Review

US–China Trade War: Chinese Perspective

Jain and Saraswat

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US–China Trade War: Chinese Perspective

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Abstract

The US–China trade relationship has expanded immensely after China's reformation of its economy and liberalization in 1979. A very huge amount of trade takes place between the United States and China in terms of monetary value and quantity. China benefits the United States in several forms other than just trade, such as US firms seeking investment opportunities in China for their assembly units. Subsequently, China holds a huge amount of US treasury securities, and purchases US debt securities, which helps them to keep their interest rates low. However, even after the development of such a trade relationship, the United States has certain concerns relating to China's intentions. From the United States’ point of view, China is not involved in a fair practice of trade. China has imposed state-directed policies that bend the flow of trade and investment opportunities. Furthermore, the United States has allegations against China pertaining to the issue of intellectual property rights along with mixed records on implementation of WTO obligations, establishment of procedures for impacting the value of its currency and restrictions on FDI. The United States claims that such policies from China's side make a great impact on the US economy and thus is the concern of the Congress. The current president, Mr. Donald J. Trump, has pledged to promote the free and fair trade policy. So his administration has taken some severe steps to reduce the US bilateral trade deficit. The president first announced the imposition of tariffs on steel and aluminum at 25% and 15%, respectively. To this action of the United States, China retaliated by raising the tariffs on various goods that are imported from the United States. Furthermore, the United States claimed that it would take actions against Chinese intellectual property rights policies that could be a hindrance to the US stakeholders. Later, the United States released a two-stage plan to impose tariffs on Chinese imports that would directly affect Chinese industrial policies for which again there was retaliation by China by releasing their own two-stage plan for American imports that would adversely affect American industries. This paper is an attempt to analyze the effect of the trade war between the United States and China and briefly discusses about the impact of this war on China and the probable measures implemented by the country.

Keywords: Trade Policy; Tariffs; Exports; Imports; Product.

1. INTRODUCTION

In the late 1970s, the Chinese economy started to repair its economic condition and further liberalize its trade policies, thereby extending its economic relations at a significant pace. The merchandise trade between the United States and China rose from US$2 billion to US$636 billion in 2017. In the present scenario, China is witnessed as a prevalent merchandise trading partner of the United States. Moreover, it is the biggest source of imports as well as the third largest export market for the United States. The United States’ consumers are significantly benefited by the low-cost import of goods from China. Most business organizations in the United States employ China for assembling and procuring their goods as well as utilizing Chinese-manufactured inputs for the final production of offerings in the United States. Moreover, Chinese products being cheap make it profitable for the US firms to use China-made inputs. According to a report published by Department of the Treasury/Federal Reserve Board, it has been observed that, as of April 2018, China also
stands as the largest foreign holder of US treasury securities at US$1.2 trillion (Department of the Treasury/ Federal Reserve Board, 2019). Furthermore, China supports the United States by acquiring US debt securities that benefits the United States in maintaining a low rate of interest.

Although there has been a vast expansion between the commercial ties of the United States and China, the mutual trade relations have become increasingly complex over a few problems:

- The acceptance and inclusion of WTO amendments by China had witnessed a vague view.
- Violation of intellectual property rights of the United States.
- Excessive constraints witnessed in foreign and trade speculation.
- Reduced clarity pertaining to policies and procedure in trade regimes.
- Several industry domains witnessed a problem of overcapacity due to distorted economic procedures.
- Excessive amount of merchandise trade surplus observed with the United States (Morrison, 2018; Mourdoukoutas, 2019).

The US–China trade war has witnessed significant impact upon the economies of both countries as well as the global economy. US firms have started to have second thoughts on the assembly points in China. In addition to this, the Chinese automobile and electronics industry has witnessed a decline in revenue. The global economy has been affected, as many other countries depend on the trade between the United States and China to provide intermediary goods that are further made into a final product and then exported. It has been advised by many analysts that the war should conclude.

