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TRADE WARS AND ECONOMIC NATIONALISM: ASSESSING A LONG-TERM IMPACT ON GLOBAL TRADE AND COOPERATION

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Abstract

This paper focuses on the current wave of protectionism in global trade, which the US-China trade war can illustrate. As a result, disruption of the supply chain is a reality across the globe, and the costs have gone up. In particular, the paper will explore the meaning of the current rise in economic nationalism and the consequences of current trade wars, specifically focussing on the US-China trade war and the impacts of their interactions on global trade features.

The increasing tendency of economic nationalism and repeated trade wars present significant threats to the globalisation of trade, affecting multilateralism and the functioning of MNCs. This paper discusses how these tensions could result in a change in trend towards bilateral agreements, which are likely to complicate trade relationships, especially for fast-growing economies such as the Indian economy. It also underlines the importance of recognising these problems to know more about future tendencies of world trade, its further development, and cooperation among countries. Therefore, the current study employs qualitative and quantitative approaches to evaluate the trade wars' impact on international trade structures to fill the existing research gaps within the literature on nationalism and its global repercussions.

Keywords: *Protectionism, U.S.-China trade relations, multilateral agreements, bilateral trade, emerging economies, foreign direct investment (FDI), developing countries, trade patterns*

INTRODUCTION

After decades of increased globalisation and integration, global trade relationships appear tense. Countries opting for restrictive trade policies are not new; however, their rapid increase has become the standard. The growing relevance of protectionism policies makes it significant to discuss this topic and its impact on international trade. The United States-China trade war is an apt example of explaining the implications of these wars on the global economy. Consequently, the global supply chains have been impacted, resulting in higher costs, less productivity, and different traffic patterns in the trade networks. Thus, the countries focused on free access to markets are now faced with the problems of shielding their industries while remaining open to foreign markets.

Protectionism has various consequences for overall international trade, the economy, and cooperation. Global trade is substantially affected by trade wars and protectionism since these approaches implement tariffs, quotas, and restrictive measures affecting the delivery of goods and services across the border. These matters commonly result in increased operating expenses since firms are required to change supply networks or acquire materials from less efficient markets. The main objective of this paper is to provide a comprehensive examination of how economic nationalism is returning and the effects of ongoing trade wars, focusing on the US and Chinese international relations and reviewing the background of these phenomena and their impact on the current state of affairs and future trends, especially in the context of emerging economies.

This paper aims to analyse economic nationalism, focusing on protectionism, which seems to be rising steadily around the globe, and its influences on trade relations. Secondly, it aims to explain the US-China trade war, how tariffs and other trade barriers have impacted the global supply chain and other factors. Finally, it seeks to address the effects on multilateral trade relations to assess how economic nationalism threatens them and subverts the free trade idea. Hence, the paper aims to present an outlook on the trends that exist in the current trade regime.

The central argument of the paper is that the rise of economic nationalism and the persistence of trade wars pose significant challenges to global trade integration and cooperation that include the distribution of supply chains, the shift towards bilateral agreements, challenges for developing countries and long-term impact on global trade and cooperation.

The trade war between the United States and China, which started in 2008, has grown significantly each year. Both countries are imposing various tariffs on each other's goods. In 2018, the US imposed price lists on three "lists" of Chinese goods, focused on the first $34 billion of yearly imports, then $16 billion more, and finally $200 billion. As a result, US imports from China have reduced dramatically for all three organizations that had established product pricing lists. In addition, trade wars might also result in changes in economic structures, trade policies, and existing trade patterns. All these factors can have long-lasting effects on countries' economies.

The boost in economic nationalism is haunting the global economy. This increase has presented a challenge to the freedom of economic integration and resulted in the establishment of a unique trade system that consists of industrial countries and commodity exporters with established trade patterns between them. We have to understand that economic nationalism should be used as a set of practices to create and protect national economies in the context of world markets.

The effects of trade wars and economic nationalism can have a significant impact on India, bringing both challenges and opportunities as global trade patterns change. As more countries start using protective measures, international trade dynamics become uncertain, which creates a complex situation for developing economies like India.

The tension between the US and China gives India the chance to occupy the place and become the centre of manufacturing. Given the fact that businesses are looking for sources other than China due to the risks the latter opens for them, India has the option to attract FDI in the country by making the business climate robust. This could lead to the development of employment and growth of electronics, textiles, and pharmaceuticals, over which India has a competitive edge over other countries. Additionally, export diversification enhances India's diversification to other nations that are keen on the rivalry between the U.S. and China, thereby helping the countries to sharpen their trade strategies in line with the emerging international standards.

However, owing to new emerging protectionism globally, there persist some challenges for India. Due to various measures that countries employ to protect their industries, Indian exporters may have limited access to markets through the use of tariffs and non-tariff measures. This has been a bigger issue, much worse for the agricultural and manufacturing businesses in India, which normally engage in exporting their products. However, if India implements these protectionist policies, it will create tensions in bilateral trade relations and may violate WTO rules and regulations, resulting in disputes and sanctions that are likely to complicate relations with its partners further.

Economic nationalism and trade wars play an important role and affect MNCs in terms of their operations and strategies, as well as in various multilateral agreements. Trade wars lead to elevated tariffs on products and services from abroad, resulting in increased costs of raw materials and parts to put immense pressure on margins.

Also, changes in trade policies affect the global supply chain networks of MNCs as they have to look for other sources of raw materials or new production sites, which are time-consuming and expensive. Another way in which economic nationalism affects MNCs is that it prejudices their opportunity to access foreign markets and grow because some countries prefer to protect domestic firms. In case of trade tensions, MNCs may be compelled to relocate their investments to countries with stable trade relations, thereby changing the global investment map. In addition, economic nationalism can lead to the collapse of free trade agreements and complicated regulatory structures that are hard to navigate and meet.

