

Degree Final Dissertation

U.S. – China Trade War. Effects on the EU and Spain.
Guerra Comercial EEUU – China. Efectos en la UE y
España.

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Resumen

Hace tiempo que el viejo continente no ostenta la codiciada hegemonía mundial, esa que ahora se disputan entre Estados Unidos y China. La lucha entre ambos países por conseguirla ha desencadenado una serie de ataques a través de medidas proteccionistas en los que el resto de países del mundo se han visto involucrados. El actual contexto internacional se encuentra altamente globalizado, y se ha visto reflejado a través del incremento del comercio internacional. Así pues, debido al elevado grado de interdependencia que presentan las principales potencias económicas mundiales entre ellas, el estudio de las repercusiones de los diversos conflictos comerciales suscita especial interés.

En el presente trabajo se analizan las consecuencias y el impacto económico de la guerra comercial entre Estados Unidos y China en la Unión Europea y en el caso específico de España. Las repercusiones en la Unión Europea como consecuencia de los aranceles impuestos a las importaciones estadounidenses de acero y aluminio resultan marginales, mientras que el foco del impacto se traslada a los aranceles implementados como resultado de la resolución de la Organización Mundial del Comercio por la disputa entre las empresas aeronáuticas Boeing y Airbus, siendo éste especialmente negativo para el sector agrario español. Las sucesivas amenazas proteccionistas de la Administración de Trump hacia el sector automovilístico son especialmente alarmantes, por lo que el rol de la Comisión Europea será crucial para evadir el impacto o, de no ser posible, minimizarlo.

Palabras clave: *acero – aluminio – aranceles – automóviles – China – comercio – consecuencias – España – Estados Unidos – exportaciones – guerra comercial – importaciones – proteccionismo – Unión Europea.*

Abstract

The old continent has not held the world hegemony for a long time, which is now disputed among the United States and China. The fight between both countries to achieve it has triggered several attacks through protectionist measures, in which the rest of the countries of the world have become involved. The current international context is highly globalized, as reflected in the increase of international trade. Hence, due to the high degree of interdependence that the world main economic giants present among them, the analysis of the repercussions of trade conflicts in the rest of economies is of great interest.

This paper analyses the consequences and economic impact of the trade war between the United States and China on the European Union and on the specific case of Spain. The repercussions on the European Union of the tariffs levied on U.S. steel and aluminium imports is marginal, while the focus of the impact is moved to those tariffs implemented as a result of the World Trade Organization resolution because of the dispute between the aircraft companies Boeing and Airbus, being these implications specially negative for the Spanish agro-food sector. The successive protectionist threats of Trump Administration extended to the automobile sector are particularly alarming so the role of the European Commission will be crucial to avoid the effect, or if not possible, mitigate it.

Key words: *aluminium – automobile – China – consequences – European Union – exports – imports – protectionism – Spain – steel – tariffs – trade – trade war – United States.*

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1. INTRODUCTION

The topic choice of my Degree Final Dissertation is motivated by my own interest in international trade and the need of understanding its functioning. The Degree in Business Administration and Management has offered me a completely different perspective on the importance of international trade, and hence, my motivation to analyse a current issue of great relevance like the trade war between the United States and China.

It is incredibly shocking the way world economies are interconnected among them in an increasingly globalized world, and how a conflict of this kind can affect in so many ways undermining world economic growth and stability. Therefore, I consider the topic to be of great concern not only for the fact of being a current topic, as I explained, but also because of the economic interest of an analysis of the consequences of the trade war on the European Union and on the specific case of Spain might have.

Several objectives are aimed to be achieved in this dissertation. The main one is to give an answer to the question of how the trade war between the United States and China impacts on the European Union and Spain. To accomplish this goal it is required to present the results in a consistent and truthful way through the search and collection of accurate data from official databases.

For the development of this Degree Final Dissertation, it is necessary to know the historic trade background of the United States in order to be able to understand why the conflict was originated. The American country has been characterised by a strong protectionist trade policy since its origins although some relevant changes were made towards free trade at the beginning of the 20th century. Trade relations with China have also been difficult and the tension escalated when China started to become an economic giant. A more protectionist approach returned to trade policy since the beginning of Donald Trump mandate.

From that moment onwards, the measures taken by the U.S. Government have made the rest of the economies to remain alert due to the great impact of their decisions, as it is analysed on this paper.

The trade war between the United States and China grabbed the headlines of international reports and the media for months owing to its relevance. The development of the conflict between both countries with the future involvement of the EU, alerted all economic blocs in the effort to quantify the effects on them.

To develop the topic and accomplish the objectives set, this dissertation is structured in six sections. The first one corresponds to this presentation of the topic. The second focuses on the historic context of international trade in recent years. This part covers the trade policy of the United States since the 20th century until the arrival to power of the Trump's Administration in 2017. Also, it deals with the relationship between China and the United States to understand how both countries have ended in a trade war; in addition to the development of the conflict itself. The beginning of the conflict together with the U.S. tariffs established and retaliatory measures taken by China are detailed in this section. European international commerce before Trump is also explained in order to offer some background with regard to the European Union and its trade relations with third countries. Therefore, an emphasis is made on trade agreements and on the evolution of European exports and imports.

The third section is one of the key sections of this paper as it contains the analysis of the economic impact on the European Union and Spain. This section is divided into five main sub-sections in order to clarify its understanding. The first one deals with the consequences of the trade war on the European Union, while the second one examines if the European Union is the new target of the U.S. protectionist policy through the example of the dispute between Boeing and Airbus. The third sub-section focuses on the retaliation measures taken by the European Union to mitigate the effect of the tariffs imposed by the United States. In the fourth sub-section the focus is shifted to Spain, here, the impact of steel and aluminium tariffs together with those tariffs established as a result of the World Trade Organization resolution is studied. In addition, the hypothetical economic impact on the Spanish automobile sector in case the threat towards this sector takes place is also analysed. The last sub-section deals with the impact of the trade conflicts on financial markets.

The following section covers the main conclusions and limitations drawn from the analysis. It also explains whether the previously mentioned objectives have been accomplished or not. As it is a current topic, one limitation of this dissertation to be considered is the time horizon, which reaches until 2019. In consequence, some of the effects and consequences cannot be quantified yet.

Finally, the two last sections correspond to the bibliography, in which all the resources and references used for the elaboration of this dissertation can be found; and

the appendixes, with the extended information in each of the sections because of the interest and motivation of all the aspects for the comprehension of the paper.

2. HISTORIC CONTEXT. INTERNATIONAL TRADE IN RECENT YEARS.

2.1. TRADE POLICY OF THE UNITED STATES.

The trade policy of the United States has been characterised by a strong protectionism since its founding. Back to the 20th century, the Smoot-Hawley Act (1930) resulted in the implementation of high barriers and unilateral tariffs aimed at mitigating the effects of the Great Depression, which in turn, exacerbated the Great Depression as it was later demonstrated.¹

The Reciprocal Tariff Act (1934) implied a turning point in the U.S. trade policy. The country started to reduce tariffs and gave President Roosevelt the authority to negotiate bilateral agreements with other countries.

There was a need for such an act for two reasons. First, the Smoot-Hawley Tariff Act of 1930 raised duties on imports to 53 percent in 1931 and 59 percent in 1932. This action provoked other countries to retaliate against the U.S., shrinking world trade. Second, the ensuing worldwide contraction in economic activity in the early 1930s caused world trade to decline even further (Canto, 1983, page 680).

In 1941, the Atlantic Charter between the United Kingdom and the United States helped to avoid the “beggar-thy-neighbour” policies that came after World War I and that are said to be the outbreak of World War II.

After World War II, trade policy shifted towards a multilateral approach encouraged by the General Agreement on Tariffs and Trade (GATT 1947). This agreement was set under the principles of non-discrimination, reciprocity, open trade and fair competition. Successive negotiations and rounds took place, which were translated into further tariff reduction and in the regulation of non-tariff barriers.

The establishment of the World Trade Organization (WTO) in 1995 replaced the GATT and was significant for the American trade policy. It helped encourage free trade.

¹ Whaples, Robert. (1995). *Where is there consensus among American Economic Historians? The results of a survey on Forty Propositions*. The Journal of Economic History, vol.55, No.1 (Mar. 1995), pp 139-154. Cambridge University Press.

In the post-Cold War era, the United States also participated in other free trade agreements including the U.S.-Canada Free Trade Agreement, the North American Free Trade Agreement (NAFTA), the South Korea and US Free Trade Agreement and the Trans-Pacific Partnership (TPP).

2.2. U.S. - CHINA RELATIONSHIP.

The relationship between China and the United States has been complicated since the beginning due to political disagreements. An example is the sixty-year Chinese immigration prohibition that started in 1880. The outbreak of the Chinese Civil War limited relations between the new People's Republic of China (PRC) and the U.S. for many years.

During the Cold War, relations between the communist China and the anti-communist US were tense. The Anti-communist hysteria, later known as "McCarthyism" put under suspicion all those with any kind of relation with China. In 1978, the U.S. Government and the PRC established full diplomatic relations. U.S. President Carter agreed to the terms of the "One-China policy", which stated there was only one China, in spite of the claims of two governments, the PRC and the Republic of China (ROC).

In 2001, China entered the WTO (World Trade Organization) becoming the second largest trade partner of the U.S. and the world's second largest economy after the United States in 2010.

The Chinese growth has resulted in increased tensions between both economies. "It is also the fact that Chinese military modernization is directed at constraining U.S. power projection capabilities in the Western Pacific, and in particular that China has made great strides in eroding traditional U.S. military advantages in Asia." (Evan S. Madeiros, 2019, p. 96). The security dilemma has become a significant dispute.

The entrance of China in the WTO favoured the acceleration of its economic growth. The United States had a special interest in this entrance as more trade with China would have a positive impact on the American economy.

As member of the WTO, PRC would reduce import tariffs, open its markets and protect copyrights. China did reduce tariffs although it did not protect copyrights and forced American companies to transfer technology to access the Chinese market.

China has been accused over the years of not complying with the international trade rules, like the case in which the WTO ruled against China in 2008 for violating global trade rules by requiring automakers operating there to buy most components from local suppliers or face higher tariffs.²

All of the abovementioned negatively impacted on the U.S. trade with China. Tensions between both economies intensified as U.S. trade deficit with China increased. Since the incorporation of China to the World Trade Organization, the American trade deficit with China substantially rose, it almost doubled from 2001 to 2005.

