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The trade dispute between China and the USA and its potential economic implications

Julia Rampel

Seminargruppennummer: 142756 Matrikelnummer: 34136

Erstgutachter: Prof. Dr. Stefan Kolev

Zweitgutachter: Prof. Dr. Ralph Wrobel

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Julia Rampel	Tel.: 0170 312 52 19
Pöhlauer Str. 100	Julia.Rampel.dvf@fh-zwickau.de
08066 Zwickau	julia.rampel@gmx.de

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1. Introduction

1.1. Relevance of the topic

An omnipresent topic in the economic news of the current year 2018 were the developments regarding the smoldering trade dispute between the USA and China. Within short periods of time, a downright exchange of strikes between the administrations of the two countries evolved, with the President of the USA, Donald Trump, in particular, pithily announcing to China an increasingly serious threat of sanctions. Although the Chinese side was noticeably striving to de-escalate the verbal dispute, it also presented a series of sanctions which were described in the relevant press as so-called retaliatory tariffs.

The reason behind this diplomatic duel, however, has substance. It is evident that the USA and China share an exceptional status with regard to economic fundamentals. The US has the largest international trade deficit of US$ 375.2 billion vis-à-vis China. China, on the other hand, is by far the largest creditor of the USA on an international scale and currently holds around US$ 1.2 trillion in government bonds. Accordingly, China exerts a major economic influence over the USA. This objective situation opposes the subjective self-reflection of the government under President Trump, which hardly misses an opportunity to operate on an international level with the help of supposed deals according to the credo "America first".

1.2. Problem definition

Although, as already mentioned, the international press reports minutely on the developments in the trade dispute between the USA and China, and also occasionally speculates on its effects, the author of this paper has noticed that the implications are represented comparatively selectively. However, it turned out that it was not possible in the course of the research work to identify an almost holistic economic view, which outlines potential effects, for example, starting with the balance of payments up to affected markets. In this context, the present paper is intended to contribute to identifying the observed research gap, to give some impulses and to point out further research potential.

1.3. Course of the investigation

With regard to the above, it was decided to divide the following work into five sections. In addition to the presentation of the relevance of the topic in Chapter 1, Chapter 2 discusses the Sino-American trade dispute, first giving a definition and then outlining a historical overview of the development of trade relations and the trade dispute between the two countries. In Chapter 3, which follows, target objects affected by the trade dispute are examined on a purely theoretical basis. Chapter 4 discusses the potential effects of the trade dispute on the target objects examined in Chapter 3. For this purpose, conceivable implications are simulated in three different scenarios in the sense of a case study approach. The last chapter summarizes the results of the study, gives a critical appraisal of the results obtained and provides an outlook on the relevant context.

2. The Sino-American trade dispute

2.1. Relevant definitions

A generally valid definition of the term trade dispute or trade war is not given in the relevant literature. Instead, a definition shall be given below, which was published in a 2009 research paper of Singapore Management University.

“A trade war refers to an economic conflict between two countries, caused by the fact that one country has imposed trade restrictions against the other, prompting the latter to retaliate in a tit-for-tat fashion by imposing higher tariffs or non-tariff barriers. Trade wars, which spiraled into a vicious circle during the Great Depression, would lead to a deterioration of bilateral trade relations. “[1]

Therefore, a trade war is aimed at making imported goods more expensive by introducing punitive tariffs and thus making goods produced in domestic countries more competitive. In this context, OECD (Organisation for Economic Co-operation and Development) defines tariffs as “a tax imposed on a good imported into a country. A tariff may be specific, when it is levied as a fixed sum per unit of the imported good, or ad valorem, when it is applied at a percentage rate with reference to the value of the import.”[2]

2.2. Historical overview of trade relations between China and the USA

“China-US economic and trade relations are the bilateral ties between the largest developing country and the largest developed country.”[3]

Remarkably soon after the founding of the United States of America in 1776, bilateral trade relations with the Chinese Empire began as early as 1784 with the arrival of the American merchant ship Empress of China in the port of Guangzhou.[4] In the historical context it should be noted that the above mentioned ship at that time still sailed under

[1] Hsieh, P. (2009), p. 372.
[2] OECD, URL: https://stats.oecd.org/glossary/detail.asp?ID=2647, Date: 07.10.2018.
[3] Ministry of Commerce of the People’s Republic of China (2017), p. 5.
[4] Compare to: Office of the Historian (2018), URL: https://history.state.gov/countries/issues/china-us-relations, Date: 21.08.2018.

the flag of the East India Company, thus to be assigned to the British Empire.[5] After America's independence from the British Empire, New York and Guangzhou became the most important trading ports between the two countries. As the table below shows, the main products to be exported by American merchants to China were furs, opium, sandalwood, silver, textiles, cotton and metals. In return, Chinese merchants mostly offered valuable goods such as silk, cloth, porcelain, and tea.[6]

Year	**Furs**	**Opium**	**Sandalwood**	**Silver**	**Other** (mostly textile, cotton, metals)
1817	4,3	8,4	2,9	78,8	5,6
1823	4,3	2,1	1,1	64,9	27,6
1827	4,2	13,9	3,7	42,5	35,7
1830	2,6	26,4	1,3	6	63,7

Table 1: Goods sold by Americans in Guangzhou by year in %.[7]

A turning point in United States-China relations was the founding of the People's Republic of China by Mao Zedong in 1949. On basis of the Soviet model, a Communist system was introduced, which is why China's trade relations were extinguished due to the impassable political barriers.[8] Mao was determined to transform China from a rural economy into an industrial giant. That is why he launched the "Great Leap Forward" in 1958 – 1961, where farms were collectivized into large communes and resources shifted to heavy industry, which was nationalized.[9] Following the "Great Leap Forward" Mao introduced the "Cultural Revolution" in 1966, which followed the goal of reestablishing the Maoist thought and ban all capitalist and traditional remnants from the Chinese society, as well as regaining the former political strength the communist party lost after "The Great Leap Forward".[10] As a consequence, China isolated itself politically and economically.

After nearly 25 years of political and economic standstill between China and the USA, two significant political aspects marked monumental turning points in Sino-American relations: On one side President Nixon's visit in 1972 to China, which set the foundation

[5] Compare to: Hunt (1983), p. 6.
[6] Compare to: Wagener, D. (2017), p. 11.
[7] Own presentation, compare to: Aslam, F./Yu, W. (2016), p. 59.
[8] Compare to: Chiao, Hui-Fang (2014), p.13.
[9] Compare to: Dabringhaus, Sabine (2009), p. 132 ff.
[10] Compare to: Schmidt-Glintzer, Helwig (2008), p. 227 f.

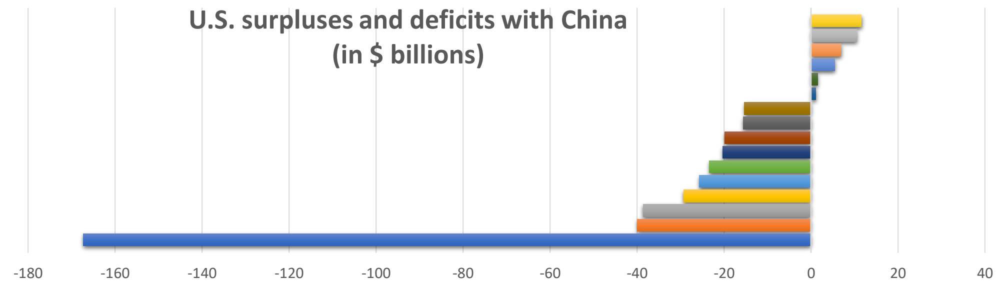
for political and economic harmonization between the two nations, on the other side the change of political leadership with Deng Xiaoping's promotion of the Open-Door-Policy in China.[11]

Year	1980	1990	2000	2010	2011	2012	2013	2014	2015	2016	2017
U.S. Exports	3,8	4,8	16,3	91,9	104,1	110,5	121,7	123,7	115,9	115,6	130,4
U.S. Imports	1,1	15,2	100,1	365,0	399,4	425,6	440,4	468,5	483,2	462,6	505,6
U.S. Trade Balance	2,7	-10,4	-83,8	-273,0	-295,3	-315,1	-318,7	-344,8	-367,3	-347,0	-375,2

Table 2: U.S. Merchandise Trade with China 1980-2017 ($ in billion)[12]

Following the reestablishment of the Sino-American diplomatic relations, by signing a bilateral trade agreement and providing a mutual most-favored-nation (MFN) treatment, beginning in 1979, trading between China and the United States started to rise rapidly.[13] As Table 2 shows, the total trade volume quickly quadruplicated from approximately $ 5 billion in 1980 to $ 20 billion in the following ten years, steadily rising to $ 636 billion in 2017. With China being a rather small trading partner in the early 1980's, it now holds the status of the United States' most important trading partner.[14] However, it is to be mentioned that besides the astonishingly high trade volume, the United States' imports from China outweigh by far its exports to China, leaving America's trade balance with over $ 350 billion far in the negative. The figure below shows the United States' trading surpluses and deficits, respectively China's deficits and surpluses classified by trading goods.

[11] Compare to: Office of the Historian (2018), URL: https://history.state.gov/countries/issues/china-us-relations, Date: 21.08.2018.
[12] Own presentation, compare to: Morrison, W. (2018), p. 2.
[13] Compare to: Huo, J. (2013), p. 4 f.
[14] Compare to: Morrison, W. (2018), p. 2.



Textiles	11,6
Transportation	10,5
Oil & Gas	6,9
Waste & Scrap	5,5
Minerals & Ores	1,5
Forestry Products	1,1
Farm Crops	-15,3
Plastic & Rubber	-15,6
Leather	-19,8
Fabricated Metal	-20,3
Furniture	-23,4
Machinery	-25,7
Apparel	-29,3
Other manufactoring	-38,6
Electrical Equipment	-39,9
Computers & Electronics	-167,3

Figure 1: U.S. surpluses and deficits with China.[15]

2.3. Current trade dispute between China and the USA

The course and effects of the current trade dispute between the PRC and the United States can only be understood if realizing that the US has a history of trade deficits with its trading partners. Showing a negative trade balance with eight of the ten most important trading partners, the US's trade deficit with China described in point 2.2 is by far the largest with the import volume from China exceeding the export volume to China almost fourfold.[16]

Considering the objectively measurable economic factors described above, the beginning of the most recent trade dispute can already be traced back to the election campaign phase of the current US President, Donald Trump. His omnipresent slogans "make America great again" and "putting America first" were particularly aimed at raising the issue of the alleged victim role of the USA in relation to international trade connections. He argued that the trade deficit, which has grown over decades is due to two major factors: On one side, Donald Trump argues that China is artificially keeping its currency low in order to export manufactured goods more advantageously, which at the same time means that goods imported from the USA are becoming more expensive

[15] Own presentation, compare to: Cushman & Wakefield (2018), p. 5.
[16] Compare to: Felbermayr, G./Steininger, M./Yalcin, E. (2017), p. 29.

due to the – from the American perspective – disadvantageously RMB-Dollar ratio.[17] On the other side, the American president claims that Chinese companies copy ideas and products from America to be able to sell the in China produced goods notably cheaper than the expensive imported goods from the US.[18]

After Trump took office in 2017, he continued his communication style based on the above slogans and shared it via social media platforms such as Facebook and Twitter. This repeatedly included small strikes against China, mostly via Twitter, without intending an escalation with the trading partner. For nearly one year the Trump administration was preparing to take countermeasures against the - in the opinion of the American president - unfair trade policies of the US's main trading partners, in particular China. Approving tariffs on washing machines and solar cells on January 22nd, 2018 marks the beginning of the before announced measurements against the United States' trading partner.[19] With reference to this threatened collection of duties by the US government, the Chinese government's reaction was not long in coming. In early February, their authorities announced that they were initiating a one-year anti-subsidy investigation into sorghum imported from the USA. The United States government's subsequent reaction in March 2018 triggered a dynamic in the trade dispute. Within a few weeks, several measures were announced, which rapidly increased the number of potential tariffs. In addition, the rivals not only settled the trade dispute in the form of announcements among themselves, but also involved international institutions such as the WTO.