2. LITERATURE REVIEW

This section provides details of various trade wars that have occurred in the past and further assesses the significant impact that was observed in them. These scenarios will support our paper in elaborating upon the conclusion while studying the impact various countries faced after the trade war, about the measures adopted by various countries to be rid of those trade wars, and whether these measures could be implemented in the case of the aggravating US–China trade war. The various trade wars that occurred in the past include the following:

- Opium Wars (1839-1860)
- Banana Wars (1898-1934)
- Smoot–Hawley Tariff Act (1930)
- Anglo-Irish Trade War (1932-1938)
- Trade war over genetically modified food (2010-2011)

2.1. From Silver to Opium: A Study of the Evolution and Impact of the British–Chinese Trade System from 1780 to 1842; Dominic V. Budetti (2016)

The paper briefly discusses about the opium wars that took place between 1839 and 1860; the authors discuss that in the early 18th century the Chinese Qing Empire and the British Empire witnessed drastic impacts on trade due to the introduction of opium that significantly replaced the trade of silver between both countries. This shifting trend of trade would ultimately lead China to become ripe for European colonization and further impacted the social and economic scenarios of both empires. The paper further discusses the use of silver by Britain as a primary form of payment for their import of tea, and toward the end of the 18th century, this trend observed a shift of increasing activity of export of various goods from India to China. The opium trade negatively impacted the economy of China, as this trade was very dominating and adversely affected the trade of other goods along with making the overall life of the citizens of the country quite miserable. Moreover, the opium trade led China to observe an unfavorable trade balance and caused economic crisis for the very first time in history. The Chinese economy was using copper coins as its currency in this trade scenario, and due to the diminished availability of silver, China witnessed a monetary crisis that significantly decreased its wealth. However, the opium trade brought economic prosperity to Britain and helped the country to accomplish its colonial endeavor in India. In the end, the Chinese government took the decision to stop the import of opium from Britain (Budetti, 2016).
2.2. Trade Gone Bananas: A Study of Political Control Over Trade; Fredrik Olofson, Birgit Karlsson (2012)
The authors propounded in this study whether it was possible to administer trade markets politically and what were the necessary steps undertaken by the European Union in the longest-running trade war of those times. The authors have concluded that enabling free trade is the most effective and efficient method to sustain the growth and wealth of any country and that trade agreements on bananas between the European Union and its former colonies had initiated this war. As a result ACP countries witnessed both their income and market shares decline, as after the trade agreement imposed by the European Union encouraged a few large US-owned banana producers to flourish. Moreover, this trade war resulted in making bananas highly priced and unaffordable for consumers (Lawrence and Rosegrant, 1999; Fredrik Olofson).

The author in this paper briefly discusses the factors that occurred after imposition of the Smoot–Hawley tariff. In June 1930, this act led to a significant drop in the imports of the United States (approximately 40%) and further led to foreign vengeance and reduced income. Furthermore, it's been assessed that this tariff impacted the growth of the agricultural sector in the United States and significantly impacted the competence of the world trade market and the international monetary system. Additionally, this act has been long recalled as the cause of an economic collapse in the early 1930s along with a breakdown in world trade, global protectionism, and the beginning of great depression (Irwin, 1998).

This paper critically analyzes the countervailing trade procedures adopted by the United States due to ineffective measures adopted by the European Union by not adhering to the policies imposed by the WTO in the banana dispute. This war witnessed a significant amount of losses in the consumer surplus of Pecorino cheese due to retaliatory trade procedures implemented by the United States (Vahe Heboyan, 2001).

2.5. Genetically Modified Food and International Trade: The Case of India, Bangladesh, Indonesia, and the Philippines; Guillaume Gruère, Antoine Bouët, and Simon Mevel (2007)
This paper discusses the stringent policies implemented upon the regulation and import of genetically modified (GM) crops, as these restrictions restricted the enlargement of agricultural biotechnology in various emerging economies. The various obstacles that were faced by several countries across the globe for the adoption of GM crops included access to commercial licenses, difficulty in accessing genetic resources, and patents along with intellectual property rights (Kym Anderson, 2004; Guillaume Gruère, 2007).