The Obama Administration took active measures to reduce the trade imbalance by filing numerous enforcement complaints against China at the WTO. Moreover, Obama increased import tariffs on Chinese tires as an anti-dumping measure in 2009 contradicting, in this way, the statements of not rising tariffs above the current levels at that time and avoiding protectionist measures. This tariff implied a 35% rise over the product value during the first year, declining to a 30% over the second year and falling to a 25% during the third year.³

Nevertheless, trade policy took a more protectionist perspective with the arrival of Trump to Presidency in March 2017. The importance already given during his election campaign to protectionism and to the reduction of trade deficit has resulted in the ongoing trade war with China.

2.3. BEGINNING OF THE ONGOING TRADE WAR.

The trade war started in March 2018 with the announcement of Trump's Administration of the implementation of import tariffs on steel and aluminium although tariffs on imports of solar panels and washing machines had already been imposed a few months ago, in January.

This announcement is the result of the investigation carried out by the U.S. Trade Representative (USTR) under Section 301 of the Trade Act of 1974 in 2017 which states

² Drajem, Mark. (2008, July 19). WTO Challenges China on Tariffs. *Bloomberg News*. Washington Post. Retrieved from <https://www.washingtonpost.com/wp-dyn/content/article/2008/07/18/AR2008071802945.html> [Accessed on February 10th, 2020].

³ Loven, Jennifer. (2009, December 12). Obama imposes tariffs on Chinese tires. *AP Associated Press*. *NBC News*. Retrieved from http://www.nbcnews.com/id/32808731/ns/business-world_business/t/obama-imposes-tariffs-chinese-tires/#.XvMeJij7TIU [Accessed on February 10th, 2020].

that “the acts, policies, and practices of the Government of China related to technology transfer, intellectual property, and innovation covered in the investigation are unreasonable or discriminatory and burden or restrict U.S. commerce.”⁴ Therefore, Trump sets three different lines of actions: implementation of tariffs, WTO dispute to address China’s discriminatory technology licensing practices and investment restrictions. According to President Trump, the technology transfer and intellectual property policies of China respond to its intention to achieve economic leadership in advanced technology as described in “Made in China 2025”.⁵

As already stated before, the U.S. Government established import tariffs on steel and aluminium of 25% and 10%, respectively, as a response to Chinese theft of intellectual property and technology. In consonance with the report of the Trade Department, both steel and aluminium imports were a threat for the Homeland Security of the United States.

As part of the line of action of the U.S. Government, the United States Trade Representative launched a new WTO challenge against China in March 2018, too. The request is aimed, according to the United States, to address the Chinese unfair practices in which the Chinese Government denies U.S. companies, basic patent rights to prevent a Chinese company from using the technology.

On the other hand, China imposed tariffs on April 1st, to 128 U.S. products as retaliation to the duties levied on steel and aluminium. Products like fruits, nuts and wine were affected by a 15% tariff while soybeans, pork and other related products were imposed a 25% tariff.

Two days later, the USTR released a proposed tariff list on more than 1300 Chinese products with a value of 50 billion dollars. The sectors subjected to tariffs were the following: aerospace, information technology, robotics, medical devices and machinery.

⁴Office of the United States Trade Representative. (2018). *Notice of Determination and Request for Public Comment Concerning Proposed Determination of Action Pursuant to Section 301: China’s Acts, Policies and Practices Related to Technology Transfer, Intellectual Property, and Innovation*. Docket No. USTR-2018-0005.

⁵ “Made in China 2025” is the strategy announced by the Chinese Government in May 2015 to boost and restructure its industry so that China becomes the international leader in technology. It is the first step of a thirty-year plan which consists of three stages: reduce the gap with other countries (2025), strengthen its competitive position (2035) and finally, lead in innovation (2045).

In May, Liu He, economic advisor of China and General Secretary Xi Jinping visited Washington for trade talks. China agreed to the U.S. demand to significantly reduce U.S. trade deficit with China by substantially increasing exports and therefore, both economies put the trade war on hold, as announced by the U.S. Treasury Secretary, Steven Mnuchin.

Nevertheless, Trump's Administration published the final list of the tariffs proposed on April 3rd after revising some exceptions submitted by interested persons.⁶ As stated in the press release, this list consisted of two sets of U.S. tariff lines. The first one includes 818 lines of the original 1,333 lines and covers approximately \$34 billion worth of imports. This first set came into effect on July 6th. Goods in the industrial and transport sectors, as well as medical devices and television experienced a rise of 25% import tax. The second set of tariffs on \$16 billion of Chinese products were later announced to begin on August 23rd.

In retaliation, China targeted goods such as seafood, beef and soybeans, for a total value of 34 billion dollars, too. China accuses U.S. of starting the trade war.

The U. S. Government considered additional tariffs of \$200 billion worth at a rate of 10% in response to the Chinese harm to workers, farmer and businesses. In addition, Trump asked Trade Representative, Robert Lighthizer to consider the increase up to 25%. This duty subjected the proposed list of products announced on July 10th.

As a consequence, China threatened to impose additional tariffs on U.S. products worth \$60 billion annually as the trade war between both economies intensified. Moreover, China filed a complaint at the WTO because of the duties imposed on solar panels by the U.S.

In August, Under Secretary of Treasury, David Malpass and China Vice-minister of Commerce Wang Shouwen met in Washington D.C to reopen negotiations. Meanwhile, the already announced tariffs on \$16 billion on Chinese products took effect. As response, China initiates another WTO dispute complaint against the additional U.S. tariffs on Chinese imports.

⁶ United States. Office of the United States Trade Representative. (2018). Notice of Determination and Request for Public Comment Concerning Proposed Determination of Action Pursuant to Section 301: China's Acts, Policies and Practices Related to Technology Transfer, Intellectual Property, and Innovation. Docket No. USTR-2018-0005.

One month later, in September, the duties on \$200 billion on Chinese imports already announced in August started to be effective. Initially, at a level of 10% rising up to 25% on January 1st, 2019. In addition, Trump threatened duties on \$267 billion more if China retaliated.

In December 2018, China and the U.S. agreed to suspend new trade tariffs for 90 days to allow negotiations. China promised to buy a significant amount of agricultural, industrial and energy products and both economies agreed to open their markets. However, according to the White House, “If at the end of this period of time, the parties are unable to reach an agreement, the 10 percent tariffs will be raised to 25 percent”. This increment took place at the end of the truce period.

The conflict escalated when in the same month, Meng Wanzhou, Chief Financial Officer (CFO) of Huawei was arrested in Canada at the request of the U.S. Government. Huawei and Meng were charged with bank and wire fraud in relation to skirting American sanctions on Iran.

In March 2019, Huawei sued the United States for banning U.S. agencies for from using Huawei’s equipment. The Trump Administration launches an aggressive campaign warning other countries not to use Huawei equipment in order to develop 5G networks (*see Appendix I*).

In May, the trade war intensifies and Trump executed the promised rise in tariffs from 10 to 25% on \$200 billion worth of Chinese products which was meant to be implemented in January. As retaliation, China announced plans to increase tariffs on \$60 billion worth of American goods. The Trump Administration also banned US companies to use foreign-made telecommunications equipment and the U.S. Department of Commerce added Huawei to its foreign entity blacklist.

Some months later, in August, the United States accused China of manipulating its currency, more specifically, of devaluating the yuan. This occurs one week after the U.S. announced higher tariffs on \$300 billion worth goods, which finally went into effect on September 1st.

During the same month, the USTR, instructed by President Trump, implemented an increase by 5% the tariffs on \$550 billion worth of Chinese imports. Moreover, for the 25% tariffs on \$250 billion worth of products, the USTR will increase the rate to 30%,

which went into effect on October 1st. Finally, for the 10% tariffs on \$300 billion worth Chinese goods, the rate will rise to 15%.

Finally, in January 2020, the United States and China signed “Phase One” Trade Agreement. An enforceable and historic deal that addresses issues regarding Intellectual Property, Technology Transfer, Agriculture, Expanding Trade and Financial Services. As a result, China has committed to make significant purchases of U.S. goods and services for the next years while Trump has agreed to ease up U.S. tariffs on Chinese imports.

A few days before signing the agreement, the United States dropped the accusation of currency manipulator.

2.4. EUROPEAN INTERNATIONAL TRADE BEFORE TRUMP.

The European Economic Community (EEC) created by the Treaty of Rome in 1957 was aimed at economically integrate its member states. Some years later, the enforcement of the Treaty of Maastricht in 1993 renamed the EEC to European Community (EC).⁷

2.4.1. Trade agreements.

The trade agreements of the European Union (EU) are guided by the principles of the World Trade Organization. Since its origins, the EU opted for free trade and open markets within its member states, which implied eliminating trade barriers. Eventually, the European Union extended its commercial relations to third countries through new trade agreements.

Trade agreements differ in content and can be classified as following:

- Economic Association Agreements (EEA): support the development of trade partners from Africa, the Caribbean and the Pacific.
- Free Trade Agreements (FTA): they allow a reciprocal market opening with developed and emerging economies.

⁷ The Treaty on European Union (TEU) or Maastricht Treaty in 1993 is one of the founding treaties of the European Union. The Treaty amended the first pillar of the European Union: European Communities, and created two other pillars: the Common Foreign and Security Policy (CSFP) and Justice and Home Affairs (JHA).

- Association Agreements (AA): Reinforce wider political agreements.

The European Union has numerous trade partners, including the United States, Canada, Mexico, Chile, Cuba, CARIFORUM, Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama), Bolivia, Colombia, Equator, Peru, MERCOSUR, Norway, Switzerland, Iceland, Liechtenstein and some countries of West Europe (Albany, North Macedonia, Montenegro, Russia, Bosnia-Herzegovina, Albania, Serbia, Ukraine, Belarus, Moldova, Georgia, Armenia, Azerbaijan), small states such as Vatican, Monaco and San Marino.

Moreover, among its trade partners some Mediterranean countries (Algeria, Egypt, Morocco, Lebanon, Jordan, etc), Asian countries (China, South Korea, Japan, Singapore, Vietnam, Thailand, Iran, Iraq, Afghanistan, Bangladesh, India, among others) and finally, countries from Oceania (Australia, New Zealand, Fiji and Papua New Guinea) can be found.

The increasing relations among its trade partners are reflected in the numerous agreements in place and under negotiation. However, only some of the most relevant ones before the “Trump era” are going to be mentioned.

The United States and the European Union have the largest bilateral trade and investment relationship favoured by their belonging to the WTO. Some of the most important trade agreements are the following:

- Agreement on Mutual Recognition between the European Union and the United States of America (1999). It was aimed to foster trade of goods between the two economic blocs by eliminating technical barriers.⁸
- Transatlantic Economic Council (TEC) in 2007. It is a high level economic forum to discuss in a coherent and coordinated manner with the goal of creating closer ties between the U.S. and the UE. Three advisory groups were set up: the Transatlantic Legislators’ Dialogue, the Transatlantic Consumer Dialogue and the Transatlantic Business Dialogue.