These problems need to be addressed to strengthen global economic recovery and encourage international commerce and development. These are important because collaboration and communication with other countries are the key to solving many trade issues while allowing MNCs to function, thus benefiting the world economy.

Economic nationalism and trade wars also endanger multilateral trade agreements and affect the idea of open markets and global cooperation most of all. Globalization, which involves cooperation among countries, requires mutual trust and absolute cooperation whenever negotiating agreements, but as countries embrace protectionism, trust and cooperation reduce, hence negotiations become strained and commitments to implement agreements weaken.

It weakens global institutions such as the WTO, making them less relevant; it shifts countries towards bilateral or regional agreements, which cost the process of globalization; and it even isolates nations from trading with others. It complicates and brings uncertainty into the trade rules, thus decreasing trade, increasing its costs, and promoting the formation of trade groups that segregate the world economy. As much as these agreements offer a certain level of certainty to developing countries, the fact that protectionism entails the negotiation of bilateral and regional deals makes these countries worse off because they cannot negotiate the right deals that allow their exports to penetrate key markets.

It is crucial to inspect the consequences of economic nationalism and trade warfare on the economy and cooperation. Some countries may experience the benefit of trade diversion from increased exports to China and the US. However, the effects may diminish as and when the conflicts get resolved. Most works are dedicated to examining the definite episodes of trade wars or exploring economic nationalism separately from the encompassing global context in which these phenomena developed and are unfolding today.

Therefore, by considering these shortcomings, the paper seeks to contribute to a better understanding of trade wars and economic nationalism by presenting findings useful for policymakers, scholars, and various stakeholders in the global economy. In the long run, it aims to contribute to a profound understanding of the future of international trade and economic policies.

LITERATURE REVIEW

Selden's (2012) research on East Asia's economic nationalism and regionalism highlights two competing trends: economic nationalism and regional/global forces. He links modern East Asia regionalism to the 16-18 century China-centred tributary trade system. Selden emphasizes the need to analyze historical and geopolitical aspects of economic nationalism, highlighting the importance of nation-state balance in regional and global integration.
Pryke's (2012) paper offers a thorough analysis of economic nationalism, including its historical roots, contemporary significance, and possible future effects. He talks about important theoretical stances including protectionism, mercantilism, and strategic trade theory, emphasizing the persistence of economic nationalism in the modern, interconnected global economy. To address the negative consequences of excessive economic nationalism, he proposes a well-balanced strategy that considers both national interests and international cooperation. He highlights that a complex interaction between geopolitical dynamics, international cooperation, and economic conditions will determine the future of economic nationalism.
Zhang and He's (2014) research on economic nationalism and foreign acquisition completion in China highlights its dual-edged nature. They recommend the Chinese government ensure foreign investments enhance national security and technology. Zhang and He also suggest multinational enterprises (MNEs) should consider nationalism assertions and predispositions in foreign countries during FDI, aligning with the topic of economic nationalism.
Chow et al. (2018) paper examines the rise of US economic nationalism under Donald Trump's presidency. They argue that the ''America First'' policy, which assumes zero-sum trading, could weaken the structure of multilateral trading and potentially lead to negative consequences in the long run.
Gaudiosi (2018) explores the rise and development of economic nationalism, particularly in response to Trump's presidency's protectionist agenda. He argues that while protectionism may initially boost employment rates and domestic industries, it ultimately hinders economic development and cooperation and suggests that a balance between protectionism and international trade development is needed to support economic growth and cooperation, highlighting the negative impact of protectionism on productivity, competition, and innovation.
Chadha et al. (2018) provide insights into the strategies adopted by emerging economies amidst global trade disruption, focussing on the effects of a trade war between the US and China with specific regard to India. Thus, they encourage India to employ strategies that involve changes in tariffs, efficiency increases, and regional integration agreements such as the RCEP to offset it while accruing new advantages. More specifically, the empirical study using the GTAP model for the impact of increasing global trade tensions stresses the need for policy adjustment. As the paper reveals, it is high time India embraced these strategies to cushion the effect of the US-China trade war.
Khan (2019) examines the impact of trade conflicts, primarily between the USA and China, on global trade and economic growth. She also mentioned that these conflicts could lead to a 3% drop in global GDP, raising questions about the future of international trade links and the sustainability of the liberal market type that has defined the world economy.
Carvalho et al. (2019) studied the cost and outcome of the trade war between the US and China and concluded that the trade war could damage welfare and efficiency in the US and China; however, some emergent economies such as Brazil, Argentina, and India may gain by shifting their trade to advantageous sectors. They call for changing policies on trade, diversification on trade, and economic modelling to determine changes in

trade relations and opportunities. They argue that emerging economies can benefit from disruptions in global trade if they more keenly understand and manage changes in the trade environment.

Patch et al. (2019) discuss the ethical implications of the US's unilateral trade actions against China, particularly under the Trump presidency. He argues that these actions, particularly under the Trump presidency, weaken the WTO's standing and limit the predictability of the rules-based multilateral trading order. Patch calls for reforms to the WTO, revive the Appellate Body, and promote multilateralism. He warns that unilateral undertakings and weakening multilateral structures are dangerous in the long term and should be avoided with cooperation.

MacIsaac and Duclos (2020) explore economic nationalism and its impact on international trade, particularly for middle powers like Canada. They highlight the US withdrawal from the Trans-Pacific Partnership and the redesignation of NAFTA into the USMCA. Economic nationalism, once dormant, gained prominence in the late 1970s or 1980s, particularly in the context of the Trans-Pacific Partnership.

