

Research Article

The Positive Impact of US-China Trade War on Global South's Position in the Global Value Chain

Alfin Febrian Basundoro¹, Muhammad Irsyad Abrar², and Trystanto³

¹ Australian National University, Canberra, Australia
alfinfebrian.basundoro@anu.edu.au, alfinfebrian@mail.ugm.ac.id



² Universitas Gadjah Mada, Indonesia
muhammad.irsyad.abrar@mail.ugm.ac.id



³ Universitas Gadjah Mada, Indonesia (corresponding author)
trystanto@mail.ugm.ac.id, trystantos@gmail.com



Received 31 December 2022; Revised 21 August 2023; Accepted 7 November 2023; Published Online 21 November 2023

Abstract

Amid the US-China trade war, several US companies have relocated back to the US, while China turned its industry inward to become more self-sufficient. This unpleasant development created a risk for Global South's position in the Global Value Chain (GVC), especially in countries with manufacturing industries that can only assemble products. However, throughout the last decade, the position of the Global South within the GVC has been strengthening. In 2016, the Global South produced more than 47% of global manufacturing exports. However, the US-China trade war has threatened the delicate process and connection of the GVC. The interference of American and Chinese governments in international trade has forced many companies in taking measures to reduce their exposure to political risk. Additionally, an increasing number of American companies are reconsidering their decision to invest in the Chinese market and diversifying their investment to the Global South. This paper argues that the trade war could provide opportunities for Global South countries, particularly Southeast and South Asian countries represented by India. These opportunities include broader employment access for the youth, robust industrial-based innovation, and rapid economic growth, leading to a higher national income and life quality improvements.

Keywords: US, China, Trade War, Global South, Global Value Chain

Introduction

Since 2018, the United States and China have been embroiled in a trade war. The trade war stems from US President Donald Trump's decision to impose tariffs on several products and commodities imported from China. In response to the policy, China also imposed tariffs on several products and commodities imported from the US. Research conducted by Chad P. Bown (2022) from the Peterson Institute for International Economics shows that as of July 2018, the average US tariff on imports from China was still 3.8%. However, tariffs on imports from China gradually increased until they peaked at 21% in September 2019 and then dropped to 19.3% in February 2020.

Meanwhile, on the Chinese side, in July 2018, the average tariff on imports from the US was at 7.8% and then gradually increased to 21.8% in September 2019. As of February 2020, Chinese tariffs on imports from the US decreased to 21.3% and reached a low of 21.2% on July 2020. Furthermore, based on the impact of tariffs on the percentage of trade, around 66.4% of US imports from China and 58.3% of Chinese imports from the US in June 2022 are still affected by tariffs set against each other.

There are efforts between the US and China to defuse the trade war through the Phase One agreement, which was agreed upon in December 2019. The two countries agreed on structural reforms to China's economic and trade regime, particularly in intellectual property, technology transfer, agriculture, financial services, and currency and foreign exchange. In the deal, China also committed to increasing the imports of goods and services from the US. Furthermore, a dispute resolution system was established with immediate and effective implementation and enforcement. Finally, the US agreed to modify Section 301 of the Trade Act of 1974 (United States Trade Representative, 2019). Despite these efforts, as shown from the data in the previous paragraph, the tariffs that the US and China imposed on each other remained relatively high.

The US put several Chinese companies on the Entity List as the trade war escalated between the two countries. The US Bureau of Industry and Security (2022) reported on August 23rd, 2022, that about 600 Chinese companies were already included on the list, with 110 companies included during President Joe Biden's tenure. In practice, companies on the Entity List will have restrictions on access to commodities, software, and technology from the US. However, US entities may export, re-export, and transfer such matters to companies on the Entity List with a license from the US Bureau of Industry and Security.

The conflict between the US and China is not limited to political economy issues but also security politics. China's claim to much of the South China Sea, known as the nine-dashed line, is contrary to the principles of the US freedom of navigation. This situation leads to freedom of navigation operations (FONOPS) by the US Navy in those waters that China regards as part of its territories as opposed to its claims. The existence of Taiwan also creates issues between the two countries. Although since 1972, it has recognized the communists in Beijing as the sole representative of China, the US maintains its ties with nationalists in Taipei and ensures their independence from Beijing. China's growing economic and military power over the past two decades allows the country to become increasingly assertive of Taiwan. This raises tensions with the US as Taiwan's ally and security guarantor.

The conflict between the US and China prompted the two countries to reduce their dependence on each other. US manufacturing imports from China have decreased, while Asian countries categorized as low-cost countries, have increased. At the same time, the issue of reshoring US companies' operations in China arose. A survey conducted by A.T. Kearney (2022) found that about 47% of executives of US manufacturing companies operating in China have moved part of their operations back to the US in the past three years. 29% said they would restore parts of their operations in the next three years, and 16% said they had considered reshoring but are yet to make a decision. In the survey, US company executives also outlined that their options also include Mexico, Canada, and Central American countries (nearshoring), not limited to reshoring to the US. This decision coincides with the trend of automation by US companies; instead of looking for cheap labor, they are replacing them with robots. The process creates challenges for countries that host part of US companies' operations characterized by the labor-intensive and technology-laden process.