The trade relations between the EU and Canada have their origins in the historic bonds that connected both economies during colonialism. The similarity between European and

⁸ Regulation implemented by States that must be complied with by imported products in order to be commercialize in the country. It can require certificates, homologation and quality controls, among others.

Canadian cultures and with English and French, European languages, being Canada's official languages, have fostered economic agreements. Some of the most significant ones are the following:

- Framework Agreement for Commercial and Economic Cooperation between the European Communities and Canada. (1976). It has served as a base for further bilateral trade relations.
- Comprehensive Economic and Trade Agreement (CETA) (2009) entered into force provisionally in 2017. Its objective is to reduce tariffs and ease the export of goods and services.

As mentioned before, several countries of Latin America are trading partners of the EU and, therefore, have signed different agreements:

- Inter-regional Framework Cooperation Agreement between the European Community and MERCOSUR (1999). It set the basis for further negotiations and laid the foundations for an International Association between them. It was signed by the founders of MERCOSUR (Argentina, Brazil, Paraguay and Uruguay) and the European Community.
- Economic Partnership, Political Coordination and Cooperation Agreement or Global Agreement between the European Union and Mexico (2000). It deals with political dialogue, trade relations and cooperation. This agreement was replaced in April 2018 as both parties reached an agreement in principle on the trade part of the Global Agreement.

The Asian bloc is also a relevant partner of the EU. More precisely, China is the EU's second biggest trading partner behind the U.S. as a result of the intensified efforts on trade relations. Nonetheless, the EU has filed complaints against China for unfair trade.

- Trade and Economic Cooperation Agreement (1985). It laid the foundations for further agreements.
- Agreement on Maritime Transport (2002).
- New strategy on China (2016). The strategy encourages reciprocity, a level playing field and fair competition. It also includes negotiations on a Comprehensive Agreement on Investment.
- EU-China 2020 Strategic Agenda for Cooperation (2020). It puts an Investment Agreement as centre of the EU's long-term bilateral relations with China.

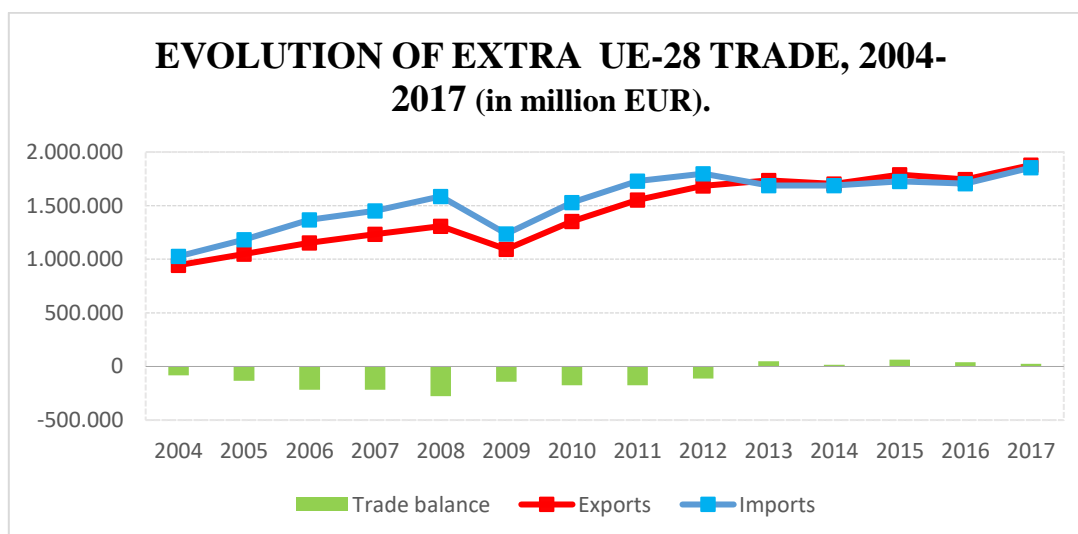
Moreover, within the Asian bloc, trade relations among Japan and the European Union took a significant step forward in 2018 with the creation of these new trade agreements:

- Economic Association Agreement EU-Japan (2018). It was a turning point for the relations with the Asian country. This EAA eases export for European companies as it eliminates the majority of import tariffs on European products including dairy products, wine, alcohol and textile.
- Association Agreement EU-Japan (2018). It was aimed at extending its scope towards other sectors such as the energy sector, education, research and climate change, among others.

2.4.2. Imports and exports.

Extra EU-28 trade significantly evolved from 2004 to 2017 (*see graph 2.4.2.1*), year in which Donald Trump won the presidential elections of the United States. EU imports experienced a steady increase at a higher rate than exports. As a result, trade balance was negative during several years, reaching the biggest deficit (276,280.8 million euros) in 2008, coinciding with the financial crisis. However, the negative trend reversed in 2013, when the balance had a surplus of 49,478.3 million euros. Since then, the balance has been positive, although it dropped by 51% in 2017.

Graph 2.4.2.1: *Evolution of Extra UE-28 Trade, 2004-2017.*



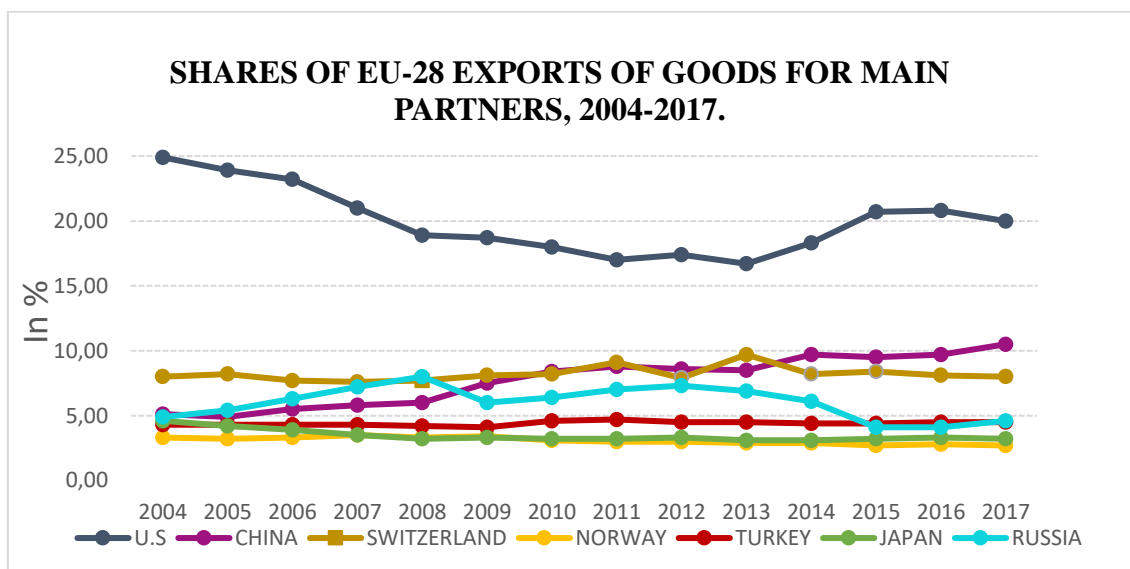
Source: Own source from Eurostat data.

As already stated, trade has evolved with both intra-group and extra-group countries over the years. Focusing on the extra-group countries, the main EU-28 trading partners, according to Eurostat, are: United States, Switzerland, China, Turkey, Japan, Norway and Russia.

The United States was, and still is in 2019, the EU's major trading partner in exports (*see graph 2.4.2.2.*). The share significantly decrease until 16.70% in 2013, rising again until 20% in 2017. Despite the fact that its share dropped by 19.68% from 2004 to 2017, the U.S. was by far the main partner in exports.

The share of China grew from 5.10% to 10.5% between 2004 and 2017. Regarding the rest of the countries, their shares slightly decreased during the period with the exception of Turkey, which rose by 4.65% and Switzerland, which remained stable. (*See Appendix II*).

Graph 2.4.2.2: Shares of EU-28 exports of goods for main partners, 2004-2017.



Source: Own source from Eurostat data.

Regarding imports, the share of China (*see Appendix III*) grew from 12.60% to 20.20% between 2004 and 2017 (*see graph 2.4.2.3.*). It implies a 60.32% increase in its share, which makes China the first EU-28 importer. The EU negative sign of the trade balance with China has remained along all these years as a result of the high number of imports and the smaller amount of exports. The deficit varied from 80,820.7 million euros to 177,658 million euros (*see Appendix IV*).

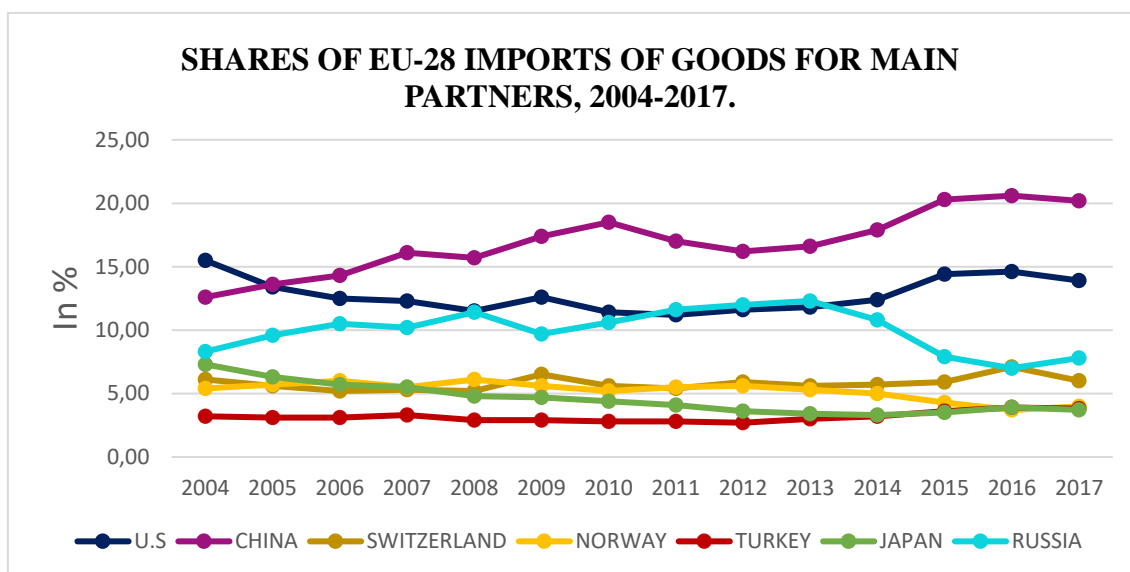
The U.S. is the second main importer of the European Union, with a share of 13.90% in 2017. It fell by 10.32% between 2004 and 2017, which made the country lose the first position as EU importer.