Panda and Sarkar (2020) explain the trade war between the US and China with a reflection on Indian strategic neutrality or non-alignment policy. They also note that the trade war is not a bilateral issue but redefines global trade and geopolitics. The plan India aims to balance its ties with one country while cooperating with others, particularly the US and China. This strategy seeks to hold national interests and capitalize on geopolitical rivalry opportunities. This perspective helps us understand how emerging players can respond to evolving trade regimes.

Helleiner (2020) thoroughly examines the complex landscape of economic nationalism on a global scale. He asserts that economic nationalism should not be simplistically viewed as mere protectionism, but rather as a multifaceted phenomenon with diverse implications. Helleiner boldly challenges the narrow perspective that perceives economic nationalism as universally detrimental, emphasizing the need to acknowledge its varied forms within distinct regional and historical contexts.

Chacko's (2021) paper explores economic nationalism in India, focusing on two types: neo-mercantilism and liberal economic nationalism. India is transitioning from a mercantilist phase to a neo-mercantilist phase, aiming to develop world-class productive assets, seek foreign investment, and join global value chains. Current neo-mercantilist policies, such as strategic protectionism and selective liberalization, are driven by economic dependence on China and self-reliance. However, implementing these policies presents challenges, and India's ability to develop its economic and political interests in foreign relations with East Asian countries will be crucial.

Donnelly (2023), the author, discusses economic nationalism and trade war and its implications for global trade and cooperation. It seeks to determine how these political parties' differing views on economic nationalism, from mercantilism to developmental strategies, influence international trade policies and relations, especially between America and Europe.

Zeng and Liang's (2023) paper focuses on the analysis of the past and present events on trade wars: their occurrence, outcome, and impact on the relations between countries and economic decisions. Trade wars are viewed by the authors as a perpetual part of world trade, which additionally depends on various conditions like global power relations, economic patriotism, and changes in the system of international trade regulation. It aims to probe some major issues about the rationale for trade wars, conditions that predispose the onset of such conflicts, and the dissimilar effects of such conflicts. The authors indicate the need to understand trade conflicts with a historical reference as well as acknowledge prevailing issues that characterize globalization.

Some of the research gaps that can be identified from the existing literature on trade wars and economic nationalism, especially in the context of the US and China trade wars, include the following: First, there is an absence of a systematic study of how different emerging economies have responded to economic nationalism, while most of the papers investigate particular countries such as India, Brazil, and Argentina. Moreover, there is still so much research work that defines short-term effects on GDP and volumes of trade, and a lack of analysis of the changes in the structure of the supply chain and world trade due to the constant economic nationalism for years.

Moreover, the given sources do not combine economic and geopolitical approaches, whereas these two fields are usually provided separately to reveal their connection.

This research paper intends to respond to these gaps by offering a systematic synthesis of the strategies of emerging economies regarding trade war, scrutinizing the future effects of economic nationalism on the global trade system, and combining geopolitical and economic views for the evaluation. This further intends to understand how trade wars will impact multilateral trade agreements and institutions, present an industry-specific analysis of how various industries can adapt to the trade war situation, and analyze the ethical implications of economic nationalism.

OBJECTIVES

1. Measuring the degree of changes in the global supply chain by comparing the level of supply chain disruptions, sourcing, and production networks through pre and post-trade wars and checking whether there

are signs of a trade war affecting the trade agreements, partnerships, or trade policies of the emergent economies.
2. Forecast the long-term time series of India's GDP growth rates and trade balance by applying econometric techniques and accounting for various forms of trade tensions and to determine whether these trade tensions have any regression with the performance of the economy and trade of India.
3. Review the past trends of FDI inflow into India as well as other emergent markets when global trade was admittedly under pressure. Using statistical tools on these trends, it is possible to find out whether or not India's FDI inflows have been through periodic fluctuations in comparison to others.

Hypothesis
1. The US and China's trade war does have no implications on the global supply chain and alters the flow of emerging economies
2. Global trade tensions such as the US-China trade war and economic nationalism do not affect India's baseline GDP and trade balance over the long term.
3. There is no significant difference in the trends of Foreign Direct Investment (FDI) inflows into India compared to other emerging markets during periods of heightened global trade tensions.

Methodology
This research will employ both the qualitative and quantitative research methodology to ensure that the results obtained are all rounded and offer the necessary information concerning the long-term effects of trade wars and economic nationalism on international trade and cooperation. This design enables the analysis of the economic developments, policies and their impacts on international trade relations with special reference to the study of 'Trade War: A Case of US and China.

Qualitative Analysis
Data Collection: The quantitative part of the study will involve the identification of policies, and trends in international trade through case studies and documented reports.
The following sources will be used:
Government and Policy Reports: India's Ministry of Commerce and Industry, Ministry of External Affairs; WTO; IMF; documents related to trade liberalisation and economic policies and strategies concerning protectionism.
Case Studies*:* Specific country studies (for instance, the USA, China and India) will be conducted to demonstrate how and to what extent economic nationalism and trade wars have impacted trade policies and accurate compliance. The emphasis of these case studies will remain on features that include the changes in policy measures, changes in the economic environment, and shifts in trading patterns.

Quantitative Analysis
Data Collection: Information on economic variables such as trade volumes, tariffs, and GDP growth rates will be obtained from the trade databases. This data will be applied in the decomposition of the effects of trade wars on global trade and the performance of certain economies.

The following datasets are useful in estimating the quantitative effects of trade wars as well as economic nationalism:

Global Supply Chain Disruptions: For information on the trade volumes, the supply chain, sourcing, and production distortion, WTO secretariat reports, UNCTAD databases, and ITC will be used.

FDI Inflows: Information about FDI of India and other emerging markets will be collected from the RBI, the Ministry of Commerce and Industry, UNCTAD, and World Development Indicators from the World Bank.

