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China–US Trade War: An Overview

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Abstract

The paper attempts to provide an overview of the ongoing trade war between the United States and China. The major focus is to discuss the recent developments and discuss a time line of the events. It also looks at some of the other aspects that are linked with the ongoing trade war such as the Foreign Investment Law, the White Paper issues by the Chinese government discussing the trade war, and the Huawei issue.

Keywords: China; United States; Trade war.

1. BACKGROUND

One of the most important points raised during the Presidential campaign by Donald Trump was the trade imbalance with China and its effects on the economy of the United States. United States and China have been each other’s largest trading partners for decades. The United States became the largest trading partner of China in 1998, while China became the largest trading partner of the United States in 2015 with a total trade figures reaching 500 billion dollars (The Washington Post, July 6, 2018). However, such large-scale trade relations led to a very unbalanced trade relationship with the United States facing major trade deficit with China. At the beginning of the trade war, the trade deficit that the United States shared with China was around 419 billion dollars (NPR, 2019). Trump had also argued that the structure of the Chinese economy helped in keeping the commodity prices lower making it difficult for the American manufacturers to compete. Another important concern was the forced technology transfers from the American companies investing in China.

Since assuming the office of the President of the United States, Donald Trump has adopted a very aggressive stance on the trade issue with China. It was no surprise that in 2018 Trump announced massive additional tariffs to goods imported from China. If one has to put a time line to the beginning of this trade war, it can be January 2018.

One of the primary questions asked in relation to the ongoing trade war between the United States and China is why the United States increased the tariffs on the goods imported from China. The most obvious answer is that it raises the price of imported good and forces the American people to buy American products. It also aims to make the market space more equal by increasing the prices of the Chinese commodities. Tariffs are also an important negotiation tool in the ongoing trade war (BBC, May 14, 2019).

Since it was adopted, the trade war has started to affect more and more sectors and countries. China and the United States have attempted to negotiate a solution but have continuously failed to reach a common ground. Given this background, the paper will attempt to look at the various developments since the trade war started and also try and attempt the factors that are preventing any quick and acceptable solution.

2. AN OVERVIEW

The initial hints of trade war began with the United States imposing tariffs on solar panels and washing machines in January 2018. Trump imposed around 30% tariffs on the solar panels for first year with a plan
to reach half of this by the end of the fourth year. In addition, he imposed 20% tariffs on the first 1.2 million
imported washing machines and the added imports facing around 50% tax and parts facing 50% tariffs (The

In July 2018, Trump decided to impose heavy tariffs after looking into the Chinese trade and intellectual
property practices under Section 301 of the Trade Act (South China Morning Post, December 2, 2018). The
total amount of tariffs imposed was around 34 billion dollars (The Washington Post, July 6, 2018). In continu-
ance with this, the United States imposed further tariffs of 16 billion dollars in August and then 200 billion
dollars in September 2018. These tariffs from the United States have been matched by the Chinese side by
Beijing imposing tariffs of about 110 billion dollars and the 25% tariffs on soybean imports (South China
Morning Post, December 2, 2018).

In the words of ShiYinhong, who is an international relations scholar from Renmin University, “In
essence, the trade war is not about the trade surplus. It’s a US effort to change how the Communist Party
runs the nation’s economic activities at home and abroad” (South China Morning Post, June 11, 2019). The
United States has been consistently demanding that Beijing should undertake concrete measures to
address the issues such as protection of US intellectual property rights, prevention of the existing cyber
theft of American trade secrets, and work toward ending the forced technology transfers to China from US
industries (Reuters, May 7, 2019).

In May 2019, the United States and China held a round of negotiations to reach a consensus, which
failed. Since then, there has been no information if the talks will resume anytime soon. The failure was an
indication that the negotiations are not in the direction expected by the United States even when Beijing has
continued to make promises of changes (Al Jazeera, 2019).

Even after 11 rounds of negotiations, there has been no major achievement, and the United States
continues to accuse China for undertaking measures that help the Chinese companies in the newer tech-
nologies. In May first week, the head of the international affairs at the US Chamber of Commerce, Myron
Brilliant, reported that the majority of the issues had been resolved and claimed that the talks had reached
their “end game” (Livemint, 2019).

