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**Global Trade Conflict**

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**Global Trade Conflict**

# Abstract

In light of the new global trade conflict overshadowing global international events with economic, political and social repercussions on many countries worldwide, including Lebanon, we decided to conduct an in-depth, thorough, comprehensive and objective economic research to explain, process, analyze, and foresee the present and future reality of international trade relations system among the most prominent economic poles in the world. This research was conducted in view of the new protectionist policies adopted by the American administration placing "America First" to protect the US economy from external competition, increase economic growth and create new job opportunities. This research also aims to examine and analyze the measures taken by US trading partners in retaliation to the new tariffs imposed on US steel and aluminum imports (EU countries, China, Canada, Brazil, South Korea, Mexico, Russia, Turkey, Japan, Germany, India, and others) and the implications of these tariffs on the global economic system and the new economic globalization. **It should be noted that this search is the first of its kind in Lebanon, where no other economic research has yet been published on the current global trade conflict and its repercussions on the economies throughout the world, including Lebanon.**

# Introduction

## The Bretton Woods system

After Europe and the international economic system was ravaged by World War II, causing chaos on world economies and politics, it was indispensable to establish a global economic system capable of managing the international economic system to facilitate free trade among countries, as the engine for economic development and an instrument to achieve peace between nations and peoples.

In 1944, after the conclusion of World War II, the US-led Allies, along with 43 other countries, met at Bretton Woods, in the US Northern New Hampshire to formulate a new financial and economic world order, create a monetary system to achieve economic growth, increase capital flows and facilitate inter-State trade processes, and formulate a financial system that ensures the stabilization of internationally fixed exchange rates and prevents the financial fluctuations that previously led to global economic crises. During this meeting, deliberation resulted in the formation of two international multi-lateral institutions:

*First***:** **the International Bank for Reconstruction and Development (IBRD)** to provide low-interest financial assistance for the reconstruction of the war-ravaged European countries.

*Second***:** **the International Monetary Fund (IMF)** thatwould monitor the international monetary system. Before this war, exchange rates were fixed against countries’ reserves in gold and pound sterling (the prevalent international currency before the war broke out and caused its devaluation). However, after the war, countries agreed to fix their exchange rate against the U.S. dollar, which replaced gold and pound sterling altogether; the United States undertook to provide liquidity in dollars at the international level instead of gold, by its willingness to convert the dollar to gold at any time. The dollar’s value was fixed to gold at $35 an ounce according to the following equation: Thirty-five dollars = one ounce of gold. The new global financial system was formulated on the basis of stabilized exchange rates with fluctuation permitted within a 1 percent band.

But the US economy did not last long in the face of international increasing strain; the commitment to fund allied countries deficits exhausted the U.S. gold stocks as dollar supply massively exceeded U.S. gold reserves.  The US dollar gradually lost its real value. The global monetary system was shaken along with the new economic system. Major countries had to save both the dollar and the global monetary system. It was agreed on central banks intervention in various countries throughout the world to ease the pressure on gold. Banks would offer a proportion of their gold reserves as demand increases to ease pressure on the dollar. However, the successive international crises rescinded the concept of global fixed exchange rates shifting the international system to today’s new system.

## World Trade Organisation (WTO)

On October 30th, 1947, representatives of 23 countries concluded an agreement named the General Agreement on Tariffs and Trade (GATT) at Geneva during a conference aimed at establishing an international trading system based on free economy and works on raising living standards of Member States citizens through full employment of communities and optimal use of economic resources by:

* Adopting the principle of trade without discrimination among contracting parties.
* Limiting quantitative trade restrictions policies.
* Adopting dispute settlement system among contracting parties.

During the GATT years, eight rounds of tariff negotiations were held between 1947 and 1994, the Uruguay Round (1986-94) was the most important. During this round the WTO was established to set and enforce rules for international trade.

A new set of negotiations was initiated at this round such as intellectual property, trade in services and dispute settlements; a Ministerial Conference was also created comprising representatives of all WTO members.

The Ministerial Conference meets at least once every two years to sort out problems faced by the organization or to raise any new topics. The Ministerial Conference can issue decisions that exclude a country from its obligations towards the Organization as deemed appropriate by Members.

On 15/4/1994, the largest international trade agreement in history was signed in Marrakesh. The agreement came into effect on January 1, 1995 to replace GATT. The World Trade Organization (WTO) became the new system of international trade along the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD).

## Uruguay Round Decisions

The Uruguay Round included a set of fundamental principles and new procedures that form the basis of global trading system designed to promote international trade and ease all trade barriers and constraints, mainly:

* **Most-favoured-nation (MFN):** countries cannot normally discriminate between their signatories trading partners; this guarantees a trading opportunity equal to that accorded to the most-favoured nation;
* **Elimination of quantitative restrictions and reducing tariffs barriers:** *the use of protective measures is exceptionally and temporarily allowed only to protect the balance of payments***.** The new Agreement included an average one-third cut in industrial customs tariffs. The result is a 40% cut in tariffs on industrial imports.
* **World Trade Organization (WTO):** replaced GATT as of 1/1/1995 and became the third pillar of Bretton Woods’s entities along with the IMF & World Bank. It was established to oversee the implementation of the new agreement and supervise world trade and settle trade disputes via the WTO Appellate Body. Appellate rulings are automatically adopted unless a consensus exists among members against doing so.
* *Agriculture:* remove all trade barriers over six years, reduce agricultural subsidies by 20%, cut the exports subsidies value by 36% and volume by 21%, and convert non-tariff restrictions to tariffs with a 36% reduction. Agriculture has been liberalized from all trade barriers, except for those related to the provisions of the Sanitary and Phytosanitary Measures Agreement (SPS) aimed at guarding humans, animals and plants against any disease. In such matters, these are not considered as a trade barrier, although some countries are using these barriers (TBTs-SPSs) as a tool to limit imports or as protectionist or discriminatory policies among member countries.
* *Textile industries*: phasing out the Multifibre Arrangement (MFA) quotas on developing countries’ exports of textiles and clothing assigned by industrial countries within ten years at the latest as of 1/1/1995. The Agreement on Textiles and Clothing (ATC) under GATT provisions entered into effect as of 1/1/2005.
* *Anti-dumping & subsidies measures*: clear anti-dumping and subsidies actions and measures were developed.
* *Services:* The agreement defined particular areas of trade in services despite the opposition of developing countries that feared competition from foreign companies.
* *Government Procurement*: Foreign companies were allowed to compete with national companies in government tenders without giving any preference to the latter.
* *Intellectual Property Rights*: the agreement introduced provisions related to Intellectual Property Rights protection (intellectual, scientific, literary, artistic, innovation, creativity, and trademark returns, etc.) equally beneficial to developing and developed countries. Developing countries were given a longer period to begin implementing the provisions of this agreement.

# first : Economic multi-polarization and global conflict

By the end of World War II, the multi-polar international system world was dominated by two opposite great powers: the United States (US) and the Union of Soviet Socialist Republics (USSR). After the collapse of the USSR, the US emerged as the only great power of a new unipolar international system that reflects an economic, political, technological, military, social and cultural dominance over the world. This American preponderance tilted international and regional balances and resulted in an unstable world order. Afterwards, the world witnessed the rise of new US-competing powers, such as China, EU and Russia, in addition to economic blocs such as the BRICs countries (Brazil, Russia, India, China and South Africa), which may result in a shift from unipolar to bi-polar international system.

Since the collapse of the Soviet Union, Russia has retained the status of partner and always tried to regain its military and economic roles. The European Union countries closely connected with historical ties and economic, political and military agreements fear that the USA would possibly control the entire European continent affairs. China, despite its mounting economic growth, still needs substantial changes before being able to demand a strategic partnership with the US and to play an active and influential role at the regional and international levels. Conversely, Japan is a major economic power, but it is not looking for a political role matching its economic weight so far.

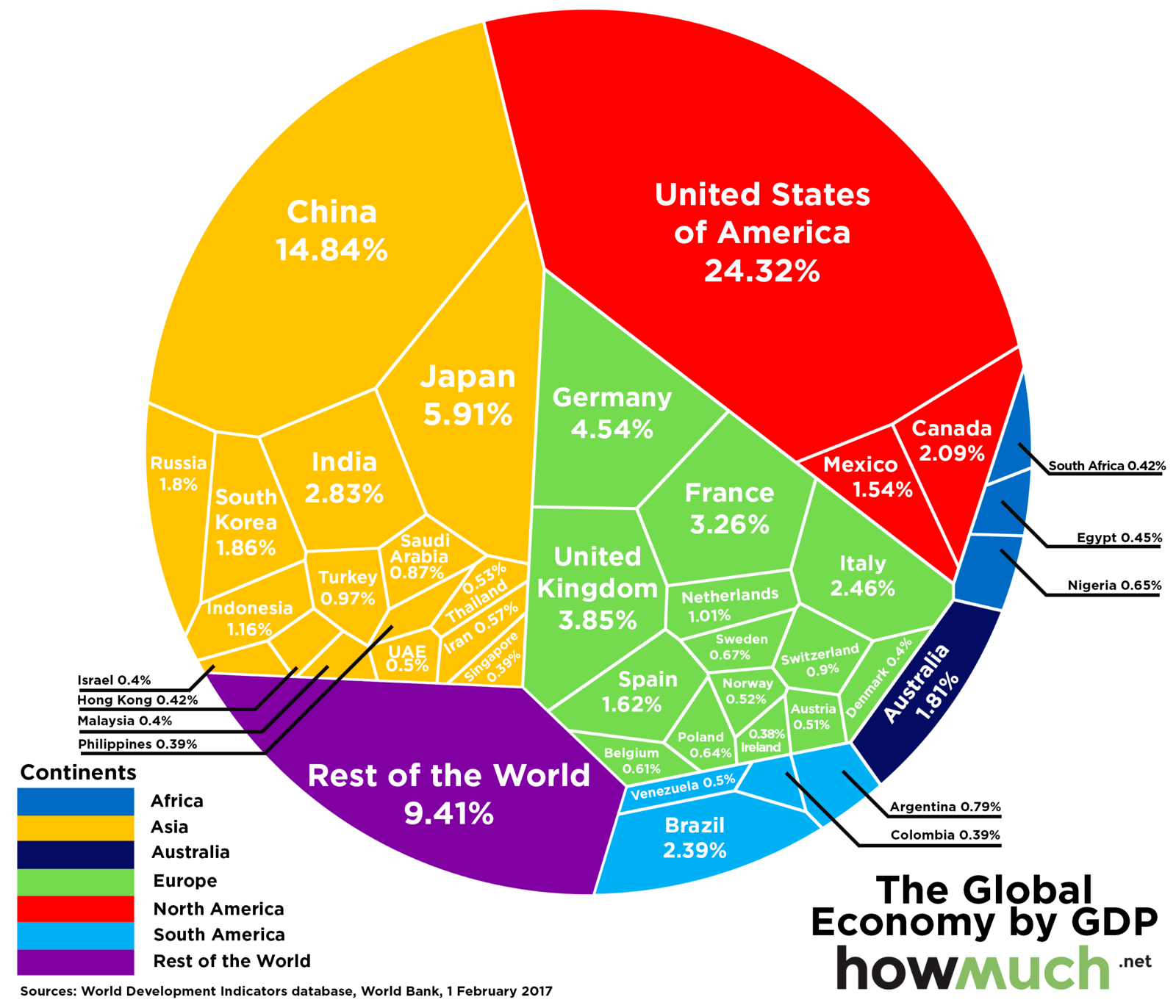
Despite its unilateralism vis-à-vis the international system, the US couldn’t establish a unipolar system. Eventually, the global system would develop into a multipolar system through an international agreement on sharing international responsibilities.