India's GDP Growth and Trade Balance: The macroeconomic information, particularly GDP growth rates and trade balance data of India, will be retrieved from the World Bank, IMF, and the National Statistical Office of India (NSO).

Trade Tariffs and Bilateral Trade Agreements: Tariff data and bilateral/multilateral trade agreements data will be retrieved from World Bank, WTO, and OECD databases.

The quantitative and qualitative data shall be analyzed and shall be a combined approach hence have an integrated analysis to ensure a comprehension of the various long-term effects of trade wars and economic nationalism. Whereas quantitative analysis will be used in determining patterns and relationships, the qualitative part of the analysis will explain these patterns. The results obtained from both analyses will then be legitimate and consolidated to come up with outstanding conclusions and policies. Using this comprehensive approach, the research intends to reveal the nature of the interconnections between economic nationalism and trade wars, thereby providing practical recommendations and theoretical contributions to the members of the government and academic community working in the sphere of international trade.

Variables- Global Supply Disruptions, India's GDP growth, trade balance, FDI inflows, tariff rates, trade policy

DATA ANALYSIS

This study presents various conclusions about the impact of trade wars and economic nationalism on international commerce. The US-China trade war and its implications for emerging countries, including India. The study discovered that:

Global Supply Disruptions

Globalisation of supply chains through outsourcing has also suffered mainly because of trade disputes like the US-China trade war. For example, imported goods from China subject to tariffs in 2018 worth $250 billion were reduced by 13%. According to the UNCTAD reports, production costs rise across the board for all industries as they search for other suppliers. It led to outsourcing the global supply chain and India began moving out from the wing as competitiveness hub countries relocated their production facilities from China. This experience has increased India's manufacturing output by about 5-10 per cent annually while the trade war was in progress.

Table (1) The relationship between global trade volume growth and the imposition of tariffs between the United States and China

Year	Global trade volume growth (%)	Tariffs imposed on Chinese goods by US (%)	Tariffs imposed on US goods by China (%)
2017	4.8	10	5
2018	3.7	25	25
2019	0.5	30	30
2020	-5.3	30	30
2021	10.1	20	20
2022	2.8	15	15
2023	1.7	10	10

(Source: Trade policy reports, the office of the U.S. trade representative, and China's Ministry of Commerce; Compiled by: Authors)

The t-test derivation indicated a mean of around 2.61% for global trade volume. This merely indicates the rate of growth in the volume of world trade, and it closely portrays a picture of gradual or moderate growth. On the other hand, the mean tariff rate is given as either 20% or 19.28%, which could simply indicate two varying time references or data. This imbalance means that, on average, products traded across borders face high tariff barriers. This relationship clearly shows an inverse relationship between the mean growth rate of the global trade volume and the mean tariff rate. It has been seen that higher tariffs decrease trade because they operate to make the importers costlier, and therefore they are likely to import fewer products. It will also explain the possible adverse effects that may result from the raising of tariffs in international trade relationships.

Supporting this analysis, the obtained one-tailed p levels of 0.0005 and 0.0013 are less than 0.05, which suggests a negligible probability of obtaining such differences in means by chance, namely.058% and.13%, respectively. These values give a good rejection of the null hypothesis that change in tariff rates has a significant influence on world trade flows. To the same end, the two-tailed p-values of 0.00115 and 0.0027 support these facts, as it is extremely rare—0.115% and 0.27%—to get results as diverse as those obtained when comparing the subjects of the study. As all obtained p-values are highly less than the chosen significance level of 0.05, the null hypothesis can be rejected positively.

This rejection implies that there is a difference between the means of the groups, and more importantly, changes in the tariff rates, especially those as a result of the US-China trade war, have significantly affected the growth rates of the volumes of international trade. This shows that the intercontinental trade conflict, as represented by rising tariffs in the US-China trade war, has a statistically significant downward effect on the growth rate of international trade. This demonstrates that the US-China trade war, manifested through increased tariffs, exerts a statistically significant negative impact on global trade volume growth. This insight is crucial for policymakers, businesses, and economists who must navigate an increasingly complex and protectionist global trade environment.

Statistical Significance

The degree of relationship between the variables is reported in the statistical importance in the form of p-values obtained from t-tests. The first is p = 0.0005, and the second p-value = 0.0013, suggesting high statistical significance as there is less than a 1% chance that such outcomes were by chance. It supports the idea that trade wars, especially between the US and China, negatively impact trade volumes.

Since p values go below 0.05, the study can nullify this research hypothesis, which means that higher tariffs negatively affect global trade thus there is a statistical relationship between these two factors.

India's GDP Growth

India's GDP growth was impressive between 2014 and 2018, with a growth rate of 8.26% in 2016. This was due to domestic demand, economic liberalisation, and a sound environment for the global economy. Significant structural changes, such as the goods and services tax and other measures to ease the doing of business, facilitated India's better performance. However, the trade war between the United States and China stipulates extra tariffs and barriers to trade that erode global supply chains and scale down international trade.

This impacted global markets, especially India as the economy depended mostly on exporting its products. The situation was worsened by the pandemic that affected the country as well as the rest of the world by slowing down the world economy.

The US taxed Chinese products, making the US import more products from India. Exports of textiles and apparel to the US marked original growth in the year 2019 by 7.4%, and there was an increase in exports of pharmaceuticals due to enhanced healthcare requirements and generic production facilities in India. However Chinese tariffs on US products led to a decrease in demand for intermediates, which impacted Indian exports of chemicals and agriculture products. The export of organic chemicals from India to China decreased in the financial year 2020 by 25.7%

According to the India Cellular and Electronics Association (ICEA) and the Automotive Component Manufacturers Association of India (ACMA), various sectoral effects on the Indian economy have been noted. According to the ICEA, exports of mobile phones from India have grown to $5 billion in FY2020-21, up from $3.1 billion the previous year. The ACMA also recorded a 17.1% increase in auto component exports in the initial years of the trade war because of substitution from China. Nevertheless, the expansion was slightly slowed down due to the weakening of auto sales worldwide in the year 2020. Protectionism around the globe has affected India's manufacturing industry.

