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International Trade War—-The future of Dollar Hegemony and the WTO.

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Abstract

The current trade war started by the US by imposing tariffs on the imports coming from China and other countries with an objective of reducing or wiping out the trade deficit of US and to revive the shutdown factories in the US has large reaching ramifications. It is almost 2 years into the war and the resultant effects are becoming visible in the form of global slow down. As the imports into US will come down, dollar may depreciate and the value of FOREX reserves held by countries will come down. Resultantly, the demand of USD may come down whereby the pivotal position held by dollar as vehicle currency will get diluted. Similarly, with the violation of the market and rule-based trading among nations, the WTO may lose its relevance in the present form. The dispute settlement mechanism of the WTO needs to be revamped.

Keywords: Dollar Hegemony, trade war, FOREX reserves, WTO, currency crises

1. Introduction

The tensions that the US President has unleashed between China and the United States could last decades, threatening the hegemony of the U.S. dollar. The risks don't merely affect trade, business, and tariffs, but the implications can be long lasting and severer not only for China and the US but for all economies in the world. President's notion that US has been suffering from inequitable terms of trade with China, EU, Canada and Iran, has led this disturbance in the "Existing World Trade Adjustment". This paper analyses the effects of the trade-war on the position of Dollar as the vehicle currency as well as on WTO.

China is the second largest economy in the world with its economic growth averaging to approx. 9.6 per cent between 1978 and 2017 (Yuhan Zheng, 2018). Political, economic, technological and military powers of China have also grown noticeably. There are clearly two schools of thought whether due to this unprecedented rise of all-around powers of China vis-à-vis the USA, the conflict between these two superpowers is inevitable (Mearsheimer, 2014) or not (Allison, 2017). A trade war is an unconventional war but can have wide repercussions on monetary, financial and political landscapes including shut-downs, massive unemployment, currency crises, trade protectionism (which amounts to deglobalization), global slow-down etc.

There are two major explanations for trade war. On the economic front the Trump administration wants to reduce or reverse the trade deficit with China. The underlying idea is that this gigantic imbalance results into continued increase in indebtedness of the US to China. These trade-related structural problems of US have led to slower growth, fewer jobs and rising public debt in the US. On the technology front, the US believes that the policy of technology stealing by the Chinese firms is a part of unfair trade practice by China by way of manipulating the conditions on which the US companies are allowed to perform business there. Moreover, it also fears huge losses due to "stealing" the patents of the US. US, thus has a trade deficit of \$500 billion a year and another \$300 billion on account of Intellectual Property Theft (18).On the other hand,

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Chinese government provides limited investment channels and weak social safely to its citizens. Thus, the Chinese citizens have little option but to keep their money in the banks, thus reducing consumer expenditure. Moreover, the rate of return on the deposits is very less. However, China has recorded some increase in consumption expenditure since 2010 but it is still less than 40per cent of GDP. On the contrary, the US citizens spend quite a lot on consumer goods most of which are imported, maximum of which from China. The private consumption in the USA is on an average 68 per cent of GDP.The rate of domestic savings is very less in the US. i.e. 17.3 per cent whereas in China it is >46 per cent.Even now, savings glut remains and it leads to overall generation of current account surplus of $241 billion in 2017(Yuhan Zhang, 2018).

Given the dominant economies of US and China any trade war conditions are likely to impact existing world economic situation. Thus, restrictive trade measures and announcements made by two nations are of great significance for global economy as well as emerging economies in particular for Indian economy, as it makes effort to avert slowdown in economic activity. The relevant literature review has been presented below.

2. Literature review

There have been a number of attempts to examine the current US-China trade war. Majority of them have concluded that the trade war cannot achieve the outcomes envisaged by President Trump i.e. reduction/elimination of trade deficit or to prevent China's technological advancement. First, the trade war cannot significantly reduce or eliminate the current account deficit of the US (Yuhan Zhang, 2018) andsecondly, it is almost impossible to impede China's technological development as China has already started investing heavily in R & D. Technology development will increase China's gross output thereby paving the way for increased pay-outs andconsequently increased private consumption, which is required by China to reduce excess savings. He observes further that to tax the trade imbalances, China must step up economic reforms and also needs to prevent further depreciation of its currency RMB and raise interest rates. On part of the US, it needs to reduce capital account surpluses by allowing foreign Central Banks to accumulate a synthetic currency instead of the US dollar. Yuhan Zhang (2018) has even talked about introducing some plastic currency to replace dollars in the foreign countries in their FOREX reserves. Joseph E. Stiglitz (2018) talked about it by mentioning that for reducing trade imbalance, the US has to reduce its excessive capital account surpluses which also manipulate the current account deficit of the US.