From the Chinese side, the disruption caused by the conflict with the US encourages them to become more economically self-sufficient. Such efforts to achieve self-sufficiency are made through the dual circulation model, which includes changing the growth model from export-based to domestic consumption and reducing dependence on imports. Concerning the second element, according to the Economist Intelligence Unit (2020), China focuses on three sectors. First, technology with a priority towards semiconductors. China provides fiscal incentives and subsidies, and encourages cooperation between industries and universities to reduce dependence on US semiconductor companies or

companies from other countries that use US technology. China also provides fiscal incentives and subsidies, and encourages cooperation between industries and universities. The second sector is energy. China does not rely on the US or its allies for energy supplies, however, shipping oil and gas by sea is vulnerable to a blockade or interception. The threat of a blockade prompted China to increase its renewable energy sector investment. The third sector is food. China's agricultural sector is labor-intensive, but they experience labor shortage and are dependent on imports of seed and technology. This limitation prompted a policy of agriculture modernization from labor-intensive to technology-intensive.

Several studies have examined the impact of the US-China trade war on other countries. Meng, Gao, Zhang, and Ye (2022) examined the impact of the trade war through global value chain (GVC) analysis. According to them, the position and participation of countries in the GVC affect the impact received from the trade war. Furthermore, Meng et al. (2022) explained that both the US and China have options for their economies to withstand the impact of trade releases, but not for countries that rely heavily on GVCs.

Meanwhile, other studies discuss the negative or positive impact of the trade war. For example, Itakura (2020) examines the impact of trade wars through a computable general equilibrium model of global trade. He found that the trade war lowered the US trade deficit and increased China's trade surplus. However, in the long run, a trade war will increase the US trade deficit and decrease China's trade surplus. Furthermore, Wu, Huh, and Wood (2021) tried to determine the impact of the trade war by measuring the effective rate of protection and total factor productivity. They found that the trade war negatively affected the two countries' trading partners, with the sectors most visible being 'motor vehicles, trailers, and semi-trailers', 'machinery and equipment', and 'electrical equipment'. Another study on the impact of the trade war was conducted by Anukoonwattaka, Romao, and Lobo (2021). They found that the tariff increases had a negative rather than a positive impact on the US and Chinese economies. Subsequently, the trade war will divert trade between the two countries to third parties. In the process, the switch of partners will expand the participation of countries from different regions in GVC.

In contrast to the studies of Meng et al. (2022), Itakura (2020), and Wu et al. (2021), which observed the impact of trade wars globally, Purwono, Heriqbaldi, Esquivias, and Mubin (2021) focused on Indonesia and several Asian countries. They performed network analysis using backward and forward linkages. Purwono et al. (2021) found that the trade war had an impact on decreasing the export value of Indonesia and several Asian countries. However, the decline in Indonesia's exports was not more severe than in South Korea and Japan. In another study, Purwono, Heriqbaldi, Esquivias, and Mubin (2022) analyzed the impact of the trade war on Indonesia with a value-added real effective exchange rate index. They found that US tariffs on Chinese goods decreased demand for goods from Indonesia, while Chinese tariffs on the US increased it.

Misra and Choudry (2020) conducted a study on the impact of the trade war on India and several countries using a vector error correction model. They found that the trade war positively impacted India's exports in the short to medium term. However, the intensification of the trade war could lead to a decline in productivity and global growth. Under these conditions, India and countries benefiting from the trade war will not be spared from negative impacts.

The studies above offer an interesting perspective for understanding the impact of the U.S.-China trade war on other countries, however, there are several drawbacks. For example, although there are discussions about other countries at a glance, Meng et al. (2022) are more focused on discussing the impact of the trade war on the US and China, which are the parties that initiated the war. Anukoonwattaka et al. (2021), Itakura (2020), and Wu et al. (2021) expanded the countries discussed, while Purwono et al. (2021; 2022) and Misra and Choudry (2020) focused on the cases of Indonesia and India respectively. However, these studies relied on mathematical models to examine the tariffs' effect on various indicators. In the process, it does not seek to examine other factors that could affect the transition of trading partners by the US or China to particular third parties. Therefore, this study seeks to

analyze the positive impact of the trade war on Global South countries, especially India as one of the developing countries with a large economy and a developed manufacturing sector, by looking at their locational advantages.

Theoretical Framework

The flow of investment into a particular country or region could be understood in the context of locational advantages. Thomas Oatley (2019) has identified three locational advantages that could attract investment. First, the presence of large deposits of particular natural resources. Companies attempt to obtain profit from access to natural resources and their extraction. Second, a large market is expected to grow. Companies circumvent tariff and non-tariff barriers to specific markets by opening a factory in that country or region. Third, low production cost. Companies constantly try to become more efficient in their operation and will move their activities abroad to achieve that. The degree of skill and wage of labor and the availability of capital could influence the efficiency of different activities in certain companies. The locational advantages did not derive only from underlying comparative advantages but also the product of government policy (e.g., tariff, infrastructure).

