

INSS Insight No. 1077, July 19, 2018

The Global Trade War: Scenarios and Significance for Israel

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On July 6, 2018, the first tariffs imposed by the United States and China on one another following the American initiative to reduce its trade deficit with China took effect. Prior to that, the US imposed tariffs on steel and aluminum from the European Union, Mexico, and Canada, which responded with their own tariffs. The change in the global trade regime is in line with Trump's guiding principle: America First. However, the intensifying trade struggles present a more difficult challenge to the US efforts to achieve a broad political and economic front to enforce the sanctions it declared on Iran in May 2018. At present, Israel is not a party to the struggle, and the potential effects on Israel of the developing trade wars are likely to be mixed.

On June 15, 2018, the United States announced the imposition of 25 percent tariffs on imports of goods from China worth \$50 billion. President Donald Trump announced that if China responded, the United States would impose a 10 percent tariff on additional Chinese goods, with an annual trade value of \$200 billion. On July 6, 2018 the first US tariffs on goods of \$34 billion came into effect, and China responded with its own tariffs. Following the Chinese response, on July 11, 2018 the US administration published a list of 6,000 Chinese products that are expected to have tariffs imposed on them.

Underlying this move is the US trade deficit with China, totaling \$375 billion (higher than any other country); in 2017, American imports from China reached \$505 billion dollars, compared to exports of only \$130 billion. In addition, the United States is concerned by the process of moving American technologies to China where they are absorbed by Chinese companies, who then export their products to the United States and the rest of the world at relatively low prices. The imposition of tariffs on their goods for the American market is intended to restrict this process.

Prior to these developments, the US canceled the exclusion of the European Union, Mexico, and Canada from the tariffs it imposes on steel and aluminum. These countries responded by imposing their own tariffs. In addition, on June 10, 2018, Trump distanced himself from the closing declaration of the G7 Summit regarding free trade.

The change in the global trade regime is in line with Trump's guiding principle: American First. There are other aspects to this idea, including: a policy of restraint regarding migrant workers; and the reduction of defense expenses abroad where American forces are stationed, while demanding that NATO members increase their defense spending. In the broader context, there is a noticeable retreat from the processes of globalization and its institutions. One of Trump's first moves in the White House was to cancel United States participation in the Trans-Pacific Trade Agreement (January 2017), and he has declared that since multilateral frameworks prevent the United States from realizing its advantages, he will therefore seek to shape its trade relations in bilateral frameworks.

From Trade War to Economic Warfare

In terms of national security, US intervention in the global economy raises the question whether this is a trade war or a type of economic warfare, and where will it lead. Although both these phenomena fall under the large umbrella of economy and national security, it is necessary to distinguish between trade struggles and economic warfare. Economic warfare is use of means, such as sanctions, against the economy of an adversary, with the aim of applying pressure that will cause the adversary to change its policy in the direction sought by those using this warfare, or to weaken its economy and ability to allocate resources to its army. The United States is conducting economic warfare through sanctions on North Korea and Iran due to their nuclear activities. The US sanctions imposed on Russia are also a form of economic warfare, as they are intended to serve as a deterrent response to Russian interference in the US presidential elections. All these moves are related to the sphere of US foreign policy and national security, are not intended to achieve economic benefits, and may even have an economic cost.

In contrast, trade wars usually refer to state interference in international markets for clearly economic purposes, such as reducing trade deficits. However, trade policy is also affected by considerations of national security. Studies show reciprocal links between trade and the existence and strength of alliances between countries; allies tend to trade with each other, and trade is a way of expressing their commitment to the relationship. Therefore, any action by one party that damages this trade does not help the alliance. In addition, it is possible to see tension between the use of economic warfare (sanctions) against a rogue country, which necessitates international alliances and coalitions, and trade wars that weaken alliances and divide the international community.

At this stage, it appears that the trade wars launched by the United States do not yet amount to economic warfare, because their purpose, according to the administration, is to benefit the American economy, not to damage the economies of other countries (some of them its allies), and the means (protective tariffs) are not one of the tools of economic

warfare. However, they are connected to national security in the broadest sense, such as the need to retain American global technological and economic superiority, while aspiring to curb China (the Made in China 2025 plan). On the European side, there are signs that US allies are linking its trade policy to the EU's need to demonstrate economic and political independence against the US.

A Look to the Future

The most optimistic scenario for the United States is that this policy will succeed quickly and the United States will manage to extract from China and other trade partners concessions that will improve its trading terms, reflected in a reduction in its trade deficit and reduce significantly the trend of lost technologies and intellectual property (mainly to China).

The second scenario is a continuation of the trade struggles. Unlike economic sanctions imposed by the United States on rogue states, in the area of trade struggles the US is dealing simultaneously with large economic forces (the European Union and China); thus responses and counter responses are expected that could be somewhat damaging to the American economy and its political power, including its ability to persuade other countries to join it in imposing sanctions.

The third, most pessimistic scenario is that the trade struggles could deteriorate to the operation of mutual economic warfare, in other words the use of the economy for demonstrations of political strength and severe responses that are not based on long term economic considerations, with ever growing economic and political costs.

Between these three basic scenarios are possible intermediate situations, for example, if the United States position improves with respect to some countries and deteriorates with respect to others. In any event, stopping the trade war depends on mutual recognition that its continuation will not benefit any party.

Significance for Israel

At present Israel is not a party to the struggle, but the possible effects of the development of trade struggles should be thoroughly examined. It appears that they would work in opposite directions. On the one hand, the more tariffs other countries (excluding Israel) impose on each other, the more this will benefit Israeli exports. On the other hand, the more significant the damage caused by the trade war to the global economy, the more it will also affect the Israeli economy, particularly since it is export-oriented.

Growing economic hostility between China and the United States could in the longer term affect how they relate to the trade and investment policy of third parties. In other

words, it is possible that the United States will try to influence Israeli trade and investment policy towards China. In particular, Israel must address the issue of the development and retention of its intellectual property (IP), particularly in view of the large scope of IP exports and in the early stages.

Regarding the sanctions on Iran, it is possible that countries that are harmed by the trade war (including partners in the nuclear agreement with Iran, if they continue to uphold it) will consider themselves less obliged to respond to American requests regarding sanctions on Iran, and could even try to bypass them.