The US economy is the largest in the world (IMF-2017). It is about $19.4 trillion, accounting for 24.3% of the global economy, followed by China with $12.23 trillion or 14.8% of the world economy. Japan comes in third place with an economy of $4.87 trillion dollars, accounting for about 6% of the world economy, while Germany ranks fourth with a total output of $3.67 trillion.

A new study carried out by PricewaterhouseCoopers (PwC) and the International Monetary Fund (IMF) in 2016 (Table 1) projects that China will overtake the US to be the largest economy and occupy the first place by 2050, as emerging economies will continue to grow faster than developed economies. India will go into second place, the United States third and Indonesia could move into fourth place. The UK is expected to fall to the 10th place by 2050, while France won’t be among the top 10 and Italy among the top 20, as they will be prevailed by emerging economies such as Mexico, Turkey and Vietnam. The report projects that the world economy could double in size by 2050 at a rate greater than population growth because of increased technology- driven productivity.

|  |  |  |
| --- | --- | --- |
| **Table no. 1** | | |
| **Emerging markets will dominate the world’s top 10 economies in 2050** | | |
| Ranking | 2016 | 2050 |
| **1** | USA | China |
| **2** | China | India |
| **3** | India | USA |
| **4** | Japan | Indonesia |
| **5** | Germany | Brazil |
| **6** | Russia | Russia |
| **7** | Brazil | Mexico |
| **8** | Indonesia | Japan |
| **9** | UK | Germany |
| **10** | France | UK |
| *Source: IMF for 2016 estimates, PwC projections for 2050* | | |

**Figure 1:** A 2017 World Bank study showing the size of global economies.

****This graph shows the world’s 40 largest economies individually, but groups each continent in the same color. The Asian bloc is clearly dominant. It represents just over a third (33.84%) of global GDP, effortlessly outpacing the North American bloc, which at 27.95% hovers just above the quarter of global GDP. Europe, meanwhile, comes in the third place, and just over one fifth of global GDP (21.37%). Together, these three blocs generate over four-fifths (83.16%) of the world’s total output.

## American economic pole

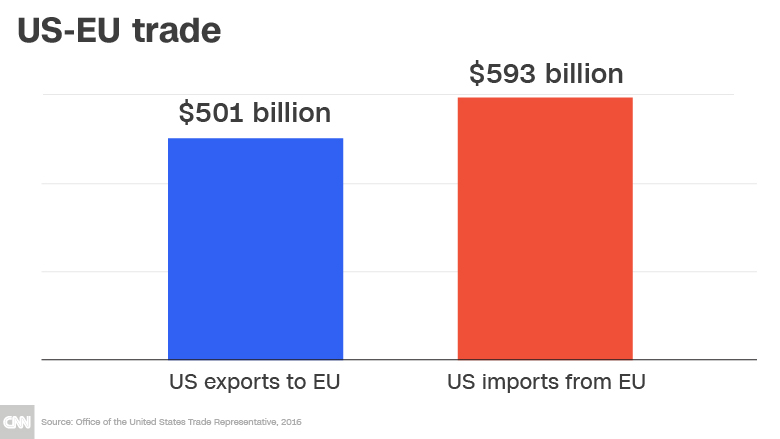
The US economy is the largest economy in the world with a Gross Domestic Product (GDP) worth 19.390 trillion US dollars in 2017 (US Department of Commerce). The US has the largest consumer market in the world and is the second largest purchasing power in the world. The US is also considered the third largest exporter in the world after China and the European Union. US goods and services exports reached around $2.351 trillion in 2017. The US is the second largest importer after the EU, with imports of goods and services amounting to $2.903 trillion in 2017. The US is still the first choice for foreign investors; FDI in 2017 was about $4.025 trillion (Bureau of Economic Analysis 2017). The industrial sector is one of the most important sectors supporting the largest economy in the world. The United States is the second largest manufacturer in the world after China. The US industrial output accounts for 19% of the US gross domestic product.

The US most prominent products are: petroleum products, pharmaceuticals, aircraft, cars, electrical and electronic equipment. The Forbes list of more than 25 innovation companies in 2016 showed that the top five innovators in the world are US companies, chiefly technology companies. The US companies are the largest in terms of market value (Amazon - Apple - Facebook – Microsoft, etc.).

## The European economic pole

In the 1950s, Europeans began establishing a common European market (European Economic Community) under the famous Treaty of Rome, followed by the Maastricht Treaty that brought about the creation of European Economic and Monetary Union down to the current European Union. Europe has a total surface area of around 4 million km2, with a population of approximately 500 million. Economically, trade in Europe accounts for about 20% of global trade, two-thirds of this trade within the EU; this shows the importance of internal relations among EU members.

**Figure 2: US-EU Trade exchange (goods and services)**

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In 2016, the EU was the largest export market for the US where the US-EU trade (of goods and services) amounted to approximately $1.1 trillion (US Trade Representative Agency 2016).

Exports volume of goods from the EU to the US was about $416 billion in 2016, compared to the US exports volume to the EU of $270 billion. Therefore, the US goods trade deficit with the EU was about $146 billion in 2016 (in favor of the European Union).

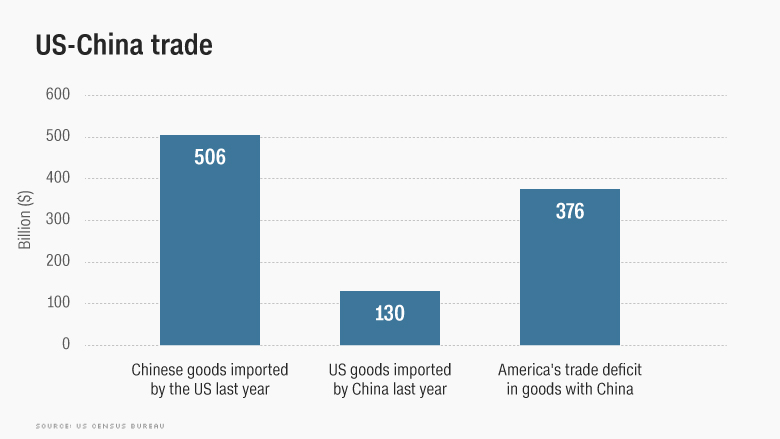
EU services exports to the US amounted to $177 billion in 2016, while US exports to the EU amounted to $231 billion in 2016. The US had a services trade surplus of an estimated $54 billion with the EU in 2016.

**Investment**

In 2017, EU investments in the US reached approximately $2.3 trillion (Congressional Research Service).

## The Chinese economic pole

**Figure 3:** US-China goods trade

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(US-China trade in billions of dollars according to American Statistical Association data – 2017).

China is the world's leading exporter with a competitive edge in low labor cost owing to China’s low standards of living. The US companies, unable to compete with such low wages, suffered the loss of many jobs in the US industry.

US consumers prefer cheaper Chinese goods to US goods. China is the largest trading partner of goods with the United States. In 2017, China's goods exports to the US amounted to about 506 billion USD (US Trade Representative Agency 2017), while US exports to China have reached around 130 billion USD. The U.S. goods trade deficit with China was $376 billion in 2016.

In 2016, China's services exports to the United States reached about 16.1 billion USD, while US services exports to China were about 54.2 billion USD. The US had a services trade surplus of an estimated $38.1 billion with China in 2016.

**Investment**

In 2016, US investments in China were about $92.5 billion. Chinese investments in the US totaled about $27.5 billion within the same year. China has many giant companies (Alibaba, Huawei, Tencent, etc.) spread all over the world.

## The Japanese economic pole

**Trade with the US**

Japan was the United States' fourth largest goods export market in 2016 with a trade volume of $270.7 billion in 2016 (US Trade Representative Agency 2016).

In 2016, the volume of goods exports from Japan to the US reached around $132.2 billion while US goods exports to Japan reached about $63.3 billion in the same year. The U.S. goods trade deficit with Japan was about $68.9 billion.

In 2016, Japan's services exports to the US amounted to $30.6 billion, while US services exports to Japan totaled $44.7 billion in the same year. The U.S. services trade surplus with Japan was about 14.1 billion USD in 2016.

**Investment**

By 2015, US investments in Japan totaled an estimated $108.5 billion, while Japanese investments in the US reached $411.2 billion over the same year.

## The Russian economic pole

**Trade with the US**

US-Russia trade in goods and services was about $27.2 billion in 2016; U.S. goods exports to Russia reached an estimated $5.8 billion in 2016, while Russia's exports to the U.S. amounted to nearly $14.5 billion over the same year. The U.S. goods trade deficit with Russia was around $8.7 billion in 2016 (*US Trade Representative Agency 2016*).

US services exports to Russia totaled about $4.5 billion in 2016 while Russian services exports to America were about $2.3 billion dollars over the same year. The US services trade surplus with Russia was about 2.2 billion dollars.

**Investment**

US investments in Russia amounted to nearly $10.6 billion in 2016. Russia's investments in the U.S. amounted to about $4.6 billion over the same year.

## Canadian Economic Pole

**Trade with US**

Canada is the third largest trading partner of the U.S. (imports + exports) with a total of $673.9 billion in 2017. Canada's goods exports to the U.S. amounted to approximately $300 billion while US goods exports to Canada were around $282.5 billion. The U.S. goods trade deficit with Canada was approximately $17.5 billion in 2017 (*U.S. Trade Representative Agency 2017*).

Canada services exports to the U.S. were an estimated $32.8 billion in 2017 while U.S. services exports to Canada reached nearly $58.7 billion over the same year. The U.S. services trade surplus amounted to an estimated $25.9 billion.

**Investment**

US investments in Canada totaled around $363.9 billion in 2017. Canadian investments in the U.S. reached nearly $371.5 billion in 2017.

## Mexican economic pole

**US-Mexico Trade balance**

Mexico was the United States' third largest goods export market after the EU in 2017, U.S. goods exports to Mexico were about $243 billion. Mexico's goods exports to the U.S. amounted to about $314 billion over the same year.

The U.S. goods trade deficit with Mexico was approximately $71 billion in 2017 (*U.S. Trade Representative Agency 2017*).

