

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

This study aims to analyze the effect of the trade war between the United States (US) and China on the Indian economy, especially in increasing Foreign Direct Investment (FDI) in the manufacturing sector. As one of the countries with a rapidly growing manufacturing industry, India plays an important role in its national economic development. The US-China trade war characterized by the imposition of high tariffs on Chinese manufactured products created global economic uncertainty. Consequently, many multinational companies are seeking alternative investment locations to mitigate the effects of rising trade tariffs.

In this context, this study highlights how the trade war contributed to increased FDI inflows in India's manufacturing sector. Rising global demand for manufactured products, amid limited supply from China, makes India a strategic destination for foreign investors. This factor not only provides an opportunity for India to attract more FDI but also strengthens its position in the global supply chain. Thus, increased foreign investment during the trade war not only benefits India's manufacturing sector but also contributes to the country's overall economic growth.

The trade war that occurred between two large countries, namely the United States and China, has had a pretty good impact on India because based on the *Finger-Kreinin index* (FK) which is a tool to measure or see the similarity of exported goods between countries, shows that Indian and Chinese goods have

similarities¹. So that this is the luck possessed by the Indian state to replace China's position the United States².

Due to the increase in tariff prices imposed on Chinese products, these products are expensive, but the needs of manufacturing companies that depend on product inputs from China are increasing. So with this, some companies are looking for other ways to be able to reduce their expenses by looking for similar goods even from other countries. one of them is India, during the trade war India was the ninth largest exporting country in the United States with profits reaching USD 87.5 billion from exports and imports in 2018 with details of export profits of USD 33.1 billion³. And during the trade war several products that are considered substitute products from India exported to the United States have increased by more than 50%.⁴

The increase in India's export activities to the United States during the trade war has had a positive impact on increasing India's GDP. The growth in India's exports to the United States during 2018-2019 is evidenced by a significant increase in India's income compared to 2017. In 2017 India earned a total revenue of US \$ 50.52 billion and in 2018 India increased to US \$ 56.44 billion. In June 2018 the percentage of China's exports to the US reached 21.41% while India's was 1.99%,

¹ Shaotian Chen, 'The Spillover Impact of the US-China Trade War on India's Economy', *BCP Business and Management*, 38 (2023), p. 120.

² Vijaya Katti and Kashika arora, 'US--China Trade War: Opportunities for India', *Global Trade and Custom Journal*, 15.1 (2020), p. 553.

³ ITC Trade Map, *ITC Trade Import United States of America*, 2018
<https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=1%7c842%7c%7c%7cTO TAL%7c%7c%7c2%7c1%7c1%7c1%7c2%7c1%7c2%7c1%7c1%7c1>.

⁴ Anirban Sanyal, 'Impact of US-China Trade War on Indian External Trade', *ZBW-Leibniz Information Center for Economic*, Kiel, Hamburg, 2021, pp. 17-20.

however, at the beginning of 2019 China's percentage decreased and reached 16.93% while India increased to 2.45%.⁵

The advantage that India has as a third country in this trade war, it attracts the attention of countries to build FDI in India, especially in the field of manufacturing. The manufacturing industry in India is the The manufacturing industry in India is among the fastest-growing sectors and contributes 16-17% of the country's GDP⁶. The advantages that India has in managing and maintaining the manufacturing sector are a competitive advantage to compete in international trade.

In 2017-2018 before the trade war, the manufacturing sector was ranked first as the sector that received the most investors from abroad. During the trade war, many countries were negatively affected because the US and China were economic superpowers, so many countries wanted to invest without having to accept the risk. India as a country that benefited from the US-China trade war, with the potential that India has, provides an opportunity for the country to become a country that receives large FDI because it can have a positive impact on investors both in the host country and in the home country.

Thus, the favourable impact of the US-China trade war in 2018–2019 on the growth of foreign direct investment in India's manufacturing sector is the uniqueness that the researcher identified in this thesis. This thesis's research is urgent because some earlier studies concentrated more on the effects of India's exports on the world market. Research on FDI impacted by the trade war has yet to

⁵ Areej Aftab Siddiqui and Parul Singh, 'US-China Trade War: Impact On Chemical Exporting Firm From India To US', *Corporate Governance and Sustainability Review*, 5.1 (2021), p. 77.