Locational advantages can help understand the positive impact of the U.S.-China trade war on the Global South. The conflict between the two countries is decreasing China's locational advantage, but moving back operations to the companies' home countries poses problems. Developing countries in South and Southeast Asia have locational advantages that can make them an alternative to China. The focus on developing countries or Global South countries makes this study different from previous studies that focused more on the impact of global trade wars (Anukoonwattaka et al., 2021; Itakura, 2020; Wu et al., 2021) than on particular groups of countries based on their region or economic development. Although there are studies on the effects of trade wars on countries in Asia (Purwono et al., 2021, 2022), the existing studies focus on the adverse effects.

Research Methods

The arguments presented in this paper are made using qualitative methods. Consequently, this paper uses qualitative data, such as news reports from credible news agencies, official government statements, data, and reports generated by credible economic or political organizations. This paper also employs quantitative data to determine the competitiveness of Global South countries and the number of companies that have moved or are planning to move to Global South countries, as well as other analyses. These include financial and trade data from the IMF, annual reports from Indian ministries and companies operating in India, and statements from prominent Indian scholars published in various journals. Using these data, we would qualitatively analyze the positive impacts of the US-China trade war on the Global South using the locational advantages framework.

India is chosen as a representative of the Global South in this research due to several circumstances. First, India is one of the major Global South countries that has reached a substantial industrialization phase and gained significant economic value from industry. Second, the country has been a longtime destination of Foreign Direct Investment (FDI) — among the most massive of the Global South countries - reaching over US\$ 60 billion in 2020 (Macrotrends, 2021). Most importantly, amidst the trade war between the US and China, India is also one of the prominent destinations for companies that seek relocation and market diversification from China due to the solid industrial base, strong climate for innovation, huge number of employees, and enormous consumer base reaching more than 1.48 billion people. These factors helped India to reap enormous advantages and opportunities from the trade war, which later also supported the acceleration of economic growth in the country.

The case study of India is presented as a representative to underline the positive impact of diversification of industrial destinations and FDI in the Global South, supported by the concept of locational advantage. The main argument of this analysis is divided into two parts. The first part focuses on how the US-China trade war will impact the Global South's industry and its position in the Global Value Chain. In this part, the concept of locational advantage is used as a foundation to explain the potential for the Global South to reap benefits from the current trade war. This part will also underline the economic diversification efforts pushed by the Global South in accordance with the corporation's decision to reduce dependency on China, which further supports the positive impact of the trade war on the Global South. The second part focuses on India as the Global South's representative in the case of the US-China trade war. This part will discuss the aspect of locational and demographic advantage of India that suited the country's effort to diversify and take a more substantial role in the GVC.

How US-China Trade War Brings Positive Impacts for the Global South

The same positive impacts of the US-China trade war that has benefitted India could also be found in South and Southeast Asia as a whole. While some argue that the US-China trade war could have adverse effects on the world economy, it has one positive impact on the Global South. As tensions between China and the US escalate, companies worldwide are forced to make decisions that would enable them to stay in the US and Chinese markets. Consequently, many companies have relocated at least part of their production to friendlier states, and quite a few are Global South countries (e.g., Vietnam and Bangladesh) (Braw, 2022). In addition, this partial relocation is necessary to hedge the risks and reduce the companies' exposure to political risk (see Rice & Zegart, 2018).

The amount of companies that diversify their supply chain away from China has increased in recent years. According to a member survey conducted by the US-China Business Council (2022), an overwhelming majority (87%) of member companies stated that the US-China tensions affected their operations and revenue. Additionally, while only 24% of the member companies have relocated parts of their supply chain from China, this number increases from 14% in 2021. The move is made by more than just US companies. 23% of European companies have decided to move "their current or planned investments away from China," according to a survey by the European Chamber of Commerce in China (Bloomberg News, 2022). Samsung and Volvo, too, have decided to decrease their dependence on China and open up factories elsewhere (Braw, 2022).

Two things explain this phenomenon. Firstly, some governments actively encourage their companies to make their supply chain more resilient by offering them financial support, fiscal support, or other endorsement forms. The Japanese government, for example, has budgeted \$2.07 billion in subsidies to encourage Japanese companies to diversify their supply chain away from China (Akiyama, 2020). Additionally, the Biden Administration has committed more than \$50 billion in the United States to bolster semiconductor supply chain resiliency (The White House, 2022). Therefore, several government encouragements are a factor in many companies' decisions to diversify their supply chain from China.

However, another factor is also at play, such as the companies' desire to reduce their exposure to political risks. According to Rice and Zegart (2018), political risks are political situations that could affect a company's business operations. Given that the US-China trade war, with its tariff fights and other non-tariff barriers, has affected the global supply chain, the current trade war poses a serious threat to companies' business operations. The *laissez-faire* belief has been replaced by the belief that the state must play a role in the economy. Therefore, many multinational companies have decided to reduce their supply chain dependence on China to mitigate this upcoming storm. This move is taken to ensure that, when US-China relations completely break down, their operations do not come to a halt.