As regards the structure of exports, India witnessed rising imports of its goods in some segments, but procurement problems, including interruptions in supply chains, primarily due to Chinese intermediates, emerged as an issue. Auto and electronics manufacturers rely on China for essential parts; hence, FY2020 recorded a meagre 14% automobile consumption. However, India's reliance on China as a source of electronic parts, notably semiconductors and cell phone components, led to supply shocks in 2019 that affected production. Still, the production of mobile phones in India augmented owing to shifts in the worldwide manufacturers unlocking their markets other than China.

There is a great deal of opportunity for India to increase its exports and imports common in the trade war; those opportunities can be traced to sectors like steel, aluminium, agriculture, and pharmaceuticals. Tariffs on Chinese steel led to an increase in steel exports by 11% in 2019. The US tariffs on Chinese chemicals had a positive impact on the pharmaceutical sector, especially in the manufacturing of generic drugs, as the industry reported $19.66 billion worth of products in 2019. India and China continued to enjoy an import relationship up to FY2020 as India imported goods worth $65.26 billion, constituting 14.1% of its total imports from China. India's government has adopted erecting protectionist barriers that can shield domestic industries from the impacts of the trade war and increased imports. An example of this is when in 2019 India raised tariffs on electronics as a way of cutting their trade deficit with China and boosting local production.

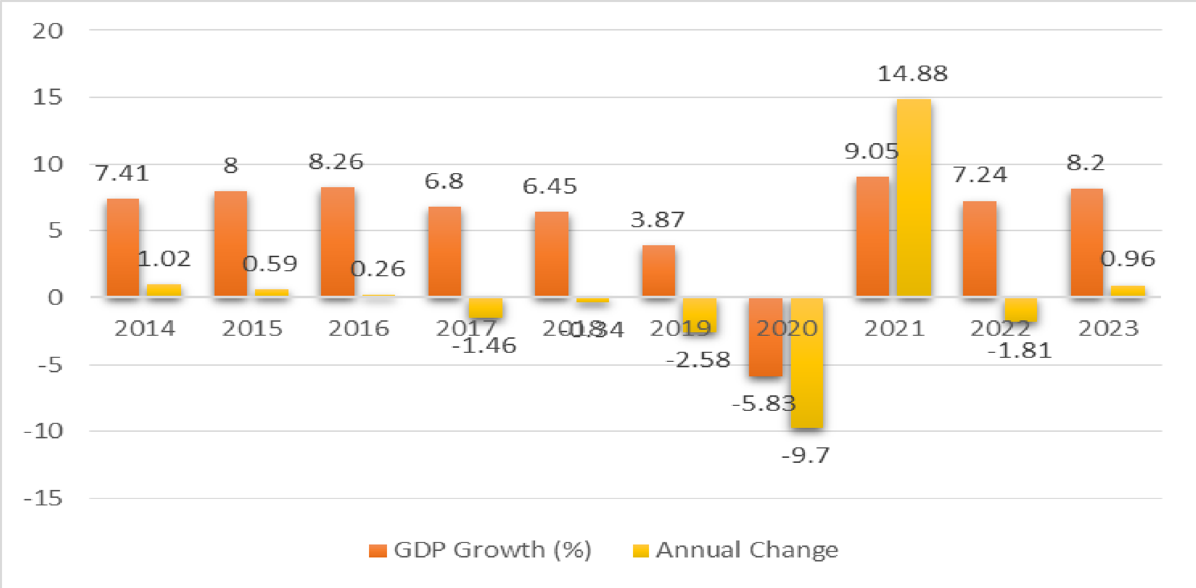
Atmanirbhar Bharat was meant to reduce the country's import dependence, especially on Chinese products, as well as encourage domestic production of exports. Further, there is evidence that roles as an alternative to the China supply chain have now become established in sectors such as life sciences, electronics, and fabrics. But at the same time, India still has to learn how to maximize the possible benefits of the US-China and other protectionist trends, and this factor also predetermines its opportunities for improving actual and potential manufacturing capacities, the skills of the labour force, and the business climate. Protectionism and trade diversion threaten long-term trade benefits, as seen when analyzing the Indian case.

Despite strong growth, India's economy was vulnerable to external shocks, such as fluctuations in global trade patterns and geopolitical tensions. The country's reliance on global trade and investment made it susceptible to disruptions in international markets.

Trade Balance

International trade warfare has impacted India's trade balance in one way or another. A significant trade deficit was seen in India in 2018 due to the rise in import costs. It was seen to reduce in 2020 when export sectors like textile and pharma started to gain from shifting demand in the international markets.