By June 2019, Beijing had started threatening to stop the export of rare earth minerals to the United
States. These minerals are vital for a number of industries to manufacture defense equipment and chips.
China was the largest exporter of rare earth minerals to the United States in 2018. As per the US Interna-
tional Trade Commission, almost 59% of these minerals came from China (South China Morning Post, June
5, 2019). As per a report by the US Commerce Department, “If China or Russia were to stop exports to the
United States and its allies for a prolonged period – similar to China’s rare earths embargo in 2010 – an
extended supply disruption could cause significant shocks throughout US and foreign critical mineral sup-
ply chains” (South China Morning Post, June 5, 2019). The United States is looking for newer ways to reduce
its dependency on China for these vital minerals.

However, the issue of rare earths is not that simple. Beijing has managed to mine them because of its
lax environmental and safety norms that are in process of changing. China also needs to continue mining
these for its own development, and reports suggest that, by 2025, China may even start importing rare earth
minerals. The discussion about the rare earth being “ace” in Chinese hands started when Xi and Liu He vis-
ited a monument dedicated to the Long March in Jianxi to put wreath (CNN, May 30, 2019).

The trade war is also affecting tourism. The Chinese government had issued a warning against travel-
ing to the United States giving the reason of gun violence and shootings. However, one cannot avoid draw-
ing parallel that this might be happening due to the ongoing trade war (BBC, June 5, 2019).

The Chinese Vice Minister of Commerce Wang Shouwen in a press conference expressed his concern
regarding the trade war and argued that this action will hamper the global economic growth in addition
to harming the American farmers and consumers (Los Angeles Times, 2019). However, the Chinese Vice
Premier Liu He in a public speech during the Lujiazui financial forum on June 13, 2019, did not mention
the ongoing trade war but argued that, “The external pressure will help us improve innovation and self-
development, speed up reform and opening up and push forward with high quality growth” (South China
Morning Post, June 13, 2019). Some Chinese officials have started expressing their concerns with regard
to the way the government is dealing with the ongoing problems. Li Jiange, who was secretary to former
Premier Zhu Rongji, has been arguing that there is a need for proper economic reforms and the short-term
stimulus packages should not be the choice of the government (South China Morning Post, June 17, 2019).
The calls for ending the trade war are gaining momentum within the United States. There is a growing concern that this may push the US economy toward recession. Prominent American retailers such as Walmart, Target, and J Crew signed letters that called for ending the trade war arguing that the proposed tariffs of 300 billion dollars can cost the United States 2 million jobs, while costing the American families around 2000 dollars (Financial Times, 2019). No surprise that around 320 officials from various American manufacturers and retailers will be appearing before the US International Trade Commission calling for ending of the trade war and the imposition of further tariffs. They have been arguing that the importers and the consumers are the ones who are paying the added tariffs (South China Morning Post, June 18, 2019). The tariffs imposed on the soybeans by China have also affected the agricultural sector in the United States. This indicates that the two sides need to get down to sort out the fine print of the issues if a major turmoil has to be avoided.

3. FOREIGN INVESTMENT LAW

China’s National People’s Congress (NPC) approved the Foreign Investment Law (FIL) in March 2019. The law will come into effect on January 1, 2020. The primary aim of the law is to address the major concerns of the foreign investors in China that include security of sensitive information, market access, and forced technology transfers to the Chinese partners (South China Morning Post, March 15, 2019). While discussing this new law, Wang Chen, vice chairman of the NPC Standing Committee said, “It is a full testament to China’s determination and confidence in opening wider to the outside world and promoting foreign investment in the new era” (Xinhua, 2019).

With the adoption of the FIL, the Chinese government had made it very clear that it is keen to address the concerns raised by the United States as well as other countries investing in China. However, it appears that the FIL has failed to satisfy the United States. While discussing the FIL with the Senate, the US Trade Representative, Robert E. Lighthizer, argued that there are still major concerns that need to be addressed before any kind of a deal can be agreed upon (The Washington Post, March 15, 2019). The United States is primarily looking at major structural changes in China to believe in its commitment to solve the ongoing issues.

4. CHINESE WHITE PAPER ON TRADE WAR

On June 2, 2019, China published a White Paper outlining its position on the ongoing US–China Trade War. The White Paper, which is titled China’s Position on the China–U.S. Economic and Trade Consultations, argued that the “US measures are undermining the authority of the multilateral trading system, the US measures threaten global economic growth and this move disrupt global industrial and supply chains” (The State Council Information Office PRC, 2019). The White Paper further asserted that, “But the more the US government is offered, the more it wants. Resorting to intimidation and coercion, it persisted with exorbitant demands, maintained the additional tariffs imposed since the friction began, and insisted on including mandatory requirements concerning China’s sovereign affairs in the deal, which only served to delay the resolution of remaining differences” (The State Council Information Office PRC, 2019). The paper argued that the trade war was affecting the overall investments in China as it was creating an uncertain environment. As per Chinese statistics, “direct investment by Chinese companies in the US was down by 10 percent year-on-year. In 2018, paid-in US investment in China was up by only 1.5 percent year-on-year compared with an increase of 11 percent in 2017” (BBC, June 3, 2019).

