

PalArch's Journal of Archaeology  
of Egypt / Egyptology

**EMPIRICAL ENQUIRY ON THE US INCLINATION OF TRADE AND INVESTMENT WITH SPECIAL REFERENCE TO TRADE WAR AND COVID-19.**

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**Dr. Nishant Joshi, Empirical Enquiry on the US Inclination of Trade and Investment with Special Reference to Trade War and COVID-19. -Palarch's Journal Of Archaeology Of Egypt/Egyptology 17(9), ISSN 1567-214x**

**Abstract**

In the last few decades, the U. S-China economic ties have shown significant growth. For instance, the total U.S-China trade rose from \$ 2billion to \$497 billion from 1979 to 2010. Many economists and scholars argue that expanding economic ties with China have continued to expose the U.S. manufacturing firms to greater "unfair" competition from inexpensive Chinese firms. They argue that this has led to the relocation of U.S. production facilities to China, resulting in significant losses of U.S. manufacturing jobs. There have been differences in opinions of dealing with China on relevant economic issues (Crabb, 2019). The aforesaid was the major cause of the ongoing US-China Trade War and COVID-19 outbreak and US administrations firm view that China is responsible for the pandemic has only worsened already stressed trade relations under these circumstances it is imperative to study the effect of trade war and possibly how India will be score in attracting more US Trade and Investment. The paper tries to make a primary Empirical Investigation on the said issues.

**Introduction**

The outbreak of COVID-19 has not only slowed down the Chinese economy but also influenced the global economy. China is still considered as the central manufacturing hub for a variety of global business operations. Therefore, any economic disruption in China can result in adverse effects elsewhere through global value chains (Amiti, Kong & Weinstein, 2020). The outbreak of COVID-19 has led to a substantial decline in China's output. However, due to regional and global value chains, this implication has been transmitted to the global economy. The present study explored the implications of COVID-19 on the U.S-China relationship and the U.S. -India relationship. China plays a very critical role in the U.S. economy as well as the global economy (Liu & Woo, 2018). China has been the largest source of U.S. export market for a longer time. However, due to economic integrations, the relationship between the U.S. and China is complex. The outbreak of COVID-19 has greatly affected the export market for U. S. This has resulted in strict economic policies such as reduced tariffs on imports from China.

However, India seems to slowly benefit from the COVID-19 pandemic due to its competitive advantage in key success factors such as land, labour availability, and improved infrastructure. Global manufactures for many industries are now relocating to India away from China. This migration is a result of limited supplies as well as limited export markets in China. It is quite difficult to accurately gauge the impact of COVID-19 on the Indian economy right now. However, China still has the most effective manufacturing ecosystems with interlinked supply chains that play a vital role in economic empowerment. Many scholars argue that these interlinked supply chains and manufacturing ecosystems will still be in China even after the outbreak ends. The U.S-India relationship has significantly grown due to the competitive advantage of India since the outbreak of COVID-19. The present study aimed to determine the effect of the trade war on US-China Trade and investment flow.

## LITERATURE REVIEW

### **China, India, and U.S. economic ties**

In the last few decades, the U. S-China economic ties have shown significant growth. For instance, the total U.S-China trade rose from \$ 2billion to \$497 billion from 1979 to 2010, respectively. China has been the biggest source of U.S. imports and also the second-largest U.S. trading partner (Ciuriak,2018). However, due to increased imports from China to the U.S. than U.S. exports to China, the trade deficit rose from \$ 10 billion to \$ 273 billion from 1990 to 2010, respectively. The trade relationship between these two nations is becoming complex due rapid pace of economic integration between the two countries (Chiang,2020). China's booming economy and large population have significantly influenced the market for U.S. exports (Jain& Saraswat, 2019). Besides, the past studies showed that the low-cost of imports from China has greatly benefited U.S. consumers by substantially increasing their purchasing power.

Many economists and scholars argue that expanding economic ties with China have continued to expose the U.S. manufacturing firms to greater "unfair" competition from inexpensive Chinese firms. They argue that this has led to the relocation of U.S. production facilities to China, resulting in significant losses of U.S. manufacturing jobs. There have been differences in opinions of dealing with China on relevant economic issues (Crabb, 2019). However, there has been increased research on the intervention measures that significantly influences the US-China trade relations. Such studies have articulated the trends in commercial ties and even identified the major trade issues between China and U.S. India is also another country that the U.S. government has pursued a "strategic partnership" with. Due to overlapping interests, improved trade relations and shared values, the U.S. and Indian governments have collaborated to strengthen the economic ties between India and U.S.