Japan experienced a steady decrease of imports of 49.32% between 2004 and 2017. The EU trade balance with the Asian country also remained negative over the mentioned period of time. However, the deficit declined from 31,451.4 million euros to 7,925.8 million euros (*see Appendix V*).

On the contrary, the share of imports of Turkey rose from 3.20% to 3.80%. Imports in 2017 were 69,775.6 million euros while they amounted to 32,862.7 million euros in 2004. In relation with the trade balance, EU had a surplus of 7,322.5 million euros and 15,019.2 million euros in 2004 and 2017, respectively. (*See Appendix V*).

The rest of the countries suffered a slight decrease in their share of imports of goods.

Graph 2.4.2.3: *Shares of EU-28 imports of goods for main partners, 2004-2017.*



Source: Own source from Eurostat data.

International trade has considerably increased over years, which implies higher exports and higher amount of imports. For the period of time between 2004 and 2017, the EU has had trade surplus with the U.S., Switzerland and Turkey whereas it has had deficit with Russia, Japan, Norway and China (*see Appendices IV and V*).

3. ANALYSIS.

3.1. IMPACT OF THE TRADE WAR ON THE EUROPEAN UNION.

Results show that the ongoing trade conflict between the United States and China indirect and directly affects the European Union. There are many reasons and sources of impact which are going to be detailed hereunder.

First, it is important to highlight the high degree of dependence of the EU on international trade. The World Bank database shows EU exports of goods and services represented the 44.8% of its GDP whereas exports only accounted for 12.2% of U.S. GDP and a 19.5% in the case of China in 2018. This explains why global trade tensions undermine the EU trade and stability.

Secondly, the 10% tariffs on aluminium imports and 25% on steel imports imposed by the U.S. Government in March 2018, temporarily exempted the European Union. However, on June 1st, 2018 they came into effect, directly impacting EU exports. These protectionist measures are estimated to damage the European Union economy in 6,400 million euros. Nevertheless, it has a limited impact as the significance of UE-28 exports of steel and aluminium is 2.76% of the total exports to the U.S. in 2019, 0.5 percentage points lower than the previous years.⁹

In addition, the U.S. – China tariff war affects the value chain although the impact on the EU is very small due to the low EU value added to Chinese exports to the U.S., which according to an analytical article published by the Bank of Spain, it accounts only for less than 0.1% of its GDP.¹⁰

On the contrary, the impact of tariffs on value chains has been positive rather than negative. The North American and Asian suppliers are the most affected by the measures due to a loss in its competitiveness while the European Union is estimated to capture around \$90 billion of trade related to value chains.¹¹

⁹ The significance of 2.76% of UE-28 exports of steel and aluminium to the United States over total exports to the U.S. has been calculated with data obtained from EUROSTAT and considering iron and steel, articles of iron or steel, aluminium and articles thereof. EUROSTAT does not offer a breakdown of steel and aluminium only, so the significance of these two products is much lower than 2.76%.

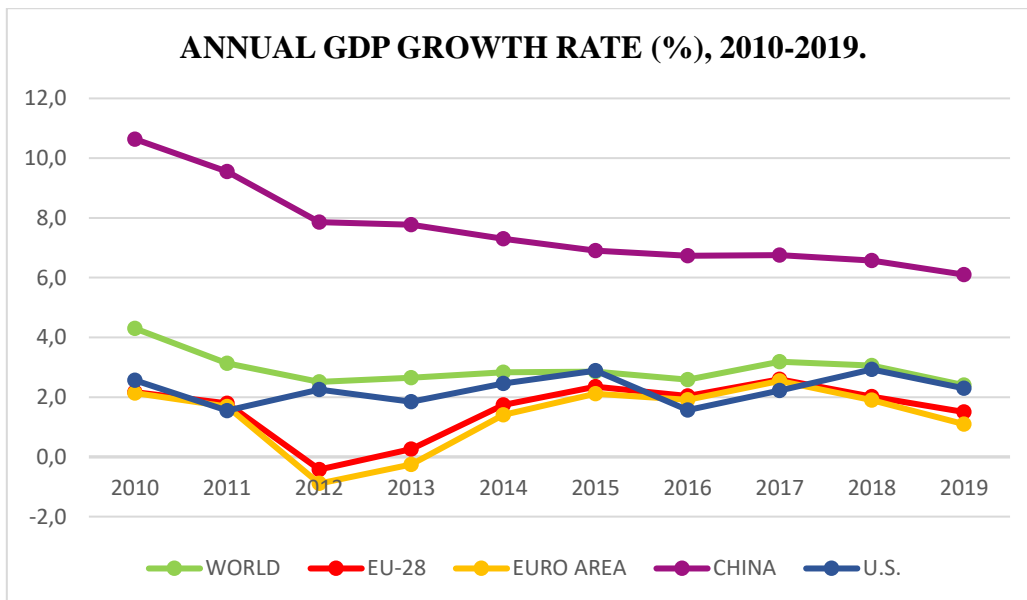
¹⁰ Viani, Francesca. (2019). *Las recientes tendencias proteccionistas en el ámbito comercial y su impacto sobre la Unión Europea*. Boletín Económico 2/2019. Artículos analíticos. ISSN 0210-3737.

¹¹ Nicita, Alessandro (2018). *United Nations Conference on Trade and Development (UNCTAD). Key Statistics and Trade Policy 2018. Trade Tensions, Implications for Developing Countries*. Pp.14. ISSN 2409-7713.

Regarding annual economic growth (*see graph 3.1.1.*), the world rate has experienced a slowdown, declining to a 2.4% in 2019 from the 3% of 2018 as a result of trade tensions and a deceleration of domestic investment. However, it is expected to recover again during the following years with prospects of 2.5% for 2020 and 2.6% for 2021, according to World Bank data.¹²

In the case of the European Union, trade tensions contributed to the decrease by 0.5 percentage points reaching a 1.5% growth in 2019 in comparison to 2018. Chinese annual real GDP growth declined to 6.1% in 2019 from 6.6% in the previous year. The U.S. suffered a slightly higher economic regression due to the drop to 2.3%, 0.6 percentage points lower than in 2018.

Graph 3.1.1: Annual percentage GDP growth rate, 2010-2019.



Source: Own source from World Bank and Eurostat data.

Moreover, this tariff war indirectly impacts in the European economy by means of the increased uncertainty together with the loss of the investors' confidence and the adverse and unpredictable behaviour of the financial markets.

¹² Economic prospects made by the World Bank does not take into consideration the current and ongoing health crisis caused by COVID-19. The pandemic will take the global economy into an economic recession.

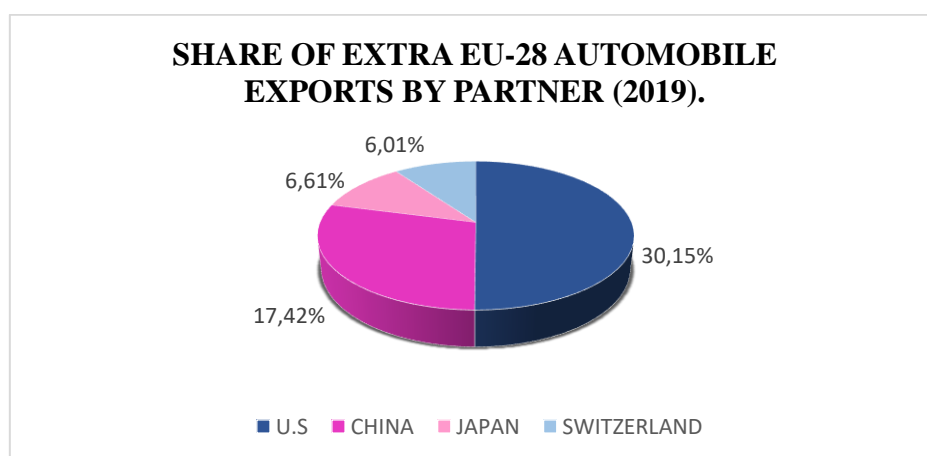
3.2. IS THE EUROPEAN UNION THE NEW TARGET OF THE UNITED STATES?

The Trump Administration not only targeted the EU with the establishment of tariffs on steel and aluminium imports in March 2018, which came into effect some months later, but also threatened the economic bloc with the imposition of 25% tariffs on automobile imports. The announcement was made as a result of the U.S. investigation under Section 232 of the Trade Expansion Act of 1962 in which automobiles, among other products, are classified as a national threat to the United States.

The U.S. will charge these tariffs in case the European Union and the United States do not reach an agreement. Such agreement consists of the achievement of bilateral free trade in industrial products (with the exception of automobiles), increase of chemical and pharmaceutical trade, reduction of technical barriers and strengthen cooperation in the energy field, among others.

If these trade barriers are finally implemented, the EU economy would be highly undermined due to the great significance automobile exports to the U.S. has over the total automobile exports (*see graph 3.2.1.*). According to Eurostat, the U.S. itself accounted for 30.15% of the total Extra EU-28 automobile exports in 2019, followed by China (17.42%). As proved, the United States is the first automobile exporter for the European Union and, the imposition of 25% tariffs on imports would damage the economy to such an extent that even the American automobile sector has taken a stand against the tariffs.

Graph 3.2.1: *Share of Extra EU-28 automobile exports by partner (2019).*



Source: Own source from Eurostat data.

3.2.1. Boeing – Airbus dispute.

Apart from the ongoing trade war that affects the EU and the threats from the Trump Administration to levy tariffs, there is another dispute between both economic giants as a result of two aircraft companies: Airbus and Boeing.

The conflict dates back to 2004, when the American company Boeing insisted on the U.S. Government to withdraw from the 1992 Agreement and to file a complaint at the WTO over the EU subsidies granted to the company. Boeing claimed that Airbus would not be its major rival if the EU had not offered economic support to the aircraft company.

Consequently, the EU filed another complaint at the WTO accusing the U.S. of granting illegal subsidies to Boeing, more specifically, the EU claimed that the U.S. company has received around 20,000 million dollars since 1992 and continued receiving 23,000 million dollars annually.

In 2019, the WTO ruled in favour on the U.S. allowing the country to levy tariffs imports from the EU for a value of 6,900 million euros. The U.S. is allowed to apply a 100% tariff on the affected products and started implementing a 10% on large civil aircraft, which was increased to 15% in March 2020; and a 25% on the rest of products.