David Dollar (2018), in "The future of the US-China trade war" (Brookings), has observed that the trade war will destroy some jobs in export sectors and create some jobs in import-competing sectors.This is a bad trade-off because export jobs are generally of higher productivity and higher paying jobs.

Business Standard (2018) observes that China depreciating its currency cannot be ruled out so as to get the competitive edge. This will, in turn, have ramifications for other countries as China has enough powers to move the currencies. A strong dollar and weak RMB may not be good news for all the countries.

Shang-Jan Wei (2019) in his article "Could a US Recession End the Trade War?", observed that the recent inversion of the yield curve in the United States – with the interest rate on ten-year US government bonds currently lower than that on short-term bonds – has raised fears of a possible US recession later this year or in 2020. Yet, paradoxically, a downturn in America could help to improve bilateral economic relations with China and cool the two countries' escalating trade dispute. This is derived from historical facts when during 2008 global recession, China could provide a boost to the global demand which resulted into better relations between US and China. The US in turn, gave greater role to China in international bodies and also in IMF and G20.

UN economists observe that the trade tariff spat between China and the United States has been a "lose-lose" situation for both countries and the wider world and it is likely to deteriorate unless a deal is reached.According to data from the first six months of the year 2019, most of the cost of higher US tariffs on China has been passed down to US consumers and firms.

"The results of the study serve as a global warning; a lose-lose trade war is not only harming the main contenders, it also compromises the stability of the global economy and future growth," said UNCTAD's director of international trade and commodities, Pamela Coke Hamilton. "The UN agency also noted that there is early evidence that Chinese exporters may have started to bear part of the costs of the tariffs by lowering export prices.[1]**(Footnotes)**

[11]Trade and Trade Diversion Effects of United States Tariffs on China

UNCTAD Research Paper No. 37 (09/2019).

The international role of a currency is focused on the so-called vehicle currency theory. This theory is based on the observation that currencies with high volume of share in trade, foreign asset holdings and in FX markets, like the US dollar are characterized by particularly lower transaction costs as compared to other currencies.As a medium of exchange, a reserve currency facilitates trade and finance by decreasing the number of bilateral exchange dealers in the market that need to be created, thus reducing transaction costs. Therefore, central banks prefer to use a reserve currency when conducting foreign exchange intervention.These offsets undesirable fluctuations in the value of their currencies caused by private inflows and outflows of capital across borders. As more and more people have used US dollar in international transactions in the post- World-War-II era, the efficiencies in using US dollar have increased, thus solidifying the dollar's place as the world's premier currency. This is a key reason that the dollar is so difficult to displace as the world's main reserve currency (Karmin, 2008). The US dollar did surely benefit from the exchange rate regime since formation of IMF, in establishing its hegemony among other hard currencies in international trade, scaling to a position of leading vehicle currency. Every nation sought to hold US dollar leading to creation of trade deficit with USA by being ready to supplying goods. On the other hand, USA created demand for goods just by printing more and more US dollar, thereby creating US dollar hegemony in international trade(seigniorage gains accruing to US).

3. The existing World trade adjustment

The US dollar dominance has facilitated the US to attain military as well as economic hegemony in the world.In 2018 the US economy had a high debt to GDP ratio i.e. more than 105 per cent and the trade deficit is also considerable (>30 per cent) USD 621 billion, with USD 3.1 trillion imports and USD 2.5 trillion exports (largest trade deficit in the world) (https://www.thebalance.com/trade-deficit-by-county-3306264). The US is running trade deficit since 1975.Despite this deficit and adverse trade to GDP ratio the USD is able to endure some downward/upward pressure in the exchange rate and the prices are not affected by these movements as the exchange-rate pass through is negligible in the US. The data indicate that despite increase in tariff by President Trump the trade deficit has increased. One of the reasons is strengthening of USD between 2014 and 2016, though it depreciated in 2017 but again appreciated in 2018. A strong USD leads to cheaper imports and expensive exports.