Global South countries in South and Southeast Asia are perfect venues for multinational corporations to set up operations and reduce their dependence on China. For one, countries in South and Southeast Asia

have a locational advantage. The logistics of moving operations to countries neighboring China are simpler than moving operations halfway across the world. One could drive pieces of machinery across the China-Vietnam border. The time spent on ships could be longer. In addition, the countries are easily reachable by global shipping lanes, which allows the quick insertion of exports to the global market. Vietnam, for example, borders the South China Sea, one of the busiest waterways in the world. Bangladesh, India, Sri Lanka, and Indonesia, too, are easily reachable by sea. Therefore, the products manufactured there can easily be inserted into the global market.

However, some of the most decisive advantages of South and Southeast Asian countries are their economic and demographic similarity with China in the 1990s and 2000s. The majority of people in South and Southeast Asia are the youth. According to Sedik (2018), more than half of Southeast Asians are under 30 years old. The same phenomenon can also be seen in India, where the youth make up more than half of the Indian population (Rampal, 2022). In Sri Lanka, the youth makes up more than a quarter of the population (Markar, 2016). The large young population in South and Southeast Asia provides multinational companies with a massive pool of potential labor workers to work in factories and other operational posts.

Additionally, compared to other places, the operational costs, particularly the living wages, are lower than in other countries. In Indonesia, for example, the minimum wage is around US\$ 300 per month in the region with the highest minimum wage. Other Southeast and South Asian countries' minimum wages are much lower. The minimum wage for a semi-skilled worker in India is US\$ 228 per month (Dezan Shira & Associates, 2022). The monthly minimum wage is even lower in Bangladesh, at US\$ 48 per month (Bhuiyan & Hossain, 2020). With these low minimum wages, multinational companies can operate at a lower labor cost while reducing their supply chain dependence on China.

Consequently, developing countries in South and Southeast Asia should see the opportunities the US-China trade war presents. The need to reduce supply chain dependency on China and the cheap and abundant workforce in South and Southeast Asian countries has created a perfect constellation that would benefit the states. The governments would have an opportunity to employ their citizens, gain foreign investment, and build the economy. Meanwhile, the companies can reduce their dependence on China and keep operational costs low. Therefore, South and Southeast Asian governments should implement policies that ease the flow of investment and strengthen the rule of law to attract investment.

Inviting multinational companies and providing jobs for the youth would also benefit the government elites. An abundant young workforce can be a double-edged sword for regional governments. If they are provided jobs and have a decent life, they could become an impetus to the country's development and economic growth. If an overwhelming majority of them are actively working, the country's Gross Domestic Product (GDP) will rise, and they will have a chance to live better. Consequently, they would have a positive perception of their governments. However, if, instead, a majority of them are unemployed and live below substance means, there would be massive discontent towards the government, and a full-blown protest could arise (see de Mesquita & Smith, 2012). Therefore, inviting multinational corporations and providing jobs for the young population could lengthen the regime's survival.

Several states in South and Southeast Asia have taken steps to ensure that their countries are attractive for foreign investment. In Indonesia, the government implemented the controversial Law No. 11/2020 on Job Creation (i.e., the omnibus law) to streamline the regulatory process for foreign investment. However, it was criticized by labor and environmental groups for its decreasing environmental protections (Tani & Jibiki, 2020). In India, the Indian government has implemented the 'Atmalabor nirbhar Bharat Abhiyaan' policy (i.e., self-reliant India) to reform the bureaucracy and give stimulus to attract foreign investment to India (National Investment Promotion and Facilitation Agency, n.d.). It seems, therefore, that many governments in the region have realized the opportunity presented by the US-China trade war to develop their economies.

India's endeavors and its advantage amid the trade war have borne fruit. For example, Foxconn, a Taiwanese company that is one of Apple's major component suppliers, announced in late 2022 that it would move parts of its production chain to India, citing the trade war as one of its reasons (Tan, 2022). Apple's main rival, Samsung, has established manufacturing plants in Noida and Sriperumbudur (Lee, 2022). The former is slated to become the most prominent phone factory in the world (Lee, 2022).

To conclude this section, while there are adverse effects of the US-China trade war, there are also opportunities for countries in South and Southeast Asia to attract foreign investment, provide jobs for their citizens, and develop their economies. The need to diversify supply chains from China and the low operating costs in South and Southeast Asian countries meet and present a win-win situation for both the companies and the governments: the former can reduce their dependencies on China while keeping operational costs low and the latter can reduce unemployment, attract foreign investment, and develop economies. Many governments in South and Southeast Asia are aware of this and have implemented policies to attract more foreign investment.

The Global South's Role and Position Within the Dynamics of the Global Value Chain: The Case of India

To comprehensively understand how the trade war positively affects the Global South's economy, we need to acknowledge the Global South's position and role within the complex contemporary GVC dynamics. This part will focus on spotlighting India—one of the major economic powers in South Asia. Not only did they experience massive industrialization, but India also recently hosted manufacturing facilities that have been moved from China by multinational companies since the beginning of the US-China trade war (The Economic Times, 2022). Thus, India is a proper context for the increasing role of the Global South in the GVC, which will be further explained in the next part.