The list of products targeted by the U.S. Government includes Spanish olive oil, Scottish whiskey, French wine, Italian cheese and German cookies, among others.¹³

These new tariffs harms the global aircraft industry as a significant percentage of Airbus purchases related to airplanes comes from American suppliers, therefore, its supply chain and thousands of job positions are affected. In addition, European and global consumers are affected by an increase in the price.

Regarding the tariffs imposed to food, some countries of the European Union are more damaged than others, for example, Germany, United Kingdom and Italy as they are some of the biggest exporters. Spain is also harmed due to the tariffs levied on olive oil, cheese and wine.

¹³ United States. Federal Register. (2019, October 9). Notice of Determination and Action Pursuant to Section 301- Large Civil Aircraft Dispute. Vol. 84, No 196.

3.3. EU RETALIATION TO U.S. MEASURES.

The European Commission tried to permanently exempt the EU from the steel and aluminium import tariffs but due to its failure, it reacted to the above-mentioned establishment of tariffs to steel and aluminium imports by adopting rebalancing measures in line with the WTO. This way, the EU levied imports from the U.S. of 6,400 million euros worth, value estimated as damaged caused by the U.S. tariffs.

The EU tariffs will follow two phases: the first one, already implemented on June 2018, affects U.S. imports of 2,800 million euros worth; while the second one will be implemented within three years. The European Commission published a list of targeted goods including agricultural, steel and aluminium products.¹⁴ These duties will be effective until the U.S. removes theirs.

Moreover, the EU together with some other WTO member like China, Canada, Mexico, Norway and Russia, filed a complaint at the WTO over the tariffs on steel and aluminium imports.

Thus, the European Union is waiting for the WTO dispute settlement which is expected to take place during the spring of 2020. After the settlement, the EU will implement the remaining 3,600 million euros worth rebalancing measures.

Meanwhile, Trump and Juncker, former EC President, met in July 25th, 2018 to reach an agreement that allowed to start negotiation. Since then, both economic giants have been negotiating a trade deal. If no trade deal is reached, the U.S. threatened to establish duties on automobile imports. Nevertheless, the European Commission does not expect these tariffs to be imposed as the time period to implement them expired although no formal answer has been provided to the European Union.

¹⁴ World Trade Organization. (2018, 18 May). Council for Trade in Goods Committee on Safeguards. Immediate Notification Under Article 12.5 Of The Agreement On Safeguards To The Council For Trade In Goods Of Proposed Suspension Of Concessions And Other Obligations Referred To In Paragraph 2 Of Article 8 Of The Agreement On Safeguards. Retrieved from https://trade.ec.europa.eu/doclib/docs/2018/may/tradoc_156909.pdf [Accessed on April 3rd, 2020].

3.4. ECONOMIC IMPACT ON SPAIN.

Spain, as member state of the European Union, is also affected by the trade conflict between the United States and China and by the direct disputes with the U.S.

These conflicts, together with the uncertainty scenario caused by the Brexit and the Spanish political instability have contributed to the slowdown of the Spanish economic growth. According to the National Statistics Institute and to the Bank of Spain, GDP growth rate decreased from 2.4% in 2018 to 2% in 2019, and reduced their projections for 2020 to 1.7%. As stated in a report of the Bank of Spain, the economic slowdown is due to the decreasing of both internal and external demand.¹⁵ The lower contribution of external demand to GDP is caused by a substantial increase of imports at the expense of exports.

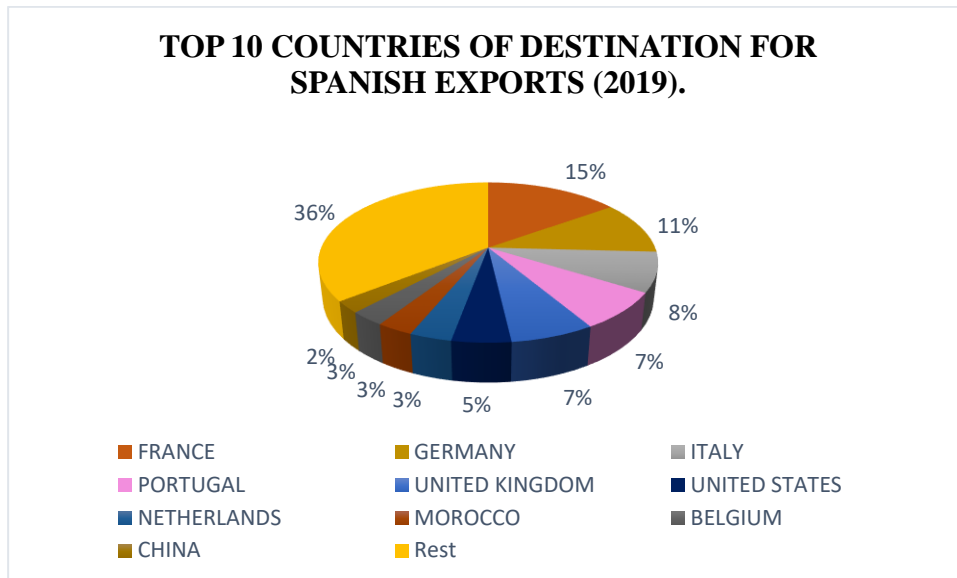
Spain, like the EU, is highly dependent on foreign trade, both for imports and for exports. In line with the contribution of the Bank of Spain, trade balance has been negative over the past five years as a result of a higher volume of imports than exports (*see Appendix VI*). According to Eurostat, exports of goods and services accounted for 34.9% of Spain's GDP in 2019, 0.2 and 0.3 percentage points lower in comparison to 2017 and 2018, respectively. It is important to highlight that not only have these events directly affected export companies but also producers and suppliers of raw materials together with production lines.

Graph 3.4.1. represents the share of the top 10 countries of destination for Spanish exports. Among these exports, exports to European countries like France, Germany, Italy, Portugal, Netherlands and Belgium accounted for 54.42% over total exports in 2019 (ICEX database).¹⁶ Therefore, as exports to European countries represents a significant share, damages in the rest of European countries will have an impact on the Spanish economy by means of decreasing exports to the affected countries.

¹⁵ Bank of Spain. (2019). Macroeconomic Projections for the Spanish Economy (2019-2022): the Banco de España's contribution to the Eurosystem's December 2019 joint forecasting exercise.

¹⁶ All organized and handled data from this analysis can be provided in a request to the author. They are not all included in the appendices of this paper due to its length.

Graph 3.4.1: *Top 10 countries of destination for Spanish exports (2019).*

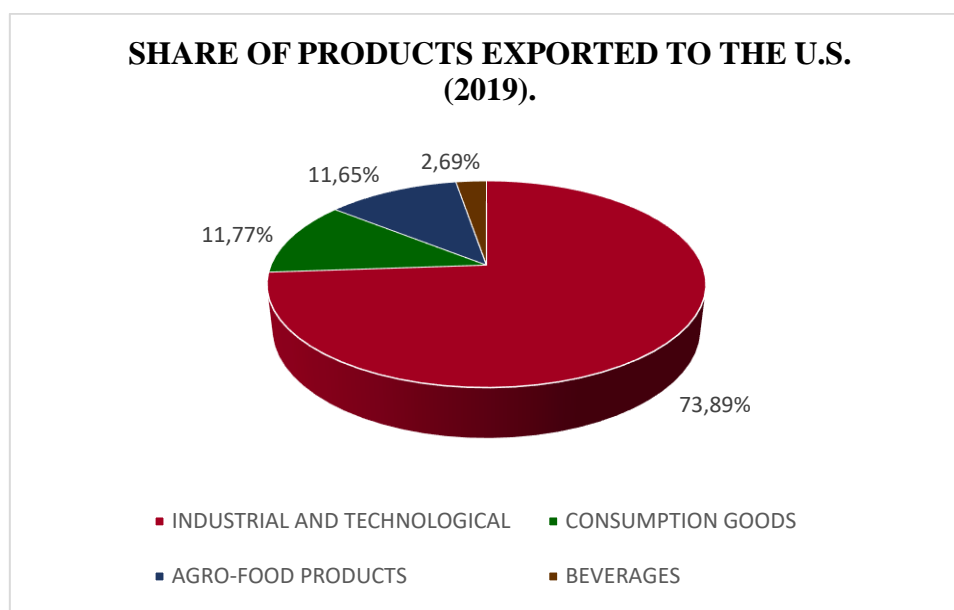


Source: *Own source from data obtained from ICEX.*

It can also be observed that the United States was the sixth country of destination for Spanish exports, which amounted to 4.74% over total exports in 2019. Exports to this country has experienced an increasing trend over the past four years, more precisely, they rose by 20.82% in spite of the tariffs implemented by the U.S.

The ranking of the most exported products is industrial and technological products, followed by agro-food products, consumption goods and beverages. With regards to the United States, agro-food products are the third most exported category instead of being the second one, as it was the case in the overall of exports. *Graph 3.4.2.* shows the percentage of exports to the U.S. of each category of products over the total volume of exports to the U.S. It can be observed that industrial and technological products accounted for a 73.89%, consumption goods, an 11.77%, while agro-food products represented the 11.65%, both data from 2019.

Graph 3.4.2: *Share of products exported to the U.S (2019).*



Source: Own source from ICEX database.

3.4.1. Impact of steel and aluminium tariffs.

The 10% tariffs on U.S. aluminium imports and 25% on U.S. steel imports temporarily exempted the European Union and, consequently, Spain. However, these duties came into effect some months later in the EU.

Steel and aluminium exports to the U.S. accounted for 2.47% of total exports to such country in 2019, which is a small share with respect to exports to other countries.¹⁷ The evolution of the exports of these goods shows that they slightly decreased by 0.92% in 2018 in comparison to the previous year although they recovered during the following year with an increase of 4.81% with regards to 2018. This data demonstrates that the impact on steel and aluminium exports has been marginal rather than significant.

Nevertheless, the impact of tariffs levied on steel and aluminium imports was estimated in 400 million euros per year, as reported by business associations belonging to both sectors. President of UNESID (business association of the steel industry) stated in a press conference their concern about the tariffs, not much for the direct impact but for the potential increase of imports from third countries as a result of the American trade

¹⁷ Steel and aluminium data has been obtained from ICEX database and considers cast steel products, carbon steel products, stainless steel products, alloy steel products, cast aluminium products and semi-manufactured aluminium products.

restrictions.¹⁸ The European Union and by extension, Spain, being the destination of steel and aluminium products that cannot be sold in the American market would result in a price reduction. Therefore, UNESID claimed safeguard duties to the European Commission, which became effective, as explained in the analysis of the European Union.