It has been observed that United States runs a deficit with countries which fit at least in one of the following categories:

1. The country can produce goods/things more cheaply than the United States can, such as consumer products or oil. This appears to be changing with US production of shale oil increasing.
2. The country doesn't need goods/things what America is good at making.
3. The countrytrades a lot of everything with US, but it imports more than it exports.

Most of the trading partners that the United States have deficits which fall into the first two categories. The two largest are China and Japan. Some of the largest deficits are with countries in the third category. They are Canada, Mexico, and Germany.

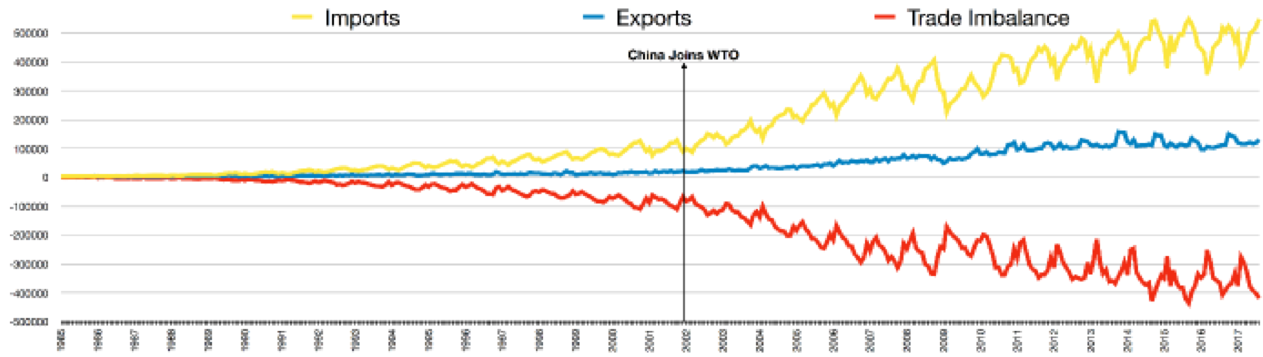
The countries with which the United States has the largest trade deficits in goods are not always its most important trading partners. Some nations export a lot without importing much. But the top five trading partners also have the largest deficits in 2018. They are mentioned here below.

1. China – USD 660 billion traded with a $419 billion deficit.
2. Canada – USD 617 billion traded with a $20 billion deficit.
3. Mexico – USD 611 billion traded with an $81 billion deficit.

4. Germany - USD184 billion traded with a $68.2 billion deficit.
5. Japan – USD 218 billion traded with a $67.6 billion deficit.

The graphs below depict the trade deficit since 1985 in respect of US trade with China. In the second graph, the trade deficit with other countries is shown.

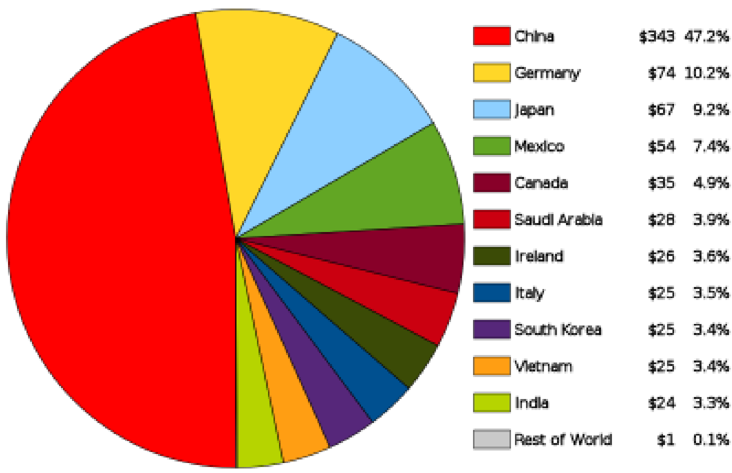
U.S. Trade in Goods with China



Graph-I
Source: US CensusBureau data

It can be seen that the trade imbalance with China has been worsening over the period of time.