Ireland went through a constitutional revolution during the period 1912-1923, since the third Home Rule Bill was introduced. The Ulster crisis and the creation of dominion of the Irish Free State had a deep impact. The paper tries to understand the economic context of the Irish revolution and its long-term effects on Irish economic development. The Irish revolution began in 1914 and continued till 1938—that is, it lasted almost from the beginning of the First World War till the beginning of the Second World War. The first part of the paper talks about the developments happened from 1914 to 1922. Then it focuses on the formation of the Irish Free State and the gradual protection that was introduced through the period 1922-1931. Then it describes Fianna Fail's tenure in office and the signing of the Anglo-Irish Agreement. The paper ends with the details of the resolution of outstanding claims arising from the treaty. It concludes by describing the long-term impacts of the Irish revolution on Irish economic development. In the end, the political and fiscal union between Great Britain and Ireland ended with the formation of Irish Free State. However, economically, it was dependent on Great Britain. The major problems were small undercapitalized agricultural farms and the low productivity of manufacturing units. Irish Free State's dependence on Great Britain reduced over a period of time after it joined the European Union. Moreover, domestic policies played a major role in the development of Ireland. Fiscal incentives on foreign investment and investment in education played a major role, and human capital formation played a major role in development that happened because of improvement in education and on-the-job training. Although the development of political and economic institutions was slow, it gradually improved (McLaughlin, 2015).
3. **RESEARCH OBJECTIVES**

The paper is an attempt to provide details pertaining to the economic concerns that are taking place in China due to trade war and discusses about the several detrimental steps that the Chinese government is undertaking. The paper briefly narrates the things taking place between the United States and China as an evidence of witnessing open trade to facing restricted trade. Furthermore, this paper discusses about the Chinese perspective regarding the effect of tariffs imposition on several products by the United States, the impact of trade war on global economy, and proposed measures that can be implemented to combat this already aggravated scenario.

4. **RESEARCH GAP**

The paper discusses the impact of trade war between the United States and China, elaborating upon the Chinese perspective and critically discusses about several trade wars that have transpired in the past between other countries. Moreover, the existing studies have not studied the impact of past trade wars and have mainly concentrated upon discussing the various circumstances that are expected to prevail in the present scenario. This study propounds the significant measures that can be undertaken by the Chinese government to combat this escalated trade war scenario by witnessing the probable parameters that are drawn from several other studies that focus upon the previous trade war repercussions.

5. **RESEARCH METHODOLOGY**

The study is descriptive and analytical in nature based on secondary data. Time series analysis has been used to know the latest trends of trade since the beginning of this trade war, to reach the logical end.

6. **RISE OF US–CHINA TRADE WAR**

The events leading up to this trade war between the United States and China happened in the following manner:

- **September 21, 2011:** Trump tweeted before the presidential elections that China is not considered to be either a friend or a supporter, and he said that China aspired to capture their country after defeating them.
- **May 2, 2016:** While promoting himself for the nomination of the Republican party’s presidential election, Trump quoted that China is continuously trying to reap benefits from the United States and that this is intolerable. He further addressed the nation by saying that China is a thief and the United States needs to stop this activity of China.
- **August 18, 2017:** The Unites States Trade Representatives (USTR) undertook an investigation into the various procedures, acts, and policies and practices of the Chinese authority pertaining to intellectual property, technology transfer, and innovation.
- **February 7, 2018:** The United States executes “global protection tariffs”—implementing a 30% tariff on entire imports of solar panel apart from those from Canada, worth US$8.5 billion and further imposing a 20% tariff on the imports of washing machine worth US$1.8 billion.
- **March 22, 2018:** Trump signed a memorandum aiming toward the following acts:
  - To file a case against China with the WTO for their unfair licensing enactment.
  - To confine investment attributing toward significant technology domains.
  - To further levy tariffs on various Chinese products such as machinery, information communication technology, and aerospace.
April 2, 2018: China imposes tariffs on almost 128 products that were worth US$3 billion ranging between 15% and 25%. The list of products includes wine, fruit, pork, recycled aluminum, and seamless steel pipes in vengeance to the tariffs imposed by the US on steel and aluminum.

April 3, 2018: The USTR issues a preliminary list of proposed 1,334 products with a projected value of US$50 billion being subject to a prospective 25% tariff, extracted from the revised list of June 15.