Mexico's services exports to the US totaled $26.3 billion in 2017; U.S. exports to Mexico amounted to $33.3 billion in the same year. The U.S. had a services trade surplus of an estimated $7 billion with Mexico in 2017.

**Investment**

U.S. investments in Mexico amounted to $87.6 billion in 2016. Mexican investments in the U.S. reached around $16.8 billion in the same year.

## Indian Economic Pole

**Trade exchange with the United States**

India was the ninth largest US trading partner with trade volume (goods and services) of $67.7 billion in 2016 (*US Trade Representative Agency 2016*).

India's goods exports to the U.S. were around $46 billion while U.S. goods exports to India reached $21.7 billion in the same year. The U.S. goods trade deficit with India was around $24.3 billion in 2016.

India’s services exports to the U.S. reached about $26.8 billion in 2016 while U.S. services exports to India reached nearly $20.3 billion in the same year. The U.S. services trade deficit with India was around $6.5 billion in 2016.

**Investment**

U.S. investments in India amounted to $28.3 billion in 2015. India’s investments in the US reached nearly $9.3 billion in the same year.

## Turkish Economic Pole

Turkey's goods exports to the U.S. reached $8 billion in 2016 while U.S. goods exports to Turkey amounted to nearly $9.4 billion in the same year. The U.S. goods trade surplus with Turkey was around $1.4 billion in 2016 *(US Trade Representative Agency 2016****).***

Turkey’s services exports to the US reached $1.9 billion in 2016 while U.S. services exports to Turkey amounted to nearly $3.1 billion in the same year. The U.S. services trade surplus with Turkey was around $1.2 billion in 2016.

**Investment**

U.S. investments in Turkey amounted to nearly $3.1 billion in 2016. Turkey’s investments in the U.S. reached nearly $652 million over the same year.

## The BRICS

BRICS is an economic bloc comprising Brazil, Russia, India, China and South Africa. It was established in 2008 and held its first summit in June 2009. The original aim of the BRICS was the establishment of a multi-polar world order to balance out the unipolar U.S.

The importance of the BRICS bloc is highlighted by the following economic figures:

* **Total population**: represents approximately 40% of the entire global population.
* **Total area:** covers around 30% of the planet’s land.
* **Economy**: valued at about $16 trillion equivalent to 27% of the global GDP in 2013.
* **Trade**: representing around 33% of global trade.

One of the main objectives of the BRICS countries is to play a role in managing the global economy along with the G20 and G7 industrial groups and major international financial funds, and is committed to advance reforms and amendments of the World Bank and the International Monetary Fund financial and economic policies.

# second: The US-Global Trade Dispute

Since his first presidential campaign, US President Trump speeches overtly and repeatedly expressed his dissatisfaction with international trade agreements concluded with his country as he considers such agreements unfair to the United States which suffers chronically from a huge trade deficit that cost American citizens millions of jobs. Particularly in Pennsylvania that suffered the repercussions of many steel factories and other industries shutdown.

President Trump ascribed the economic crisis in the U.S. to foreign countries subsidies of their exported products, devaluation of their local currencies and violated provisions of international agreements. As a result, trillions of US dollars and millions of jobs flew out of the United States. According to President Trump, the U.S. lost an estimated one-third to half of industrial jobs over the past 20 years.

President Trump believes that the constitution of the United States includes the imposition of tariffs on foreign products not on domestic ones. However, 240 years after the revolution in the US, American politicians intervened in the work of American industries and restricted their freedom while allowing foreign companies to export their goods to the US free of any customs. He also believes that trade agreements signed by the US caused the loss of almost the third of its industrial jobs since 1997, while the population of the country increased by about 50 million. The main reason for this loss according to the US administration's analysis is due to:

* ‬The U.S. signing the North American Free Trade Area Agreement (NAFTA), considered by President Trump as the worst trade agreement in American history.
* China's entry into the World Trade Organization (WTO) enabled it to invade US markets and caused the loss of the largest number of American jobs in history.
* The Trans-Pacific Partnership Agreement (TPP) considered by President Trump as harmful to the US industry as it will also open US markets to China and East Asian countries and put American workers in direct competition with workers from Vietnam (and other Southeast Asian countries), one of the world lowest labor countries.
* Concluding multilateral trade agreements.

**President Trump’s plan, already ongoing, consists of seven steps aimed at recovering U.S. jobs:**

1. Withdraw from the TPP, a decision that is not ratified yet.
2. Choose the toughest and smartest economic representatives to negotiate on behalf of American workers.
3. Empower the US Secretary of Commerce to demand the rectification of any violation of trade agreements signed with foreign countries that harm US workers and instruct all relevant U.S. agencies to use every possible instrument under U.S. and international law to stop these violations.
4. Inform U.S. NAFTA partners (Canada and Mexico) of the US intention to renegotiate the agreement terms and provisions to get a better deal for American workers. If these partners did not agree to renegotiate, the US will give notice of its intention to withdraw from NAFTA according to Article 2205 of this agreement.
5. Instruct the US Treasury Secretary to classify China as a country that manipulates its national currency and to counteract (by imposing customs tariffs and taxes) any country that devaluates its currency to gain an unmerited competitive advantage over the United States.
6. Instruct the US Trade Representative to file commercial legal action against China within the US or the World Trade Organization, against China’s unfair subsidy of goods which is prohibited by the World Trade Organization and violates its terms.

**If China does not halt its illegal activities, including theft of US trade secrets and intellectual properties (according to the U.S. Administration), President Trump will use every legitimate presidential authority to settle trade disputes, including the application of tariffs consistent with Articles 201 and 203 of the Trade Act of 1974, and article 242 of the Trade Expansion Act of 1962, powers granted by the American legislation system to presidents to exceptionally intervene against trading partners, if they inflict severe damage on American interests.**

## third: US protectionist policies

### History

From the 16th century till the 18th century, major countries adopted trade protectionism to achieve commercial gain and to have access to precious metals resulting from exports surplus. In the 19th century, Britain joined trade protectionism of modern countries (adopted at the time by the United States, Germany, Canada, etc.). During the first half of the 20th century, trade protectionism spread among all countries, especially during the 1930 Great Depression.

In 1930, the [United States](https://www.britannica.com/place/United-States) enacted the [**Smoot-Hawley Tariff Act**](https://www.britannica.com/topic/Smoot-Hawley-Tariff-Act)**of 1930** (formally **United States Tariff Act of 1930**) increasing import duties by roughly 50 percent to protect American companies and farmers. The Smoot-Hawley Tariff Act was preceded by the Fordney-McCumber Act enacted by Congress in 1922, raising the average import tax to some 40 percent. Although the Holly-Smoot Act was intended to protect American farmers from agricultural imports from Europe as European farmers recovered from World War I aftermaths, their American counterparts suffered intense competition in face of reduced prices caused by overproduction. These tariffs prompted retaliation from other governments.

Consequently, the volume of trade fell drastically, leading to a 66% decline in global trade between 1929 and 1934; a number of banks in various countries crashed. To reduce the high tariffs, President Roosevelt issued the Reciprocal Trade Agreement Act (RTAA) in 1934. Since then, the United States strived to restore the confidence of foreign countries by promoting international trade, supporting the General Agreement on Tariffs and Trade (GATT), the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO).

In 2002, President George W. Bush adopted a resolution to revitalize local industry, imposing an 8-30% tariff on steel, exempting Canada, Mexico and other countries.

These temporary fees were to remain in effect for three years. As a result, the EU threatened to impose retaliatory fees on U.S. products and initiated proceedings in the World Trade Organization threatening to impose more than $2 billion in fines if the US does not remove its tariffs. One month after the WTO ruling, President Bush reversed his decision and removed these tariffs.

### Trade tools and types (customs barriers)

#### Tools

Decisions, laws or decrees issued by the executive authority and sometimes by the legislative authority in response to international trade practices that cause injury or threaten to cause injury to existent local industry or agriculture or delay the establishment of a local industry or agriculture under construction, specifically dumping and paying subsidies on agricultural or industrial products. Such laws, decrees or decisions also apply to cases where increase in imports cause serious injury or threaten to cause injury to local industry or agriculture which entail the imposition of preventive measures.

#### Types

Tariff and non-tariff barriers

##### Tariff barriers:

A tax on an imported product to be paid upon entry or exit of a country’s borders can be looked at:

* *In terms of its legal aspect*: an independent tariff, tariff set by an agreement.
* *In terms of parties that impose such tariffs*: single tariffs, two-part tariffs, multiple tariffs.
* *In terms of the required circumstances*: sanctions tariffs, countervailing duties (preventive), preferential tariffs.

##### Non-tariff restrictions

* **Monetary non-tariff restrictions** include: subsidies (export or import subsidies) which can be direct or indirect, exchange-rate devaluation, or dumping.
* **Quantitative non-tariff restrictions** include: prohibition (full or partial), import licenses and quota systems.

## Main reasons

Since 1989, the US adopted a protectionist trade policy developed in subsequent years until it caused trade conflict for the following reasons:

* The center of globalization/center of the global economy began to shift from Washington to Berlin, to Beijing, to Hong Kong, due to the decline of the US economy and reduced competitiveness of U.S. producers in global markets and the rise of other economic forces such as China and Japan that started competing with the US in the fields of advanced industries such as electronics, chemicals, manufacturing of cars, steel, iron, textiles and others.
* Obstruction of China's transition from “Made in China” to "Created in China" concept after the rise of patents registered by China compared to the declining rate of patents registered in the US in 2017.
* Preventing China from becoming a major economic power and hindering China's technological progress.
* Inability of US economy to compete economically in quality, price and innovation with the products of the Chinese economic pole.
* Every country experiencing dwindling competitiveness adopts protectionism and every country with increasing competitiveness adopts globalization policies.
* The rise of economic blocs, especially the European Union as a major economic power, has now become a 27-nations (with Britain's exit) competing with the US over the global economy control.
* The alarmingly widening U.S. federal fiscal deficit (government deficit) reaching $147 billion in 2018.
* Increased US public debt to about $21 trillion in 2017 and public debt-to-GDP ratio amounting to $19.3 trillion (around 105%).

## American protectionist decisions

### The first set of tariffs

On January 22, 2018, US President Donald Trump announced upon the recommendation of the International Trade Commission (ITC) to impose tariffs on US imports: 20% on household washing machines and 30% on solar units and their compartments as a first stage of tariffs Protectionism taking effect as of July 6, 2018. These tariffs are imposed on products used in the generation of solar energy entered by companies or individuals to the United States for the first time.

* **Objectives of the first package of tariffs**

These duties are imposed to protect US industrial companies from foreign competition, Chinese in particular; as millions of Americans electricity needs are provided from solar panels that have spread rapidly throughout the US since 2010.

Solar panels have been proven to be very useful to consumers due to the savings added up from differential cost. But for American manufacturers, cheap panels, especially those imported inexpensively from abroad, have not proved successful. As for US manufacturers those panels, mainly the cheap imported ones were far from successful. Instead, local manufacturers had to require high fees and guarantees fixing minimum selling price on certain solar power equipment manufactured outside the United States.