In fact, according to UNESID steel imports increased from 2017 to 2018 by 13.4%, and more specifically, EU-28 imports rose by 7.1% while imports from third countries rose by 29% (*see Appendix VII*).

The overall impact of these tariffs on Spain has not been very relevant although they are more important at a sectoral level.

3.4.2. Impact of tariffs resulting from WTO resolution.

Apart from the tariffs on steel and aluminium imports originated from the trade war between the United States and China, Spain has also been affected by the WTO resolution of the already mentioned Boeing-Airbus dispute whereby the United States was allowed to implement new tariffs on a wide list of products including large civil aircraft and agro-food products.

Agro-food exports to the U.S. represented, according to ICEX, a 3.55% over total agro-food exports in 2019 while total agro-food exports accounted for 15.52% over total exports in that year. However, total agro-food exports only represented 3.88% over GDP of 2019 while agro-food products exports to the U.S accounted for 0.14% over GDP in 2019, too. This implies that the contribution of these exports is not very elevated with regards to the total GDP of the Spanish economy although the consequences of these new duties are more serious for the Spanish agricultural sector, as it is now going to be clarified.

The Bank of Spain quantified the impact in 100 million euros approximately and forecasted a reduction in the sales of agro-products of 12%, which is equivalent to the 0.01% of the Spanish GDP if the weight of these products exports are taken into consideration in comparison with the total volume of exports to the rest of the world.

¹⁸ UNESID. (2018, March 22). Unesid Alerta del Peligro de una Avalancha de Importaciones de Acero, como consecuencia de las Medidas Proteccionistas de Estados Unidos. Press Release. Retrieved from <https://unesid.org/docs/20180322-nprensa-unesid-reunion-se-comercio.pdf> [Accessed on June 16th, 2020].

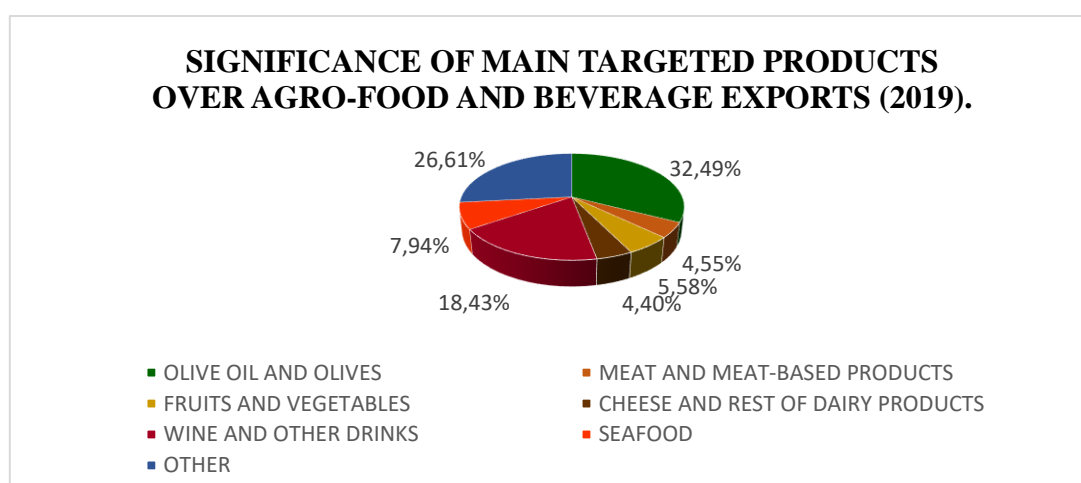
Moreover, the Financial Institution states that a 1% rise of import tariffs established by other countries on Spanish products implies a nominal exports reduction of 0.6%.

However, since the scope of this analysis reaches until 2019 and these duties came into effect in October 2019, their consequences cannot be validated yet.

Among the agro-food products targeted with a 25% tariff by the U.S. Administration, the main ones affected are wine, olive oil, olives, cheese, pork, ham, fruits and vegetables. These products represent the 73.39%, according to ICEX, of total agro-food exports to the U.S. Thus, the U.S. targeted a strategic sector for the Spanish economy because, as said before, the United States is the main country of destination for Spanish exports after the European countries. With this data it can be inferred that this sector is the most damaged sector despite the fact that the dispute was between two aircraft companies.

Graph 3.4.2.1 exhibits the share of the main targeted products with the 25% tariff over the total volume of agro-food and beverage exports in 2019. Olive oil and olives represented the 32.49% over total agro-food and beverage exports to the U.S., the highest share in comparison to the rest of products targeted. Wine and other beverages accounted for 18.43% while seafood represented the 7.94%. Meat and meat-based products (4.55%), cheese and other dairy products (4.40%), fruits and vegetables (5.58%) accounted for a lower share of agro-food and beverage exports to such country.

Graph 3.4.2.1: *Significance of main targeted products over agro-food and beverage exports (2019).*



Source: Own source from data obtained from ICEX.

Some of the most affected products targeted by the United States are olive oil and olives owing to their weight in comparison to the rest of the products subject to the tariff, as shown above. These two products represented 6.95% of total agro-food exports and a 13.34% of their exports to the U.S. over the total amount of olives and olive oil exports. Exports of these products decreased by 11.72% from 2017 to 2019, as forecasted by the Bank of Spain and according to ASOLIVA, the Spanish Industry and Export Trade Association of Olive Oil, sales reduction is estimated in 150,000 tons per year.

It can be inferred that this is one of the most damaged sectors by the WTO resolution and actions taken by the U.S. due to the high impact these products have on the overall agro-food exports to the United States. As a consequence of these protectionist measures, Spanish companies were in the need to reduce prices in order to be able to sell these products to the U.S., resulting in lower margins and losses for firms.

The reduction of sales has resulted in storage problems for producers and companies, which has been translated into even more lower prices. Another consequence is work destruction due to the decrease in sales.

In addition, sales to other European countries such as Italy, for packing have not been included in the just mentioned figure. In consonance with ASOLIVA, the sector is also afraid of losing its export share in the United States owing to the 25% tariffs.

This goes in line to what it was stated before, Spain has not only suffered the direct impact on U.S. import tariffs to local products, but also has been negatively influenced by the tariffs to the rest of the EU due to its high dependence to these countries.

3.4.3. Hypothetical impact on automobile sector.

Along this dissertation, it has already be stated that, for now, it is not likely that the Administration of the United States will implement the tariffs on U.S. automobile imports. However, as it is still a possibility and it has been done for the case of the European Union, the consequences of their establishment in Spain are going to be studied.

Before analysing the duties impact on Spain, the position of the Spanish automobile sector is going to be evaluated.

The main European partners for Spanish automobile exports are Germany, Italy and United Kingdom. There has been a similar trend in the three countries: exports

decreased from 2017 to 2018 according to ICEX but, they recovered and reached higher levels the following year, 2019. (*See Appendix VIII*).

On the one hand, automobile and automobile components exports to Germany accounted for 19.75% of total exports of this sector while exports to the United Kingdom represented a 10.34%, both figures from 2019 obtained from ICEX database. Similarly, exports to Italy were 8.49% of total automobile exports that same year.

On the other hand, automobile and automobile components exports to the United States made up the 2.59% of total automobile exports in 2019. These data implies that the impact caused by tariffs would be low in comparison to its impact on the EU. Nevertheless, it is important to take into account that the main countries of destination for Spanish automobile exports are European countries so, if European demand contracts as a result of the tariffs, Spanish exports to this countries would also be reduced. Global chain value plays an important role in this sector as production is highly fragmented.

According to an economic report (Bank of Spain, 2019), the weight of the national value added is lower (48%) in comparison to the German one (70%). This means that Spain is more dependent on the value added generated in other countries. In line with the report of the Bank of Spain, a 10% fall in the German demand would have an impact of -0.5 percentage points although the impact on the Spanish economy would be lower as the German automobile sector does not import a significant volume of components from Spain. However, in the case of a 10% decrease in the Spanish demand, the impact would be lower than in the case of Germany, it would only reduce value added by 0.15 pp.

Hence, the Spanish economy would not experience an elevated impact in case these tariffs were implemented although the majority of the impact would be caused by the dependence with Germany, the UK and Italy.

3.5. OTHER IMPACTS BEYOND: FINANCIAL MARKETS.

The trade war between the two economic giants, China and the United States, has originated great uncertainty which has been transferred to financial markets through high volatility.

As stated in the Global Financial Stability Report (October, 2019) elaborated by the International Monetary Fund, financial markets have been hit by the ongoing trade conflicts and by the increasing uncertainty regarding economic growth prospects.

According to such report, the mentioned events have directed monetary policy towards an accommodative position which has been accompanied by a low yield trend.

On the one hand, it is said that currency wars go behind trade wars. Nowadays, countries aim at having weaker currencies in order to be more competitive.

In the dispute between China and the U.S., currencies have played an important role, especially in the case of China. China was accused in August of 2019 of being a currency manipulator by the United States. China devalued the Chinese Yuan (CHY) a few days after the U.S. announcement of tariffs to China. By devaluing the currency, China was able to face the prices increase of Chinese exports to the U.S as a result of the new tariffs. This way, Chinese products were cheaper and the effects of the tariffs were counteracted.

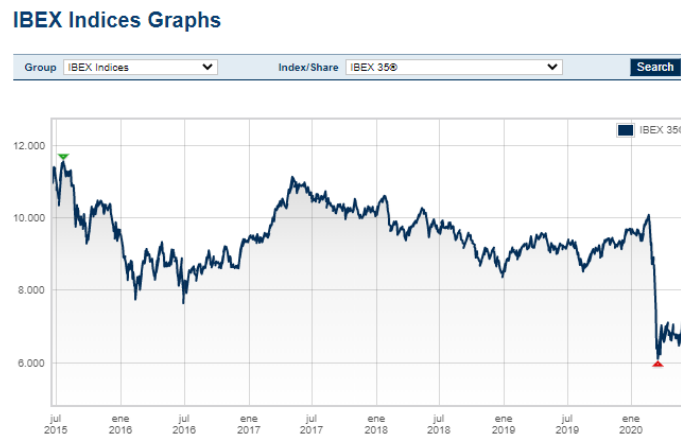
Nevertheless, the yuan devaluation is also consistent with the Chinese efforts towards a market-oriented economy.

Besides that, the yuan devaluation generates uncertainty and volatility, making investors go to more stable markets, such as the U.S. one. This implies an appreciation of the dollar, which is the opposite of what Donald Trump wanted.