Although India's economic prowess was initially considered peripheral, it has substantially strengthened since the influence of globalization and economic liberalization and began to grow significantly in the late 1990s and 2000s. As estimated by the IMF (2000, 2020), India placed 13th in terms of GDP in 2000, with an estimated GDP of US\$ 476 million. In 2020, India produced the sixth largest GDP in the world, with a value of more than US\$ 2.6 trillion—soaring more than fivefold in two decades. This expeditious GDP growth is also contributed to and supported by the rise of foreign investment in India—both direct and indirect. Generally, this investment also contributes substantially to the Global South's solidified position within the GVC, enabling the countries to access sophisticated mass-production factors, including IT-based machinery (Fischer & Reiner, 2022).

The rapid development of the manufacturing sector of the Global South throughout the last decade is one of the most significant trickle-down results of the abovementioned GDP expansion. India's economic expansion started with the administration of pro-free market Prime Minister Atal Bihari Vajpayee (1996, 1998-2004). As noted by Beena et al. (2004), before this period, the main characteristics of India's economy were (1) weak industrial structure in terms of financial and technology; (2) poor management and human resource skills; (3) sluggish GDP growth; and (4) heavily controlled by conservative FDI policy such as the Industries Development and Regulation Act (1951). Vajpayee's government saw these conditions as strenuous for India to face the future challenges of globalization and economic capitalization, and gradually tried to ease the economic regulation. This approach mainly included deregulation policies to encourage investment and industrialization, and strengthen India's competitiveness, particularly in the high-tech sector.

After the series of deregulation approaches, India's economy started to grow at its fastest pace since its independence. According to the data from Macrotrends (2021), from the 1990s until the 2010s, India experienced an average GDP growth of 6.2%. Although it decreased momentarily between 2000 and 2003 and 2008-2009, the growth began to soar again with an average growth of 7.92%. The massive pour

of foreign direct investment (FDI) from Japan and Singapore contributed significantly to industrializing India's economy. In 2021, India ranked first in FDI inflows among fellow Global South countries, reaching US\$ 64,36 billion in 2020. Overall, the average FDI growth between 2010-2020 reached 1,77%, growing more than 1% compared to 1990-2000, which only reached 0,42% on average (Macrotrends, 2021).

Japan has the most strategic contribution to developing India's manufacturing sector among investor countries. According to Business Standard (2022), no less than 110 Japanese multinational companies currently operate in India; and more than 10 of them signed and developed a joint-venture agreement on industrial cooperation. For example, Maruti Suzuki, a joint-venture company created between the two countries leading automotive manufacturers, signed in 1981. Nevertheless, it was not until the economic liberalization of the 1990s-2000s that this joint venture gained its great leap and far-reaching the automotive markets in the Southern Asian region. As cited from Maruti Suzuki's annual report (2021), between 2020-2021, Maruti Suzuki produced more than 1,5 million passenger cars, with a total revenue of US\$ 9,2 billion. The company has developed and run three manufacturing plants in Gurgaon, Manesar, and Gujarat. The Maruti-Suzuki also enables India to be an industrial hub within the automotive GVC, supplying essential high-tech commodities, including cars and automobile spare parts, to Southeast Asia and the Middle East (Suzuki, Narayanan & Sharma, 2019).

Another prominent example is the semiconductor investment from Singapore. It has poured India more than US\$ 17,4 billion into developing numerous strategic joint ventures with Indian corporations (Indian Department for Promotion of Industry, 2020). IGSS Ventures, for example, has reached a tri-partite agreement with Guidance Tamil Nadu and the Government of Tamil Nadu to build a complex research facility in the respective state (Sivapriyan, 2022). The project is providing jobs to more than 1,500 persons, and in the next five years, the entire ecosystem will provide jobs to an additional 25,000. This achievement is not only remarkable for India's economic development that slowly but surely shifted into a high-tech based manufacturing economy, but also puts India as one of the Global South's powers in a more strategic position within the GVC as the country could produce—and export—the commodities that previously should have been imported.

On the other hand, although the service sector—primarily financial and commercial—is currently dominating India's economy with a contribution of more than 54% in India's Global Value Added (GVA), the manufacturing sector has made remarkable progress. Before the economic liberalization in the late 1990s, the industry comprised less than 20% of India's GVA. In 2019-2020, the value rose significantly, reaching 29,34% of the GVA with a total value of Rs 3,654,362 crore (Statisticstimes, 2021). Although progress was halted in 2020-2021 because of the COVID-19 pandemic, which caused a severe economic contraction, the industries are forecasted to bounce significantly from 2023 onwards.

The increase of skilled and educated workers supports India's more vital position within the GVC. The massive industrialization and technological penetration led to the establishment of industrial-based curricula within Indian universities in the last decade. So far, India has over 2,500 engineering colleges and institutions, with over 1,200 IT-based colleges (Thakur & Mantha, 2021). While some critics are brewing towards engineering education—mentioning that only 47,4% of India's young population is considered "employable," there is a significant initiative launched by both government and multinational corporations—to train more workforces. India is still one of the most potential Global South countries regarding employees, with more than 500 million working-aged people (Sharma, 2021). With the technological transfer policy improvement between the investors and the Indian Government, India's industrial sector development should be on the right track.