⁶ Indian Brand Equity Foundation, 'Indian Manufacturing Industry Analysis', *IBEF*, 2024 <<https://www.ibef.org/industry/manufactur-presentation>>.

be conducted, despite the fact that it has the potential to boost India's manufacturing output and boost exports to other countries, particularly the US.

1.2 THE RESEARCH QUESTION

"How Does the US-China Trade War Affect the Increase in FDI Inflows in the Indian Manufacturing Sector?"

1.3 THE AIMS OF THE STUDY

To describe how trade wars can impact the country's National income especially the increase in FDI inflows in the manufacturing sector in India.

1.4 RETHE SIGNIFICANTE OF THE STUDY

1.4.1 Theoretical signficante of the Study

The theoretical benefits that can be obtained in this research in the academic and scientific fields are:

1. Provide additional information on data regarding the increase in FDI Inflow in the manufacturing sector during the trade war.
2. offers valuable material for further research, providing a foundation for student final assignments, scientific articles, and publications in both national and international journals.

1.4.2 Practical Significante of the Study

This study is intended to contribute to existing knowledge and serve as a comparative resource for future studies.

1.5 PREVIOUS RESEARCH

In this study, the author presents several studies related or relevant to the topic discussed namely the Effect of the US-China Trade War on Increased FDI Inflow in

the manufacturing sector in India. The author employs two approaches: first, analyzing the trade war's impact on India-US exports, and second, examining its impact on India's manufacturing sector.

The first approach is the impact of the trade war on India. Based on research conducted by Areej Aftab Siddiqui with the title "*US-China Trade War: Impact On Chemical Exporting Firms From India To US*"⁷. Research by Anirba Sanyal with the title "*Impact of US-China Trade War on Indian External Trade*"⁸, research by Amit K. Khandelwar with the title "*The US-China Trade War And India's Export*"⁹, and research by Shaotian Chen with the title "*The Spillover Impact of The US-China Trade War on India's Economy*"¹⁰, and research by Rekha Misra and Sonam Choundry with the title "*Trade War: Likely Impact on India*"¹¹ Previous researchers who focused on the trade war sector agreed that the trade war conflict between the United States and China had a good impact on the Indian economy and provided a great opportunity for India to increase its role in international trade.

The trade war between the United States and China has had a positive impact on chemical exports from India to the United States. After July 2018 chemical exports from India-US have increased this is because India has the potential to export chemicals to the United States. In addition, for the United States, products produced by Indian companies have similarities in terms of *comparative advantage* to products subject to tariffs. So the United States considers that goods exported from India are substitutes and not complements

⁷ Siddiqui and Singh.

⁸ Sanyal.

⁹ Amit Khandelwal, 'The US-China Trade War and India's Export', *India Policy Forum*, 2022, p. 182.

¹⁰ Chen.

¹¹ Rekha Misra and Sonam Choundry, 'Trade War: Likely Impact on India', *Foreign Trade Review*, 55.1 (2020), pp. 1-18.

With the increase in tariffs from the United States for Chinese products, the trade war can provide opportunities for India to be able to increase and expand its exports in the long term. And based on the data obtained in his research that the existence of tariff costs can increase Indian companies to be able to produce products that have high tariff costs, especially for exports to all countries not only to the United States and China. Even the trade war has benefited India with many FDI choosing India as a country of operation and as their market, it has benefited by increasing India's competitive advantage itself.

And the second approach is the impact of the US-China trade war on the manufacturing sector. Based on research conducted by Qingyi Zhu with the title "*The Impact of Sino-US Trade Friction on China's Manufacturing Industry*"¹², and research by Yufei Chen. Et.al with the title "*The Impact of the Sino-US Trade War on Manufacturing Industry in Both Countries*"¹³". based on previous research agreed to say that in the trade war conflict that occurred between the two superpowers, namely the United States and China, no one benefited unilaterally, both countries suffered considerable losses due to an increase in tariffs on the products they produced. Many sectors suffered losses, especially the manufacturing industry.

Many investors have shifted away from investing in these two countries due to the risks and uncertain government regulations, resulting in a decline in revenue. In fact, the trade war between the two countries has not only affected their

¹² Qingyi Zhu, 'The Impact of Sino-US Trade War Friction on China's Manufacturing Industry', *Proceedings of the International Conference on Global Politics and Socio-Humanities*, 2023, pp. 1-7, doi:10.54254/2753-7048/22/20230201.