On the other hand, stock markets have also experienced the effects of the trade war. The American Index, Dow Jones Industrial Average, fell by 2.93% on 23rd of March of 2018 with the Trump's signature of the tariffs on steel and aluminium imports while the Stock Index of Shanghai decreased by 3.39%. The impact on the U.S. stock indexes has been lower than the one on the Chinese stock markets as the North-American indexes have proved to be more stable.

The Spanish Stock Exchange market has also been affected by the instability and uncertainty of the trade war. The following graph (*graph 3.5.1.*) shows the evolution of the IBEX 35 over the past five years in which the effects of the trade war are reflected. This way, drops can be observed in those dates at which the trade war began (March 2018) and the successive tariffs announcements made by the United States. The IBEX 35 decreased by 0.99% on the 23rd of March while the European Stock Exchange Index, Euro Stoxx 50, dropped by 1.50%. The impact on the Spanish Stock Market was more moderate in comparison to the European.

Graph 3.5.1. *Evolution of IBEX 35 (2015-2020).*



Source: Bolsa de Madrid

4. CONCLUSIONS AND LIMITATIONS.

Trade war between China and the United States is an economic conflict that affects not only these two economic giants but also the rest of the world, as already explained. Understanding its origin and the measures taken is key to quantify the impact on the rest of economies, including the European Union and Spain.

The relevance of this analysis lies on the high dependence of the European Union and Spain on foreign trade and how conflicts of this kind significantly impact on international economies.

The trade war between the United States and China originated as a result of the protectionist measures taken by the Trump Administration. Trump's main objective for his term of office was to "make America great again", thus, the deficit in the trade balance with China was an obstacle. Based on national security grounds, the U.S. Government initiated the conflict with China and many other countries in 2018, by implementing tariffs on steel and aluminium imports. From that moment onwards, successive rounds of tariffs and countermeasures from China took place. The EU got involved in the conflict when the protectionist measures targeted this economic bloc.

At the beginning of this paper some objectives were set. The main one was to give an answer to the question of how the trade war between China and the United States impacts on the European Union and Spain and, after this analysis in depth, it can be

concluded that this objective has been accomplished. Consistency and veracity were another two key aspects in the development of this study, which are also accomplished as all data has been obtained from official databases such as Eurostat, ICEX and World Bank.

Several conclusions are drawn from this analysis. The first one, is the high dependence of the European countries on foreign trade. Extra EU-28 exports accounted for 44.8% of its GDP in 2019, which explains why global trade tensions undermine the trade and stability of the European Union. In addition, in the case of Spain, exports accounted for 34.9% of the Spanish GDP in 2019. However, it is important to highlight that Spain is highly dependent on the European Union, as its member countries are the main place of destination for its exports and consequently, impacts on the rest of European countries affects the Spanish foreign trade.

Focusing on the trade with the United States, the EU is more dependent of the United States trade in comparison to Spain, as EU exports to the U.S. represented the 22% of total EU exports in 2019 while Spanish exports to the U.S. only accounted for 4.74% in that same year.

The overall effect of the trade war between China and the United States on the European Union has been marginal due to the low importance of steel and aluminium exports (2.76%) over the total volume of exports. Its direct impact on Spain has not been significant either for the same reason. However, the steel and aluminium business associations were more concerned of the indirect impact because a higher supply from third countries redirected to the European market would result in lower prices.

On the contrary, the EU has been benefited from the conflict, as it has been able to capture \$90 billion of trade related to value chains. The most damaged have been North-American and Asian suppliers and not the EU owing to its insignificant contribution to the value chain.

Nevertheless, the consequences of the WTO resolution due to the Airbus-Boeing dispute have been more significant for the European and Spanish economy. The 6,900 million euros that the United States was allowed to implement as a result of the mentioned resolution, targeted European large civil aircraft and a wide variety of European products, mainly food products. For the specific case of Spain, these tariffs targeted strategic products for the Spanish export companies. The agro-food sector was the most damaged

one as exports of these products represented the 15.52% over total exports in 2019 and a 3.55% of agro-food exports to the U.S over total agro-food exports.

The most affected companies are those that focus their main economic activity on the export olive oil, olives and alcoholic drinks (wine mostly) as a consequence of their weight over total agro-food exports to the U.S. Hence, olive oil and olives represented the 32.49% over total agro-food exports to the U.S., while wine and other alcoholic drinks accounted for 18.43% over total agro-food exports to U.S. in 2019, too.

Another reason why this is the most damaged sector as a result of the tariffs implemented by the U.S. is the price reduction that producers and companies were obliged to do in order to mitigate the rise in prices due to the duties. In addition, ASOLIVA has shown concerned about the implementation of these tariffs, since they can imply the U.S. demand elimination of these products, significantly damaging the profit of these companies.

Regarding the automobile sector, it can be concluded that in case tariffs are implemented on automobile imports, the consequences would be more notorious than in the case of the steel and aluminium imports. It is worth stressing that the impact will be worse for the European Union than for the Spanish sector, as Extra EU-28 automobile exports to the U.S. represented the 30.15% over total Extra EU-28 automobile exports, while Spanish automobile exports to this same country accounted for 2.59% of total automobile exports in 2019. The effects on this sector will also be more detrimental to the EU as a result of the high fragmentation of the production chain.

Furthermore, exports and imports have not been the only aspects affected by the tensions. Financial markets all over the world have experienced the side effects of these economic conflicts. Stock markets reported drastic price falls due to the protectionist measures taken by the U.S. governments and by the Chinese countermeasures. The uncertainty caused by this situation resulted in a higher volatility in the financial markets and in the lack of confidence of investors. With the EU as new target of the conflict, the side effects exacerbated. It is noteworthy, the role that currencies play in a commercial war, with the example of the Chinese Yuan devaluation. Numerous articles relate the trade war with the beginning of a potential currency war.

Therefore, the great impact that the trade disputes between the two world giants originate on third economies has been corroborated. Given the difficulty of isolating the effect owing to the strong interconnection among the different economies and the brief time horizon of the dissertation, due to the current topic, further arguments and analysis perspective to the real consequences of the trade war will be provided over time.

However, as mentioned in the introduction, this paper also has several limitations. It is of great complexity to isolate the specific effects of the trade war due to the interconnection between world economies and the existence of other events and factors that influence on trade. Thus, the economic slowdown and export reduction might be also due to the Brexit and many other factor affecting each economy.

Besides, some of the consequences of these tariffs, like the ones resulting from the WTO resolution cannot be measured yet since the scope of this analysis reaches until 2019 and these duties came into effect this same year.

Furthermore, those headlines that grabbed week after week, month after month the pages of all international conjuncture reports and newspapers have given rise to the unexpected irruption and expansion of the COVID-19. The pandemic is challenging the management of all governments and taking them to their limits in the effort of obtaining the equipment and resources required. This health crisis will trigger a deep economic downturn, as it can be verified through the projections of the IMF (WEO, June 2020), that has estimated a contraction of the world economic growth of 4.9%, a decrease of 10.2% in the Euro zone and a reduction of 12.8% for Spain. The recovery will depend on the evolution of the pandemic and the development of the different trade conflicts, like the one which has been subject of study in this paper.

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6. APPENDICES

Appendix I. Companies affected by the trade war. Case of Google and Huawei.

Several companies have been directly affected by the trade war between the world's two economic giants, as it has been the case of the Chinese tech-company Huawei and the American company Google.

Huawei was directly involved in the conflict due to its alliance with the Chinese government in which Huawei would significantly help China become an economic giant while the Chinese government would protect the tech-company from foreign competition. In addition, Huawei agreed to share information with the government.

The Chinese government only allowed foreign enterprises enter the Chinese market if these companies allied with local companies (for example, through joint ventures). This way, Chinese companies were able to acquire intellectual property and know-how from its foreign partners and eventually, end or break the contracts signed. All of the mentioned facts plus the obligation of Chinese companies to share information with the government in spite of being private enterprises, were the reasons why the United States formally accused China of intellectual property theft and later, claimed that Chinese enterprises were a threat to the National Security of the country.

Until that moment, Huawei had been protected by the Chinese government, but from the beginning of the trade war in March 2018, the company got involved in the middle of the conflict due to that same alliance that had protected the corporation in the previous years.

In December 2018, the conflict exacerbated when Meng Wanzhou, Chief Financial Officer of Huawei, was arrested in Canada at the request of the U.S. Government. Both Huawei and its CFO were charged with bank fraud, wire fraud, and conspiracies to commit bank and wire fraud. Moreover, as stated by Secretary Nielsen, they violated the Iranian Transactions and Sanctions Regulations. Later, in January, the FBI announced twenty-three charges against Huawei and its CFO.

In March 2019, Meng Wanzhou sued the Canadian government for her arrest alleging a violation of her constitutional rights.

Some months later, the U.S. included Huawei in its Entity List, which banned U.S. companies from selling to Huawei due to Homeland Security issues. As response, the Chinese company filed a lawsuit against the U.S. Government.

This ban implied that Huawei devices would no longer have Android, Gmail and Play Store, among other apps provided by the U.S. company Google. In addition, Huawei consumers could not update their Android versions, exposing their devices to a security breach.

Few months after the ban, Huawei foreign sales fell by 40%. However, not only Huawei was affected by the prohibition, but also American companies like Google, Nvidia, and Microsoft as they could not provide their services to the Chinese company.

After the G20 Summit in June, Trump lifted the ban on Huawei and agreed not to levy new tariffs.

All of the above-mentioned actions taken by both giants respond to the 5G race.

Appendix II. Shares of EU-28 exports of goods for main partners (2004-2017).

In percentage

	U.S.	CHINA	SWITZERLAND	NORWAY	TURKEY	JAPAN	RUSSIA
2004	24,90	5,10	8,00	3,30	4,30	4,60	4,90
2005	23,90	4,90	8,20	3,20	4,30	4,20	5,40
2006	23,20	5,50	7,70	3,30	4,30	3,90	6,30
2007	21,00	5,80	7,60	3,50	4,30	3,50	7,20
2008	18,90	6,00	7,70	3,30	4,20	3,20	8,00
2009	18,70	7,50	8,10	3,40	4,10	3,30	6,00
2010	18,00	8,40	8,20	3,10	4,60	3,20	6,40
2011	17,00	8,80	9,10	3,00	4,70	3,20	7,00
2012	17,40	8,60	7,90	3,00	4,50	3,30	7,30
2013	16,70	8,50	9,70	2,90	4,50	3,10	6,90
2014	18,30	9,70	8,20	2,90	4,40	3,10	6,10
2015	20,70	9,50	8,40	2,70	4,40	3,20	4,10
2016	20,80	9,70	8,10	2,80	4,50	3,30	4,10
2017	20,00	10,50	8,00	2,70	4,50	3,20	4,60

Source: Eurostat

Appendix III. Share of EU-28 imports of goods for main partners (2004-2017).