U.S. Balance of Trade Deficit (2014)



Graph-II
Source: US Census Bureau data

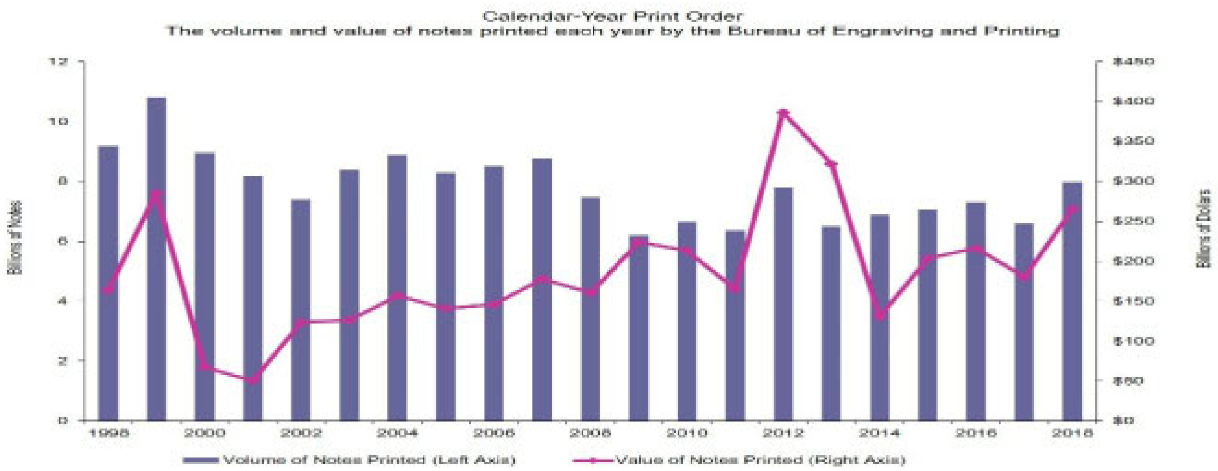
US wants to reduce this trade deficit with China, EU, Canada, Iran etc. and that is why it has started imposing tariffs on the imports from China. China has also imposed tax on US imports. Most academicians believe that the measures may reduce the current account deficit with China but it will increase with respect to other countries that export consumer goods to the US. This is because the consumption expenditure is very high in the US. If it stops certain imports from China, the need for the goods will have to be met from imports of the same from other countries. Therefore, by imposing high tariffs on Chinese goods it may to some extent reduce deficit with respect to China by it will in respect of some other countries. Another impact which has been observed is that the unemployment rate in the US has somewhat reduced.

Moreover, the US has never intervened in the currency market to stabilize its currency, unlike the developing countries whose growth trajectory is mostly exports-led. Hence, the rest of the developing countries including China (and India too) maintain their currency in a depreciated state as compared to USD in order to get the advantageous edge for higher exports in international trade. This they achieve by direct intervention in the forex market for managing liquidity of their currency. In this process, they often purchase or sell USD to depreciate or appreciate their currency respectively and, in this way, they have built huge stocks of FOREX reserves. These reserve stocks are parked by the countries in the US in the form of treasury securities which are very low-yielding. These stocks are often used for Open Market Operations for currency exchange rate corrections by managing liquidity.

USA is both a large exporter as well as a very large importer of goods.Whenever the U.S. needs to, it prints more dollars, which allows the country to recover from financial crises (such as the one in 2008) faster than others.The Europeans are less able to manoeuvre in crisis situations. They relinquished their financial sovereignty to the European Central Bank (ECB), which enforces tighter fiscal controls.

By being able to print more US dollars (Fiscal Year data of FED Reserve printing of USD are given in the graph below), when necessary, running huge deficits and accumulating more debt, the US sustains its mighty military operations spending to record-high levels. Moreover, all countries buy key resources—from oil to potash, to steel, to soybeans—in USD. The U.S. dollar (for now) is always in demand; it's the prom queen of currencies. This situation has prevailed ever since Brettonwoods exchange rate system of IMF.

Calendar-Year Print Order: Volume and Value



Graph-III

Source : Federal Reserve Data

4. The trade war

With the formation of the World Trade Organisation (WTO) since 1995, establishment of rule-based trading system, progressively led to removal of tariff and non-tariff barriers on imports. Protectionism not only became history; it was also being considered as a curse. Whenever a country tried to impose tariff or non-tariff barriers to imports, the affected countries may submit petition to the dispute settlement body of WTO and invariably the countries imposing tariff and non-tariff barriers were made to bend, as they faced prosecution by way of sanctions and penalties.