In the last few decades, the U.S. has viewed India as a potential foreign investment and a lucrative market for U.S. exports. Due to low and uneven progress of economic reforms in India, the U.S. government has focused on investing in India, aiming at transforming both the economy of India and U.S. Past studies showed that the bilateral merchandise trade between India and U.S. has significantly grown from \$ billion to \$ 33 billion from 1990 to 2006, respectively. Despite the fact that India was the 21<sup>th</sup> largest U.S. export market in 2006, the U.S has now become the leading trading partner of India due to

increased India's exports to the U.S. However, China has been the leading trading partner for the U.S. due to low -cost manufacturing firms (Yuan,2016). Recent statistics show that the U.S. bilateral trade deficit with India in 2006 was \$ 13 billion. This trade deficit is lower compared to the U.S. bilateral trade deficit with China in the same year. Expansion of global markets has led economic interdependence than ever before.

### **Implications of COVID-19 on Trade issues**

The emergence of natural calamities has significantly influenced the trade relations among many countries across the world. For example, the emergence of COVID-19 has significantly influenced the economic policies and decisions of many countries across the world. China, India and United States are facing adverse effects of COVID -19 on their trade relations. We need therefore, to elaborate some of the economic implications in relation to U. S and its major trading partners (China and India). Despite the negative economic impacts of COVID -19, India could highly benefit from the U.S. export market. Recent statistics have shown that India is now becoming the leading destination for companies being relocated from china since 2019 when first case of COVID -19 was tested in China. India is now seen as a manufacturing hub due to the right government policies, improved infrastructure, and availability of skilled labour that attracts many trading partners, including the U.S. (Itakura,2020).

On the other hand, the U.S-China relationship seems to deteriorate after the outbreak of COVID-19, with no positive impacts on the U.S. economy. The COVID-19 response in the U.S. is on a different cycle than the response to the outbreak in China. However, the Chinese government is almost beginning to open its borders with the U.S. government calling for a complete lockdown. This stalemate is slowly killing the U.S. economy with massive loss of lives from the COVID-19 pandemic. Such economic issues have forced the U.S. government to enforce trade restrictions as well as limited tariffs on imports from China (Yuan, 2016). Further, the U.S. government has also imposed entry guidance instructions for imports from China. China has served as the largest export market for the U.S. for many years. However, due to the outbreak of COVID-19 in China, the U.S. government is seeking an alternate export market other than China to continue empowering its economy.

Considering the manufacturing industry of India, the smartphone manufacturers will relocate to India away from the China to meet the increasing global demand of smartphones. Therefore, the U.S. will consider relocating its production facilities to India, thus enhancing the relationship between the U.S. and India through strategic partnerships. The relocation and migration from china to India do not only involve smartphones or electronics but also a wide range of industries, from food to pharmaceuticals (Silver, Devlin& Huang, 2019). Global manufactures in China have begun even to diversify their manufacturing base to increase their export markets by relocating their production facilities from China to India. India has shown increased attraction of global manufactures during the COVID-19 pandemic due to its local key success factors such as land, availability of skilled labour, and improved infrastructure (Hsieh,2020).

### **Objectives of the Study**

The general objective of the study was to determine the overall effect of the trade war on U.S-China Trade and investment flow. The specific objectives of the present study were;

- i. To determine the effects of COVID-19 outbreak on US-China Trade relationship
- ii. To Synthetically review Indian Chances of capturing US Trade and Investments

### Hypothesis of the Study

The Null and Alternative hypothesis of each research question was formulated. The present study hypothesized that trade war has a significant effect on the U.S-China Trade and investment flow. The hypothesis of the study was stated as follows;

*Null hypothesis (H<sub>0</sub>):* Trade war has no significant effect on the U.S-China Trade and

Investment flow

*Alternative Hypothesis(H<sub>1</sub>):* Trade war has a significant effect on the U.S-China Trade and

Investment flow

### RESULTS AND DISCUSSION

The study examined the effect of the trade war on U.S-China Trade and investment flow. The data was analyzed in sequential order to address all the research questions of the study. Descriptive and inferential statistics were used to interpret the study findings and make conclusions based on the sample data.