The figure below shows a timeline of the sanctions, both introduced by China and the USA. For better comprehensibility, the sanctions introduced by the USA were marked blue, those imposed by China in red.

[17] Compare to: Ankenbrand, H. (2016), URL: http://www.faz.net/aktuell/wirtschaft/agenda/debatte-trump-gegen-clinton-haelt-china-seine-waehrung-kuenstlich-niedrig-14455062.html, Date: 23.08.2018
[18] Compare to: South China Morning Post (2018), URL: https://www.scmp.com/news/china/diplomacy-defence/article/2128837/donald-trump-considering-big-fine-over-china, Date:26.08.2018.
[19] Compare to: Cushman & Wakefield (2018), p. 3.

January

- 22.01.2018: U.S. imposes safeguard tariffs on washing machine and solar cell imports.

February

- 04.02.2018: China starts a one-year anti-subsidy investigation into sorghum imported from the U.S.

March

- 09.03.2018: Trump signs tariffs on imported steel and aluminum from all nations, including China.
- 22.03.2018: U.S. proposes tariffs in response to China's "unfair trade practices" related to technology transfer, IP, and innovation.
- US complains to WTO about Chinese protection of IP.
- 23.03.2018: China unveils tariffs on $3 billion of U.S. imports in response to steel and aluminum tariffs.

April

- 02.04.2018: China says it will start levying tariffs on $3 billion of U.S. imports including fresh fruits, nuts, wine and pork.
- 03.04.2018: The U.S. releases a list dominated by high-tech industrial products as targets for proposed tariffs on $50 billion worth of imports.
- 04.04.2018: China says it will levy an additional 25 percent tariff on imports of 106 U.S. products.
- China complains to WTO about the section 301 tariff action by the U.S.
- U.S. responds to China's WTO complaint on the section 301 tariffs, calling it baseless.
- 05.04.2018: China complains to the World Trade Organization about U.S. tariffs on steel and aluminum imports.
- 10.04.2018: Xi promises to open up various sectors including autos and finance.
- 16.04.2018: U.S. penalizes China's ZTE for violating a previous agreement punishing it for doing business with Iran and North Korea. The company is banned from buying U.S. technology for seven years.
- 17.04.2018: China announces it will collect anti-dumping tariffs on sorghum imports from the U.S.

May

- 03/04.05.2018: Trade talks in Beijing. No agreement is reached.
- 20.05.2018: Both nations reach an agreement and issue a joint statement. The U.S. agrees to hold off on tariffs. China has offered to significantly increase purchases of U.S. goods.
- 22.05.2018: China will cut import duties on cars to 15% from 25%.
- 25.05.2018: U.S. announces a $1.3 billion fine and other punishments for ZTE, but will allow company to resume purchasing from American suppliers.
- 28.05.2018: U.S. accuses China of imposing laws that result in the theft of U.S. tech and IP.
- 29.05.2018: China said to be considering buying more U.S. coal to narrow trade deficit. U.S. announces that it's moving ahead with tariffs on $50 billion of imports. U.S. announces plan to limit some visas for Chinese citizens to protect intellectual property.
- 30.05.2018: China announces cuts to tariffs on some consumer goods, to start July 1.

June

- 06.06.2018: China said to offer to buy $25 billion more in U.S. goods in 2018.
- 15.06.2018: U.S. announces tariffs on $50 billion of imports from China, with Trump threatening more if China retaliates.
- 19.06.2018: Trump says U.S. looking to put tariffs on another $200 billion of Chinese exports, with another $200 billion after that if China retaliates.
- 27.06.2018: Trump agrees to less aggressive option to limit Chinese investment in the U.S.

July

- 06.07.2018: Tariffs on $34 billion in imports begin.
- 06.07.2018: Tariffs on $34 billion in imports begin.

Planned

- Tariffs on $16 billion in imports.
- Tariffs on $16 billion in imports, depending on U.S. actions.
- President Donald Trump imposes tariffs on another $200 billion in Chinese exports.

Figure 2: timeline of the course of the current trade dispute.[20]

[20] Own presentation, compare to: Bloomberg News (2018), URL: https://www.bloomberg.com/news/articles/2018-07-06/the-trade-war-is-on-timeline-of-how-we-got-here-and-what-s-next, Date: 23.08.2018.

The figure above focuses particularly on the timing of the events of the trade dispute. Both as a summary and in addition to this, the following table provides information on which party threatened or imposed tariffs on the other party as well as the product group and trade volume.

Imposer	Subject	Rate	Imposed or threatened
US	Washing machines	20% - 50%	Imposed
US	Solar panels	30%	Imposed
US	Steel	25%	Imposed
US	Aluminum	10%	Imposed
US	$50 billion of goods	25%	Imposed
China	$50 billion of goods	25%	Imposed
US	$200 billion of goods	10% (25% threatened)	Imposed
US	$267 billion of goods		Threatened
China	$60 billion of goods	5% - 10%	Imposed

Table 3: Threatened and imposed tariffs.[21]

If taking a closer look at the tariffs announced by the Chinese government, it is obvious that goods of the agricultural sector, which are predominantly produced in the South and Midwest of America, are disproportionately often affected. A possible explanation for this is that China is deliberately trying to weaken President Donald Trump's political platform to the extent that the population of those very states tends to be traditional and conservative and thus closer to the Republican party. With the aim of weakening the economy in these states through trade tariffs, it was the Chinese government's intention to reduce the population's political approval of the US president and thus prevent a possible re-election.[22] [23]

In connection with the timeline above, the following table provides excerpts of which classes of goods are affected by tariffs on both the US and Chinese sides.

Accordingly, for better clarity, Chinese goods hit by US tariffs will be marked red, US goods hit by Chinese tariffs will be marked blue.

[21] Own presentation, compare to: Market Watch, URL: https://www.marketwatch.com/story/trade-war-tracker-here-are-the-new-levies-imposed-and-threatened-2018-06-22, Date: 30.09.2018.
[22] Compare to: Der Tagesspiegel (2018), URL: https://www.tagesspiegel.de/wirtschaft/trumps-neuste-strafzoelle-schlechte-laune-vonkansas-bis-nord-dakota/22933190.html, Date: 29.08.2018.
[23] Compare to: Eater (2018), URL: https://www.eater.com/2018/7/18/17527968/food-tariffs-trump-canada-china-mexico-eu, Date: 29.08.2018.

Chinese goods hit by US tariffs		US goods hit by Chinese tariffs	
Product Group	*Specific Products*	*Product Group*	*Specific Products*
Vehicles	▪ Some motor vehicles with diesel engines ▪ Some motor vehicles with electric motors ▪ Some motorcycles, including mopeds ▪ Helicopters ▪ Some airplanes and other powered aircraft ▪ Airplane parts ▪ Ferry boats and cruise ships	Poultry	▪ Frozen beef ▪ Fresh or cold pork ▪ Dried, smoked or salted pork belly ▪ Frozen chicken nuggets ▪ Frozen whole duck
Industrial machinery	▪ Nuclear reactors ▪ Chassis fitted with engines for some vehicles ▪ Hydraulic turbines ▪ Machines for sorting fruit or other agricultural produce ▪ Metal-rolling mills ▪ Molds for glass, rubber or plastics ▪ Railway track fixtures ▪ Electric welding apparatus	Fruit and vegetables	▪ Farming potatoes ▪ Mushrooms ▪ Truffles ▪ Apples ▪ Cherries ▪ Avocados
Spacecraft and technology	▪ Spacecraft launch vehicles ▪ Communication satellites	Dairy products	▪ Butter ▪ Cream ▪ Yogurt
Medical devices	▪ Pacemakers ▪ X-ray generators ▪ UV apparatus ▪ Anesthetic instruments ▪ Optical instruments	Fish	▪ Frozen red salmon ▪ Frozen mackerel ▪ Frozen yellowfin tuna
Other	▪ Parts of equipment for checking semiconductor devices ▪ Some microscopes and telescopes ▪ Seismographs	Seafood	▪ Frozen squid ▪ Lobster ▪ Canned shark fin ▪ Octopus ▪ Sea urchins
		Tobacco	▪ Tobacco cigarettes ▪ Tobacco cigars ▪ Unstemmed tobacco
		Pet food	▪ Canned cat food ▪ Canned dog food
		Beverages	▪ Whiskey ▪ Modified ethanol ▪ Non-frozen orange juice with less than 20% sugar
		Vehicles	▪ Some passenger cars ▪ Some small passenger cars ▪ Some off-road vehicles

Table 4: Goods affected by tariffs of the US and China.[24]

[24] Own presentation, compare to: CNN Money (2018), URL: https://money.cnn.com/2018/07/06/news/economy/china-us-tariffs-list/index.html, Date: 26.08.2018.

2.4. The impact of the trade dispute on relevant markets

On the basis of the above-mentioned remarks regarding the chronology of the trade dispute, it is to be assumed that, in the narrower sense, the introduction of tariffs will make the products of the trading partner concerned more expensive domestically. The intention behind this measure is to make domestic products more competitive or cheaper compared to imported goods. As a result, domestic products are expected to be demanded in greater quantities, which is why, ceteris paribus, domestic production capacities increase in order to satisfy the increased demand. Accordingly, the implications are not limited to the change in demand from imported to domestic goods, which from an economic point of view is reflected in the balance of payments in the narrower sense. In the broader sense, effects on the labor markets and financial markets are also expected to be observed.

In this context, relevant economic theories will be discussed in chapter 3, which will then be practically examined in chapter 4 on the basis of scenarios.

3. Relevant Theories

The following sections examine, on a purely theoretical basis, selected economic aspects on which medium to long-term implications of the trade dispute between the USA and the PRC can be expected.