However, during past few years, the United States (US), the greatest proponent of WTO and free trade, is turning protectionist. US President has been saying time and again, that he would stop all those imports, which are ruining US industries and production; and for that he would not hesitate to impose heavy import duties. During his election campaign, he repeatedly said that his first task would be to restart rusting factories of US and provide employment to unemployed Americans. Some time back, the US has announced hike in import duties on imports worth USD 50 million coming from China. Duties were imposed on the imports from India also and both the countries, China and India retaliated by imposing duties on the imports from the US. The world's second largest economy (China) halted purchases of US crude in August, 2018, for the first time since 2016[2]. In July, Chinese buyers received nearly 12 million barrels of crude from the US. Beijing, once an enthusiastic buyer of US crude, after Washington lifted its restrictions in December, 2015, has even jockeyed with Canada for the position of top importer at times. China's interest in American oil has diminished amid the escalating trade spat between the two countries. Thus, the future of American crude shipments into China remains uncertain and there is still no guarantee that threats of a US crude tariff won't resurface as the trade conflict persists. American oil producers, particularly those operating in Permian Basin of West Texas and New Mexico, risk feeling the pain from the ongoing tensions as they increasingly look to foreign shores to market their supplies, as local demand gets satiated by increasing shale oil production.China could also buy more American oil and then sell it on to others. This would not make an iota of difference, beyond perhaps a slight increase in transaction costs. But the US could trumpet that they had eliminated the bilateral trade deficit.

It is also learnt that the US is in early stages of talks with Japan and the EU to lower tariff and regulatory barriers and try to reduce the large US trade deficits in automobiles and other goods. US Commerce Secretary Ross said "Japan should take steps to move manufacturing into the US" to cut its USD 40 billion automotive trade surplus with United States. If EU and Japan signed on the provisions similar to the one in the new US-Mexico-Canada Agreement (UMCA), it would mean that they are fully aligned with the US in trying to increase pressure on China for major economic policy changes. UMCA, which is expected to replace NAFTA, effectively gives Washington a veto over Canada and Mexico's other free trade partners to ensure that they are governed by market principles and lack state dominance, which is at the core of Washington's tariff war against China. Under the provision, if any one of the three countries enter into a trade deal with a 'non-market country", the other two are free to quit within six months and enter into their own bilateral trade deal.

However, there is huge trade deficit in the US with imports far exceeding exports. If the United States' domestic investment continues to exceed its savings, it will have to import capital and have a large trade deficit. Worse, because of the tax cuts enacted at the end of last year, the US fiscal deficit is reaching new records – estimated to exceed USD 1 trillion by 2020 – which means that the trade deficit almost surely will increase, *whatever the outcome of the trade war.* The only way that won't happen is if this leads the US into a recession, with incomes declining so much that investment and imports plummet. But as demand for Chinese goods decreases, the Renminbi's exchange rate will weaken – even without any government intervention. This will partly offset the effect of US tariffs; at the same time, it will increase China's competitiveness with other countries—and this will be true even if China doesn't use other instruments in its possession, like wage and price controls, or push strongly for productivity increases. China's overall trade balance, like that of the US, is determined by its macroeconomics.If China intervenes more actively and retaliates more aggressively, the change in the US-China trade balance could be even smaller. The relative pain each will inflict on the other is difficult to ascertain.

It is being felt that international trade, which was going on unhindered, free from tariff or non-tariff barriers, is endangered due to protectionist policies of the US. In economic jargon it's said that international trade is like a war, and if any country imposes protective tariff on imports coming from any one or more countries, the international trade is converted into a war zone. Therefore, the protectionist policies being adopted by the US are termed 'trade war'.

Because of the onslaught of Chinese imports, where Chinese products are dominating in most of the countries, the US is not the only country whose industries are getting affected. Out of 164-member countries of WTO 130 countries are facing trade deficit with China as their imports from China are exceeding their exports. As a result, industry is getting ruined in most of the countries and unemployment is on the rise. However, the dilemma is that all these countries that have not raised the tariff on imports from China are elsewhere, it is only the US that is trying to stop imports from China by raising tariffs. The US is increasing tariff on imports coming from all countries, which is causing huge worry to the other countries of the world. This has been the general belief that to increase growth in the world, the solution lies in growth of international trade.