The U.S. solar industry is a major contributor to the growth of the U.S. economy. It employs over 38,000 people in 600 solar power plants in the US. The products manufactured by these companies include: steel, inverters, monitors, combiner boxes, solar arrays, solar cells, solar panels and others.

### The second set of tariffs

On March 8, 2018, the US administration announced levying new tariffs on steel and aluminum imports (25% on steel and 10% on aluminum). The following chart shows the main exporters of steel to the United States:

**Figure 4: Biggest steel exporters to the US**



The decision was taken as of February 16, 2018, when US Commerce Secretary Wilbur Ross divulged the recommendations of the U.S. Department of Commerce investigation into its aluminum and steel investigations. These investigations were initiated in April 2017 and carried out under **Section 232 of the Trade Expansion Act of 1962.** Investigations showed that steel and aluminum imports **“threaten to impair the national security”**. Based on these findings, the Department of Commerce submitted its recommendations to the U.S. President.

* **Objectives of the second package of US tariffs**

The disclosed objectives of imposing such duties on U.S. steel and aluminum imports are: to protect the steel and aluminum production sectors, safeguard jobs and U.S. markets from foreign competition.

Undisclosed objectives:

The US Administration willingness to achieve political gains over steel and aluminum producing countries by increasing pressure on Canada and Mexico to improve the terms of negotiations for the North American Free Trade Agreement (NAFTA) for the United States, although Mexico and Canada were exempted from such tariffs so far.

* Achieve political and economic gains by putting pressure on EU countries, although the EU is negotiating its exemption or reduction of such tariffs.
* Increase pressure on China: the Chinese government promised to reduce the surplus of steel production exported to the United States at subsidized prices. However, this decision was delayed due to internal pressure in China to protect jobs in the steel and aluminum sectors. With the new tariffs levied by the US, China will have to reduce its steel and aluminum production as it becomes unable to export its production surplus to the US, which will protect the US steel and aluminum production sector.

### The third set of US tariffs

The US administration announced the imposition of an additional 25 percent duty on approximately $34 billion worth of Chinese imports (818 Chinese goods) as of July 1st, 2018 including cars, aircraft components and computer hard drives, excluding mobile phones and televisions; to protect technology transfer and theft of Intellectual property and protect U.S. jobs.

On August 23rd, 2018, the US announced an additional 25% tariffs that on $16 billion worth of products imported from China. The total products subject to various U.S. tariffs is valued at approximately $50 billion in 2018 trade values.

The US administration promised further 10% levies on $200 billion worth of Chinese imports as of next September. The US considers that the Chinese imports targeted by new tariffs are products that benefit from “the forced transfer of technology”, as dubbed by Washington to describe China’s policy in dealing with U.S. high-tech industries today.

Thus, U.S. measures are expected to eventually target $500 billion worth Chinese products, equivalent to total U.S. imports from China last year in 2017.

# Fourth: International reactions/retaliations to Trump protectionist decisions

## People's Republic of China

### Introduction to US-China trade exchange

China's goods exports to the US totaled an estimated $506 billion in 2017. Imports were $130 billion in the same year.

China’s top export categories to the US in 2017:

* Electronics
* Machinery and equipment
* Clothing and other.

China’s top import categories from the US in 2017:

* Aircraft : $16 billion
* Soybeans : $12 billion
* Vehicles : $11 billion

It should be noted that most China imports are from U.S. manufacturers. Semi-finished products are sent to be assembled in China where cost is low and then re-exported to the United States.

### Chinese reaction to American tariffs

China harshly criticized the US administration decision issued on January 2018 aimed at imposing tariffs on its imports of washing machines, and solar cells and panels. China warned it will be forced to roll out necessary retaliatory measures.

The Chinese Ministry of Commerce retaliated by imposing a similar 25% tariff on US imports worth $34 billion (545 US products) as of July 6th, 2018. These tariffs will be levied on U.S. agricultural products such as soybeans, China’s biggest import from the US by value (about 50% of US soybean production amounting to an estimated $12 billion) as well as electric cars, seafood, orange juice, whiskey, lobster, salmon and cigars.

U.S. President threatened to escalate trade war with further 10 percent tariffs on about $200 billion worth of Chinese imports (fruits, vegetables, bags, clothing, tires, sportswear and equipment, fish, etc.) if China wouldn’t change its trade practices.

Subsequently, China decided to cut tariffs for five Asian countries on a range of imported goods originating from India, South Korea, Sri Lanka, Bangladesh, and Laos, within the Asia Pacific Trade Agreement (APTA) framework, starting July 1st, 2018.

Many of these will replace products imported from the US which prices may rise if the US and China continue tariffs escalation. China did this as a strategic response to recent US administration actions.

Soybean trade is a strategic product for both sides. China is the largest consumer of this product (for use in animal feed industry), the US is the largest exporter. China could import soybeans from Brazil instead of the US.

In 2018, soybeans prices fell to their lowest level in a decade. India offered to export soybeans and sugar to China if US halted its exports, although the trade relations between India and China is fraught with numerous problems due to tariffs imposed by India on solar cells imported from China.

### Investments

The United States claimed that foreign companies suffer from China’s regulations that unfairly favor local Chinese companies.

Therefore, China has decided to ease restrictions on foreign investment in certain industrial sectors (railways, power grids, shipping, etc.). This openness in the Chinese economy is a reaction to the measures taken by the US administration to limit Chinese investments in the US.

China is expected to target US services imports (education, tourism, healthcare, etc.) that generate huge surplus to the US.

1. **Semi-conductors sector**

The trade in semi-conductors manufactured by US companies and sent to China for collection, they may be subject to tariffs when entering China.

1. **Aviation**

As for aircrafts, China announced that it plans to buy Airbus aircrafts instead of Boeing if the US continues to impose tariffs on its imports.

1. **China's GDP**

Experts estimated that the trade war with the US would lower China's GDP growth rate by 0.5%, from 6.5% in 2017 to 6% and below in 2018 due to the global trade dispute.

1. **The financial sector**

In July 2015, the Chinese central bank allowed the devaluation of national currency knocking over 3% off its value against the US dollar aiming at making Chinese goods cheaper and increasing China's export volume, but the result was a massive outflow of foreign capital from China.

In 2018, there were no major fears of a sharp depreciation of the Chinese Yuan. The current devaluation of the Yuan reflects the market forces rather than administrative intervention of the Chinese financial authorities.

It is not unlikely that China would resort to national currency devaluation to cut down its exports value as part of the current trade dispute with the US. China’s Central Bank announced its intervention by injecting 700 billion Yuan into Chinese markets ($107 billion) by reducing the required reserve deposits to prevent financial crises.

The steady decline of the Yuan is expected to have negative repercussions on the Chinese economy. As a result, the rate of capital outflow from China to the United States will increase as many investors choose to invest in dollars instead of Yuan due to dollar’s high exchange rates and high US interest rates.

## European Union

### Increased customs duties

The European Commission said that the European Union will begin charging import tariffs of 25 percent on a range of U.S. products as of July 1st, in retaliation **to U.S tariffs imposed on EU steel and aluminum early July 2018**. The Commission officially adopted a law putting in place the tariffs on $3.2 billion worth of U.S. goods (including steel and aluminum products, farm produce such as sweet corn, lemon juice, peanuts, bourbon, jeans and motor-bikes, etc.).

**b- Automotive sector**

The U.S. Administration threatened to impose a 20% tariff on cars imported from Europe if the EU does not remove tariffs already levied on US exports.

The EU replied that it would impose customs duties on US exports of $300 billion if the US decided to impose tariffs on US imports from European vehicles.

Around 120,000 American workers are employed by European car makers (VLKAF, BMW, Mercedes Benz, etc.) in the US. They declared that almost 60 percent of their cars produced in the US are exported; they fear new tariffs will be levied on their products when exported from the US to EU or China. The US market is considered the largest consumer of European cars, as annual cars exports from the EU to the US are estimated at $44 billion.

A proposal by the US to avoid levying tariffs on cars suggests that:

The US is ready to remove tariffs on cars under a broad customs agreement. In other words, US tariffs on European cars can possibly be removed if the EU eliminates tariffs on US cars. A 10 per cent tariff is currently levied on US cars when entering the EU, while the US tariffs on European car imports are limited to 2.5 per cent, but reaches 20 per cent on trucks.

### Turkey

Turkey is ranked as the sixth steel and aluminum exporter to the US by 5.6%. Turkey imports about 3.8 million tons of steel (scrap) from the US every year and re-manufactures it as solid steel for construction and re-exports it to the US. Therefore, the decline in the volume of Turkish steel exports to the US may drive Turkey to reduce imports of US scrap. After the US imposed a $267 million worth tariffs on Turkish exports of steel and $1.1 billion on aluminum, Turkey imposed additional tariffs on nearly 20 products in retaliation for U.S. levies (coal, paper, nuts, almonds, tobacco, rice, automobiles, cosmetics, machinery and equipment, petrochemical products, etc.) imported by Turkey from the US.

On Aug. 10, 2018, President Donald Trump declared that he authorized a doubling of steel and aluminum tariffs on Turkey by 20% and 50% respectively. This decision, in addition to other factors (not raising interest rates in Turkish banks to combat inflation, lack of domestic and global confidence in the Turkish economy, high Turkish investment spending on mega projects through loans, etc.) caused the devaluation of the Turkish lira to a record low of 7.1 against the dollar. Qatar's transfer of $15 billion for direct investment in Turkey helped the Turkish Lira to slightly recover and move up to 6 Turkish Lira against the dollar to fall back soon after.

Turkey retaliated to the new US tariffs announced on August 15, 2018 by raising tariffs on tobacco products imported from the US by 60%, alcohol by 140%, cars by 120% cosmetics by 60%, rice by 50%, fruits by 20%. The decree also includes raising tariffs on a number of other US goods.

### Japan

The Japanese aluminum industry has called on the US administration to reconsider its recent protectionist policies, which would compel the rest of the world to adopt similar policies that could seriously damage the world's industrial sectors and the principle of international division of labor.

Recently, Japan signed a trade agreement with the EU to establish a free trade zone in response to President Trump's recent trade protectionism. According to the signed agreement, tariffs on European exports to Japan (cheese, wine, etc.) will be removed. On the other hand, the EU is easing trade barriers on Japanese exports to the EU countries (cars, electronics, etc.). The agreement will take effect early 2019.

The EU-Japan trade volume reached about $152 billion in 2017 (EU figures).

### Brazil

The Brazilian government promised to take all necessary measures to deal with this crisis and protect its interests after the U.S. imposed high tariffs on imports of steel and aluminum. The Brazilian government asserted that these measures are not in line with US commitments towards the WTO.