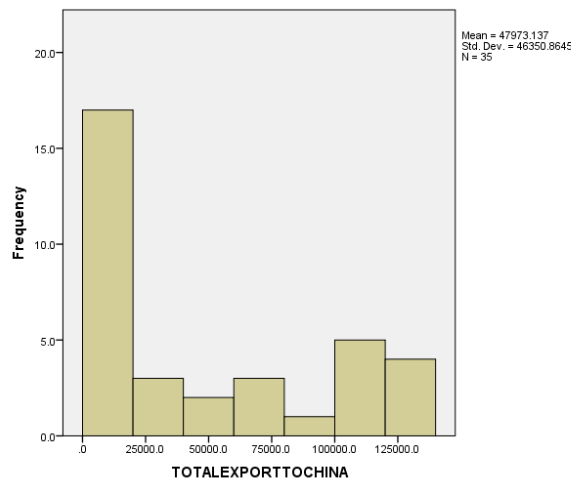
#### Descriptive statistics

**Table 1: Descriptive statistics for exports and imports**

	Total export to china	Total import from China
Mean	47973.14	216948.80
Standard deviation	46350.86	188920.04
Minimum	3106.30	3861.7
Maximum	129797.6	539675

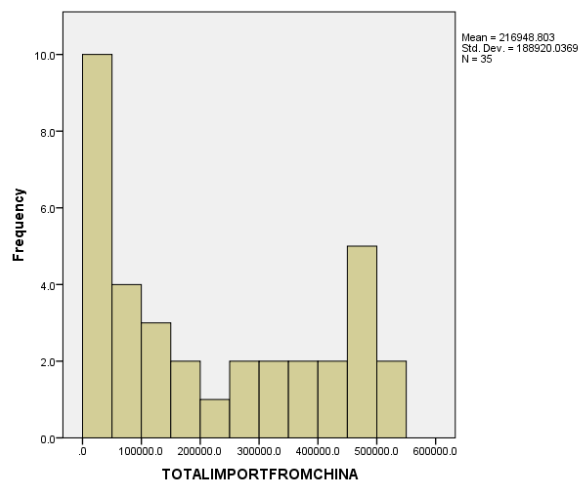
Table 1 above shows the descriptive statistics for total exports to China and total imports from China from 1985-2019. The average total exports to China from the USA were \$ 47973.14 while the average total imports from China to the USA were 216948.89. Thus, on average, the U.S. bilateral trade deficit with China was \$ 168975.66. The standard deviation for total exports to China and total imports from china was 46350.86 and 188920.04, respectively. The maximum total exports to China and total imports from china observed for the sample data were \$ 129797.6 and \$ 539675, respectively. Similarly, the minimum total exports to China and total imports from china observed for the sample data were \$ 3106.30 and \$ 3861.7

***Figure 1: Histogram of total exports to China***



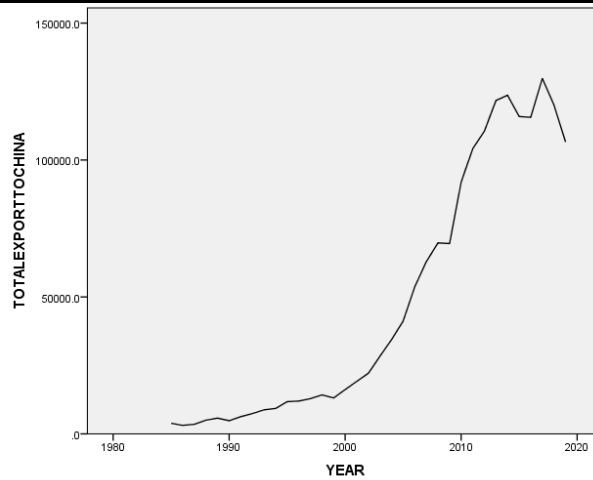
The Histogram in Figure 1 above shows the distribution of total exports to China from 1985-2019. The highest observed total exports to China from 1985 -2019 were below \$ 25000, while the lowest observed total exports to China from 1985-2019 were between \$ 85000 -\$ 10000. The average value of the total exports to China was \$ 47973.14, with a standard deviation of 46350.86.

***Figure 2: Histogram of total imports from China***

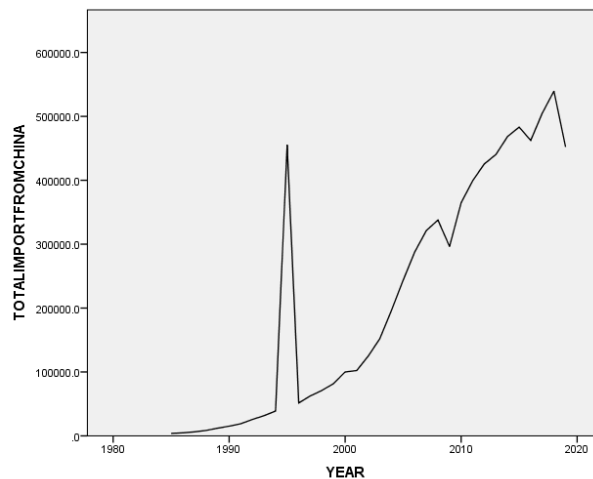


The Histogram in Figure 2 above shows the distribution of total imports from China from 1985-2019. The highest observed total imports from China from 1985 to 2019 were below \$50000, while the lowest observed total imports from China from were between \$ 200000 -\$ 250000. The sample data was normally distributed with mean= 216948.80 and standard deviation =188920.