3.1. Significant components of the balance of payments

The International Monetary Fund defines the balance of payments as “a statistical statement that systematically summarizes, for a specific time period, the economic transactions of an economy with the rest of the world. Transactions, for the most part between residents and nonresidents, consist of those involving goods, services, and income; those involving financial claims on, and liabilities to, the rest of the world; and those (such as gifts) classified as transfers, which involve offsetting entries to balance—in an accounting sense—one-sided transactions.”[25]

Since the balance of payments of a country is based on a specific time period (typically a quarter of a year or a year), only flow statistics are taken into account. While the company balance sheet is based on the asset structure as of the balance sheet date, the balance of payments includes the change of individual positions within a certain period of time. Therefore, the main difference between the balance of payments and a company balance sheet lies within the periodicity, consequently both types are incomparable. If anything, the balance of payments can be compared to a company’s income statement, considering both make use of flow statistics. Whereas the income statement of the company shows earnings and expenses, the balance of payments contains inflows and outflows of goods and capital.[26]

In general, the balance of payments consists of two main sub-balances: The current account and the capital account. Like the figure below shows, those said sub-balances can then again be sub-divided into different categories.[27]

[25] International Monetary Fund (1993), p. 6.
[26] Compare to: VWL Virtuell, URL: http://www.vwl-virtuell.de/themen/ZB.pdf, Date: 30.08.2018.
[27] Compare to: OECD – Balance of Payments (2013), URL: https://stats.oecd.org/glossary/detail.asp?ID=154, Date: 17.08.2018.

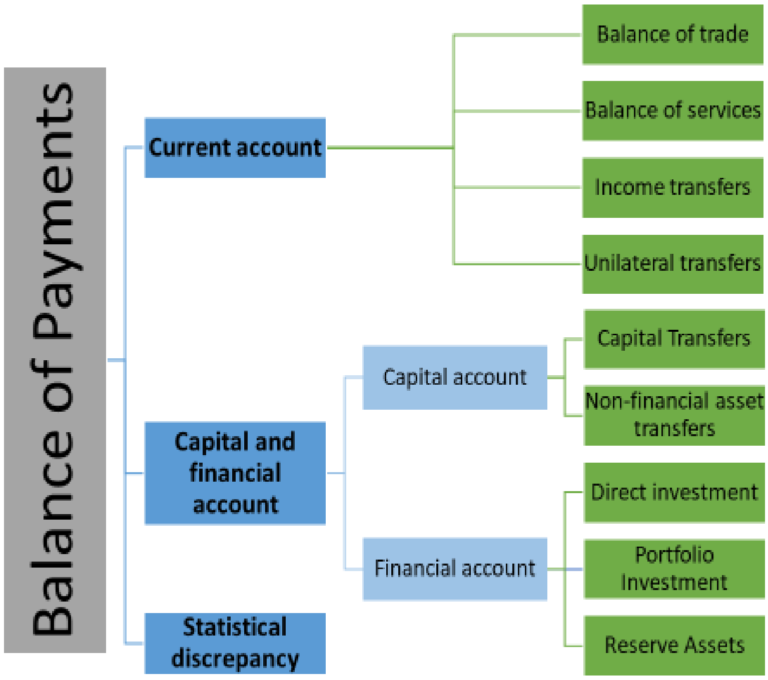


Figure 3: Components of the balance of payments.[28]

Based on the figure above, the structure of a balance of payments is briefly presented below using a real example. For clarification, it should be noted that exported goods are numerically assigned to the category credits and imported goods vice versa as debits.

Item	Balance	Credit	Debit
I. Current account	2197	27992	25795
1. Goods and Services	2840	25451	22611
(i) Goods	4760	23541	18782
(ii) Services	-1920	1909	3829
2. Income	-341	2130	2471
3. Current transfers	-302	411	714
II. Capital and Financial Account	382	25730	25347
1. Capital Account	0	19	20
2. Financial Account	383	25710	25328
(i) Direct Investment	2087	4352	2266
(ii) Portfolio Investment	824	1664	840
(iii) Other investments	-2528	19694	22222
(iv) Reserve Assets	-1178	312	1490
III. Net Errors and Omissions	-1401	0	1401

Table 5: China's Balance of Payments Statement, in US$ 100 million, 2014.[29]

[28] Own presentation, compare to: Case, K./Fair, R./Oster, Sharon (2012), p. 375 ff.
[29] Own presentation, compare to: China's Balance of Payments Report (2014), URL: http://www.safe.gov.cn/wps/wcm/connect/2f126480489e9b5a8bffebd217e96361/2014+China's+Balance+of+Payments+Report.pdf?MOD=AJPERES&CACHEID=2f126480489e9b5a8bffebd217e96361, Date: 31.08.2018.

After all current account and capital account data have been calculated, the model of a perfect balance of payment would balance. Since it is obvious that mainly due to different sources of data (e.g. customs, banks, supplier), which can lead to different sums in the bookings, the balance of payments is not balanced. However, just like a company balance sheet, the balance of payments must be balanced after all entries have been booked. To ensure this, a third component – the statistical discrepancy –, which serves solely and exclusively the purpose of a balanced balance of payments, has been added to the balance of payments.[30]

3.1.1. Current account

The first part of the balance of payments is the current account, which is the record of the inflow (credit) and outflow (debit) of money to and from the country during a specific time period (typically a quarter of a year or a year), due to the trading of goods, services and income.[31] If one country (country 1) transfers more to another country (country 2) than it receives from it, it generates a current account surplus, at the same time, the trading partner (country 2) runs a current account deficit with country 1. Country 2 must then compensate said deficit with from country 1 borrowed money (foreign exchange). Having created a surplus of its own currency (currency that is not being consumed or invested), country 1 will now invest into foreign capital (bonds, direct investments, bank loans, financial derivatives, etc.) in order to gain return on investment (ROI).[32]

The main components of the current account include:[33]

- Balance of trade:

The balance of trade consists of the exports and imports of goods, which is directly linked to incoming (for exports) and outgoing (for imports) payments. Given exports of goods were greater than imports of goods, the balance of payments shows a positive trade balance. If trade imports exceed trade exports, the trade balance is negative. (Net-trade balance = Trade Exports – Trade Imports)

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[30] Compare to: Case, K./Fair, R./Oster, Sharon (2012), p. 378.
[31] Compare to: Rokicki, B. (2010), p. 5 ff.
[32] Compare to: Borger, K. (2017), p. 2.
[33] Compare to: Case, K./Fair, R./Oster, Sharon (2012), p. 376 ff.

It has to be noted that trade figures from the US and China usually show relatively high discrepancy. One reason for this stems from both countries using different methods of valuing their exports and imports. China values its exports using the F.O.B. (free on board) method, which includes the cost of transporting the goods to the port and loading them onto the ship, and the C.I.F. (cost, insurance, freight) method, which adds the cost of insurance and shipping (freight) to the value of the imported goods, for its imports.

The US values its exports using the F.A.S. (free alongside) method, which does not include the costs of clearing the goods for export and loading the goods, and the C.V. (Customs Value) method, which includes the total value of goods in the shipment without adding costs for insurance and shipping, for its imports.[34]

As an example and for clarification, the following table shows the top five discrepancies for US imports from China.

Goods	US Imports from China (US data, using C.V.)	China's Exports to US (Chinese data, using F.O.B.)	Difference
Electrical Machinery	146.997	107.120	39.878
Machinery	109.629	91.429	18.200
Toys & Sporting Goods	25.524	19.042	6.482
Optical and Medical Equipment	11.958	9.660	2.298
Footwear	14.255	12.037	2.219

Table 6: Top five discrepancies for US imports from China, 2017, in $ billions.[35]

- <u>Balance of services:</u>

Besides the balance of trade, the balance of services is another component of the current account. It includes services that a country buys from or sells to other countries. For example, a US company selling grains to China might purchase a Chinese

[34] Compare to: Martin, M. (2018), p. 2-5.
[35] Own presentation, compare to: Martin, M. (2018), p. 4.

insurance for the shipment or a Chinese company flies apparel to the US using the services of American Airlines. In the first case, the US buys services from China, which means the US uses up foreign exchange to pay for the service. In the second case, the US sells services to China and therefore earns foreign exchange.[36] If service imports exceed service exports, the balance of services is negative. (Net-balance of services = Service Exports – Service Imports)

- Income transfers:

The income transfer balance sheet includes the kind of income that was earned abroad by residents of a country or by foreigners in the inland. Income from employment is defined as all income from compensation of employees, such as the income of cross-border or seasonal workers. Investment income is income from foreign direct investment or investment in securities, for example.[37]

- Unilateral transfers:

Unilateral transfers (=Current Transfers) are cross-national transfers of money where nothing is received in return, such as workers remittances, pensions, aids and donations.[38]

3.1.2. Capital and financial account

Within the balance of payments, the capital and financial account acts as the counterpart to the current account. While the current account records flows of goods, the capital and financial account records capital movements between a country and the rest of the world.[39] For every record in the current account, a counterpart record in the capital and financial account is being booked. For this reason, the sum of the balance of the capital and financial account equals the sum of the balance of the

[36] Compare to: Case, K./Fair, R./Oster, Sharon (2012), p. 376.
[37] Compare to: Graf, C./Grimme, C. (2017), p. 38.
[38] Compare to: International Monetary Fund (1993), p. 40.
[39] Compare to: Dorman, P. (2014), p. 65.

current account with the opposite algebraic sign.[40] The reason for the two accounts to have the opposite algebraic sign can be explained using the following example:

A US company exports a $20,000 car to China. While the outflow of the vehicle is being recorded in the current account as – $20,000, the payment of the Chinese buyer will be recorded as an inflow of + $20,000 in the capital account. Broadly speaking, if capital is exported, the amount of receivables from abroad increases or possibly liabilities to foreign countries are being reduced. Accordingly, a capital import is an increase in liabilities and a decrease in receivables from abroad.

As well as the current account, the capital and financial account can also be subdivided into segments.

- Capital account:

The capital account records all capital transfers and non-financial asset transfers between residents and non-residents of a country. Capital transfers include debt forgiveness, non-life insurance claims and investment grants. Non-financial asset transfers include the purchase or use of natural resources that have not been produced.[41]

- Financial account:

The financial account records all direct investments, portfolio investments and reserve assets.[42] Direct investments are international investments with the objective of a resident to obtain lasting interest in an enterprise resident in another country.[43] OECD defines portfolio investments as “the category of international investment that covers investment in equity and debt security, excluding any such instruments that are classified as direct investment or reserve assets.”[44] Another important sub-balance of the financial account is the foreign exchange balance, also the balance sheet of the reserve assets. This subdivision often leads to misunderstandings, as it is presumed to be the foreign exchange holdings in the country itself. However, it is merely the

[40] Compare to: Case, K./Fair, R./Oster, Sharon (2012), p. 378.
[41] Compare to: Compare to: International Monetary Fund (1993), p. 77.
[42] Compare to: Compare to: International Monetary Fund (1993), p. 79.
[43] Compare to: OECD, URL: https://stats.oecd.org/glossary/detail.asp?ID=1028, Date: 28.09.2018.
[44] OECD, URL: https://stats.oecd.org/glossary/detail.asp?ID=2092, Date: 28.09.2018.

change in the volume of foreign exchange held by the national central bank. The central bank not only owns the domestic currency, but also reserves of foreign currencies. The US Federal Reserve System, for example, owns, in addition to the U.S. dollar other currencies, such as the Euro, the Yuan or the Pound. These currency reserves serve as a reserve for economic crises and explicitly to control the supply of money. Depending on its requirements, the central bank can buy or sell the corresponding foreign currency on the private investment markets. [45]

3.2. Labor market

Given the emerging developments in the bilateral establishment of trade barriers between the US and the PRC, it is likely that the implications of these policy measures for the labor market of both economies in particular are to be expected. In the following, the labor markets will be examined in more detail, on the one hand, because of its national economic significance for the respective countries is evident. On the other hand, a closer examination is necessary due to the fact that an exclusive examination of the balance of payments with its partial balances is not sufficient for a holistic analysis of the effects of the trade dispute on both countries.