### Canada

Most of the timber produced in Canada was owned by local governments (provincial governments) with timber priced administratively rather than being based on market competition (supply and demand) resulting in cheaper prices than US timber. As a result, US companies favored importing Canadian timber than using expensive US timber. Accordingly, President Trump decided to impose a 20% tariffs on Canadian imported timber to make it equal to the American timber price sold in the US market. The Canadian government resorted to commercial courts instead of retaliating by levying corresponding tariffs on US products.

But after new US tariffs levied on steel and aluminum, Canada put in place a plan to impose a 25% countervailing tariffs on its $13 billion US imports starting July 1st, 2018. Canada will also impose a 25% tariff on steel imported from the U.S. and another 10% on various US imports (milk, whiskey, coffee, maple syrup, and strawberry jam). The projected Canadian tariffs target certain products manufactured in the US, particularly in states governed by the Republican Party which is planning to control both Houses of the US Congress in the upcoming elections in November.

### Mexico

Mexico was a double target for President Trump during his election campaign, considering it a source of illegal immigrants coming to the US which exacerbates unemployment in the US as Mexican labor wages are lower than American wages. President Trump proposed building a wall along the border between the two countries (Mexico - United States) with a length of 3,169 kilometers to prevent illegal migration. President Trump forced Mexico to pay between $10 billion and $20 billion to build this wall.

Mexico retaliated to the US measures by imposing a 25% tariffs on Mexican steel imports. Mexico also levied tariffs on US exports worth $3 billion (pork - apples - potatoes - Bourbon whiskey - and various types of cheese).

### Iran

Iran imposed a ban on imports of over 1,300 products in order to prepare its economy for the first batch of the looming US sanctions which implementation is expected to start on 6th August 2018. These products can be produced in Iran, including household appliances, textiles, footwear leather products, furniture, health care products and certain machinery.

So far US sanctions have led to the collapse of the Iranian currency against the US dollar, hitting a low of 90,000 rials per dollar (according to the latest figures of July 2018).

A second batch of U.S. sanctions will be re-imposed in 4th November 2018. The EU passed a sanctions-busting law that allows Iran to continue exporting oil and commit to the Nuclear Deal that the US withdrew from recently.

The sanctions-busting law became effective as of 6th August 2018. The sanctions-busting law, adopted for the first time in 1996, aims to impede the implementation of US sanctions to major corporations and individuals worldwide, as it recognizes the universality of US law.

Iran produces around 3.8 million barrels of oil per day. About 20% of Iran's oil is exported to the EU; the remaining 70% is exported to China and other Asian countries. Iran's oil and gas exports provided $50 billion and $10 billion in revenues respectively by 2017. Following US sanctions the EU decided to switch to euros instead of U.S. dollars in the oil trade with Iran and through transfers between the European Central Bank and Central Bank of Iran.

### OPEC

In 2017, OPEC members agreed to curb output in a bid to boost prices and reduce oil supply. New factors such as political and economic tribulations in Venezuela, where oil revenues account for 96% of the country’s revenues, with hyperinflation of almost 14000% and dwindling oil production to around 1.5 million barrels per day (bpd) in June 2018, in addition to the political and security complications in Libya. All these factors led to a decline in OPEC output and a growth in demand for oil resulting in higher prices.

In June 2018, OPEC decided to increase output by around 1 million barrels per day but some OPEC members (Iran, Iraq, etc.), facing a cut in exports after U.S. sanctions, refused to pump more oil. US President Donald Trump warned OPEC against rising global oil prices, which could lead to a drop in the US economy growth. He called on OPEC to increase oil production to maintain low prices.

### India

India announced on August 2018 higher import duties on 92 US products in retaliation to US decision to impose heavy tariffs on steel and aluminum items imported from India.

# Fifth: US-China trade wars for technological supremacy

The trade war between the US and China is not just about customs tariffs, it's also a brutal fight for tech supremacy expressed in President Trump's decision to deny **China Mobile** access to the US market.

The state-owned company may pose a threat to US national security (according to US administration analysis). The move follows China's plan to boost investment in US technology companies and implement “Made in China 2025" strategy. The US also banned the sale of ZTE and Huawei smartphones within US military bases and threatened to impose a 25 percent tariff on China's technology-related goods worth $50 billion.

Dismantling the technology systems of the (US-Chinese) giants will have a long-term impact on companies and consumers throughout the world. As US technology companies (Apple, etc.) are initially forced to transfer their technology to Chinese partners as a condition for accessing China’s sizeable domestic market (1.39 billion people).

Recently, the US expressed its concern about the "Made in China 2025" initiative, a $300 billion initiative launched by China to strengthen its role globally and secure China’s position as a global powerhouse in high-tech industries (automation, renewable energy, 3D printing, industrial intelligence and other future industries).

The US has also thwarted many of Western technology companies' acquisitions by state-backed companies, especially in the semi-conductors industry. The United States accused Chinese hackers of stealing intellectual property and the secrets of technology companies.

Cyber hacking dropped significantly after the September 2015 agreement was concluded between Presidents Xi Jinping and Barack Obama.

US intelligence experts have warned that using Huawei and ZTE products could pose a national threat to the US, especially when moving to fifth-generation (G5) networks. Washington also warned Australia that bilateral security ties would be in jeopardy if the Australian government allows Huawei to build 5G networks in Australia.

The technology war is not unilateral. Beijing also has economic and security concerns about its dependence on US technology. Chinese policymakers worry that the economy relies heavily on low-cost Chinese labor manufacturing and China’s manufacturing depends largely on foreign technology. The "Made in China 2025" initiative, for example, seeks to replace foreign goods with Chinese products and has a target of 70 percent self-sufficiency in key components in industries such as industrial robots and telecommunication equipment.

China’s Cyber security Law, introduced in June 2017, addresses both security and industrial policy goals. It requires network operators in critical sectors to store within the country all data that is gathered or produced in China.

Compliance with this data localization will require foreign firms either to invest in expensive new data servers in China, or to contract with a local server provider, such as Huawei, Tencent, or Alibaba.

Apple, for example, partnered with Guizhou-Cloud Big Data Industry to store the data of Chinese residents. In addition, foreign firms could be required under the law to provide proprietary information to the government for review, increasing the risks of technology being passed on to local competitors or used by the Chinese government.

There is little hope that Washington can convince Beijing to abandon its plans to develop a more competitive technology industry. In fact, China is likely to double down on efforts to end dependence on Western companies. President Xi Jinping called on a gathering of the country’s top technology scientists to make breakthroughs on core technologies. “Innovation and self-determination are the unavoidable paths**,**” he said.

Technology companies have built and benefited from global supply chains that are often located in China. Efforts to dismantle these Sino-US economic relationships will hurt the competitiveness of US companies, which are both suppliers and customers of Chinese firms within the global supply chains.

 In the short term, the likely effect of the technology war between the US and China is higher costs for consumers, greater uncertainty for companies, and only marginally improved cyber security. The long term outcome is escalating technology war, with no predictable end in view.

# Sixth: Implications of rising trade tensions for the global economy

## Main economic repercussions of the global trade dispute escalation

* A yearly 0.5 per cent drop in the global economy is expected with the worsening relations between China and US, the two largest economies in the world. This may extend to Europe and other countries, as global trade is the engine of global economic growth, prosperity and a tool to improve the standards of living.
* Escalated protectionism could derail the global upswing and pose a threat equally to small and large countries and cause the recurrence of severe economic crisis (such as the Great Depression of 1929–39, the OPEC Oil Price Shock of 1973, the Financial Crisis of 2007–2008, etc.)
* Trade war could cost the global economy about $470 billion by 2020 (Bloomberg Economics Report - June 2018) with consequent responses from countries throughout the world and threats of additional tariffs and countervailing tariffs, and serious long-term repercussions. Trade competition will be heightened obstructing the exchange of technology and ideas, resulting in reduced productivity and hindering the achievement of sustainable growth of the world economy.
* China and the US are the main importers of raw materials or semi-finished materials from other countries (especially emerging economies). Global demand for these substances will certainly drop. Many economies such as Australia, a number of South East Asian countries, Africa and some South American countries would suffer substantial losses.
* The impact of the trade dispute between Washington and Beijing will not be limited to international exports and imports; it will inevitably affect capital flows both incoming and outgoing. The low growth rate creates a state of economic uncertainty; international capitals will be driven to invest in safe economic environments such as bank savings to avoid any form of risk, which of course would deepen the economic crisis. When the crisis touches the two largest economies of the world, the capital movement of the global financial market becomes stagnant, and the economy experiences rapid capital flows that do not lead to economic stability.
* An economic downturn would impair the capacity of both countries’ private sector and large companies to invest abroad intensively, it may even drive them to liquidate their business, halt their activities abroad and rechannel their shrinked resources to their home country, in other words, a decline in the foreign direct investment (FDI).

After reviewing and analyzing global supply chains, we see that Asian economies are the most affected by this conflict (South Korea, Taiwan, Vietnam, Malaysia, etc.), as they sell spare parts (cars, electrical appliances, etc.) and communications and informatics equipment to China, which, in turn re-exports these products to the U.S.

* A global economic recession represented by higher tariffs, lower international trade volumes and increased prices of consumable and durable goods.
* A currency war could break out and destabilize the international financial system, strike a blow against the current international financial system. Global economies would shift from using the U.S. dollar as a global reserve currency to other currencies (Yuan, yen, euro, etc.).

## Economic repercussions on South East Asian countries

Most South East Asian countries’ export goods (such as machinery parts, cars, and communications equipment components, etc.) used in the production of items sold by China to the US, are at risk (Fitch Ratings). These countries may suffer losses if China, affected by the global trade dispute, changed its suppliers of semi-conductors. Chinese companies import currently $200 billion worth of microchips a year, mostly from South Korea, Japan and Taiwan Island.

### South Korea

On March 26th, 2018, President Trump exempted South Korea from tariffs on US steel and aluminum imports after South Korea agreed to amend the international trade agreement signed with the US. South Korea's steel and aluminum exports to the United States will not be affected by new tariffs.

Instead, it is expected to generate profits in this sector by increasing its steel and aluminum exports to the US. South Korea is expected to see losses in other sectors, such as exports of global supply chains to the United States.

It is one of the largest trading partners of China and the United States. Rising global tensions will affect the volume of US and Chinese demand for South Korean exports, leading to a drop in economic growth.

### Taiwan

Technical components such as computer chips are among the most vulnerable to Taiwan's trade disturbance. Taiwan is a major supplier of technical components to China, used in the manufacture of smart phones and other electronic devices, many of which are shipped to be sold in the US. These exports constitute about 2% of Taiwan's GDP (2016 Capital Economics).

Taiwan is expected to lose in any trade war. If the demand for Chinese smartphones falls, the demand for Taiwan's components will also fall. Companies in Taiwan began to worry, for example Foxconn Technology Group (Taiwan's leading technology company and a major Apple supplier) that has declared the global trade dispute between the US and China is the biggest challenge it is facing.

### Japan

Japan relies on the US for 19% of its exports and China for another 19%, which could lead to a drop in Japan's economic growth, stock market volatility and a weaker yen if trade tensions escalate.