**Figure 3: A line graph of total exports to China against time (years)**

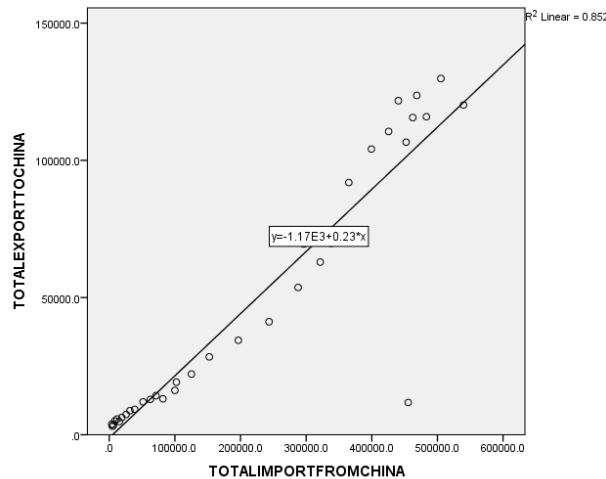


The line graph in *Figure 3* above shows the change in total exports to China over time. There was a tremendous increase in total exports to China from 1985-2014. Then the total exports to China drastically dropped in 2015 and 2016. Then kept increasing gradually in 2017 and 2018. The total exports to China from the U.S. drastically dropped by more than 5 % from 2018 to 2019. *Figure 2* above shows the trend of total exports to China from 1985 to 2019.



The line graph in *Figure 4* above shows the change in total imports from China over time. The total imports from china gradually increased from 1985-1992. After 1992 the total imports from China rose by more than 70 % in 1995. Then it dropped drastically by more than 60% from 1995 to 1999. Total imports from China kept increasing steadily from 1999 to 2008. After ten years, from 2008, the total imports declined significantly in 2019. *Figure 3* above shows the trend of total imports from China since 1985 to 2019.

**Figure 4: Scatterplot for total exports and imports**



According to the graph in Figure 4 above, total exports to China, and total imports from China were directly proportional correlated. This implied a unit increase in one of the variables led to a unit increase in the other variable, and vice versa is true. The total imports from China explained 85.2 % of the variation in the total exports to China. ( $r^2 = 0.852$ ). The linear equation in Figure 4 above shows that a unit increase in the total imports from China will lead to a 0.23 unit increase in the total exports to China.

### CONCLUSION

The effect of the COVID-19 outbreak in China has significantly affected the U.S. economy in several ways. The present study analyzed the total exports to China from U. S and total imports from China to U. S from 1985-2019. The study found that there was a decline in total exports to China as well as total imports from China in 2019. China's output was significantly lower compared to the previous year. The present study also explored the relationship between total exports to China and total imports from China. There was a strong positive correlation between total exports to China and total imports from China. ( $r = 0.92$ ). Besides, a higher proportion of variation in the total exports to China was explained by the total imports from China ( $r^2 = 0.852$ ).

Exports and imports are two major parameters that were used in the present study to measure the effect of the trade war on U.S-China Trade and investment flow. The results of the study showed that total exports to China, and total imports from china significantly influenced the U.S. -China Trade and investment flow. For instance, decline in export markets will implied decline in imports from China and vice versa was also true. However, other intervention measures not incorporated in this study account for 14.8 % variation in the U.S. -China Trade and investment flow. Therefore, there is a need to conduct further intensive research that will address the existing research gaps in U.S-China Trade and investment during the COVID -19 outbreak. It is evidently clear that trade war has effected the trade and investment flow of U.S. companies into china and COVID-19 outbreak will severely effect this further as U.S. administration feels that COVID -19's mismanagement by China is the sole reason of its converting into a pandemic.

upon synthetically reviewing literature available its is also evidently clear that India is a forerunner in capturing U.S. trade and investment flows but

India's current corporate legal structure and ease of doing business needs to be addressed aggressively.

A further intensive study is recommended to further study the effects in light of data which would be only available after the Financial year 2021-22.

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