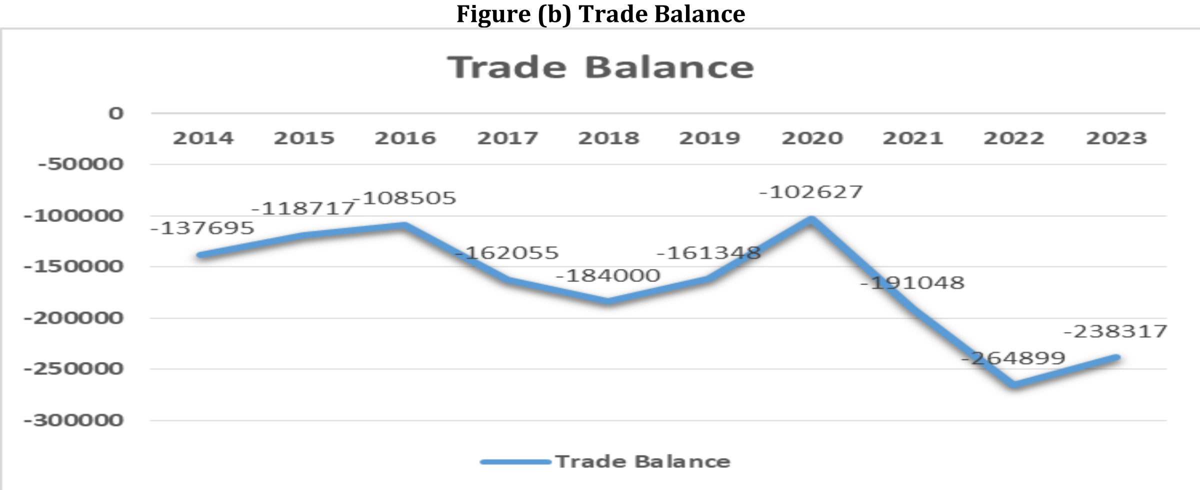
Figure (a) India's GDP and annual change



(Data Source: Ministry of Statistics and Program Implementation; Compiled by: Authors)

Comparing India's GDP growth to its trade balance shows that while India's economy maintains volatile performance levels, it has continued to accrue trade deficits. Based on the analysis conducted on yearly data from 2014 to 2023, India reached a GDP growth rate of 8.26% in 2016 and a negative 6.80% in 2017. They reduced to -5.83% in 2020 because of the COVID-19 outbreak.

Figure (b) Trade Balance



(Data Source: Ministry of Statistics and Program Implementation; Compiled by: Authors)

However, the figures revealed that there has been a continuous negative trade balance, thereby implying that the rate of importation has been higher than that of exports. The trend of negative trade balance is evident, and it was the worst in 2022; India's trade balance was -$264,899 million because the country heavily depends on imported products to fill demand.

High GDP does not lead to a better trade balance but shows a strong and active domestic demand that causes imports. This means that the decline in the trade balance of India cannot be wholly blamed on trade wars but on other economic forces and consumption. However, it is important to stress further India's positive GDP growth rates for the constant trade deficits. During the last few years, the Indian economy has proved to be rather stable, and it is crucial to diversify exports and manage imports with appropriate caution so that the Indian economy remains stable and robust.

FDI Inflows to India

There was a mild hike in global trade tensions. However, FDI in India has not been affected, which indicates that investors believe in the long-term growth of India. In 2020, flows of FDI to India reached $64 billion, up from $45 billion in 2018, as per DPIIT and the UNCTAD World Investment Report 2021.

India has remained immune to the decrease in FDI due to reforms in liberalisation policies, enhancement of India's ease of doing business, and specifically focusing on sectors like electronics, automotive, pharmaceutical, etc. The Ministry of Commerce and Industry claims that there was surely an enhancement in FDI in these sectors because global firms were looking for ways to diversify the risks posed by the US-China trade war.

Table (2) Data on foreign direct investment (FDI) inflows along with the corresponding percentage of GDP that these inflows represent

Year	Total FDI Inflow (in US $ Billion)	% of GDP
2014	34.58	1.70%
2015	44.06	2.09%
2016	44.48	1.94%
2017	39.90	1.51%
2018	42.15	1.56%
2019	50.55	1.78%
2020	64.07	2.41%
2021	44.73	1.42%
2022	49.35	1.47%
2023	28.16	0.71%

(Source: Ministry of Commerce and Industry)

In the regression analysis, the results presented show that India's GDP growth is inversely related to FDI inflows between 2014 and 2023, stating that 'when the GDP increases, the FDI declines' and vice versa. The R-square value of 0.5997 shows that approximately 60% of the variation in FDI inflows can be explained by changes in GDP growth, though other factors also play a role.

Rising global trade tensions, particularly the trade war between the US and China and protectionism, have no significant negative impact on India's FDI and have even touched $64 billion in FY 2020 owing to liberalization reforms in ease of doing business and new sectors like electronics and pharma. Thus, the high international business risks that diversified the global firms' risks made India an attractive option. This inverse relationship also implies that there are external factors rather than GDP growth, policy reforms, economic trade conditions, and sector-specific opportunities for continued investors' confidence in the Indian economy for long-term investment prospects.

Between 2014 and 2020, FDI inflows to India increased significantly, reaching $64.07 billion in 2020, an 85% increase over six years. The sharpest growth was seen in 2020 when FDI surged to $64.07 billion, the highest in the given period. This may be due to the trend of manufacturing companies seeking to expand their operations to India, thus increasing their supply chain exposure to the country. The fact that the US and China embarked on a trade war probably made India's investment environment attractive for risk diversification.

Trade diversification as a factor for FDI inflows

Shift in Global Supply Chains: The global companies that source a large quantity of their products from China, especially the electronics, automobiles, and textiles industries, began seeking export destinations in other countries like India. Many manufacturers, including those of Apple and Samsung, began to grow their production capacities in this country as a response to the diversification of supply chains concerning China. This, in return, stimulated and increased the flow of FDI to India, especially in the electronics manufacturing industry. For instance, as a measure of outsourcing, in 2020, Apple started assembling iPhones in India through two contractors, Foxconn and Wistron.

FDI Data Surge: The Department for Promotion of Industry and Internal Trade (DPIIT) estimates suggest in Fiscal Year [FY] 2021, India attained a growth rate of 10 per cent by having received FDI to the tune of $ 81.72 billion compared to $ 74.39 billion in the preceding FY. A significant part of it was due to the desire of some companies to relocate because of the trade war and passive Indian government initiatives.