### Hong Kong

Among the other risk-prone economies is Hong Kong, which is semi-autonomous and is the gateway to much of the trade flowing between mainland China and the United States. 25 per cent tariffs would greatly increase the cost of its activities. The global trade dispute will put pressure on job security in Hong Kong, where one out of every five employees is involved in the international trade sector or related sectors. Hong Kong companies that operate across borders, in re-exports and licenses are the hardest-hit sectors.

### India

India could benefit from the global trade dispute between US and China, especially when China imposed an additional 25 percent tariff on soybeans, chemical products and medical equipment imported from the US. India could export soya bean, peanut and oil meals to China if the US-China trade war persists.

China reduced tariffs on many agricultural products including soya bean imported from its Asia Pacific Trade Agreement partners comprising Sri Lanka, Bangladesh, South Korea and Laos.

## Economic repercussions on Turkey

The U.S. decision is highly likely to increase global competition and will have a negative impact on Turkey’s steel given that Turkey sends 10 percent of its steel exports to the U.S. The loss of the U.S. market will enhance competition among steel-exporting countries, primarily Canada, Brazil and Mexico. As for the Turkish steel industry, exports to the U.S. are likely to drop significantly because 25 percent tariffs will render competition in the U.S. market with domestic producers impossible for Turkish companies.

Turkey is expected to adapt to the changing circumstances and compensate for the loss of the U.S. market by increasing exports to Europe, the Middle East and North Africa. However, it would become harder for Turkey to sell to Europe and North Africa due to rising competition that will reduce steel prices globally. Turkey will have to return to its limited domestic markets to dispose of excess steel supplies.

## Economic repercussions on Brazil

A full-fledged trade war between US and China would result in their shift to new imports/exports markets. Conditions could favor specific countries and economic sectors, in particular the agricultural and livestock sectors in Brazil.

Brazil’s soy and meat exports to China could grow further, as its American counterpart prices increase, especially after China imposed a 25 percent tariff on imports from the US.

## ECONOMIC REPERCUSSIONS on US

The current global trade dispute is described as the largest since 1932, following the Great Depression that hit the US and forced it to impose tariffs of up to 50% on most imports from European countries. After President George W. Bush's administration imposed a 30 percent tariff on steel in early 2002, about 200,000 workers in the US manufacturing industry lost their jobs, according to a report by the Business Action Alliance for Consumer Industries.

**The main expected repercussions on the US economy**

* When custom tariffs apply to a long list of Chinese products with a customs tariff of 25%, Chinese goods are 25% more expensive for American consumers.
* 90 per cent of Chinese goods subject to the new US tariff consist of intermediate inputs or capital equipment, leading to a 25 per cent increase in the prices of US domestic products. This will extend to all “Made in the US” exports. US exporters are expected to lose some jobs to keep their production costs down. In the long run, the global trade conflict will slow US economic growth and increase unemployment, especially in the export sector, that employs around 12 million US workers.
* The global trade dispute will inevitably affect the economic growth rates of the two countries (China and the US) by about 0.5 percent and more.
* The value of US agricultural exports reached about $140 billion in 2017, Canada and Mexico import about $39 billion; China $20 billion, and the EU about $12 billion. The US agricultural sector is expected to suffer huge losses (soybeans, corn, etc.), a sector that enjoyed trade surpluses with China. At the same time, China is the second largest importer of US agricultural products. US soybean production areas (for example, Missouri and Mississippi) may lose about 10 percent of domestic jobs if China halts imports from America. Citrus, nuts and wheat farmers in the US fear not finding alternatives for Chinese markets. In addition to the implications of the suspended negotiations on the North American Free Trade Agreement (NAFTA) which will cause significant damage to US crops.
* Fitch forecasts a 35 to 40 per cent increase in the price of goods imported to the US and a negative impact on US GDP growth of about 0.5 per cent. Most of the current indicators show that the US economy has been performing well so far due to Taxation of Business Profits cuts set by the US president over the past year, in addition to the increase in the financial expenditure volume and the oil prices, which encouraged US investment in domestic shale oil production.
* China is the major trading partner of the US, the main supplier of jobs. The escalating global trade dispute could cost America thousands of jobs.
* Protection of the domestic steel and aluminum industry could help US workers (a total of 147,000) in the steel and aluminum sector in the short term. But the US will no longer be able to produce steel at the low prices it imported from its foreign competitors. In the long run, a rise in the production costs will be recorded in the steel and aluminum industry, especially for the US automakers sector, which in turn will raise their prices to consumers. This would result in a decline in the American products competitiveness and an increase of monopolies in the domestic markets and surge of unemployment rates, especially in the US industrial sector (that employs around 6.5 million workers).
* When developing its protectionist policy, the US targeted China's high-tech industry (AI: artificial intelligence). The US considers that China coerced technology transfer of new U.S. investors to allow them invest in the country. Giant companies in the US (Apple, Wal-Mart, etc.) have massive investments in the US and in China, which get a large part of their revenues from outside the US. These companies may suffer significant losses (profits, jobs, markets, etc.) if the global trade conflict continued and escalated between the two countries.
* The rise in commodity prices in the US and the reduced purchasing power of American consumers causes a decline in economic growth in GDP.
* Increased production costs incurred to the owners of American industrial companies, which import most of their raw materials from abroad, will make their products less competitive and will endure huge losses.
* The decline in the volume of US exports due to increased tariffs and the loss of competitiveness, leads to an increase in the US balance of payments deficit, public debt and cost of public debt service.
* The IFO Business Climate Index in the US recorded a significant decline in June 2018 due to the weakening foreign investor confidence in the US economy, leading to a decline in the volume of direct and indirect investments.
* US production lines such as Harley-Davidson motorcycles destined for exports relocated out of the US after the EU raised tariffs on US-manufactured motorcycles in retaliation to Washington's increased tariffs on its steel and aluminum exports. The company that manufactures bicycles in Milwaukee (Wisconsin, North-Central United states), said that the European tariffs on its bikes exported to the European market rose from 6% to 31%, meaning that the price of one bike will rise for the European consumer by 2200 dollars. The European Union is the second largest market for American motorcycles (Harley-Davidson). The European Union's imports of these bicycles last year reached around 40,000 bicycles a year.
* Daimler's (Mercedes-Benz) annual profit is expected to drop if China imposed tariffs on cars imported from the United States. Daimler owns factories in the US state of Alabama, for the manufacturing of SUVs and exports them to all over the world. Two-thirds of Daimler's exports to China were produced in the US.
* As a result of new import tariffs imposed on steel, the largest manufacturer of nails in the United States is about to close. The Missouri-based Mid Continent Nail Corporation headquartered in Missouri, laid off 12 percent of its workforce because of rising costs and may eventually have to relocate production lines to Mexico to maintain its competitiveness.
* Dairy and cheese industrialists in California already fear losing their export markets to China and Mexico.
* US auto parts companies in the US state of Wisconsin and the US Bourbon Whiskey manufacturers suffer already from the effects of China's tariffs on imports from the United States, as they lost their competitiveness against Chinese companies.
* Uncertainty about the future of steel tariffs created a state of confusion for US construction companies struggling to estimate project costs. This, in turn, created problems for construction workers, builders, developers, and businesses, which rely on these projects for living.
* A large number of US companies called upon the US Department of Commerce to be exempted from new tariffs. By mid-April, the Department of Commerce received more than 1,300 requests for these exemptions.
* China owns financial assets from US Treasury bonds. If the global trade dispute escalates, China is expected to sell them all at once, causing a plummet in US stock prices.
* China is expected to ask Chinese companies and investors to reduce their demand for US business services and not to invest in the United States.
* The escalation of the global trade dispute, with each country building retaliating import barriers, would increase inflationary pressures in the US, which could push the US Federal Reserve to raise interest rates to high levels. This would cause a drop in stock market prices and a decline in labor and family income, leading to a significant loss of GDP in both the US and China.

## Economic repercussions on th EU

The direct impact of the increase in US tariffs on steel and aluminum imports on the European economy is limited, because steel and aluminum exports to the US do not account for more than 0.3% of the world's goods exports by the EU and represent 0.05% of the EU's GDP.

**But the European economy is expected to face a number of serious repercussions:**

* Steel industries in Sweden, the UK, Greece, Italy and the Netherlands have suffered heavy losses due to US tariffs on steel and aluminum imports.
* As for aluminum, the French, Italian, Austrian and British industries were the main victims of US tariffs. But a large part of EU aluminum exports go to countries other than the United States.
* The decision to impose tariffs has major implications for export-oriented companies in Europe, the US being the first destination for their exports. Imposing tariffs of up to 25 percent on cars imported from Europe will cost American consumers 45 billion dollars a year, or 5800 dollars per car. US consumers will also face an increase in the cost of imported car parts, which will eventually lead to lower European exports of cars.
* High-importing European economies, such as the UK, are more resilient to the impact of US tariffs compared to countries such as Germany, which exports goods more than they import.
* Brexit Supporters have long hoped that the US-UK free trade deal would offset any economic loss caused by its departure from the EU. But the global trading climate is now troubled by overprotective policies and uncertainty. It would be difficult for Britain to conclude highly beneficial trade agreements, especially with the US.
* The EU finds it very difficult to maintain an average course of future trade relations between the US, its primary market and its second largest supplier, and China, its main supplier and second largest market.
* China's pressure on EU is increasing as China and other countries affected by US tariffs try to redirect their exports to other countries such as the EU which increases the competitive pressure on European companies and factories.
* The EU's new strategy is to focus more on its domestic economic policy to reduce its dependence on global trade. The strategy aims to increase domestic investment and make Europe's economy less vulnerable to global trade shocks.
* EU countries emphasis on boosting their innovation competencies in the digital sphere (information and communications technology (ICTs)), to be able face American and Chinese economic control in the world.

## Economic Implications on the Chinese Economy

US officials believe that China created its industrial strength through electronic theft of US technological know-how, by forcing US companies seeking to invest in China to transfer and acquire intellectual property by state-owned enterprises. It is worth noting that China ranks 84th behind Saudi Arabia and Ukraine in the Ease of Doing Business Index-2016 (The Organization for Economic Co-operation and Development (OECD) on compliance with foreign investment.

* The US has many problems with China, mainly:
  + China constant attempts of coercive transfer of US technology to be used in various fields (industrial, agricultural, trade and services).
  + China's industrial production surplus capacity and government subsidies, exported to the US and the rest of the world, dumping world markets at low prices.
  + Support and development of Chinese state-owned enterprises.
  + China's increased restrictions on cloud computing.