Incentive to increase production always comes from increase in demand, of which international demand is very vital. With the help of international trade, nations can specialise in the production of commodities, which they can produce most efficiently. And with the help of foreign exchange earned from the sale of such commodities these countries can import those commodities in case of which they don't enjoy advantage of production efficiency. However, with the US imposing tariff on imports coming from other countries and therefore attempting to effectively curb imports to protect its own industries, may go a long way in disturbing supply of foreign exchange to other countries, which would ultimately hurt the growth of international trade. For example, India's export to USA is nearly 15 percent of its total exports. In 2017-18 India exported nearly USD 48 billion worth goods and services to the US, whereas its import from the US was USD 26.6 billion. The US is a big market for not only India but also for many other countries of the world. Due to restrictions imposed by the US, rupee may get weakened as supply of foreign exchange would get adversely affected. In the past few yearsGovernment of India has been fulfilling demand for foreign exchange by way of exports of goods and services, remittances coming from non-resident Indians (NRIs) and also by Foreign Direct Investment (FDI) and was generally saved from significant depreciation of Indian rupee. However, because of trade war initiated by the US, supply of foreign exchange may get disturbed causing payment problems resulting in further depreciation of INR.The US is even imposing restrictions on immigration of Indian people by bringing changes in their visa rules. As a result of these measures our young people working in the US are getting adversely affected, which may affect not only our youth serving in software sector, but also remittances by NRIs, coming into India**.**

The economist Robert Mundell showed that when exchange rates are floating, new import tariffs tend to reduce the U.S. trade deficit, which would increase the dollar's REER. He explained that even though the tariff would encourage U.S. businesses and households to "buy American," the decline in export competitiveness due to the rising REER could cause U.S. output and employment to decline. Maurice Obstfeld, chief economist of the International Monetary Fund, estimated that a 20 percent tariff on imports from East Asia could cause the U.S. dollar's REER to rise by 5 percent and U.S. economic output to fall by 0.6 percent over five years.

The US expects to revive its domestic industries which are lying closed since long and thereby reducing the unemployment in the country. In this direction, although the number of factories revived is not known but the reports say that the unemployment percentage has touched an all-time low of 3.2 per cent.

4. The future of USD

The international trade war that ensued during the Great Depression era is a prime example of this event in action. In the wake of new and aggressive tariffs, world trade plummeted by 25 per cent for the period. As a result, economies around the globe crumbled under rising debt and collapsing domestic currencies.Early signs of this malaise have already started to surface recently amid the ongoing trade war.

One of thephenomena associated with trade war is currency devaluation. To some extent, this neutralises the impact of rising tariffs. A look at the exchange rate variation (month-wise) in respect of RMB yields the following curve.

RNB/USD 2019

Graph-IV
Source: X-Rates (https://www.x-rates.com/graph/)

This chart illustrates that the exchange rate of Renminbi depreciated with respect to dollar throughout the year of 2019 till now.

Similarly, the value of EURO and INR has also depreciated vis-à-vis USD during this period of the trade war as also the Euro.

EURO/USD 2019

Graph-V
Source: X-Rates (https://www.x-rates.com/graph/)

INR/USD 2019

6 Dec 2018 00:00 UTC - 6 Dec 2019 05:58 UTC

Graph-VI

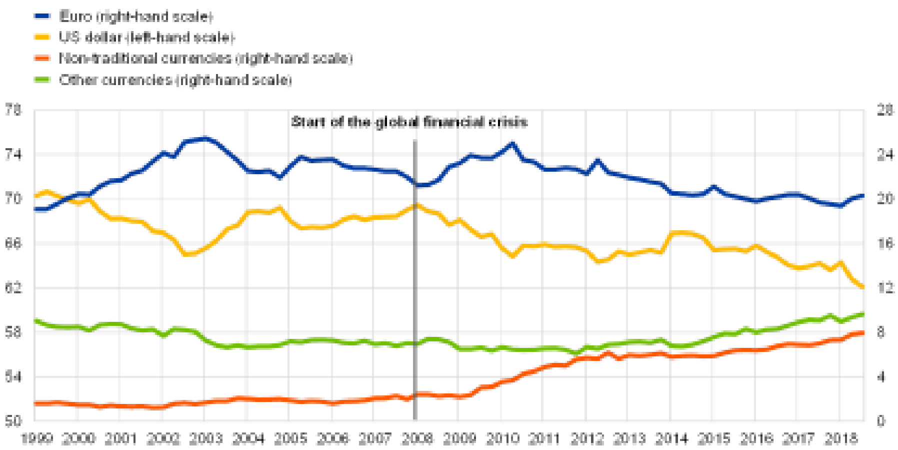
Source: X-Rates (https://www.x-rates.com/graph/)