India was identified as the most appealing country, which experienced an increase in manufacturing outsourcing of mobile phones when companies began to look for an alternative to China. Concerning the ICEA (India Cellular & Electronics Association), mobile phone manufacturing in India was fast-paced, and FDI in electronics manufacturing rose as companies tried to capitalize on the recently launched Government of India Production Linked Incentive (PLI) scheme. One of the reasons behind this increase in FDI was the increase in India's share in mobile manufacturing globally.

The IT and software sector witnessed the largest FDI inflow in FY2021, as it attracted approximately $7.7 billion. The 'Digital India' infrastructure and skilled human capital were instrumental in the growth of various global IT firms in India.

Automobiles and Auto Parts Automobile Manufacturing: When the US decided to place tariffs on auto components imported from China, firms began sourcing the products from other regions, including India. There was also FDI in the automotive industry as MG Motors, a unit of China's SAIC, and Hyundai began building manufacturing plants in India. The automotive industry and manufacturing industry received $1.5 billion and $3 billion, respectively, in FDI in FY2020 and are expected to attract more FDI as automobile majors move their sites globally to India.
The Indian government introduced several initiatives to attract foreign investment in response to global trade disruptions and the realignment of global supply chains due to the US-China trade war:
Make in India: Make in India was initiated in 2014 to turn India into one of the biggest producers in the world. This was given a further boost by the trade war in such sectors as electronics, automobiles, and pharmaceuticals.
Ease of Doing Business Reforms: India, for instance, has climbed the EODB rankings in recent years, to a rating of 63 in 2020 from 142 in 2014. This improvement was a result of revamped policies in areas like taxes, labour relations, and infrastructure that enhanced India's appeal to universal investors.

Reasons for FDI Growth
Trade War-Driven Diversification: With the rise of the trade war affecting the manufacturing industry in China, the production power shifted to India and was given a lot of investments.
Favourable Government Policies: Government policies such as the Production-Linked Incentive Scheme, or PLI, Make in India, and incremental steps towards ease of business led the way in drawing global investment.

India's Large Consumer Market: Amid a steadily rising middle-income population and a young population, India offered a large consumer market for imports and especially for FDI in possibilities for investments for consumer goods, e-commerce, and IT.

Tariff Rates
Tariff changes are a result of protectionism measures, such as the US-China trade dispute where the US placed tariffs on $200 billion of Chinese merchandise. India increased duties on imports, particularly agricultural goods, leading to increased import costs and an expanded trade deficit.
Tariffs were gradually raised by the United States on Chinese goods since March 2018, and the reaction of the Chinese government was not slow. Table (3) presents the loss of trade value due to each round of tariff increases, while Figure (a) illustrates the average tariff rates on the US's imports from China and China's imports to the US. The tariff-increasing measure, which impacted most additional trade, was enacted on September 24, 2018. The US also imposed other tariffs on about $200 billion of Chinese goods, and the rates were hiked from 10% to 25% on May 10, 2019.

Table (3) Data on U.S. imports from China, detailing the trade value and cumulative trade balance over specific dates during the U.S.-China trade tensions
US imports from China.

Measure	23-03-18	06-07-18	23-08-18	24-09-18	10-05-19	01-09-19	15-12-19
Trade in US $ Billion	3.60	33.44	14.31	198.87	-	130.15	161.88
Cumulative trade balance in US $ billion	3.6	35.81	49.52	237.07	237.07	336.36	487.35

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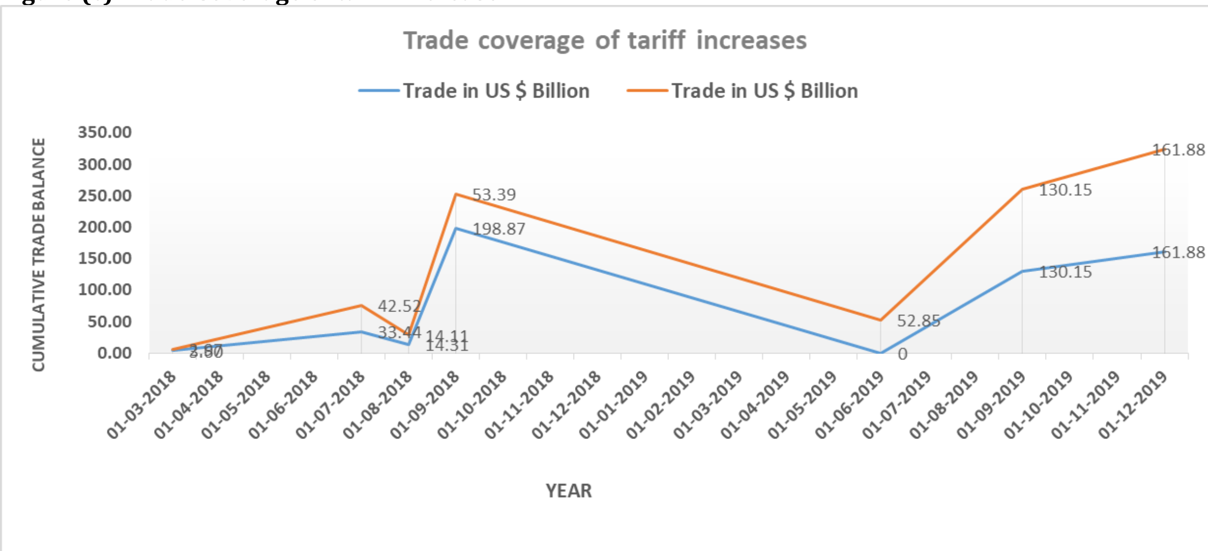
Chinese imports from the US