**Main repercussions on the Chinese economy**

* China has a large debt in the US of about 1.5 trillion US dollars, and has an interest in maintaining the US dollar. The US has previously tried to revalue China's currency as it did with Japan, but China refused. In 1993, the US forced Japan to revalue its currency against foreign currencies, leading to a drop in Japan's exports and an economic recession. Therefore, the devaluation of the Yuan would compensate for the loss of export competitiveness of Chinese exporters due to higher tariffs rendering Chinese goods cheaper for Americans.
* Beijing is expected to adopt a relatively tight monetary policy aimed at reducing financial debt, but it also needs stimulating monetary terms to promote economic growth, in addition to focusing more on domestic demand and bearing the costs of the global trade dispute.
* Chinese exports will continue to achieve further success in world markets as a result of lower prices compared to US dollar-denominated goods. Chinese goods in US markets remain more attractive to consumers than US goods, despite a 25 percent tariff hike due to the relative depreciation of the Chinese currency.
* China's exports are expected to fall, leading to a decline in economic growth and a decline in economic indicators. In contrast, China is expected to make a new devaluation of its currency, which may also be effective as a counter-reaction to US policies, which means an increase in the price competitiveness of Chinese goods at the expense of America. China depends on the volume of demand from the US to increase its exports, but the US also depends on China which owns more than $1.5 trillion worth of US Treasury Bonds. This may trigger a similar US response, and the result will be a devaluation of the euro, yen and other currencies. Consequently, the world will be pulled into an inflation-inducing vicious circle of currency war, which in turn could lead to higher interest rates, lower investments and worsened debt servicing, causing a decline in the volume of consumption in all parts of the world and an increase in the unemployment rate and level of poverty.
* China controls the key components of global supply chains and production networks. For example, in the I-phone industry, China offers only 4% of value-added, providing key components of Apple's supply chains at low prices.

Apple cannot restart from scratch, leave China and return to America to rebuild its factories. Instead it has to look for alternative suppliers, which will greatly increase production costs, giving Chinese smartphones (Huawei) the opportunity to seize a large share of the global markets of the major players (the US, etc.).

* About 80% of the world trade includes the Global Supply Chain. The reduction in production costs of international companies allowed their production lines to be geographically dispersed through the processing of goods and value-added in different countries along the chain. But a trade dispute with China could disrupt global supply chains and entire production networks, severely damaging the US economy and most of the economies of countries involved in global supply chains.
* The global trade conflict, if escalated between the US and China, could adversely affect the economic growth of countries involved in the Chinese commodity supply chain. Two-thirds of Chinese goods targeted by the US through tariff increases are manufactured in a global supply chain spanning Southeast Asia (the Philippines, Indonesia, Malaysia, Vietnam, Thailand, Taiwan, etc.).
* China is increasingly headed towards rebalancing its economic system to become more dependent on expanding the domestic consumption market, rather than over-reliance on investment in foreign countries and increasing exports. It is also adopting policies that are more focused on slowing the expansion of bank credit and improving product quality and economic growth.

China could get rid of a large part of the US Treasury bonds investments. If this happens, the US economy will have a titanic and unpredictable impact. China could also devalue its national currency to encourage exports, starting a currency war. The US could respond by raising interest rates to deprive China of attracting international capital Interest rates to deprive China of attracting international foreign capital, and put a dreadful pressure on China's private sector to repay its dollar-denominated international debt.

## Economic repercussions on Arab countries

The economies of the Middle East may be indirectly affected if the global trade conflict escalated. The EU is the first trade partner of the Arab countries, followed by China, which outdoes America in the volume of its trade with the Arab countries. China is the largest exporter to Arab countries. The trade volume between China and the Arab countries is about 191.352 billion dollars in 2017.

**The most important repercussions on the Arab countries economies:**

* About 20% of China's imports of LNG and 37.03% of crude oil are from Arab countries. China's investment in Arab countries reached about $15 billion by the end of 2016. If China's industrial activity declined due to trade wars, demand for oil and gas exports from the Middle East and North Africa region may drop.
* The trade protectionist policies adopted by the US administration and the reactive retaliatory measures are expected to reduce the volume of Arab countries exports causing accumulation of deficit in the public budgets of most Arab Petroleum Exporting Countries. While the GCC countries are steadily diversifying their economies, their primary income is still derived from oil revenues.
* Any fluctuation in the prices or volume of demand for global oil can reduce confidence among foreign investors and affect the movement of investment within the regional and Arab markets.
* The Bank of England, in a study conducted before the start of the global trade dispute, forecasted a 2.5% fall in global output over the next three years. If the global trade dispute escalated, one of the main repercussions on Arab Petroleum Exporting Countries is that their economies would likely slide into a recession due to a curb in the global economic growth rate. As a result, global demand for oil would deteriorate affecting the level of prices in the global market while Arab Petroleum Exporting Countries’ economies still suffer the negative ramifications of the decline in world oil prices in 2014 that widened their budgets deficit.
* If China devaluated its national currency in the context of its trade war with the US, it is possible for the US to retaliate by devaluating the US dollar. As a result, Arab countries’ foreign exchange reserves may drop.
* The deteriorating global trade terms may reduce the frequency of commercial vessels moving between Bab al-Mandab Straits in the Arabian Gulf and the Suez Canal, which revenues represent one of the most important foreign exchange resources. Egypt's $100 million steel exports to the US will be subject to US tariffs on steel imports, increasing competition against Egypt's steel exports to the US.
* The US Federal Reserve raised interest rates twice in June and they are likely to be raised again before the end of 2018. As a result, countries throughout the world will respond by raising their own rates to keep up with the US, maintain their foreign investments and to prevent domestic capital outflows into the US market attracted by higher interest rates. Arab countries will not be able to keep up with other countries as their rates are already high and need to be reduced to cut down high industrial and agricultural production costs that are affecting national products competitiveness in domestic and international markets.
* The global trade dispute between China and the US in particular is expected to lead Beijing to seek new markets for its surplus production within the Middle East and North Africa. China will be inclined to **expand its trade and investment activities in the Arab countries in line with China's strategy to revive the Silk Road, launched and implemented since 2013**.
* In turn, this opens an opportunity for Arab countries exports - which are not subject to high customs tariffs - to replace US exports to China**.**
* The Middle East may also feel the spillover of the global trade dispute in the stock markets, as emerging markets are largely dependent on risk –takers investors; it is highly probable that they become reluctant to take such risks in view of the global trade dispute. Currencies pegged against the US dollar will also be affected.

# Seventh: Repercussions of the global trade dispute on Lebanon

## 1- A brief report on the Lebanese economy

During the last five years, the Lebanese economy experienced many difficulties reflected in negative economic indicators at various levels. Lebanon ranked 105th out of 149 countries in the Global Prosperity Index, at 19 points below its pre-Syrian crisis level.

According to the latest estimates of the Central Administration of Statistics and the World Bank, 30 percent of the Lebanese are classified as poor. Unemployment now tops the list of Lebanon’s problems. The country’s unemployment stands at 36% in 2017, and 46% in Baalbek, Al-Hermel and Akkar (Lebanon’s Ministry of Labor figures 2017).

Lebanon’s GDP reached $53 billion in 2017, with an import bill of $19.582 billion and exports not exceeding $2.843 billion. By the end of May 2018, the volume of public debt was about $82 billion. The ratio of public debt to GDP was about 152% in 2018 (third in world debt after Japan and Greece). The real growth rate was around 1.7% between 2011 and 2017 compared to more than 8% in 2010.

Since the Syrian crisis sparked in 2011, Lebanon and the neighboring countries were flooded by an influx of steadily increasing number of Syrian refugees. In 2016, they counted up to nearly 1.5 million in Lebanon (UNHCR), equivalent to more than 35% of Lebanon’s population; added to 500 thousands Palestinian and Iraqi refugees and other refugees from various nationalities.

Serious economic, social, health, educational and even security repercussions ensued from this massive number of refugees. Syrian exodus placed enormous pressure on Lebanon exacerbating the pre-exisiting infrastructural fragilities in key-basic service (including electricity, water supply, sanitation, transport, waste management, schools, rentals, hospitals, etc.) and amplified the country’s unemployment epidemic.

The large influx of refugees has heightened tensions with the local communities who fear competition for jobs in many areas and sectors as a large number of Syrian refugees illegally practice many professions without paying any taxes or fees, particularly in the industrial sector, causing massive layoffs of Lebanese workers.

Lebanon needs about 40,000 new jobs a year; the labor market did not have the capacity to generate jobs for the increased demand, only about 3,800 jobs. Syrian refugees exacerbated the unemployment crisis due to harsh competition with Lebanese workers. More than 200,000 Lebanese lost their jobs between 2011 and 2016.

In view of the Syrian crisis repercussions, overweighing and threatening to undermine the national economy, Lebanon suffered huge losses (direct and indirect) of about $18 billion (World Bank 2016).

With the border closing between Syria and neighboring countries, exports of agricultural and industrial products to neighboring countries, Arab countries in particular, plummeted significantly, as Lebanese-Syrian border is considered the main artery for land exports. As a result, agricultural exports decreased by 11.4% in 2015 compared to 2014.

Lebanese industrial exports fell by 33% between 2011 and 2017. However, the industrial sector witnessed growth in the domestic market. Lebanese domestic demand for foreign and domestic goods is estimated at around $33.856 billion according to 2017 figures.

**The detailed statistical study conducted by the MoI in 2017 covering a sample of 1975 factories permitted by the Ministry (the number of factories permitted by the Ministry reached about 5,100 factories, in addition to about 2000 previously permitted by governors or unpermitted factories; the Ministry is currently working on their legalization), that the industrial output of this sample amounted to $ 6.6 billion. By calculating the general industrial output, estimated at about $13.2 billion, we conclude that the industrial production represents more than 25% of Lebanon's GDP of about $ 53 billion.**

The tourism sector also declined as its pace of growth remained slow reflecting the country situations.

Based on the above, in order to address the current economic situation and the urgent impediments caused by the Syrian exodus, it is necessary for Lebanon to increase its economy size by boosting the country’s exports and expanding its domestic market. Unemployment rates will be reduced, the economic cycle activated, and the public debt burden will be alleviated. Additionally, Lebanon also needs to adopt protectionist policies to support productive sectors and limit imports which caused Lebanese trade deficit accumulation reach critical levels (16.739 billion dollars in 2017).

## Protectionist policy to support Lebanese production

The Lebanese Parliament ratified the draft law issued by Decree No. 12851 dated 3/7/2004 aimed at abolishing the Legislative Decree No. 31 of 5/8/1967 on anti-dumping and replacing it with the "Law for the Protection of National Production" as amended by the Joint Parliamentary Committees.

This law applies to international commercial practices that cause, or threaten to cause, serious injury to the local industry or agriculture in Lebanon or delay the establishment of a local industry or agriculture under construction, specifically through dumping and subsidies granted by the governments of exporters of a particular agricultural or industrial product to Lebanon. The law also applies to increasing imports that cause, or threaten to cause, serious injury to local industry or agriculture in Lebanon which entail the imposition of preventive measures.

For the first time in the history of Lebanon, the MoI developed an integrated vision (Lebanon, Industry 2025), an operational strategic plan (2016-2020) and annual operational plans that include a supportive protectionist policy and sponsorship of Lebanese industrial production. The Lebanese economy has always suffered from competing foreign products dumping that outweigh by far Lebanon's consumption and absorption capacity.