The concept of locational advantages by Oatley (2019) also applies to India's position. India is regarded as one of the most suitable places in the Global South for multinational companies to re-invest. One of the latest examples is Apple's plan to move more manufacturing facilities to India from China, starting in the "next few years" (Pino, 2022). According to Apple, the production of the latest iPhone model will be moved to the Foxcomm facility near Chennai. This city has been developed as "India's Silicon Valley" for

over a decade. JP Morgan's analysis further emphasized this decision, which underlined a 25% production increase of all iPhone models in India, including 5% of iPhone 14 by 2025 (Singh, 2022). This situation also gives a further precedent that slowly, Global South countries, including India, started to gain strong trust from the investors and developed countries amidst the trade war that was previously regarded as detrimental for the GVC.

Conclusion

The trade war between the US and China in 2022 has entered its fifth year. However, there are no signs of it ending anytime soon. The tariffs that the two countries set against each other remained relatively high. Furthermore, the number of Chinese companies that have restricted access to U.S. commodities, software, and corporate technology is increasing. Efforts to resolve the fundamental issues that triggered the trade war through the Phase One agreement have remained the same. The US-China trade war is also exacerbated by the conflict between the two countries in the security realm. On the one hand, there is the issue of China's claims in the South China Sea with the principle of US freedom of navigation. On the other hand, there is the issue of Taiwan's security (a US ally) from China's assertiveness.

The US-China conflict in the economic and security spheres disrupted the GVC. To avoid the risk of continuing to operate in China, US companies choose to move their operations back to their home countries (reshoring) or other countries in the Americas (nearshoring). China recognizes the vulnerability of contemporary GVCs and issue industrial policies to drive the growth of domestic industries in the technology, energy, and food sectors. In the process, these developments created both challenges and opportunities for many countries.

In the case of the Global South, despite the challenges arising from the automation trend, countries in that group can still seize the opportunity. Several Global South countries still offer labor workers in cheap wages. This is important for companies whose businesses have a small profit margin. Furthermore, Global South countries such as Indonesia and India have introduced new investment-friendly regulations and policies over the past few years. Nevertheless, the opportunities of what the Global South is able to offer is significantly larger. For example, India is a Global South country with workers who have relatively high education and expertise. This allowed India to have a relatively developed domestic technology industry and could attract foreign direct investment to that sector.

Acknowledgments

The authors did not receive financial support from any other entities for this research.

References

- A.T. Kearney. (2022). The Tides are Turning: The 2021 Reshoring Index.
<https://www.kenarney.com/operations-performance-transformation/us-reshoring-index>
- Akiyama, H. (2020, September 9). Japan companies line up for "China exit" subsidies to come home. Nikkei Asia. <https://asia.nikkei.com/Economy/Japan-companies-line-up-for-China-exit-subsidies-to-come-home>
- Annual Integrated Report 2020-2021 (Annual Integrated Report). (2021). Maruti Suzuki.
https://marutistoragenew.blob.core.windows.net/msilintiwebpdf/MSIL_Annual_Integrated_Report_2020-21_HR.pdf
- Anukoonwattaka, W., Romao, P., & Lobo, R. S. (2021). If the US-China trade war is here to stay, what are the risks and opportunities for other GVC economies outside the war zone? (No. 209; ARTNeT Working Paper Series).