With the decrease in supply of USD to various countries in the world due to undue restrictions on exports imposed by levying duties on imports in the US, various countries would like to explore other business/trade options. In that case, the use of US dollar in the international trade may eventually come down, thereby adversely affecting its vehicle currency status. In addition, many countries are suffering from drastic depreciation of their currencies.

In order to maintain their currencies' values, these countries may sell off US dollars, thereby reducing their accumulation of US dollars in FOREX reserves.China holds a very large stock of reserve dollars lying with the US treasury. As China has been pursuing the policy of stabilizing its currency by means of a soft peg with the USD, it may very likely decide to prevent the free fall of RMB by selling these USD, which will depreciate USD. No country having trade with the US wants USD to depreciate with reference to their currencies in order to have competitive advantages in exports. But when their exports are adversely affected, they may diversify the FOREX reserve, away from USD

In addition, if dollar depreciates, the value of their reserve holdings will come down in actual terms and that will be an incentive enough to expand their reserve holdings with currencies other than the USD. The Chart below depicts that the FOREX holdings of USD have decreased whereas the holdings of non-traditional currencies and other currencies have increased over the years.

Developments in the shares of the euro, US dollar, non-traditional currencies and other currencies in global official holdings of foreign exchange reserves



Graph-VII

Source: European Central Bank, Euro system

For U.S. export businesses, a rising U.S. dollar exchange rate due to new import tariffs could mean lower revenues and higher risks. Not only this, the counter duties imposed by China, India and other countries may adversely affect import of consumer goods by USA. The cheap import of goods from China and India will be affected to which the US consumer is habitual and its appetite for these goods is very high. US has not planned how to fulfil this appetite. However, the demand of these goods will not easily go down even on some appreciation in their costs due to tariffs. Perhaps the US has miscalculated the demand elasticity of these goods in their own markets. Unless the substitutes in the form of home-made goods are made available, which are of the same or better quality and cost, the public pressure against these measures in the form of tariff barriers will increase.Therefore, on one hand these sanctions will adversely affect other economies of the world and on the other, it will also cause damage to the unsatiated market demand of the US consumers which is not good for US economy.

In addition, USA is having very huge debt>105 per cent of GDP. If the creditor countries start liquidating the same, the prices of dollar will fall drastically which will be inimical for the US economy. Hence, counter action by various countries will not only harm the US economy but may also lead to US dollar losing its pivotal position in the world economy, which will not augur good for the US as it will limit various military operations going on in various parts of the world. Also, the demand of US dollar assets may go down in the global economies adversely affecting its position of hegemony. Even a reduction in China's purchasing of Treasuries would trigger a crash of the bond market in the US. Not to mention, recession-like effects on the overall economy would result from the Federal Reserve's inevitable sharp hike in interest rates. The only thing holding back Beijing from selling its Treasury holdings is the interest it earns every year. When it comes to the U.S.-China trade war, the USD is all but assured to experience spikes in periodic short-term volatilities as key events unfold. In the long-term, performance of the USD will depend on U.S.-global economic performance, actions of the U.S. Fed and the adopted monetary policies of central banks around the globe.