3.2.1. Definition

The Economic Times defines the labor market as “the place where workers and employees interact with each other. In the labor market, employers compete to hire the best, and the workers compete for the best satisfying job.” [46] Labor supply is determined by population trends, labor force participation, wages and preferences for holidays and working hours. The labor supply is summarized in the labor force potential. By multiplying the labor force potential by the desired annual average working time, the desired volume of work (labor supply) is determined. The main determinants of labor demand are the macroeconomic demand for goods and services, wages and salaries, production conditions, a companies' expectations for the future and

[45] Compare to: Compare to: International Monetary Fund (1993), p. 97-100.
[46] The Economic Times, URL: https://economictimes.indiatimes.com/definition/labour-market, Date: 28.09.2018.

framework conditions. Labor demand includes the volume of employment, which is made up of the period of employment offered and the number of jobs available.[47]

There is a broad consensus in sociology on the specific characteristics of labor markets versus product markets. One reason for this are the characteristics of labor supply, which cannot increase or decrease like other goods depending on demand and prices (wages), because people without capital income are dependent on the sale of labor. This results in a certain rigidity of supply, even with varying demand. Secondly, demand for labor cannot respond directly to supply either, as it depends partly on global capital and sales markets. Sales expectations of companies and public orders determine the demand for labor. A third special aspect of labor markets is the structural asymmetry of power between demand and supply, which results from the wage dependency of households on the one hand and the high mobility of capital on the other. Labor supply cannot withdraw from the labor market in the absence of demand: Persistent underemployment and mass unemployment are the consequences.[48]

3.2.2. Theoretical models of the labor markets

The range of theoretical approaches to explaining the unemployment problem is very diverse. In addition to the two "basic theories" (the Keynesian model and the Neo-Classical model), which are rather part of basic economic theory, there are theories and approaches that refer specifically to the labor market and its peculiarities. The range of economic labor market theories is so manifold that only the two basic ones will be presented on these pages.

- The neo-classical model:

The neoclassical basic model of the labor market follows the assumption that the "invisible hand" of competition leads to optimal allocation results as long as the "right" framework conditions permit the free play of market forces. Unwanted conditions on the labor market are explained by restrictions of free competition. The neo-classical theory assumes that the labor market is a market like any other merchandise market. A market balance between supply (potential employees) and demand (potential

[47] Bundeszentrale für politische Bildung, URL: https://www.bpb.de/nachschlagen/lexika/lexikon-der-wirtschaft/18676/arbeitsmarkt, Date: 28.09.2018.
[48] Compare to: Maurer, A. (2017), p. 276.

employers) depends primarily on the price mechanism, i.e. the wage level.[49] Unemployment can therefore only arise as a result of excessive real wages and can only be reduced by lowering these excessively high wages (market clearance). The consequence of this theory is that there can be no permanent, involuntary unemployment.[50] If unemployed people really want to work, they merely have to reduce their wage demands. Unemployment can therefore only arise from a short-term imbalance.

- The Keynesian model:

In contrast to the neoclassical labor market theory, the British economist John Maynard Keynes assumes that economic downturns with high unemployment cannot be eliminated by the mere interaction of supply and demand on the market, but by a well-timed increase in government spending. Increased government spending increases overall economic demand. More demand leads to more employment, more income for households and consequently more purchasing power, which in turn increases overall economic demand. The economist's model provided a new explanation for the global economic crisis and mass unemployment of the 1930s.[51]

3.3. Financial markets

3.3.1. Definition and components of financial markets

A financial market is defined as a monetary market that is used to trade financial instruments.[52] It combines the supply and demand of financial resources which are traded in the form of financial products. The financial market is divided into a total of four sub-markets: Credit market, money market, capital market and foreign exchange market, although the lines between credit market, money market and capital market particularly merge. Especially in relation to the money and capital markets, different

[49] Compare to: Müller, K. (2003), p. 159.
[50] Compare to: Junankar, P.N. (2016), p.6.
[51] Compare to: Krugman, P. (2018), p. XXVIII.
[52] Compare to: Piekenbrock, D./Hasenbalg, C. (2014), p. 199.

maturities and accordingly differently constructed financial products can be seen as separating characteristics.[53]

The following chart provides an overview of the structure and the respective components of the financial market:

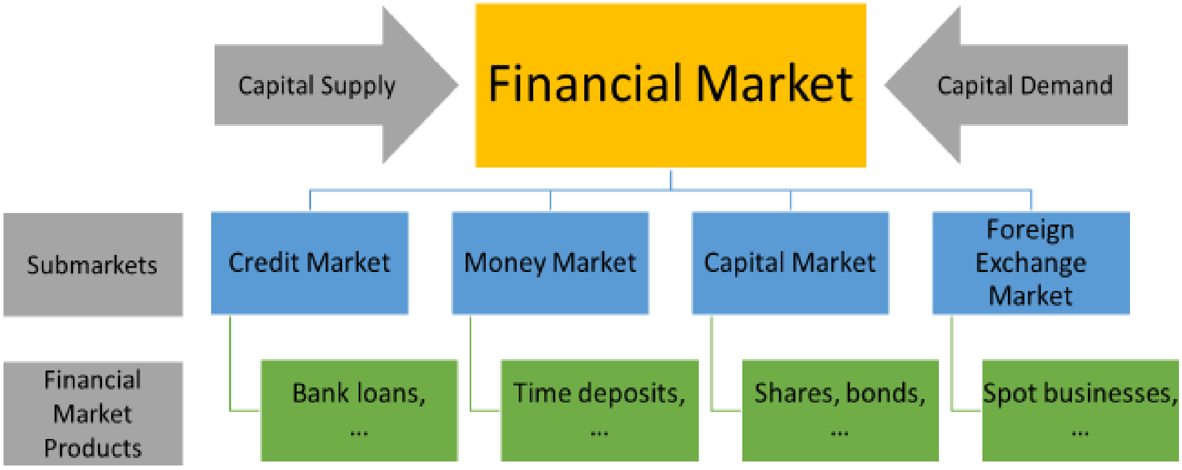

Figure 4: Structure and components of the financial market.[54]

Financial markets have three functions. Firstly, they are a medium for the procurement of financial resources by capital seekers and, in this context, also a medium for the investment of financial resources by capital providers. Within the course of this interplay of supply and demand, the financial markets also fulfil the function of securing financial risks.[55] Banks, fund companies, insurance companies, other companies as well as private and public households act as capital demanders and providers on the financial markets.[56]

Although, as already mentioned, the financial markets are divided into four sub-markets, only the credit market, the capital market and the foreign exchange market will be considered in the following explanations.

The term "money market" refers to that part of the financial market in which supply and demand for short-term funds collide.[57] Short-term in this context are maturities of usually well below one calendar year, although maturities of up to two calendar years

[53] Compare to: Perridon, L./Steiner, M./Rathgeber, A. (2017), p. 183.
[54] Own presentation, compare to: Bösch, M. (2016), p. 38.
[55] Compare to: Schmeisser, W. et al. (2018), p. 184.
[56] Compare to: Becker, H. P. (2016), p. 126.
[57] Compare to: Perridon, L./Steiner, M./Rathgeber, A. (2017), p. 183.

are also possible. Overnight money and time deposits, money market papers, central bank facilities, forward rate agreements as well as other derivatives and bills of exchange, for example, are considered to be common money market trading instruments.[58] The financial products traded on the money market are largely standardized in their structure and their value is based on a so-called money market interest rate, which in turn is determined by the key interest rate of the respective central bank. The money market interest rate is defined as the interest rate at which a bank is willing to grant a loan to another bank.[59]

As the money market is particularly marked by the key interest rate, the money market is not included in the further considerations, since no effects of the trade war are to be expected on the key interest rate.

3.3.2. Sub-markets

- Credit market

The credit market is a locally, temporally and object-wise non-specific submarket of the financial market in which loans are offered - typically by credit institutes - and requested by all market participants.[60] These loans are understood to be a contractual agreement under the law of obligations whereby a debtor receives capital or other assets from a creditor for a limited period of time in return for a fee in form of interest.[61] Accordingly, the credit market is not centralized, for example organized through a stock exchange, but decentralized. Further characteristic features of the credit market are individually negotiated bilateral or multilateral loan agreements, regarding the amount and terms of the financing as well as the agreed interest rate, the repayment modalities and the deposited securities.

In this context, credit derivatives emerged as a second product group traded on the credit market in the early 1990s.[62] With these instruments, banks are in a position to manage their respective risk portfolios individually and not exclusively through

[58] Compare to: Wöhe, G. et al. (2013), p. 391 – 405.
[59] Compare to: Hull, J. C. (2014), p. 199.
[60] Compare to: Wöhe, G. et al. (2013), p. 261.
[61] Compare to: Piekenbrock, D./Hasenbalg, C. (2014), p. 115.
[62] Compare to: Hull, J. C. (2014), p. 37.

diversification, because they can be used to hedge the risks of individual loan agreements, such as the default risk or the interest rate development of variable rate contracts.[63]

- Capital market

The capital market is defined as a market in which long-term loans and equity capital are traded. Accordingly, the capital market includes all institutions and financial products aimed at medium to long-term capital allocation.[64] The market is characterized by both organized submarkets - in particular stock exchanges - and non-organized submarkets.[65] The second category will not be further examined in the following explanations because its boundaries to the credit market discussed above are not clearly defined. It should be mentioned that the term "capital market", which is the focus of this chapter, is not to be understood as the theory-driven financial capital market with its monetary, neo-classical and neo-institutionalist financing theories.[66]

Stock exchanges are defined as an organized and regulated market on which so-called fungible goods are traded.[67] The etymological origin of the term has not been clarified beyond doubt. The most probable origin is the Latin term bursa, which can be translated as leather bag or small money bag. The origins of the term can also be traced back to the patrician family van der Beurse, who lived in the Belgian city of Bruges. During the time of the hanseatic league they worked as merchants and moneychangers and their family coat of arms shows three wallets.[68] A characteristic feature of stock exchanges is that they are only used to complete an obligation transaction, whereas the actual realization of the transaction is executed at a future date outside the stock exchange. For this reason, market trading is standardized and is now almost fully automated by computerized systems. Regarding the traded goods, the stock exchanges can be divided into securities, currency and commodity exchanges on which particularly the trade with raw materials is carried out.[69] For further examination, only the stock exchanges will be discussed. Generally, the term

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[63] Compare to: Becker, H. P. (2016), p. 335 ff.
[64] Compare to: Bösch, M. (2016), p. 38.
[65] Compare to: Wierichs, G./Smets, S. (2010), p. 132 f.
[66] Compare to: Prätsch, J. et al. (2012), p. 31.
[67] Compare to: Wierichs, G./Smets, p. (2010), p. 37.
[68] Compare to: Klein, M. (2013), p. 226 f.
[69] Compare to: Olfert, K. (2013), p. 250 ff.