¹³ Yufei Chen and others, 'The Impact of the Sino-US Trade War on Manufacturing Industry in Both Countries', *Journal of Education, Humanities and Social Science*, 23 (2023), pp. 433-41.

manufacturing sector, but also the manufacturing sector in other countries as a whole.

The two approaches described above show that during the US-China trade war has provided ample opportunities for India to improve its economy and role in international trade, because India's advantages can provide benefits for the country even though during the trade war many countries suffered losses, especially for the US and China. When viewed from the point of view of International Relations, the discussion of the effect of the trade war on India will talk more about its impact on the Indian economy and export imports. So from the two approaches discussed by previous researchers, it is more likely to discuss from the country's economic sector, namely how the impact of trade wars on a country's economy. However, of the many studies on trade wars, no academics have looked at the US-China trade war which has a significant impact on FDI investment in the manufacturing sector in India, because India has a considerable opportunity in the US-China trade war and has advantages in manufacturing so that it can replace China's position in the US. Therefore, this can attract the attention of investors to invest FDI in India, especially in the manufacturing sector to gain profits and with little risk. Therefore, in this study, researchers discuss the effect of the US-China Trade War on the increase in FDI Inflows in the Manufacturing Sector in India.

1.6 THEORETICAL FRAMEWORK

1.6.1 Interdependence Liberalism

Interdependence is a theory derived from liberalism, which assumes that the increasing globalization causes a considerable level of interdependence between countries. Military power is not important. The point is that in creating international

relations to meet national needs no longer requires violence or war¹⁴. Interdependence signifies a relationship of mutual reliance between actors. In this case study, the trade war between the US and China has affected the cooperation system between countries, thus affecting the interdependence relationship between the US and China. Therefore, India utilized this opportunity to be able to improve the country's economy through increased FDI in the manufacturing sector, in order to support India's global trade, especially to the US and create a new system of cooperation through interdependence.

The US-China trade war has had a devastating impact on the US, especially manufacturing companies that depend on Chinese inputs. Because of the tariff system, product prices have increased and people's spending has increased¹⁵. So, to reduce the interdependence on Chinese products, the US is looking for similar products with low tariff values and India is a country that has great potential in making similar Chinese products for the US.

This led to the US' interdependence on India to fulfill their needs as a substitute product. Therefore, during the trade war the US became India's number one reference country for exporting products, and India is the ninth largest exporting country in the US. So that India has the potential to replace China's position in the United States¹⁶. So that through this explanation, the interdependence formed between the US, China, and India is due to a trade war that affects the interdependence system between countries. The creation of a sense of interdependence, especially for the US against India, is due to substitute products produced by India to replace Chinese products in the US.

¹⁴ Robert Jackson and Georg Sorensen, *Introduction to International Relations Theories and Approaches* (Oxford University Press, 2013).

¹⁵ Shankar Jyoti Deley, 'The US-China Trade War and Its Implications', *Emerging Dimension of Business and Management in the Present Day Competitive Environment*, 2023, p. 482.

¹⁶ Katti and arora, 'US--China Trade War: Opportunities for India'.

Robert O. Keohane and Joseph S. Nye, in their book, explain that in international politics, interdependence refers to the reciprocal relationship between state actors who influence each other due to their different needs. In their work, Keohane and Nye introduce the concept of Complex Interdependence, which describes the complex interdependent relationship between countries in various aspects. According to them, security issues are not the only factors that determine relations between countries, so non-security issues also have an important role in shaping interdependence at the global level¹⁷.

In this case, the trade war is not a security issue for the United States (US) and China, but an economic issue that occurs in a global cooperation system. The US-China trade war, triggered by increased tariffs, caused economic uncertainty and prompted both countries to seek new partners to reduce losses. The behavior of the US and China involving India in an interdependence relationship to meet economic needs due to the trade war is in line with the views of Robert O. Keohane and Joseph S. Nye. This phenomenon is also seen in the impact of the trade war on increased investment in Vietnam, where many Chinese companies relocated their foreign direct investment (FDI) to Vietnam, supporting production in Vietnam and driving increased exports from Vietnam to the US. In addition, Vietnam's increased trade with the US shows that the trade war has formed a new network of interdependencies between the three main actors: US, China, and Vietnam¹⁸.

¹⁷ Robert O. Keohane and Joseph S. Nye JR, *Power and Interdependence* (Longman, 2012).