- Beena, P., Bhandari, L., Bhaumik, S., Gokarn, S., & Tandon, A. (2004). 5. Foreign Direct Investment in India. 22.
- Bhuiyan, M., & Hossain, M. (2020, December 2). Bangladesh's monthly minimum wage lowest in Asia-Pacific region: ILO. The Business Standard. <https://www.tbsnews.net/economy/bangladeshs-monthly-minimum-wage-lowest-asia-pacific-region-ilo-166438>
- Bloomberg News. (2022, June 20). Nearly One in Four European Firms Consider Shifting Out of China. Bloomberg News. <https://www.bloomberg.com/news/articles/2022-06-20/nearly-one-in-four-european-firms-consider-shifting-out-of-china?leadSource=verify%20wall>
- Bown, C. P. (2022, April 22). US-China Trade War Tariffs: An Up-to-Date Chart. Peterson Institute for International Economics.
- Braw, E. (2022, August 2). Companies Are Fleeing China for Friendlier Shores. Foreign Policy. <https://foreignpolicy.com/2022/08/02/companies-fleeing-china-friendshoring-supply-chains/>
- Business Standard. (2022, February 14). Japan is India's 5th largest investor, 114 Japanese companies currently operate across India. https://www.business-standard.com/content/press-releases-ani/japan-is-india-s-5th-largest-investor-114-japanese-companies-currently-operate-across-india-122021400640_1.html
- China finally has a rival as the world's factory floor, India: Report. (2022, May 11). The Economic Times. <https://economictimes.indiatimes.com/small-biz/trade/exports/insights/china-finally-has-a-rival-as-the-worlds-factory-floor-india-report/articleshow/100149232.cms>
- de Mesquita, B. B., & Smith, A. (2012). The Dictator's Handbook: Why Bad Behavior is Almost Always Good Politics. PublicAffairs.
- Department for Promotion of Industry and Internal Trade of India. FDI SYNOPSIS ON COUNTRY SINGAPORE. (2020). Department for Promotion of Industry and Internal Trade of India. https://dpiit.gov.in/sites/default/files/Singapore_ii_2020.pdf
- Dezan Shira & Associates. (2022, October 13). A Guide to Minimum Wage in India. India Briefing News. <https://www.india-briefing.com/news/guide-minimum-wage-india-2022-19406.html#:~:text=The%20minimum%20monthly%20wages%20of>
- Fischer, K., & Reiner, C. (2022, March 3). Services, value chains and the global south. <https://www.socialeurope.eu/services-value-chains-and-the-global-south>
- IMF. (2022). World Economic Outlook Database, October 2022. IMF. <https://www.imf.org/en/Publications/WEO/weo-database/2022/October>
- India GDP sector-wise 2021. (2021). <https://statisticstimes.com/economy/country/india-gdp-sectorwise.php>
- Itakura, K. (2020). Evaluating the Impact of the US-China Trade War. Asian Economic Policy Review, 15(1), 77-93. <https://doi.org/10.1111/aepr.12286>
- Lee, K. W. (2022, January 3). Will India scoop up more investments at the expense of China in the new year? Mint. <https://www.livemint.com/news/india/will-india-scoop-up-more-investments-at-the-expense-of-china-in-the-new-year-11641180733027.html>
- Macrotrends. India Foreign Direct Investment 1970-2022. (2021). Macrotrends. <https://www.macrotrends.net/countries/IND/india/foreign-direct-investment>
- Markar, F. B. (2016). Unlocking the potential of youth – UNDP in Sri Lanka – Office of the Secretary-General's Envoy on Youth. United Nations Development Program. <https://www.un.org/youthenvoy/2016/01/unlocking-the-potential-of-youth-undp-in-sri-lanka/>
- Meng, B., Gao, Y., Zhang, T., & Ye, J. (2022). The US-China Relations and the Impact of the US-China Trade War: Global Value Chain Analyses (No. 851; IDE Discussion Paper)
- Misra, R. & Choudry S. (2020). Trade War: Likely Impact on India. Foreign Trade Review, 55(1), 93-118. DOI: 10.1177/0015732519886793
- National Investment Promotion and Facilitation Agency. (n.d.). Atmanirbhar Bharat Abhiyaan | Self-reliant India Campaign. www.investindia.gov.in. <https://www.investindia.gov.in/atmanirbhar-bharat-abhiyaan>

- Oatley, T 2019, *International Political Economy*, 6th edn, Routledge, New York, NY.
- Pino, D. (2022, September 27). More Business Shifts from China to India as the Rift between the Countries Widens. *National Review*. <https://www.nationalreview.com/corner/more-business-shifts-from-china-to-india-as-the-rift-between-the-countries-widens/>
- Purwono, R., Heriqbaldi, U., Esquivias, M. A., & Mubin, M. K. (2021). The US-China Trade War: Spillover Effects on Indonesia and other Asian Countries. *Economics Bulletin*, 41(4), 2370–2385.
- Purwono, R., Heriqbaldi, U., Esquivias, M. A., & Mubin, M. K. (2022). The American–China Trade War and Spillover Effects on Value-Added Exports from Indonesia. *Sustainability*, 14(5), 3093. <https://doi.org/10.3390/su14053093>
- Rampal, N. (2022, July 20). India to lose “demographic dividend”? Govt report says over-30s to outnumber “young” by 2036. *ThePrint*. <https://theprint.in/india/india-to-lose-demographic-dividend-govt-report-says-over-30s-to-outnumber-young-by-2036/1045964/>
- Report for Selected Countries and Subjects. (2020, October 27). IMF. <https://www.imf.org/en/Publications/WEO/weo-database/2020/October/weo-report>
- Rice, C., & Zegart, A. (2018). *Political Risk: How Businesses and Organizations Can Anticipate Global Insecurity*. Twelve.
- Sedik, T. S. (2018, September). Southeast Asian Youth on Education, Technology and the Future of ASEAN – IMF Finance & Development Magazine | September 2018. International Monetary Fund. <https://www.imf.org/en/Publications/fandd/issues/2018/09/southeast-asian-youth-on-the-future-overman>
- Sharma, A. (2021). Why India lags behind in imparting skills to its workforce – DW – 03/15/2021. *Dw.Com*. Retrieved November 24, 2022, from <https://www.dw.com/en/india-youth-lack-skills/a-56879385>
- Singh, M. (2022, September 21). Apple to move 25% iPhone production to India by 2025, 20% iPad and Apple Watch to Vietnam, analysts say. *TechCrunch*. <https://techcrunch.com/2022/09/21/apple-to-move-25-iphone-production-to-india-by-2025-20-ipad-and-apple-watch-to-vietnam/>
- Sivapriyan, E. (2022, July 1). Singapore’s IGSS Ventures to set up semiconductor manufacturing unit in Tamil Nadu. *Deccan Herald*. <https://www.deccanherald.com/national/south/singapore-s-igss-ventures-to-set-up-semiconductor-manufacturing-unit-in-tamil-nadu-1122978.html>
- Suzuki, M., Narayanan, R., & Sharma, S. (2019). Financial Performance in Maruti Suzuki. *International Journal of Management and Business*, 9, 1–07.
- Tan, H. (2022, December 12). India is trying to become the new factory of the world, but it could take more than a global pandemic to unseat China from its 40-year reign. *Business Insider*. <https://www.businessinsider.com/china-india-supply-chain-covid-sanctions-manufacturers-relocating-tariffs-options-2022-12>
- Tani, S., & Jibiki, K. (2020, September 3). Jokowi signs controversial omnibus bill into law. *Nikkei Asia*. <https://asia.nikkei.com/Politics/Jokowi-signs-controversial-omnibus-bill-into-law>
- Thakur, A., & Mantha, S. (2021). Modi gov’t’s HEC can’t just be UGC with new label. Engineering still needs its own regulator. *The Print*. Retrieved November 24, 2022, from <https://theprint.in/opinion/modi-govts-hec-cant-just-be-ugc-with-new-label-engineering-still-needs-its-own-regulator/597847/>
- The Economist Intelligence Unit. (2020). *Turning Inward: What Asia’s Self-Sufficiency Drive Means for Business and Investors*.
- The White House. (2022, August 9). *FACT SHEET: CHIPS and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China*. The White House. <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/>
- United States Trade Representative. (2019). *United States and China Reach Phase One Trade Agreement*. Office of the United States Trade Representative. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/december/united-states-and-china-reach>
- US Bureau of Industry and Security. (2022). *Commerce Adds Seven Chinese Entities to Entity List for Supporting China’s Military Modernization Efforts*. Bureau of Industry and Security, US Department of Commerce.