April 4, 2018: China responds to the initial list of products declared by the USTR and recommends 25% tariffs to be executed upon almost 106 products comprising a value of US$50 billion on offerings such as automobiles, soybeans, and chemicals.

April 16, 2018: The US Department of Commerce concludes that the Chinese telecom company ZTE had disrupted various sanctions implemented by the United States. However, it was observed that several business organizations in the United States were debarred from undertaking business with ZTE for almost 7 years.

April 17, 2018: China declares antidumping duties of 178.6% on the imports of sorghum from the United States.

May 3-7, 2018: In Beijing, the United States and China came together to participate in a trade talk in which the United States demanded that China had to reduce the trade gap in a time span of 2 years on the products with a projected value of US$200 billion. Furthermore, this talk witnessed no resolution between the two countries.

May 20, 2018: The trade war between the United States and China witnessed a halt after China had agreed upon purchasing more of the US-produced offerings.

June 7, 2018: A deal was signed between the United States and ZTE that would permit ZTE to restart its business activities.

June 15, 2018: The list of a large number of products that witness an imposition of tariffs were further reduced and finalized. The first list at this time comprises imposing 25% tariff on 818 products from the original list of 1,334 products and is further expected to be adhered to from July 6, 2018. Furthermore, the second list of 284 new offerings were announced on the same date and taken into consideration.

June 16, 2018: The initial list of 106 products was revised by China with the initial tariff of 25% to the prevailing 545 products, imposing 25% tariffs on the products worth US$34 billion. The new tariff would be implemented from July 6, 2018. China further suggests 25% tariffs on additional 114 products worth US$16 billion (Sylvie Cornot-Gandolphe, 2018; Koty, 2019).

7. CHINA’S PERSPECTIVE

China is a strong global player and contender and follows its national interests vigilantly. The Ministry of Commerce in China stated the position of country to be very clear in its declaration that China is not intending to fight although they are not scared to enter into a trade war. The Chinese authority is ready to follow the trend and is ready to go to any extent to win this trade war. The ministry further quoted, “China must implement a new comprehensive reaction and resolutely defend the interests of the nation and its citizens.” (Mallick, 2018)

Subsequently, the new tariffs are anticipated to barely affect the economic control of China. However, the tariffs will adversely affect some businesses and industries; nevertheless, their total value is attributed at merely 2.5% of the total exports to the United States. Several products exported by China comprise a reasonable amount of intermediate goods from elsewhere that are exclusively assembled by China to manufacture finished goods (Tanczos, 2009; With China Tariffs, Trump Bark but Doesn’t Bite, 2018).

China has been trying to diminish its dependence on trade. In 2007, the total exports that contributed to around 30% of the GDP have now been reduced to less than 20%. The US exports that contributed to 9% of China’s economy are presently less than 5% (Wyne, 2018).

One of the foremost criticisms against China is that the Chinese systematically violate intellectual property rights to steal technological secrets. Certainly, this practice of China is not different from that of other developed countries. The United States in the 19th century used this practice with the then technologically
powerful Britain, and the United States had as much regard for British industrialists’ trade secrets as China has today for the American intellectual property rights (Samo Gonclaves, n.d.).

7.1. Actions Undertaken by China
China responded by putting a tariff of US$13.7 billion on soybean imports, alongside a little over US$3 billion on cotton, sorghum, wheat, and corn. The decision implemented by China on soybean imports is expected to be the biggest masterstroke, along with a certain risk element to it. The country accounts for 60% of global soybean imports. Moreover, it also receives the majority from two sources—Brazil and the United States. Although China cannot fully replace the United States as a source of soy, it can take several steps to mitigate the impact. China is likely to increase imports from Brazil, increase domestic production, and use of domestic stocks, and start using alternative feed sources like corn (Haque, 2014).

7.2. China’s Options
China can limit the operations of American banks and other service providers in China. The government could also urge the Chinese public not to buy American branded cars such as Chevrolets and Fords, even though those are built almost entirely from Chinese produced parts and assembled in the factories of China (Mallick, 2018).