¹⁸ Vina Benita Laksono and Triesanto Romulo Simanjuntak, 'Dampak Perang Dagang Amerika Serikat-China Terhadap Pertumbuhan Investasi Asing Di Vietnam Tahun 2018-2019', *Jurnal Cakrawala*, 2020.

1.6.2 Foreign Direct Investment (FDI)

Foreign Direct Investment means a large investment for a long period of time in a company in a foreign country. FDI is a form of globalization and trade liberalization carried out by state actors and non-state actors. FDI begins with a company investing in a company located in another country for a long period of time. With this system, companies from the home country will influence companies in the country where they invest or the host country.

Therefore, in this case, investors chose India as a country to invest in in order to get stable profits and not be at high risk during the trade war period. The existence of favorable regulations in the field of FDI will be an advantage for investors in choosing the country. The trade war that led to an increase in FDI in the manufacturing sector in India leads to the type of FDI inflows or the value of investment that enters the country and is carried out by non-resident investors.

According to Dimick Salvatore in his book *International Economics*, he explains that Foreign Direct Investment inflows are investments made by foreign companies or non-resident foreign countries into real assets in a country, either in the form of factory construction, product production support, and others¹⁹. In addition, Salvatore classifies FDI into two types of FDI, namely Vertical and horizontal²⁰.

In this study, the author uses two types of Foreign Direct Investment (FDI), namely vertical and horizontal. In vertical FDI, investors invest to support manufacturing production in India, with the output being channeled back to the country

¹⁹ Dominick Salvatore, *Ekonomi Internasional*, 1, 2nd edn (Erlangga, 1997). P. 368

²⁰ Salvatore, *Ekonomi Internasional*. P.373

of origin. In this case, India receives sizable FDI inflows in the manufacturing sector to support export production to the United States.

In addition, in horizontal FDI, investors invest in a country to produce the same goods without having to export them back to the home country. The main motivation for this investment is to expand the market as the production capacity in the original location has reached its growth limit. In this case, during the trade war, some US and other countries' manufacturing companies, such as Apple (iPhone) and Samsung, diversified their FDI from China to India. Their main goal was to reduce losses due to the trade war, while expanding the market and producing similar products in India.

1.7 HYPOTHESA

The trade war that occurred between the United States and China has caused considerable losses for both countries, many manufacturing companies, especially the United States, have suffered losses because they depend on input products from China so that they experience price increases. So India as a country that has advantages in manufacturing is targeted by the US to replace products from China with products from India, US dependence on Indian products has a positive impact on India to increase its war in international trade and attract the attention of investors. During the trade war, FDI into India, especially in the manufacturing sector, increased because investors saw the opportunity to benefit more than the risk of loss if investing in India, and exports of manufactured products from India-US also increased during the trade war period. This became an attraction and advantage for India during the Trade War.

1.8 RESEARCH METHODOLOGY

1.8.1 Research Design

In this study, the authors used qualitative methods. Qualitative methods according to Bogdan and Taylor are research procedures that can produce descriptive data, namely in the form of written or oral words²¹, therefore in this study it produces data in descriptive form in the form of words and written forms from those observed²². Qualitative methods are rare in a study to be able to get descriptive data such as words and pictures. In a qualitative approach does not use the basis of statistical work, but based on qualitative evidence, namely in the form of pictures and words. Based on the expression Lexy. J Moleong, that the data collected in qualitative methods are words, pictures, and not numbers²³.

1.8.2 The Scope of The Study

The scope of this study is limited to the analysis of the 2018-2019 US-China trade war and its impact on increased foreign direct investment inflows within India's manufacturing sector.

1.8.3 Type of Research Data

This study relies on secondary data sources, comprising international journals, official online resources like ITC Trade Map and Investment Map, and documentation provided by the High Commission of India.

²¹ Zuchri Abdussamad, *Metode Penelitian Kualitatif* (CV: Syakir Media press, 2021).

²² Sugiyono, *Memahami Penelitian Kualitatif* (CV Alfabeta, 2016).

²³ Lexy.J Moleong, *Metodelogi Penelitian Kualitatif* (PT Remaja Rosdakarya, 2007).

1.8.4 Data collection techniques

Using a qualitative research approach, this study utilized library research to acquire effective and relevant information. This involved gathering data from a range of sources: scientific journals, websites, e-books, and other documents. The collected data was then subjected to a selection and filtering process, followed by thematic categorization.