In percentage

	U.S.	CHINA	SWITZERLAND	NORWAY	TURKEY	JAPAN	RUSSIA
2004	15,50	12,60	6,10	5,40	3,20	7,30	8,30
2005	13,40	13,60	5,60	5,70	3,10	6,30	9,60
2006	12,50	14,30	5,20	6,00	3,10	5,70	10,50
2007	12,30	16,10	5,30	5,50	3,30	5,50	10,20
2008	11,50	15,70	5,20	6,10	2,90	4,80	11,40
2009	12,60	17,40	6,50	5,60	2,90	4,70	9,70
2010	11,40	18,50	5,60	5,20	2,80	4,40	10,60
2011	11,20	17,00	5,40	5,50	2,80	4,10	11,60
2012	11,60	16,20	5,90	5,60	2,70	3,60	12,00
2013	11,80	16,60	5,60	5,30	3,00	3,40	12,30
2014	12,40	17,90	5,70	5,00	3,20	3,30	10,80
2015	14,40	20,30	5,90	4,30	3,60	3,50	7,90
2016	14,60	20,60	7,10	3,70	3,90	3,90	7,00
2017	13,90	20,20	6,00	4,00	3,80	3,70	7,80

Source: Eurostat

Appendix IV. Extra EU-28 trade evolution of U.S., China, Switzerland and Norway (2004-2019).

Expressed in million euros

	U.S.			CHINA			SWITZERLAND			NORWAY		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
2004	235.726,5	159.312,9	76.413,6	48.382,0	129.202,7	-80.820,7	75.268,4	62.166,2	13.102,2	30.785,6	55.341,5	-24.555,9
2005	250.864,3	158.821,3	92.043,0	51.748,9	161.007,7	-109.258,8	86.284,8	66.696,8	19.588,0	33.746,3	67.198,9	-33.452,6
2006	267.012,3	170.869,2	96.143,1	63.695,6	195.816,2	-132.120,6	88.592,2	71.619,7	16.972,5	38.380,0	81.921,9	-43.541,9
2007	259.608,1	177.963,3	81.644,8	71.823,3	233.862,9	-162.039,6	93.234,1	77.047,0	16.187,1	43.470,5	79.294,9	-35.824,4
2008	248.041,9	182.959,8	65.082,1	78.300,5	249.102,0	-170.801,5	100.622,4	82.649,9	17.972,5	43.719,0	95.944,7	-52.225,7
2009	204.170,9	156.077,5	48.093,4	82.421,0	215.274,1	-132.853,1	88.795,7	80.908,8	7.886,9	37.490,2	68.918,3	-31.428,1
2010	243.301,5	174.654,6	68.646,9	113.452,3	283.355,0	-169.902,7	110.469,2	85.492,9	24.976,3	41.933,3	79.026,0	-37.092,7
2011	264.217,8	194.221,9	69.995,9	136.414,3	294.745,8	-158.331,5	142.066,0	93.497,7	48.568,3	46.818,5	95.661,8	-48.843,3
2012	293.564,0	209.381,8	84.182,2	144.227,8	292.002,6	-147.774,8	133.619,1	105.889,1	27.730,0	49.930,2	100.273,6	-50.343,4
2013	289.440,4	199.471,2	89.969,2	148.115,2	279.913,4	-131.798,2	169.137,8	94.532,2	74.605,6	50.079,4	89.917,9	-39.838,5
2014	311.324,0	209.263,1	102.060,9	164.680,8	302.293,0	-137.612,2	140.284,9	96.493,1	43.791,8	50.198,6	85.003,4	-34.804,8
2015	371.203,3	249.275,8	121.927,5	170.359,6	351.072,4	-180.712,8	150.512,7	102.355,4	48.157,3	48.781,7	74.342,0	-25.560,3
2016	363.593,6	248.754,4	114.839,2	169.698,2	352.168,1	-182.469,9	142.215,6	121.371,2	20.844,4	48.318,9	63.516,7	-15.197,8
2017	376.166,9	257.265,6	118.901,3	197.620,5	375.278,5	-177.658,0	149.843,0	110.727,5	39.115,5	50.643,5	73.775,2	-23.131,7
2018	406.599,0	268.715,8	195.272,7	211.326,3	395.167,4	-183.841,1	156.267,3	108.970,7	47.296,6	53.875,8	82.829,1	-28.953,3
2019	449.579,2	293.922,4	224.399,2	225.180,0	419.812,0	-194.632,0	160.581,7	132.630,1	27.951,6	55.747,5	71.865,6	-16.118,1

Source: Eurostat

Appendix V. Extra EU-28 trade evolution of Turkey, Japan and Russia (2004-2019).

Expressed in million euros

	TURKEY			JAPAN			RUSSIA		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
2004	40.185,2	32.862,7	7.322,5	43.468,9	74.920,3	-31.451,4	46.122,7	84.920,9	-38.798,2
2005	44.620,3	36.229,8	8.390,5	43.723,2	74.345,9	-30.622,7	56.690,3	114.029,9	-57.339,6
2006	50.017,2	41.927,3	8.089,9	44.753,4	78.430,3	-33.676,9	72.398,6	143.601,5	-71.202,9
2007	52.829,5	47.378,4	5.451,1	43.741,7	79.259,2	-35.517,5	89.196,1	147.733,8	-58.537,7
2008	54.476,1	46.288,3	8.187,8	42.390,4	76.474,5	-34.084,1	104.968,0	180.446,2	-75.478,2
2009	44.485,8	36.445,8	8.040,0	35.977,7	58.440,1	-22.462,4	65.696,7	119.570,1	-53.873,4
2010	61.879,7	43.065,8	18.813,9	43.984,0	67.046,5	-23.062,5	86.328,0	162.120,7	-75.792,7
2011	73.336,1	48.816,7	24.519,4	49.075,4	70.450,7	-21.375,3	108.559,4	201.433,9	-92.874,5
2012	75.491,2	48.823,9	26.667,3	55.663,1	64.998,6	-9.335,5	123.506,0	215.118,2	-91.612,2
2013	77.623,6	50.657,5	26.966,1	54.015,7	56.611,3	-2.595,6	119.468,4	207.014,8	-87.546,4
2014	74.756,5	54.408,6	20.347,9	53.322,2	56.466,8	-3.144,6	103.281,7	182.164,0	-78.882,3
2015	78.964,1	61.637,0	17.327,1	56.537,6	59.690,3	-3.152,7	73.786,2	136.441,8	-62.655,6
2016	77.917,3	66.592,3	11.325,0	58.044,6	65.861,8	-7.817,2	72.368,5	118.961,7	-46.593,2
2017	84.794,8	69.775,6	15.019,2	60.546,4	68.472,2	-7.925,8	85.991,3	144.684,3	-58.693,0
2018	77.151,7	76.136,9	1.014,8	64.779,4	69.922,0	-5.142,6	85.103,4	168.919,3	-83.815,9
2019	74.025,1	80.102,4	-6.077,3	68.527,1	73.686,7	-5.159,6	90.786,4	157.345,9	-66.559,5

Source: Eurostat

Appendix VI. Spanish Trade Balance (2015-2019).

(In thousand euros)

	EXPORTS	IMPORTS	TRADE BALANCE
2015	249.794.415,65	274.772.330,22	-24.977.914,57
2016	256.393.380,08	273.778.599,40	-17.385.219,32
2017	276.142.906,54	302.431.158,46	-26.288.251,92
2018	285.260.541,30	319.647.329,61	-34.386.788,32
2019	290.089.074,08	322.068.688,11	-31.979.614,03

Source: ICEX data

Appendix VII. Steel trade and production

	Enero-Diciembre			
	2016	2017	2018	Variación
Producciones (Kt)				
Producción de acero total	13.658	14.441	14.320	-0,8%
Aceros no Aleados	12.060	12.767	12.770	0,0%
Aceros Inoxidables	1.002	1.003	970	-3,3%
Otros Aceros Aleados	596	671	581	-13,4%
Producción Laminados en Caliente	13.297	13.589	13.777	1,4%
Productos Largos	8.698	8.789	8.904	1,3%
Productos Planos	4.600	4.800	4.873	1,5%
Entregas (Kt)				
Entregas totales	13.854	14.072	14.412	0,6%
<i>Distribución Geográfica de las Entregas</i>				
Mercado Nacional	6.465	6.946	7.705	7,2%
Mercado Exterior	7.389	7.126	6.707	-6,0%
Mercado Exterior del cual a la UE28	3.953	4.245	4.597	8,2%
Productos Largos	8.555	8.523	8.391	-1,5%
Productos Planos	4.953	5.076	5.577	4,7%
Comercio Exterior (Total Productos Siderúrgicos)				
Importaciones (kt)				
Totales	9.421	9.894	10.810	8,6%
UE 28	6.445	6.729	6.971	2,9%
Países Terceros	2.976	3.166	3.839	20,6%
Importaciones (M€)				
Totales	5.720	7.191	8.191	13,4%
UE 28	4.222	5.120	5.509	7,1%
Países Terceros	1.497	2.072	2.682	29,0%
Exportaciones (kt)				
Totales	9.305	8.764	8.464	-12,4%
UE 28	5.302	5.137	5.496	-9,0%
Países Terceros	4.003	3.627	2.967	-17,9%
Exportaciones (M€)				
Totales	6.587	7.379	7.964	0,6%
UE 28	4.091	4.585	5.235	1,9%
Países Terceros	2.496	2.794	2.729	-1,9%
Consumo Aparente de Acero				
Total (kt)	12.583	13.590	14.495	12,1%
Productos Largos (kt)	4.033	4.500	4.907	9,3%
Productos Planos (kt)	8.137	9.076	9.669	14,6%

Source: UNESID

Appendix VIII. Spanish automobile exports to the main countries of destination.

(in thousand euros)

	EXPORTS TO U.S	EXPORTS TO GERMANY	EXPORTS TO ITALY	EXPORTS TO UK	TOTAL AUTOMOBILE EXPORTS
2017	1.367.574,19	10.748.641,36	4.814.807,65	5.594.850,01	55.368.508,06
2018	1.272.678,79	10.547.574,83	4.696.141,86	5.389.133,77	56.078.449,53
2019	1.443.050,47	10.991.797,00	4.727.017,45	5.752.805,63	55.645.734,64

Source: ICEX database