- US-China Business Council. (2022). Member Survey 2022. US-China Business Council.
- World Economic Outlook Database April 2000. (n.d.). IMF. Retrieved October 23, 2023, from <https://www.imf.org/en/Publications/WEO/weo-database/2000/April>
- Wu, J., Huh, C., & Wood, J. (2021). Globally chained economies, unwitting victims of the US-China trade war. *Asian-Pacific Economic Literature*, 35(2), 60–76. <https://doi.org/10.1111/apel.12334>

Authors Biography

Alfin Febrian Basundoro is a graduate student at the Strategic and Defence Studies Centre, Australian National University, Canberra, Australia. He focuses on geopolitical studies, especially hedging strategy, Indonesian Foreign Policy, and middle-power-ism in geopolitics. He earned his bachelor's degree from the Department of International Relations, Universitas Gadjah Mada, Indonesia, in 2021. After graduating with a Bachelor of Political Science, he worked as an intern at Badan Riset dan Inovasi Nasional (National Research and Innovation Institute of Indonesia) before being recruited as an Expert Staff at Indonesia-China High-level Dialogue and Cooperation Mechanism (HDCM) at the Coordinating Ministry for Maritime Affairs and Investment of Indonesia, where he worked until 2023. His tasks involved developing substantive materials for the coordinating minister regarding Indonesia-China relations and organising bilateral cooperation events between Indonesia and China. He has several publications on Indonesian foreign policy and the defence modernisation of Indonesia. He can be contacted through email: alfinfebrian.basundoro@anu.edu.au or alfinfebrian@mail.ugm.ac.id.

Muhammad Irsyad Abrar is a graduate student at the Department of International Relations, Universitas Gadjah Mada (UGM), Yogyakarta, Indonesia. For his graduate thesis, he writes about South Korea's reluctance to integrate its ballistic missile defence with the United States of America. He earned his bachelor's degree from the Department of International Relations UGM in 2020. His undergraduate thesis examined the retraction of the Indonesian decision to name the exclusive economic zone northeast of Natuna Island as the North Natuna Sea. Since 2019, he has assisted several lecturers in the Department of International Relations UGM as a course tutor and research assistant. From May to December 2022, he was an administrative staff at the Ministry of Manpower of the Republic of Indonesia. His tasks involved examining the ministry work plan and budget and preparing materials for the minister and the secretary general. He has several publications with topics on Indonesian foreign policy, the Indonesian palm oil sector, the Russian state-owned multinational company, the global south, and the global social movement. He could be contacted through email: muhammad.irsyad.abrar@mail.ugm.ac.id.

Trystanto is an undergraduate student of international relations at Universitas Gadjah Mada (UGM), Yogyakarta, Indonesia. Additionally, he was also an exchange student at the Institut d'Études Politiques de Paris (Sciences Po) in Reims, France, in early 2023. He served as the Head of the Research and Development Division at the Foreign Policy Community Indonesia (FPCI) chapter UGM in 2022. He focuses on regional security, Chinese and American foreign policies, Indonesia-China relations, and French relations with Asia. His works have been published in the *Yale Review of International Studies*, *Tamkang Journal of International Affairs* (Q3), *Padjadjaran Journal of International Law*, *Journal of World Trade Studies*, and other platforms. In addition to his native Indonesian, he is fluent in English and French. He could be contacted via email: trystantos@gmail.com or trystanto@mail.ugm.ac.id; and Twitter (X) at [@Trystanto2](https://twitter.com/Trystanto2).