"stock" is to be understood as a document, which certifies a private right.[70] Stocks and bonds in particular are traded on stock exchanges. It should be mentioned that, in addition to the above-mentioned stocks, other financial products are also traded, such as mezzanine stocks, warrants, futures and derivatives, although these product groups should not be the subject of further discussion. Shares are issued by large capital market-oriented companies and represent denominated share capital, which means that companies use the issue of shares to generate capital that is to be treated as equity in the balance sheet.[71] If the shares have been issued, the company collects the funds. The buyer of the share is generally entitled to a dividend and also participates in the development of the value of the share, which can nowadays be determined in real time on the basis of the supply/demand ratio. Over a longer period of time, the share value rises or falls, the so-called volatility.[72] Considering the almost unmanageable number of different shares traded on stock exchanges, so-called stock indices were introduced as trend barometers. These are composed of a specific number of shares which together form a basket. The purpose of a stock index is to provide information about the price development on stock markets in general or about the price development of an industry or company size.[73] Examples of important stock indices in practice are the Dow Jones Industrial Average, the NASDAQ-100, the Standard & Poor's 500 (all US), the German Stock Index, the Nikkei 225 (Japan), FTSE 100 (Great Britain) or the Shanghai Stock Exchange Composite Index (China). The most important stock index of a country in its composition is the key index.[74] Bonds are another form of stocks. These are stocks that promise both interest and repayment, which is why they are classified as fixed-interest securities.[75] Capital market-oriented companies as well as public households issue bonds to the market, which are fragmented parts of a large-volume loan. Accordingly, both companies and public households collect funds that are classified as debt in the balance sheet.[76] Bonds, however, should not be considered further in this study, as the credit market has already been the subject of discussion above and bonds essentially also fall under the category of loans.

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[70] Compare to: Wierichs, G./Smets, S. (2010), p. 234.
[71] Compare to: Wöhe, G. et al. (2013), p. 83.
[72] Compare to: Heckmann, T. (2009), p. 26.
[73] Compare to: Thommen, J.-P. (2008), p. 24 f.
[74] Compare to: Klein, M. (2013), p. 432.
[75] Compare to: Wierichs, G./Smets, S. (2010), p. 9.
[76] Compare to: Prätsch, J. et al. (2012), p. 161 f.

- <u>Foreign exchange market</u>

The foreign exchange market is defined as a market on which supply and demand for foreign exchange meet, the term "foreign exchange" being used synonymously with the term "currency".[77] Accordingly, liquid funds of all international currencies are traded at the exchange rate resulting from the supply/demand ratio.[78] Given that both the globalized international trade in goods and the trade in non-material financial products result in cash flows on all virtual markets, which principally can be invoiced and settled in all currencies, the foreign exchange market is by far the largest submarket of the financial market in terms of trading volume, with a worldwide daily volume of approximately US$ 5.067 trillion.[79] Market participants are in particular private credit institutions which, as so-called financial intermediaries, carry out the settlement of foreign exchange transactions both on behalf of other market participants and for their own accounts, so that in terms of volume the largest part of foreign exchange trading is conducted in decentralized and thus over-the-counter inter-bank trading, for which reason centralized stock exchanges have lost significantly in importance in recent years.[80] Furthermore, in addition to comparatively few private companies and foreign exchange brokers, the participants include in particular central banks that intervene in the foreign exchange market primarily for economic policy reasons with the aim of eliminating existing serious value imbalances between their own and other currencies.[81]

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[77] Compare to: Wierichs, G./Smets, S. (2010), p. 61 f.
[78] Compare to: Hofmann, J. (2014), p. 50.
[79] Compare to: Bank for International Settlement (2016), URL: https://www.bis.org/statistics/d11_1.pdf, Date: 30.09.2018.
[80] Compare to: Hofmann, J. (2014), p. 126.
[81] Compare to: Wierichs, G./Smets, S. (2010), p. 241.

4. Practical effects of the trade dispute

As Chapter 2 presents both the basic definitions and the chronology of the currently simmering trade dispute between the USA and China and Chapter 3 focuses on the theoretical aspects of the discussion of potentially affected target objects, this chapter will focus on the potential effects of the trade dispute on these target objects.

Due to the fact that the trade dispute between the two countries is merely in an early stage and therefore an end cannot be foreseen, the following sections can only be prognostic and fraught with uncertainty. Even the international press does not fully agree on the implications of the further course of the trade war or is even divided.

On the basis of these facts, the investigations in this chapter are based on the economic instrument of scenario techniques. This term refers to a frequently used method for developing medium to long-term concepts of the future, which is why it is mainly used in both management studies and strategic management accounting.[82] In general, the instrument is suitable for modeling alternative environments and situations as a logical sequence of specific events.[83] This involves generating various independent scenarios taking into account the development of identified influencing factors and their interactions with each other.[84] Accordingly, using the scenario technique, it is possible to systematically simulate future circumstances by calibrating any possible parameters - e.g. political, legal, economic, social or technical.[85]

The best-known form of scenario technique in practical use is the so-called scenario funnel, which is illustrated in the figure below.

[82] Compare to: Alter, R. (2013), p. 111.
[83] Compare to: Baum, H.-G. et al. (2013), p. 398.
[84] Compare to: Buchholz, L. (2013), p. 203.
[85] Compare to: Fischer, T. (2015), p.508.

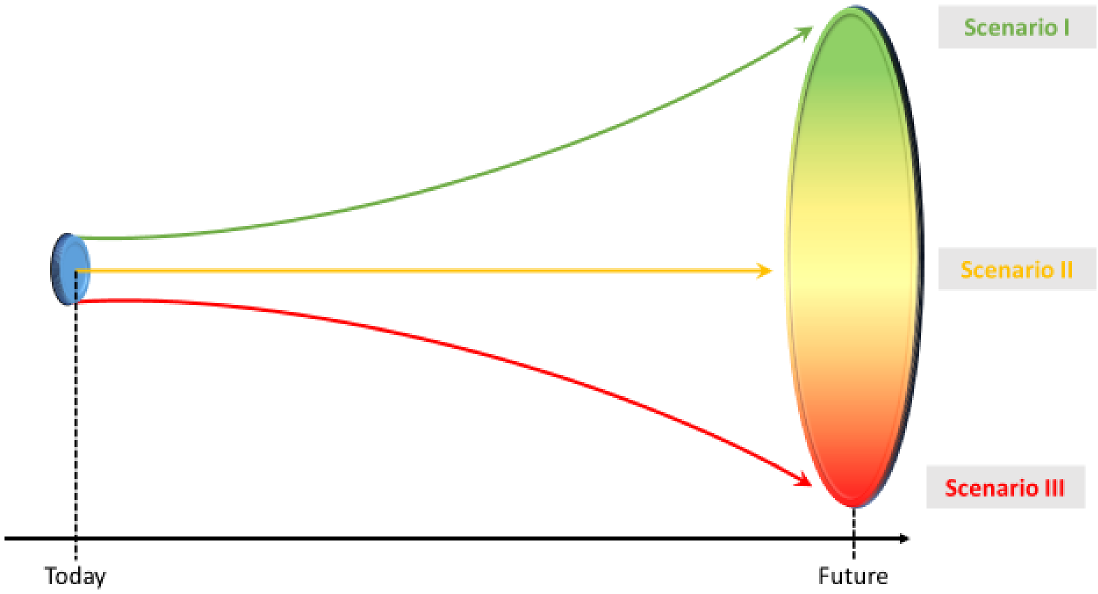

Figure 5: Symbolic illustration of a scenario funnel.[86]

The scenario funnel illustrates that the assumption of a unique future development is unrealistic. Instead, the variations of influencing factors lead to the fact that manifold future visions can emerge.[87] The fact that the funnel determines the range of variation by definition is important here, meaning that the scenario funnel is limited by subjectively setting two extreme scenarios. The so-called best-case scenario symbolizes a model for the future that is mostly free of disruptive influences or risks. The worst-case scenario, on the other hand, is characterized by the fact that strong disturbance variables and/or high risks are taken into account. Finally, the scenario funnel is characterized by a third future model, the so-called trend scenario, which represents a high probability of occurrence.[88]

The following case study design is therefore based on three different scenarios. Generally, a scenario should describe possible effects on the relevant theories presented in chapter 3 according to the tendency assumed by the author and underline the cause-and-effect structure with arguments. It is important to note that only trends are shown, but no statements are made about absolute or proportional value changes.

The basis for all three scenarios that follow is an envisaged meeting between the USA and China in which the further course of the trade dispute is to be negotiated

[86] Own presentation, compare to: Alter, R. (2013), p. 113.
[87] Compare to: Buchholz, L. (2013), p. 203.
[88] Compare to: Fischer, T. (2015), p. 508.

diplomatically.[89] Although this meeting has not yet taken place, three different scenarios can be drawn up on the basis of logical derivation alone: On the one hand, the effects of the trade dispute could at least be softened, and on the other hand, the status of the trade dispute, which has been in the focus of attention until now, can be maintained. Finally, a scenario can also be considered in which the total mutual trade volume between the USA and China is subject to a comparatively high tariffs, which de facto corresponds to an escalation of the trade dispute.

4.1. Scenario I: China drops tariffs

In this first scenario, which in this context functions as a best-case scenario, it is assumed, as part of the planned meeting, that the tariffs already imposed by the USA will drop to $200 billion at 25%.[90] This decision is the result of the Chinese government's intention to completely renounce existing tariffs in order to give the US the opportunity to reduce its trade deficit and to avert further, more serious effects of the trade war.

Imposer	Subject	Rate
USA	$200bn	25%
China	-	-

a) Effects of the trade dispute on the balance of payments

Due to the fact that Chinese products are subject to a 25% tariff, the prices for these products will be increased by this percentage. This assumption is based on the consideration that the Chinese producers will not lower the prices of their products in order to at least partially compensate for the effect of the increased tariffs, but will pass on the entire tariff to their customers.[91] As a result, Chinese products affected by the tariffs are becoming more expensive on the American market than domestic products, which is why American products gain in competitiveness, if not in affordability, and demand from consumers is on the rise. This means that the demand for Chinese

[89] Compare to: Tagesschau, URL: https://www.tagesschau.de/wirtschaft/usa-china-handelsstreit-105.html, Date: 10.102018.
[90] Compare to: UNION BANCAIRE PRIVÉE, URL: https://www.ubp.com/de/newsroom/chinas-trade-war-scenarios, Date: 10.10.2018.
[91] Compare to: Time, URL: http://time.com/money/5316029/trump-tariffs-product-prices/, Date: 10.10.2018.

products on the American market is declining, which is why import volumes are declining and, consequently, the trade deficit of the USA vis-à-vis China is decreasing. From the Chinese perspective, the export volume of own products to the USA will fall, which is why the trade balance surplus will be reduced by the same amount.