8. IMPACT OF TRADE WAR ON CHINA’S ECONOMY

The latest economic data says that there has been a slowdown in China’s economy. This slowdown is getting even worse, as the trade war with the United States has hampered the confidence of consumers and hurt the sales of goods such as electronics and cars. The third quarter of 2018 has been the lowest growth rate that China has witnessed in the last 10 years.

As the US–China trade war has picked up pace, car manufacturers have become more cautious from the consumer’s point of view. The latest economic figures suggest that China should seek a deal to end the US–China trade war. In 2018 quarter three, total vehicle sales have dropped by 11.7% from a year earlier to 2.38 million last month in the world’s biggest auto market, according to the China Association of Automobile Manufacturers.

China’s smartphone market has shown no improvement in its sales. Recently, there has been significant decline in annual turnover of 14 smartphone brands out of the top 20 brands in the third quarter of 2018. Alibaba has revised down its full-year revenue estimated to be 4% to 6% lower than that projected in 2018. These economic projections show a disturbance in China’s economic growth (Shunsuke Kobayashi, 2018; Lee, 2018).

9. US–CHINA TRADE WAR HURTING THE GLOBAL ECONOMY

By the end of 2019, the trade deal between the United States and China is anticipated to take place, which is estimated to cause great damage to economic growth across the globe. Moreover, the damages witnessed by global economy due to corrective tariffs undertaken in the last 1 year are difficult to resolve at a rapid pace.

In 2018, the global economy witnessed decrease in the growth of trade that is considered a significant factor for overall growth of nations. The trade growth had witnessed a decrease from 5.25% in 2017 to 4% in 2018 that is causing a negative impact on investment strategies worldwide. Even if the United States and China come to an agreement in the near course, there is still a risk that other restrictions can be implemented toward the end of 2019. These restrictions could be in the area of automobiles, which is further projected with the discussions of US–EU trade proceedings.

However, these restrictions would cause trouble to Europe, as it comprises around 1/10 of the total EU merchandise exports to the United States. Besides, there are a several number of supply-chain links to this aspect that can immensely impact several countries and sectors. Moreover, these factors would adversely affect business investment plans worldwide and thus impact global economy significantly (KPMG, 2018; Wallace, 2019).
10. CONCLUSION

It has been evident from various scenarios that trade war has done no justice to the economy of any country and has adversely impacted the economic growth of that country along with making products accessible to consumers with high prices. Moreover, the trade war between the United States and China is further expected to get aggravated and is estimated to cause extravagant damage due to participation and entrance of other countries in this trade war. Additionally, an overall presence of several other nations in this trade war could move the global economy into recession. Although the trade war between the United States and China on oil could provide an advantage to Russia and OPEC, imposition of tariffs by China on US oil imports could help Russia to regain its top position in the Chinese oil market and further support OPEC in recapturing a huge market share, this will be sustainable for a short duration of time only. In the long-term perspective, the trade and tariffs war not only hampers global trade but also overall economic prosperity.

There are several allegations such as Washington claiming China is acting in an aggressive manner to the allegation of the Chinese government that Washington is trying to hamper the economic growth of their country and is further provoking a trade war. Besides, it has been observed that due to China’s reluctance to amend any changes in its high economic growth rate and internal political stability, this trade war could further escalate for a couple more decades.

In addition to this, the trade war between the United States and China can be concluded in the following manner: there could be an agreement taking place between the United States and China to stop the war. It is expected that pulverizing the tariffs that were imposed on the products from both sides would significantly minimize the economic tensions between the two countries. Besides, the trade between the United States and China could be recommenced as usual. Additionally, a trade deal could be undertaken that would allow the two governments to enter into an agreement to secure intellectual property rights along with enlargement in the bilateral trade transparency and a significant improvement in the FDI policies. Moreover, the United States already holds powerful cards on China in pre–trade war policies. Subsequently, it can be concluded that it would be more rational for the United States to take back the tariffs and continue the trade with the agreement of securing the intellectual property rights with China. Closing a deal as soon as possible will help to get the economy back on track, as a good amount of damage already has been done.

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Conflict of Interest
None.

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