Measure	23-03-18	06-07-18	23-08-18	24-09-18	10-06-19	01-09-19	15-12-19
Trade in US $ Billion	2.97	45.52	14.11	53.39	52.85	130.15	161.88
Cumulative trade balance in US $ billion	2.97	45.47	57.45	107.91	107.91	336.36	487.35

(Source: Data compiled by Authors from trade reports by the Office of the U.S. Trade Representative, U.S. Census Bureau, and Chinese Ministry of Commerce)

Figure (c) Trade Coverage of tariff increase



(Source: Data compiled by Authors from trade reports by the Office of the U.S. Trade Representative, U.S. Census Bureau, and Chinese Ministry of Commerce)

The average tariffs that the US has placed on its imports from China have risen significantly since the onset of the trade war from a 2.6% MFN tariff rate to a tariff rate that went to 17.5% on the first of September of 2019. First, the US stated that it would expand the list of tariffs to 284 Chinese exports, thus raising the average tariffs to 24% on December 15. However, due to the ceasefire of the trade war, this increase was never enacted, and because of the Phase 1 deal signed between the US and China, average tariffs were reduced to 16%.
India has increased protectionist policies, especially in the financial year 2019-2020 to protect domestic industries from international rivals. However, it also undertook FTAs and measures relating to trade facilitation to keep its markets open to effective foreign markets.

Trade Policy

The changes in the trade policies of the country have remained the core determinant of trade relations. India stood to gain from new bilateral trade partners, such as the recently signed free trade agreement between India and Japan to cut tariffs on important exports, including pharmaceuticals and textiles. According to the OECD, such contracts have led to an annual export increase of 3-5% to partner countries in India. India has increased protectionist policies, especially in the financial year 2019-2020 to protect domestic industries from international rivals. However, it also undertook FTAs and measures relating to trade facilitation to keep its markets open to effective foreign markets.

Table (4) Key developments in India's trade policy from 2014 to 2024, alongside corresponding export and import growth rates

Year	Trade Policy Developments	Export Growth (%)	Import Growth (%)
2014	Launch of the Foreign Trade Policy (FTP) 2014-2019.	5.03	0.25
2015	Increase in the focus on the "Make in India" initiative.	1.23	-15.11
2016	Export incentives for sectors like textiles and agriculture.	0.67	-13.51
2017	Introduction of the GST impacting trade flows.	6.3	21.07

2018	Trade tensions with the U.S. and emphasis on strengthening ties with ASEAN.	6.45	6.9
2019	Launch of the Atmanirbhar Bharat initiative to boost self-reliance.	3.87	-2.58
2020	Impact of COVID-19 on global trade; focus on digital trade.	-5.83	-2.39
2021	Negotiation of various free trade agreements (FTAs).	9.05	7.99
2022	Continued focus on Aatmanirbhar Bharat and self-reliance in key sectors.	7.24	35.2
2023	Negotiation and implementation of new FTAs; digital trade initiatives.	8.2	10.05
2024	Expected reforms in trade policy; focus on enhancing export competitiveness.	-	

(Source: Ministry of Commerce and Industry, Directorate General of Foreign Trade; Compiled by: Authors)

Over ten years between 2014 and 2024 several external factors have played a part in trade policy in India; including the US-China trade war and a global rising trend of economic nationalism. In response, the Indian government launched measures like Atmanirbhar Bharat, Make in India and modifications in the Foreign Trade Policy. Even though India was implementing protectionist policies to defend its industries, new generation reforms and more effective FTAs and trade diversification continued to serve Indian interests in global markets. Information regarding export and import growth rate, FDI and sector-wise changes show how these polices assisted India to handle the emerging changes in the global trade system.

FINDINGS

Trade tensions, mainly between the US and China, have increased uncertainty and challenged the global value chains for firms mainly through higher costs and longer lead times for manufacturing. In contrast, in 2016, India had a growth rate of 8.26%, which was primarily due to domestic demand, but it was also negatively impacted by the trade war and the pandemic. While economies such as textiles, oil, and pharmaceuticals still exist, India recorded a negative trade balance because it relied on imports, especially electronics from China. However, during this period, FDI increased from $45 billion in FY 2018 to $64 billion in FY 2020. This paper has found that unlike what the globalisation hypothesis would suggest, the US-China trade war affects the global economy and especially the ITrade barriers affected the global value chain, which forced many producers to relocate to India which recorded more FDI, although the nation had a trade deficit. This entails that tariffs were inversely proportional to cross-border sales; as the level of tariffs increased, the volumes of cross-border sales reduced. India benefitted mainly from trade during the trade war, as evidenced by a 7.4% increase in textile exports to the US in 2019. These findings again highlight the need for multinationals to spread their supply chain networks beyond China and also for policymakers to put in place stable business environments to encourage foreign direct investment. This affirms theories arguing that protectionism is detrimental to global commerce while allowing the new economy countries, especially the Indians, to seize tendencies resulting from the supply chains. The research findings contradict the primary hypothesis that the US-China trade war has no significant implications for global supply chains and trade flows. Taking the case of the trade tensions between the US and China investigated in this paper, the results indicate that supply chains are disrupted when tariffs are imposed, as observed with producers shifting from China to other countries, including India.

CONCLUSION

The research brings attention to the fact that the world is now a place of complicated trade environments characterized by protectionism and trade wars. The study establishes and reinforces the fact that tariffs are highly damaging to international trade, at the same time proving that countries such as India can benefit from the disruptions and seek to develop their manufacturing capabilities and attract investors from overseas. There is a dynamic and strongly changing nature of these factors, which suggests that policymakers and businesses must constantly change directions to ensure sustainable, economically driven, and stable growth in the context of continued fragmentation of the global economy.

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