In the previous considerations it was assumed that the Chinese products are so-called finished goods. This means that these are goods that are immediately ready for sale to the end customer. However, these considerations must be broadened to the extent that China also supplies unfinished goods as supply products in the context of supply chains to American companies where final production takes place. It is therefore evident that American products are also affected by tariffs in the broader sense.[92]

Considering the aforementioned arguments that tariffs lead to an increase in the price of products imported from China, Chinese producers are seeking ways to minimize the economic implications of tariffs.[93] A plausible option will be for economically strong Chinese companies to set up a branch in the US to produce from there, directly offering the products on the US market and consequently avoiding the tariffs. In this context, it can be assumed that Chinese companies will make direct investments in the USA, which will have an immediate impact on the financial account. From an American perspective, foreign direct investment from China will therefore increase within the financial account. In contrast, in this scenario it cannot be assumed that the already existing volume of direct investment from the US on the Chinese market will change significantly as a result of the trade dispute, since no tariffs will be imposed from the Chinese side.

b) Effects of the trade dispute on the financial markets

Regarding the credit market, this scenario is based on the assumption that demand for borrowed capital will increase in the USA. One of the drivers for this is that American companies will expand their production capacities as a result of higher demand for domestic products, as explained in paragraph a). For this purpose, they will not only use their own financial resources but also those of third parties. Furthermore, it can

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[92] Compare to: The Street, URL: https://www.thestreet.com/investing/stocks/these-companies-have-come-out-with-warnings-amid-trump-trade-war-14632986, Date: 10.10.2018.
[93] Compare to: Phys.org, URL: https://phys.org/news/2018-09-chinese-companies-overseas-tariffs.html, Date: 10.10.2018.

also be assumed that Chinese companies will build up or expand their production capacities on the American market in order to avoid the tariffs that have been imposed. Both aspects lead to an increase in demand for loans, which is why interest rates are expected to rise. In China, the demand for capital will also rise as a result of the reduced export of own products to the USA and the associated moderate economic downturn, in order to achieve compensation effects.[94] Since a significant proportion of Chinese companies are partly under state control and partly nationalized[95], these capitalization measures have therefore been forcibly imposed on them, which is why an increase in interest rates can also be expected on the Chinese market.

Generally speaking, it should be noted that developments on the capital markets cannot be accurately predicted. On the one hand, capital markets are subject to very high volatility; on the other hand, in addition to the fundamental aspects of capital market theory, psychological dimensions of investors also play a significant role with regard to price developments. Currently, the US capital market in particular is historically in an exceptional situation, as the shares traded on it and - in a representative role - the Dow Jones Index are at an all-time high. The following chart illustrates this situation.

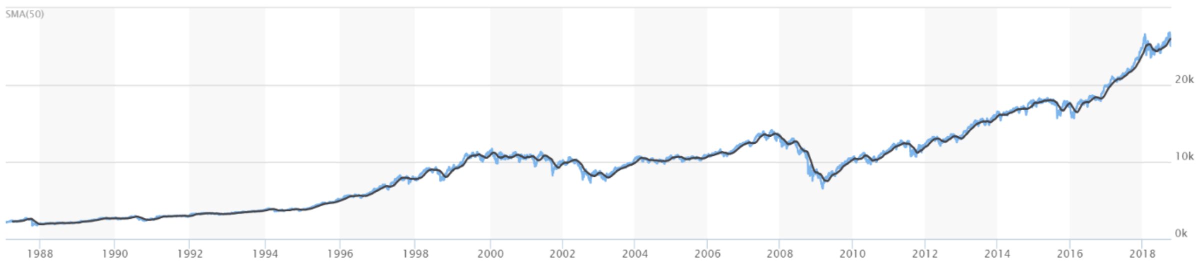

Figure 6: Historical overview of the Dow Jones Index.[96]

Under the defined conditions of this scenario, it can be assumed, based on the assumption that the increased demand for American products as well as the increased investment activity will be positively resonated by investors on the capital market, which is why, ceteris paribus, share prices and thus the general price level on the capital

[94] Compare to: The Guardian, URL: https://www.theguardian.com/world/2018/oct/07/china-pumps-109bn-into-economy-as-trade-war-bites-on-growth, Date: 11.10.2018.
[95] Compare to: Stuttgarter Nachrichten, URL: https://www.stuttgarter-nachrichten.de/inhalt.reformankuendigung-chinas-dilemma-mit-der-privatisierung.355b673d-3a4f-43c8-8c7c-1bb9e1b9df5c.html, Date: 11.10.2018.
[96] Market Watch: https://www.marketwatch.com/investing/index/djia/charts, Date: 16.10.2018.

market will rise.[97] It should be mentioned, however, that up to the planned meeting between the American and Chinese parties there is a state of uncertainty on the international capital markets. Since investors are generally risk averse, prices and thus the leading index could fall until both sides reach an agreement.[98] Regarding the Chinese share prices, which are represented by the Shanghai Composite, it should be noted that they have been moving sideways for several years, which is consistent with the stagnating to slightly positive fundamental data on the Chinese economy. The following chart illustrates the long-term development of the Shanghai Composite.

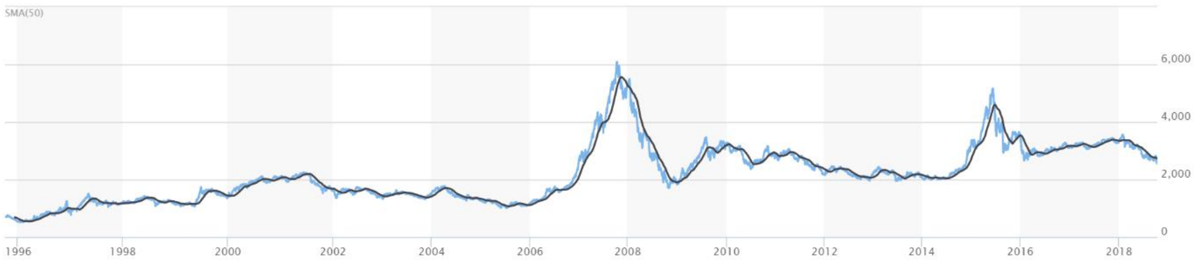

Figure 7: Historical overview of the Shanghai Composite Index.[99]

It is expected that the Chinese share price level will not change due to the impact of the trade dispute within the conditions of this scenario. Kurzfristige Auswirkungen des Handelsstreits auf die Arbeitsmärkte

Regarding the development of the USD/CNY exchange rate, it can be expected that the rate will rise.[100] One of the drivers of this development is that the falling demand for Chinese products will lead to an equally lower demand for the Chinese Yuan on international currency exchanges. In addition, the likely increase in investment activity by Chinese companies on the American market should also be mentioned in this context, which is the reason why demand for the USD is rising. Both effects have a positive effect on the USD/CNY exchange rate.

To be complete, it should be mentioned that the Chinese central bank has already taken measures in recent months to devalue the Chinese yuan. Likewise, the USD

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[97] Compare to: Börse Online: URL: https://www.boerse-online.de/videos/hohe-nachfrage-nach-iphone-apple-aktie-%C3%BCber-700-dollar_7306, Date: 11.10.2018.
[98] Compare to: Welt, URL: https://www.welt.de/print/die_welt/finanzen/article175173269/Verschaerfter-Handelsstreit-verschreckt-Aktien-Anleger.html, Date: 11.10.2018.
[99] Market Watch, URL: https://www.marketwatch.com/investing/index/shcomp/charts?countrycode=cn, Date: 16.10.2018.
[100] Compare to: CNBC, URL: https://www.cnbc.com/2018/06/21/yuan-set-to-weaken-more-amid-us-china-trade-tensions-policy-divergence.html, Date: 12.10.2018.

logically appreciated against the Chinese currency during this period. The intention behind this measure can be explained by the fact that the Chinese government is trying to anticipate the economic impact of the trade dispute. A devaluation of the own currency leads to the effect that exported products can de facto be bought cheaper from other international markets, which increases their competitiveness. Although the CNY depreciated against the USD in the preliminary stages of the trade dispute, it can be assumed that the Chinese currency will continue to depreciate, and the USD will continue to appreciate.[101]

c) Effects of the trade dispute on the labor markets

The impact of the trade dispute on the U.S. labor market must be viewed in a more differentiated way. On the one hand, the increased demand for domestic products as a result of higher prices for Chinese products will lead American companies and Chinese companies in America to expand their production capacities to meet the increased demand and invest accordingly. In the course of these investments, the demand for labor will increase in equal proportion. It can therefore be assumed that the American labor market will experience an economic revival. On the other hand, it must also be considered that the rise in the price of some Chinese products, which are expected to undergo further refinement as unfinished products in a supply chain in the USA, will lead to an increase in the cost of finishing in companies on the American market. It must be assumed that this effect will also affect the employment situation within the companies concerned, which is why layoffs cannot be entirely avoided.[102]

Nevertheless, in the context of this scenario, it can be assumed that the development of the US labor market will be positive, given a moderate increase in the employment rate.

From a Chinese perspective, it should be noted that the rise in the price of Chinese products and the associated decline in demand will mean that Chinese companies will not be able to make full use of their production capacities. In this context, it can be assumed that there will be a redundancy of workers. As stated in paragraph (b), the Chinese government is expected to provide loans to partly state-controlled and partly

[101] Compare to: Forbes, URL: https://www.forbes.com/sites/yuwahedrickwong/2018/07/30/trump-cannot-wage-both-a-trade-war-and-currency-war-against-china/#2d1033231a9d, Date: 10.10.2018.
[102] Compare to: Business Insider, URL: https://www.businessinsider.de/trump-tariffs-trade-war-layoffs-business-losses-2018-8?r=US&IR=T, Date: 10.10.2018.

state-owned companies to compensate for the economic impact of the trade dispute. Similarly, it was argued that the fall of the CNY against the USD weakens the effect of tariff occupation. Accordingly, the economic impact of the trade dispute on the Chinese labor market will generally be negative, albeit to a manageable extent.

