from this. In the short term, there will be bad consequences from trade wars to Asia, which is the world's main export base (Rahayu, 2021) .

Many global companies are considered to be moving supply chains to the Asian region which will be run by Small and Medium Enterprises (SMEs) which will use technology in their operational activities and create opportunities of up to US\$1 trillion. Even though the trade war has not ended, many companies will divert some of their supply chains to the Asian region, especially Southeast Asia. The first reason is that the process is already under way, for example in Vietnam and Thailand which had good positive results. Second, it is a good business practice where the supply chain will be distributed, and they will have multiple sources of supply for a given product. The trade war between China and the United States has had a significant impact on the Asian region. Some of the visible impacts are as follows:

1. Decreased demand for Asian export products: The trade war between China and the United States has caused a decrease in demand for export products from Asian countries that depend on exports to both countries. This can reduce the income of these countries and cause a decrease in economic growth.
2. Increased production costs: The trade war has led to an increase in the prices of goods imported from China, especially raw materials. This can increase production costs for companies in the Asian region that import raw materials from China, thereby reducing their profitability.
3. Decreasing foreign investment: The trade war has also led to concerns about the future economic prospects, which may discourage foreign investors from investing in the Asian region. This can reduce the level of investment and economic growth in the region.
4. Escalation of political tensions: Trade wars can also escalate political tensions between China and the United States and hinder economic cooperation between other countries in the Asian region.

Overall, the trade war between China and the United States has had a negative impact on the Asian region, especially in terms of decreasing demand for export products, increasing production costs, and decreasing foreign investment. However, the impact depends on the level of economic diversity and the trends of each country in the region.

V. CONCLUSION

The conclusion from a study on the Impact of the China-US Trade War on the Global Value Chain of the Asian Region's Economy is that when the foreign policy in the form of protection by the United States against China has a significant impact on the global value chain of the economy in the Asian region, especially in the export-import sector , production costs, decreased foreign investment, as well as outside the economic sector can increase political tensions. The impact felt by countries in the Asian region is of course different in each country because of the economic and policy diversity of each of these countries.

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