5. The WTO

The WTO, since its creation by the Marrakech Agreement in 1994, safeguards rules of the international trade and punishes those who do not comply with them. But in the last year the trade war between China and the US has revealed the latent crisis that had plagued WTO and put the system in check. It is also very surprising that the USA itself is undermining the role of the WTO, in which till very recently, the US was advocating against any tariff and non-tariff barriers in international trade. The move of the US, expressly imposing heavy tariff barriers on imports, is in direct contravention of the WTO principles. And if all other nations follow the suit at their will, WTO will be flooded with dispute petitions against these duties and countervailing duties being imposed. Dispute resolution will then become difficult as it is a rampant practice. It is not known whether in this situation any negotiations are possible in WTO. The US is taking exception under national Security Provision under article 21 of GATT. The dispute settlement body has never decided on this issue of the legitimacy of taking exception on security provision, which has given the impression that each member country will itself be the final authority to decide if the measures taken to impose tariffs were for the 'Security Reasons'. If the WTO actually looked at the substance of the US claim of national security issue for imposing the tariffs, it wouldn't find them justified. The big question is whether the dispute settlement body investigates the substance in the US claim and that is what cannot really be told at this stage.

On section 301, China is challenging the imposition of tariffs by the US and no doubt that US will also challenge the action of China. The actions of both the countries are discriminating, unjustified and unreasonable for there is no basis for both the countries to impose tariffs. It appears that both the countries have decided to operate outside the WTO framework for the battle.Every conference of the WTO will be marred by these disputes resulting in no fruitful results and may eventually lead WTO to start losing its relevance if the trade-war continues longer.

The protectionism and unilateralism directly shoot at the heart of the WTO. This trend and the trade war have reflected in the crisis of the appellate body of the WTO. The US has disapproved the way in which trade disputes are settled in the WTO and has blocked the appointment of the new judges by the Dispute Settlement Body (DSB), where member states are represented. The Appellate body is the permanent international tribunal with 7 judges. But presently only 3 judges are in office. The minimum requirement for functioning is 3 but 2 of them are completing their tenure by the end of this year. Apart from the problem of appellate machinery, there are other structural problems of the WTO. At present the cases are decided by consensus, which is difficult to reach by all the 164 members. Many members are trying to negotiate to make changes so that it is made possible to adopt some measures by majority vote. But in these negotiations the US and China are also required to be brought on-board as they form a major trade block. The WTO rules are more than 20 years old and the nature of trade has also changed. Almost 15 per cent of the trade is digital and the economies of the world today are more integrated. Any two countries can start a trade war. The WTO thus has the challenge to reinvent itself and unlock the stalemate. If it does not, there is a risk that it becomes irrelevant and probably get back to the times of the law of jungle where protectionism and unilateral solutions will be the rule.

6. Conclusions

Thus, it is evident that the US motivations in dealing with China on bilateral trade issues may not be successful to resolve the US trade deficits in the existing World Trade scenario with China. China's continued excess savings and US attractive capital markets won't allow the current account deficit of the US to reduce or disappear. If China starts withdrawing its savings, invested in the US treasury, the power of the dollar will get affected adversely. It is also concluded that China's technological advancement cannot be impeded as China is already on its way to convert its economy to a much needed 'consumption driven economy'. This is also essential for China to reduce its excessive savings. These reforms in China are desperately needed for its flawed economic trajectory. The trade war will further depreciate the Chinese currency RMB which will make Chinese economy even more vulnerable and deepen the trade imbalance because with depreciated RMB, the effect of US tariffs on imports from china will be minimized. In order to fix the trade imbalance, it has been discussed that the role of dollar as the vehicle currency of the World will get adversely affected. Moreover, dollar holdings of various countries will come down as dollar becomes less attractive.

The WTO, which was established to enforce rule-based trading in the World and for furthering the goals of globalisation, is faced with a situation when the founder and most vociferous country in favour of free and fair trade with no tariff and non-tariff barriers, is itself resorting to imposing tariffs. This has perplexed the whole World and the role of WTO is in question now as many other countries are resorting to such measures, thereby eroding its relevance. Moreover, this institution will be bombarded with umpteen number of complaints about unfair trade practices by nations and also cases relating to dumping. If the situation is not curbed, a near chaotic situation may prevail in WTO and outside.

Therefore, it is necessary that both the China and the US establish an enduring and effective dialogue through which both of them can understand the signal properly and frankly communicate their intentions. Another alternative is that Japan, China and the EU get together and make serious efforts to restore WTO. In addition, WTO must agree that the way forward in making rules is by plurilateral agreements among the member countries as a sub-set of WTObecause agreement of all 164 members is not possible.

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