Scenario I – China drops tariffs		
Target object	**USA**	**China**
Balance of Payments	Trade deficit: ↓ FDI (from China): ↑ Investments in China ×	Trade Surplus: ↓ FDI (from USA): × Investments in USA: ↑
Financial Markets	Credit demand: ↑ Dow Jones Index: ↑ USD/CNY: ↑	Credit demand: ↑ Shanghai Composite: × CNY/USD: ↓
Labor Market	Unemployment rate: ↘	Unemployment rate: ↗
↑ = increases ↓ = decreases ↗ = slightly increases ↘ = slightly decreases × = no significant changes		

4.2. Scenario II: Imposed tariffs remain

The second scenario, which functions as a trend scenario and thus as the most likely scenario, assumes that no agreement will be reached in the context of the envisaged meeting and that the tariffs already imposed by the USA on washing machines, solar panels, steel and aluminum as well as on other goods amounting to $250 billion will therefore be applied without change. The relevant tariff rates can be found in the table below, which is based on Table 3 in Chapter 2. Similarly, the Chinese government is reacting by imposing duties on $110 billion of goods.[103]

Imposer	Subject	Rate
US	Washing machines	20% - 50%
US	Solar panels	30%
US	Steel	25%
US	Aluminum	10%
US	$50 billion of goods	25%
China	$50 billion of goods	25%
US	$200 billion of goods	10%
China	$60 billion of goods	5% - 10%

103 Compare to: Bollen, J./Rojas-Romagosa, H. (2018), p.14.

a) Effects of the trade dispute on the balance of payments

On the basis of the underlying situation of this scenario, in which both trading partners impose tariffs on each other, it should be noted that in terms of tariff volumes, the US measures have a significantly higher nominal value than the Chinese ones. In this context, it can be assumed that American products will become more competitive on the domestic market as a result of the increase in prices of Chinese products and that corresponding demand will arise. At the same time, American products will increase in price on the Chinese market and demand will fall accordingly. However, since the American products concerned are mostly agricultural products[104], as Table 4 in Chapter 2 shows, which are either not produced on the Chinese markets or are produced to a significantly lesser extent than in demand, there are three ways of coping with this circumstance: 1. Chinese consumers accept the higher prices in the absence of alternatives. 2 As a result of the higher prices, they abandon these products and look for substitutes. 3. The demand for the agricultural products concerned is met by third countries at lower prices. With regard to the short-term nature of the scenario under consideration, variant 3 is not taken into account for further considerations, because the necessary logistics must first be created for this purpose by other countries. An ever faster growing Chinese middle class, which is willing to pay the required price for sanctioned food, is likely to overcompensate for the effects of possibility 2. and, as a result, American agricultural products subject to tariffs will continue to be purchased at a slightly reduced rate. Following this argumentation, the US trade deficit with China is narrowing, although not to the same extent as in scenario I.

Based on the arguments above that the charging of tariffs leads to an increase in the price of Chinese products on the US market, Chinese producers are also trying to find ways to reduce the economic impact of the penalties in scenario II. An effective option is for economically strong Chinese companies to either establish or expand a branch on the American market. This allows them to offer their products directly on the American market and thus legally avoid the punitive tariffs and the associated increase in the price of their products. In this context, this scenario also assumes that Chinese

[104] Compare to: Börse Online, URL: https://www.boerse-online.de/nachrichten/konjunktur/us-strafzoelle-china-erwartet-groessten-handelskrieg-der-geschichte-1027346061, Date: 09.10.2018.

companies make direct investments in the USA, which in turn affects the financial account.

It has already been explained that agricultural producers in the USA are particularly affected by the tariffs imposed by China. In theory, it would be possible for these companies to circumvent the Chinese tariffs according to the pattern just described by building up agricultural production on the Chinese market. In contrast to pure industrial production, however, geographical and climatic aspects, which differ greatly in both countries, must be taken into account. Therefore, American investments in the Chinese market in this sector are difficult to implement, which is why direct investments are not assumed in this scenario. From an American perspective, foreign direct investment from China will therefore increase within the financial account.

b) Effects s of the trade dispute on the financial markets

The developments on the credit market in this scenario can be outlined in such a way that the demand for borrowed capital in the USA will increase. One reason for this is that American companies will expand their production capacities as a result of increased demand for domestic products. For this purpose, the companies concerned will seek outside capital, which will increase the demand for such capital and consequently interest rates. Furthermore, this scenario assumes that Chinese companies will build up or expand their production capacities on the American market analogously to paragraph a), which is likely to be achieved through the use of borrowed capital, so that the effect of a revival of the credit market can also be observed. The demand for credit on the Chinese market is expected to increase. The reasons for this can be found in the reduced exports of own products to the USA and the associated economic slowdown, which the Chinese government intends to counteract with capitalization measures.

The underlying situation in which punitive tariffs are imposed from two sides is a fact that is highly likely to be negatively noted by the capital markets.[105] As already mentioned in Scenario I, the Dow Jones Index is currently close to its all-time high, which is why both market algorithms and the psyche of investors expect price losses,

[105] Compare to: Market Watch, URL: https://www.marketwatch.com/story/for-the-most-trade-sensitive-stocks-the-pain-may-not-yet-be-over-2018-08-09, Date: 10.10.2018.

especially if the US economy is restricted in its development potential by Chinese sanctions. Compared to scenario I, it is therefore assumed that the positive impulses of the economic revival in the US domestic market will be overshadowed by the nervousness of investors and their pessimistic outlook for further economic development due to higher prices for Chinese products.[106] Chinese share prices - represented by the Shanghai Composite - have been moving sideways on the chart for several years, as already explained in Scenario I. Fundamental data will change only insignificantly downwards under the conditions of the introduction of punitive tariffs by the US government. It can also be assumed that market algorithms will react comparatively little to the sanctions. As a result, the Chinese capital market will prove robust and remain in its sidelong movement, with a slight tendency towards price losses.

In scenario II it is assumed that the USD/CNY exchange rate will rise stronger than in scenario I. The arguments for this are as follows: 1. The declining demand for Chinese products subjected to tariffs is also leading to a lower demand for Chinese Yuan. 2. As a result of the more restricted conditions of the trade dispute in this scenario, it is expected that the willingness of Chinese companies to invest on the American market will lead to an increasing demand for the USD. 3. Demand for US products subjected to tariffs on the Chinese market will at least not fall in the short term due to the lack of alternatives, as assumed in paragraph a). 4. As expected, the Chinese government will devalue its own currency through central bank intervention on the exchange markets in order to give a positive boost to exports.

c) Effects of the trade dispute on the labor markets

The increasing willingness to invest on the American market, which is partly driven by domestic and partly by Chinese companies, is likely to lead to a revival of the US labor market. In contrast, it should be noted that the increased cost of Chinese products compared to scenario I affects additional supply chains,[107] resulting in a growing number of unfinished intermediate products that are to be completed in American

[106] Compare to: CNBC, URL: https://www.cnbc.com/2018/07/06/where-investors-should-hide-out-during-a-trade-war.html, Date: 10.10.2018.
[107] Compare to: Forbes, URL: https://www.forbes.com/sites/randybrown/2018/07/19/trade-wars-will-disrupt-supply-chains-slow-global-growth/#2a76c5b59c33, Date: 11.10.2018.

factories, and thus leading to a not insignificant increase in costs for the companies concerned. [108]Therefore, it cannot be fully excluded that in scenario II some companies will at least have to lay off employees or completely shut down due to the effects of the trade dispute. If both of these approaches are compared, the positive impacts are likely to outweigh the negative ones.

The Chinese labor market will experience negative effects with regard to the rise in prices of Chinese products on the American sales markets.[109] Producing companies will reduce their production capacities in the short term, which will also lead to a reduction in the workforce.[110] In analogy to scenario I, it can also be assumed that the efforts of the Chinese government to support economically weak companies with loans as described in paragraph b) will again have positive effects on the labor market. The same applies to the fall in the CNY/USD exchange rate due to the Chinese central bank intervention, which at least partially compensates for the rise in the price of Chinese products on the American market.[111]

Scenario II – Imposed tariffs remain				
Target object	**USA**		**China**	
Balance of Payments	Trade deficit:	↘	Trade Surplus:	↘
	FDI (from China):	↑	FDI (from USA):	✕
	Investments in China	✕	Investments in USA:	↑
Financial Markets	Credit demand:	↑	Credit demand:	↑
	Dow Jones Index:	↓	Shanghai Composite:	↘
	USD/CNY:	↑	CNY/USD:	↓
Labor Market	Unemployment rate:	↘	Unemployment rate:	↗
↑ = increases	↓ = decreases	↗ = slightly increases	↘ = slightly decreases	✕ = no significant changes

[108] Compare to: South China Morning Post, URL: https://www.scmp.com/business/money/article/2165395/financial-markets-must-wake-damage-and-havoc-wreaked-us-china-trade, Date: 12.10.2018.
[109] Compare to: South China Morning Post, URL: https://www.scmp.com/economy/china-economy/article/2165000/chinese-firms-start-cut-jobs-and-move-overseas-us-trade-war, Date: 12.10.2018.
[110] Compare to: Financial Post, URL: https://business.financialpost.com/news/economy/the-trade-war-will-likely-cost-china-700000-jobs-jpmorgan-says, Date: 12.10.2018.
[111] Compare to: Deutsche Welle, URL: https://www.dw.com/de/abwarten-und-tee-trinken-im-handelskrieg/a-45543587, Date: 12.10.2018.

4.3. Scenario III: China and USA impose a 40% tariff on all trade

The framework conditions of scenario III are to be defined in such a way that the USA and China are unable to reach an agreement on any level at the planned meeting and the trade dispute escalates. As a result, both sides impose import tariffs of 40% on all goods of the trading partner without any exception.[112] Furthermore, both sides fully restrict mutual investments on the domestic market. This instrument, which has not yet been introduced in the two scenarios so far, is based on the generally existing restrictions for foreign investors on the Chinese market. It is assumed that the American government, which has strongly criticized this existing regulation for years, will prohibit any direct investments on the American market by China, as an additional escalation. The Chinese government will then implement an identical regulation for the USA on the domestic market. In this respect, this scenario III, which functions as a worst-case scenario, is to be designed under strongly pessimistic assumptions, regardless of how high the probability of its occurrence can be quantified.

Imposer	Subject	Rate	Additional sanctions
USA	All trade	40%	Restricted direct investment from China
China	All trade	40%	Restricted direct investment from USA

a) Effects of the trade dispute on the balance of payments

Regarding the framework conditions of this scenario, in which both trading partners impose customs tariffs of 40% on all goods, the impact on the trade balance is expected to show the US' lowest trade deficit compared to the other two scenarios. This is due to the fact that the export volume of Chinese goods to the US is almost four times higher than the export volume of American products to China.[113] Chinese products are significantly more expensive on the American market due to the imposition of tariffs on a considerable scale, which is why American companies will endeavor to utilize the market potential that is opening up , manufacture comparable products themselves and sell them more competitively. On the Chinese market, the

[112] Compare to: Reuters, URL: https://www.reuters.com/article/us-usa-trade-china/factbox-impact-of-u-s-china-trade-tariffs-on-u-s-companies-idUSKBN1KK23E, Date: 12.10.2018.
[113] Compare to: Morrison, W. (2018), p. 2.

demand for American products will almost come to a complete standstill. In addition to purely economic implications, the possibility of propagandistic measures on part of the authoritarian Chinese government to refrain from consuming American products cannot generally be ignored.[114]

In contrast to the other two scenarios, as a result of the investment restrictions that are now in effect for Chinese companies on the American market, no additional capacities can be built to avoid existing tariffs. At the same time, the involvement of American companies in boosting expansion investments on the Chinese market is also declining. Accordingly, it can be assumed that the position of direct investments within the financial account will not experience any further changes.

b) Effects of the trade dispute on the financial markets

The expected economic turbulences on the American market will lead to companies only hesitantly expanding their capacities in order to utilize the market potential described in point a) or defer necessary replacement investments to the future. At the same time, American financial institutions will also act more restrictively with regard to economic risks when granting loans, which is why in this scenario it is to be expected that the credit market will be confronted with a comparatively sharp decline in demand for capital resources.[115] Furthermore, it cannot be ruled out that a number of export-oriented companies will have to expect a significant drop in sales due to the considerable tariff burden, which could lead to payment difficulties for the affected companies and consequently threaten them with insolvency. The significant decline in Chinese exports to the USA will mean that companies on the Chinese market will also have to deal with losses in revenues. As a result, they will also have to prevent the threat of illiquidity. Due to the fact that the described situation will affect a whole range of companies and that the effects can therefore reach an economic dimension, the Chinese government will forcibly capitalize the companies, which is why the demand for loans on the Chinese market is increasing in a not insignificant way.