Concerns about Lebanon's foreign relations has long been the main reason for leaving the country’s markets wide open to foreign products that have flooded its markets causing serious damage to the Lebanese industrial sector.

In 2017, the MoI prepared 23 industrial files classifying the types of problems faced by a number of industrial products that were and are still being dumped, along with protective policies such as imposition of specific equitable tariffs on imported products varying with quantity and quality, as well as the imposition of flat rates on certain commodities.

**The ministry identified the products most vulnerable to dumping that will be included in the specific tariffs: steel, aluminum, paper industries, potato chips, dairy products (milk and white cheeses), burgul, chicken, eggs, cut stones, clothing, jewelry, shoes, plastics, pasta, flour, and craft industries.**

The above-mentioned materials and commodities should be subject to specific tariffs without any distinction between exporting countries that dispose of their products into the Lebanese market without any charge.

The imposition of specific tariffs on the above-mentioned 23 commodities would reduce the deficit in the Lebanese trade balance, from $16.739 billion in 2017 to about $10 billion, by reducing imports from $19.5 billion to about $15 billion and increasing exports from $3 billion to $5 billion.

Since 2015, the ministry has been conducting an evaluation of the European Partnership Agreement and the Agreement for the Facilitation and Promotion of Intra-Arab Trade to reconsider their outputs and to put Lebanon’s interests first. Actions are being taken with stakeholders in Europe and the Arab States to rectify the processes.

The ministry does not object any international agreements that Lebanon adhered to as they protect national production in case of dumping, from which Lebanon has suffered for decades. Despite Lebanon's right to protect its production from dumping, it has never resorted to any protectionist measures as it feared trade relations straining with Arab and foreign countries.

**Lebanon’s largest trade deficit with certain countries according to the MoI’s figures in 2017: EU - China - Italy - United States - Germany - France - Turkey - Egypt - Ukraine**

**Table 2: Trade exchange between Lebanon and the world**



(*Figures are in thousands of dollars - Industrial Planning & Development Bureau/Economic Studies & Industrial Development Department - Ministry of Industry 2017*).

**Table 3: Lebanon’s largest trade deficit with certain countries in 2017:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Country** | **Exports** | **Imports** | **Trade Deficit** |
| **EU** | 312,512 | 8,358,000 | 8,045,488 |
| **China** | 17,030 | 1,879,110 | -1,862,080 |
| **Italy** | 27,168 | 1,770,426 | -1,743,258 |
| **USA** | 65,615 | 1,442,313 | -1,376,698 |
| **Germany** | 42,166 | 1,228,796 | -1,186,630 |
| **Russia** | 3,391 | 746,274 | -742,883 |
| **France** | 37,366 | 766,503 | -729,137 |
| **Turkey** | 119,525 | 777,173 | -657,648 |
| **Egypt.** | 68,335 | 592,937 | -524,602 |
| **Ukraine** | 1,029 | 441,406 | -440,377 |
| **Brasil** | 17,429 | 299,228 | -281,799 |
| **Saudi Arabia** | 243,162 | 383,324 | -140,162 |
| **UAE** | 265,674 | 359,701 | -94,027 |

(*Figures are in thousands of dollars - Industrial Planning &Development Bureau/Economic Studies & Industrial Development Department - Ministry of Industry 2017*).

## Economic repercussions on Lebanon

Lebanon's economy is expected to be indirectly affected if the global trade dispute escalated.

**The main repercussions of the global trade dispute on Lebanon**

### Expatriate remittances

* The US trade protectionist policies, met by retaliatory measures, are expected to trap the global economies (EU, China, the United States, the Arab Gulf States, African countries, etc.) into a prolonged recession due to slow global economic growth. The global demand for oil will be reduced affecting prices on international markets while the economies of Arab petroleum exporting countries still suffer from the oil price shock in the last quarter of 2014 that increased their budgets deficits, and consequently, caused accumulation of deficits in the general budgets of most of these countries.

As the GCC countries are steadily diversifying their economies, their primary income is still derived from oil revenues. **Remittances of Lebanese diaspora from these countries as well as the US, the EU and Africa will also be reduced. The total remittances of Lebanese diaspora amounted to approximately $8 billion (according to World Bank figures in 2017), equivalent to 15.1% of Lebanon's GDP of about $53 billion.**

* The decisions and laws of the Gulf States are consistent with the US law on countering terrorist financing sources. The Lebanese financial and banking sector is increasingly concerned by **the negative consequences that may ensue from the Gulf position on the movement of capitals and Lebanese workers to and from the Gulf countries and the volume of diaspora remittances as 50% of the remittances originate from the GCC countries** and contribute in increasing the volume of Lebanese banks deposits, the main source of state spending and private enterprise investment.

### Investments

* Any fluctuation in the prices or volume of demand for global oil can reduce confidence among foreign investors and affect the movement of investment within the regional and Arab markets, including Lebanon.

However, Lebanon has the potential to compensate for foreign investments shortage by encouraging the Lebanese banking sector to shift the nature of the economy from rental to productive economy by participating in the productive sectors (industry, agriculture, tourism services, etc.) rather than collecting and lending funds. This reinforces the banking sector (review the study entitled: “Immunization of the Banking Sector for the Future: from Rent to Production”).

* The Banque du Liban may have to raise interest rates in proportion to rising interest rates in the US, thereby curbing investment possibilities and already high industrial and agricultural production costs, harnessing the competitiveness of Lebanese products in domestic or international markets.

### Markets

* China is expected to look for new markets for its production surplus in the Middle East and North Africa region. China will have to expand its trade and investment activities in Arab countries and Lebanon, implicitly in line with China's strategy to revive the Silk Road, which began in 2013.

Chinese are currently working on consolidating their economic presence in the region through Lebanon to prepare for their participation in the reconstruction of Syria and Iraq. "China is interested in making Lebanon a center for Arab trade and China's corridor to the region" said Lu Jianzhong, head of the Silk Road Chamber of International Commerce. However, Lebanon should not leave his markets wide open for the outflowing production surplus from the Chinese industrial sector.

* Arab countries, including Lebanon, have an opportunity for their low-tariffs exports to replace US exports to China, particularly agricultural and food products exports.

### Financial and banking sector

With the exacerbating security unrest in Syria, Iraq and Yemen, and its negative economic and political repercussions on Lebanon, and the escalation of the global trade dispute (customs tariffs, economic and financial sanctions, etc.), by the US against China, the EU and the rest of the world, serious economic ramifications are likely to affect Lebanon at the following levels:

**Currencies devaluation**

* If China devaluated its national currency as part of its trade war with the US, the US could respond by devaluating the US dollar, thus causing Lebanon's foreign exchange reserves to decline (Lebanon's foreign exchange reserves amounted to about $44 billion, in addition to about $12 billion in gold reserve - the BDL 2018).

**Financial sanctions**

* The US administration has imposed stiffer financial sanctions on the Lebanese banking sector (for several internal and political reasons). Lebanon has complied with the required financial and banking procedures and standards, and adapted to its current financial position, like other well-established financial establishments (Switzerland-Luxemburg, etc.) did in terms of fighting money laundering and terrorism financing. But there are concerns that**:**
* The list of imposed sanctions target key persons that have considerable weight in Lebanese markets (businessmen, companies, associations ...) which could lead to significant economic risks.
* Once the sanctions list is issued, all international banking transactions will be subject to particular scrutiny by the US administration as the US dollar is used in these transactions, seriously delaying commercial transactions.
* With the Gulf States joining the US in imposing sanctions on Lebanon, Lebanese working in these countries may be affected in terms of stiffer measures for their business operations or their financial transfers to Lebanon.
* Cedar 1 projects will be under US scrutiny to prevent any US sanctions-listed businessmen or companies to benefit from such projects, which implementation may be delayed.

### International community pressures

* By the end of May 2017, Lebanon’s total assets of banks growth reached around $233 billion, more than quadruple the size of the country’s national economy estimated at 53 billion dollars. The volume of bank deposits also increased to about 172.4 billion dollars (end of May 2018).

Still, the International Monetary Fund (IMF) addressed a series of warnings about the financial risks ramifications faced by Lebanon, mainly poor fiscal performance in terms of state budget and public debt management. International financial institutions (the WB and the IMF) will be increasingly involved in the Lebanese financial, economic and political affairs by introducing structural, administrative, financial and economic reforms.

* The growing political pressure exerted by the international community (US, EU, UNHCR, etc.), claiming that the current security situation in Syria does not allow the safe return of displaced persons in order to prolong the crisis and settle the displaced persons, which will be used to put pressure on Lebanon economically, politically and militarily. It is worth mentioning that the Lebanese government has started implementing a plan for the safe and gradual return of displaced persons to their homeland.
* The displaced cost Lebanon annually about three billion dollars; international community and donor countries contributions were merely one billion and two hundred million dollars annually.

Most financial aids (long-term soft loans and some modest donations) provided by the international community (WB, EU, etc.) were linked to Lebanese NGOs, establishments and public administrations for the implementation of sectoral economic projects, which main conditions is the creation of sustainable job opportunities for Syrian Refugees as a pre-requisite for their settlement in their current place of residence.

# Conclusion

The signs of global trade dispute began with the emergence of unipolarism after the collapse of the Soviet Union. One of the main ramifications of this unipolarism is the American economic, military, political, technological and cultural control, etc., on the countries of the world.

However, at the beginning of the second millennium, the world order witnessed growing trade and economic openness as a result of the information revolution and communication technology, which facilitated the flow of movement between countries at all levels and moving the center of economic globalization from the axis of Washington - Berlin - Paris - London to Beijing - Hong Kong - Shanghai – Singapore, etc. Americans began to fear for their interests (economic, military, etc.) and began to use the soft economic forces at times and the harsh (military) forces at other times.

The US imposed trade protectionist policies within the soft economic war to preserve American gains.

But the corresponding responses from China, the EU and the rest of the steel and aluminum exporting countries led to a global trade dispute; if continued and escalated, the global economy will be affected. The magnitude and impact of these crises, will outweigh all previous global economy crises that occurred since the 1920s (the Great Depression of 1929 - the oil crisis of 1973 - the global financial crisis of 2008).

So far, all measures were a sort of pressure the US was exerting to maintain its position as the economic super power by making the best economic gains for America First when signing the NAFTA trade agreements and other future agreements with China and the EU.

Finally, the convergence of China-US economic interests in some commercial axes (the giant technology companies operating in both the US and China: Apple, Tencent, Microsoft) may lead to rationalizing the current global trade conflict and help find compromises that satisfy both economic parties interests.

In conclusion, the trade conflict, if further escalated, could cause losses for all: major international corporations, the US, China, the EU, most developing economies and emerging markets. Unfortunately, "there are no winners" in the global trade dispute, as IMF Managing Director Christine Lagarde said. "It's a finger-biting game; the one who screams first will be the biggest loser."

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