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1.8.5 Data analysis technique

The data analysis technique uses descriptive analysis method, which describes the problems regarding the Effect of Trade War on Increased FDI Inflows in the Manufacturing Sector in India. In analyzing the data, the author goes through several stages, namely data collection, data reduction, data presentation, and conclusion drawing. The explanation for the stages of data analysis in this study are²⁴:

1.Data collection is a set of information obtained by researchers where the information can allow researchers to draw conclusions and take action.

2.Data reduction is the process of selecting data that has been collected by researchers, then focusing on data that provides support for research or adjusting the data obtained with research.

3.Data presentation is the process of compiling data or information that has been selected and provides the possibility of conclusions in qualitative research, in the presentation of data carried out by data researchers in the form of brief explanatory descriptions, charts and the like.

²⁴ Rony Zulfirman, 'Implementasi Metode Outdoor Learning Dalam Peningkatan Hasil Belajar Siswa Pada Mata Pelajaran Pendidikan Agama Islam Di MAN 1 Medan', *Jurnal Penelitian Pendidikan Dan Pengajaran*, 3.2 (2022), p. 150.

4. Drawing conclusions which is the last step in data analysis is drawing conclusions drawn from the data that has been analyzed and which has been examined based on the phenomena that have occurred.

From the results of this analysis, the research draws conclusions that answer the research questions that have been formulated, and summarizes the main findings in chapter 4 to provide a deeper understanding of India's role in global economic dynamics influenced by the US-China trade war.

1.9 RESEARCH SYSTEMATICS

This research is organized into 4 chapters, as follows:

CHAPTER I. INTRODUCTION . Explain the background of the problem which contains a brief description of the study, problem formulation which contains problems that will be the main focal point in this study, literature review which contains various previous studies that have similar problems with the research being studied, conceptual framework which contains the theoretical basis used by researchers in analyzing existing problems, hypothesis which explains the author's argument to answer existing research questions, research methodology which explains the process of compiling research as the basis for creating writing, and research systematics which contains an outline of the research.

CHAPTER II. THE DYNAMICS OF THE US-CHINA TRADE WAR AND ITS IMPACT ON PARTNER COUNTRIES' INVESTMENT GROWTH. In the discussion of this chapter, the author discusses the dynamics of the trade war that occurred between the United States and China from 2018-2019 and its impact on each of these countries. The US-China trade war did not only have an impact on the two countries but partner countries had a significant impact including the

amount of foreign investment that decreased. However, some partner countries also had a positive impact, including India. The amount of foreign investment in India during the trade war has increased relatively

CHAPTER III. THE EFFECT OF THE US-CHINA TRADE WAR ON INCREASING FDI INFLOWS IN THE MANUFACTURING SECTOR IN

INDIA . This chapter discusses the effect of the US-China trade war on increased foreign direct investment (FDI) in India, particularly in the manufacturing sector. Trade wars disrupt global supply chains and create economic uncertainty, which encourages multinational corporations (MNCs) to diversify their investments to countries with lower risks, one of which is India. The economic instability arising during the trade war prompted the Indian government to strengthen its pro-investment policies through the Make in India program. This step is realized through strategic infrastructure development, such as the Delhi-Mumbai Industrial Corridor (DMIC), as well as simplifying regulations related to FDI in the manufacturing sector to attract more foreign investment amid global dynamics. These policies triggered a change in the pattern of economic interdependence between global actors, where companies that were previously dependent on China began to shift their capital and production to India to reduce trade risks caused by the trade war. This shift in investment flows strengthens India's position as a major destination for FDI in the manufacturing sector while emphasizing the role of Make in India as a pull factor for foreign investment in the face of global uncertainty.

CHAPTER IV. CONCLUSIONS . This chapter presents conclusions from the previous discussion and explains the effect of the US-China trade war on increasing FDI inflows in the Indian manufacturing sector. Based on the theory of

Interdependence Liberalism and the concept of Foreign Direct Investment (FDI), this study shows that trade wars do not eliminate economic linkages between countries, but instead create new patterns of interdependence. Trade tensions between the US and China prompted multinational companies to seek more stable investment alternatives, with India emerging as a strategic destination. Economic stability as well as pro-investment policies through the Make in India program strengthened India's appeal as a global manufacturing hub. With increasing FDI flows into India, especially in the manufacturing sector, it can be concluded that the trade war acts as a push factor, while Make in India becomes a pull factor that strengthens India's position in international trade...