The underlying conditions given in scenario III with regard to the sharp decline in trading volume between the two countries on the one hand and the investment restrictions that have come into effect on the other will lead to massive shocks on the

[114] Compare to: Bertelsmann Stiftung (2016), p.19 and p.26.
[115] Compare to: Bond Adviser, URL: https://www.bondadviser.com.au/blog/how-would-credit-markets-fare-in-a-trade-war/, Date: 12.10.2018.

US capital market[116], especially in view of the fact that US share prices are positioned close to their all-time high and can therefore potentially fall significantly. Investors will panic and try to sell their shares in order to limit the impact of price drops on their investment portfolios. As a result, the share prices of American companies listed on the capital markets will fall sharply[117], which is also reflected in the Dow Jones Index. Based on historical experience, stock market crashes are often the starting point for long-term economic shocks or even crises.[118] Accordingly, it is to be expected that after the official announcement of the introduction of mutual tariffs of 40% and the introduction of mutual investment restrictions, the participants on the capital market will be the first to react, thus triggering a problematic situation for the American economy and possibly also affecting the domestic market.[119] In contrast to the US capital market, the Chinese capital market will in all probability prove to be more robust. It can be assumed that Chinese capital market-oriented companies, symbolized by the Shanghai Composite, will also be affected by price losses. However, Chinese share prices are not close to a high point and therefore - for psychological reasons alone - have a much lower potential to fall sharply, nor will the impact on the real economy be similarly dramatic compared to the US, because investors are very likely to trust the Chinese government to stabilize the economy with interventionist measures.[120]

The effects on the foreign exchange market must be viewed in a differentiated manner, taking into account the framework conditions of scenario III. On the one hand, the collapse of the capital market is likely to have a negative impact on the real economy as well, which is why the US government, as a way of stimulating the domestic economy, could urge the FED to lower key interest rates in order to boost demand for loans. According to the economic theory of interest parity, one's own currency is linked to the key interest rate. This means that if the key interest rate were to be lowered, the USD would theoretically depreciate against other currencies. A further argument why a depreciation of the USD can be assumed is that Chinese companies will demand

[116] Compare to: Dylan Cheang (2018), p.1.
[117] Compare to: Market Watch, URL: https://www.marketwatch.com/story/trade-war-risks-ramp-up-for-stocks-as-companies-start-curtailing-investment-2018-09-13, Date: 15.10.2018.
[118] Compare to: PBS News Hour, URL: https://www.pbs.org/newshour/economy/who-stands-to-be-hurt-by-the-u-s-china-trade-war, Date: 15.10.2018.
[119] Compare to: CNBC, URL: https://www.cnbc.com/2018/09/11/stress-testing-the-trade-war-possible-bear-market-in-stocks-looms-for-us.html, Date: 15.10.2018.
[120] Compare to: South China Morning Post, URL: https://www.scmp.com/business/money/article/2165395/financial-markets-must-wake-damage-and-havoc-wreaked-us-china-trade, Date: 12.10.2018.

less USD on the currency market as a result of the investment restrictions imposed. On the other hand, it has to be considered that due to the import collapse of Chinese goods on the American market, the demand for CNY decreases, which ceteris paribus supports the USD. In an explicitly pessimistic scenario, it must also be assumed that in the face of an escalating trade dispute, the Chinese government will resort to the means of selling existing foreign exchange reserves of the USD. Taking into account the fact that China has several trillions of international currency reserves, most of which are USD, the international currency market would be suddenly confronted with an oversupply of USD, which in a narrower sense would cause its exchange rate against the Yuan to fall sharply. In the broader sense, however, it should be noted that China is by far the largest creditor to the US, with approximately US$1.2 trillion in government bonds held.[121] If China were to consider, on the one hand, not to buy further US government bonds issued in the future and, on the other hand, to throw the government bonds held and, in addition, large parts of the foreign exchange holdings onto the market, the financing conditions for the USA would in all probability deteriorate massively. This is due to the fact that the oversupply would cause the dollar exchange rate to fall against other currencies and the interest rates of the freely tradable bonds to rise sharply, which means that the repayment of the bonds would be very expensive for American debtors.

c) Effects of the trade dispute on the labor markets

The economic upheavals already described in paragraphs a) and b) will very probably also have implications for the American labor market. In the narrower sense, export-oriented companies in particular will be affected by the applicable tariffs, with the consequence of employees being laid off as a result of potential sales losses.[122] As a result of the dampened investment environment and falling demand for loans, it will be difficult to reintegrate redundant employees into the labor market. In the broader sense, economic shocks, as described in paragraph b), also have a negative impact on domestic demand. Private households and companies tend to restrict both

[121] Compare to: Manager Magazin, URL: http://www.manager-magazin.de/politik/weltwirtschaft/china-fuehrung-in-peking-weist-trump-in-die-schranken-dollar-faellt-a-1187151.html, Date: 15.10.2018.
[122] Compare to: Business Insider, URL: https://www.businessinsider.de/trump-trade-war-could-cause-extremely-significant-damage-in-14-states-2018-9?r=US&IR=T&rand=wvrzks2#/#illinois-12, Date: 15.10.2018.

consumption and investment behavior to save remaining capital. As a result, saved capital will no longer be channeled into the money cycle, which means that business revenues on the domestic market will also fall. As a possible consequence, these companies could also lay off parts of their workforce. A particular problem here is that the household income of unemployed people has been drastically reduced and that no impulses for economic recovery can be expected from them.[123] With regard to this situation, particularly drastic consequences can arise from the fact that American households, which mainly consume on credit, can no longer service their debts and loans become non-performing.

Regarding the Chinese labor market, it is to be noted that in the narrower sense the significant price increases for Chinese products on American markets will lead to an economic downturn in China.[124] Export-oriented companies in particular could be confronted with the necessity of postponing planned capacity expansions into the future or reducing existing capacities. This would also involve redundancies, which would result in an increase in unemployment. Although it can be assumed that the Chinese government's capitalization measures will partially mitigate these effects, they will not be able to fully compensate for the negative effects. Analogous to the US, for example, effects on domestic demand cannot be ruled out.

Scenario III – China and USA impose a 40% tariff on all trade		
Target object	**USA**	**China**
Balance of Payments	Trade deficit: ↓ FDI (from China): ✕ Investments in China: ✕	Trade Surplus: ↓ FDI (from USA): ✕ Investments in USA: ✕
Financial Markets	Credit demand: ↓ Dow Jones Index: ↓ USD/CNY: ↓	Credit demand: ↑ Shanghai Composite: ↓ CNY/USD: ↓
Labor Market	Unemployment rate: ↑	Unemployment rate: ↑
↑ = increases ↓ = decreases ↗ = slightly increases ↘ = slightly decreases ✕ = no significant changes		

[123] Compare to: Wells Fargo (2018), p.3.
[124] Compare to: Asia Times, URL: http://www.atimes.com/article/us-trade-war-could-cost-millions-of-jobs-in-china/, Date: 15.10.2018.

5. Summary and outlook

The present thesis dealt with the question of the extent to which the currently smoldering trade dispute between the USA and China will have effects on both economies. For this purpose, the individual chapters of the paper were used to illustrate the nature and significance of a trade dispute and determine which measures both sides are responsible for in chronological order. In addition, potentially affected economic topics were discussed on a purely theoretical basis, which were then tested in scenarios on the basis of a study design. For this purpose, three almost closed scenarios were defined using the economic instrument of scenario technology and then simulated considering formulated criteria. As a result, scenarios have been sketched in three different forms, representing the potential range from the best possible to the most pessimistic outcome.

The basis of the entire study was the US government's concern about the large existing trade deficit with China, which was hoped to be reduced through the imposition of trade tariffs. In the narrower sense, all three scenarios have come to the conclusion that the imposition of tariffs, particularly taking into account the massive imbalance in the amounts of trade flows between the two countries, actually leads to a reduction in the trade deficit.[125] However, it could also be shown that concentrating solely on this issue is not enough. In a holistic view, it could, however, be made clear that the attainment of this one target leads to massive distortions in other sectors of the economy.

Critically self-reflected, it can be stated that the presented paper has methodological weaknesses. This concerns in particular the quantification of the effects of the trade dispute within the scenarios, which elude a clear metric evaluation and therefore could only make tendentious statements. A further problem of the present model is that only the bipolar interdependencies between the USA and China were examined, while third countries and their effects on the trade dispute were completely excluded. Taking into account the reduced real complexity, therefore, no reliable long-term statement can be made about the effects of the trade dispute within the scenarios.

[125] Compare to: Spiegel Online, URL: http://www.spiegel.de/wirtschaft/service/usa-vs-china-vielleicht-hat-donald-trump-recht-mit-den-strafzoellen-a-1229506.html, Date: 16.10.2018.

In the course of writing the thesis, it became evident that the available literature on the topic was comparatively limited due to its actuality. This is in particular valid for chapters 2 and 4. Remarkably, the available number of scientific papers on the topic was also unexpectedly small, which is an indication that until now science has not fully grasped the significance of the trade dispute, or that scientific publications dealing with the issue are currently being processed. Furthermore, the handling of available literature, some of which consisted of citable and -worthy news, was problematic, as many contradictory statements were identified.

In conclusion, it can be stated that at this point in time the US government could seem to have reached its goal of reducing its trade deficit with China. However, the long-term implications not only for both affected countries, but also for international trade are currently not foreseeable given their global importance. This means that on a short-term scale the US could emerge as the winner of the dispute, while in the long run published opinions indicate that protectionist countries tended to do more harm to their economies than good.[126]

[126] Compare to: Center for Economic Studies ifo, URL: https://www.cesifo-group.de/de/ifoHome/research/Projects/Archive/Projects_AH/2017/proj-AH-Handelspolitik-USA.html, Date: 16.10.2018.

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Eidesstattliche Erklärung

Ich versichere, dass ich die Arbeit selbstständig angefertigt und keine anderen als die angegebenen Hilfsmittel benutzt habe. Wörtlich oder sinngemäß aus anderen Quellen übernommene Textstellen, Bilder, Darstellungen und Tabellen sind unter Angabe der Herkunft kenntlich gemacht.

Weiterhin versichere ich, dass diese Arbeit noch keiner anderen Prüfungsbehörde vorgelegt wurde.

Zwickau, den 16.10.2018 Julia Rampel