It is being argued that with this China wants to clear its stand on the ongoing trade war and build a base for negotiations with the United States during the upcoming G20 Summit that is starting on June 27. According to Gu Su, a political analyst at Nanjing University, “The paper was supposed to give a clear picture about what happened [in the trade talks] and how it developed into a stalemate – to help the [Communist Party] ease political pressure from Chinese society, intellectuals, officials and the inner circle of the party. However, it failed to achieve that” (South China Morning Post, June 4, 2019).

The United States has looked at it as another measure by the Chinese government to put the blame on Washington.
5. HUAWEI

Huawei is a Shenzhen-based Chinese company that is the second largest cell phone manufacturer in the world. It became the second largest equipment manufacturer in the world in 2018, second only to Samsung, and is also working toward developing the 5G technologies. The continued American ban on Huawei has the potential to derail the China–US relationships, as it is one of the most aspirational ventures of China (CNN, December 9, 2018). No surprise that it has raised the parallels between the Opium Wars and the recent trade war. As argued by Kenneth Lau Ip-keung, apro Beijing legislator in Hong Kong, “The trade disputes triggered by the US were like a tempest. Its suppression of Chinese corporation Huawei’s 5G and Meng’s case show that some people in the international community are trying to repeat the opium wars and the siege of the international legations” (South China Morning Post, February 11, 2019). The restrictions imposed on Huawei have become one of the major issues in the resolution of trade war between China and the United States. What is interesting is that this arrest was at the time of the ongoing 90-day truce between China and the United States to discuss ways to ease the trade war.

The issue gained attention when on December 1, 2018, the chief financial advisor, MengWanzhou, was detained in Canada. The United States had posed allegations of her involvement of helping Huawei in violating sanctions against Iran. Even though there has been a case filed against the Canadian police department, the court has approved her extradition to the United States (Reuters, March 4, 2019).

The United States imposed major restrictions on sale of Huawei equipment citing security concerns. Huawei is seen as a major success story for China's technological advancements and are linked with Chinese ambitions and aspirations. An approach that restricts the rise of Huawei is perceived to be threat against China. The United States has also banned the sale of chip and other software to Huawei and thus further restricting its sale and functioning. Most of the updates from Google and other android platforms are not being shared with Huawei equipment. Keeping these strict measures in mind, Huawei has made announcements that it does have an alternative operating platform that it can use anytime. However, with the restrictions in place, it may curtail the ambition of China to become a hardware leader as well as kill its 5G dreams (The Guardian, 2019). The involvement of Huawei has transformed the trade dispute to a more battle of technological know-how.

6. CHINESE MEDIA AND TRADE WAR

Chinese government’s censorship machinery has been working at full pace to control the discussion about the ongoing trade war from reaching its people. In July 2018, the directive issued to the media houses was to avoid any major mentioning of trade war in their news headlines. As reported by one Chinese official, the government directive was, “When you report a fall in the stock market index or a weakening in the yuan's exchange rate, you can’t use ‘trade war’ in your headline” (South China Morning Post, July 18, 2018).

In addition to this, China has also reduced the mentioning of the idea of Made in China 2025. The Chinese government had issued a propaganda directive that asked the Chinese media to not report or refer to Made in China 2025, a step that Beijing hopes will help it in improving ties with the United States as well as the Europe (Financial Times, July 16, 2018).

The Chinese media has also been printing articles supporting the Chinese stand on the trade war and highlighting the strength and resilience of the Chinese side. In an article published in the China Daily, the author argued that the United States has mistaken the commitment of China to safeguard its core interest. Beijing was not going to give in to the American pressure and that the situation was because Washington had misjudged the Chinese achievements in the last 40 years of reforms and opening up. It further argued that the only way the China–US relations can grow is by cooperation (China Daily, June 18, 2019).

7. CONCLUSION

The trade war has mutated into a perception battle. Both sides are not keen to give in to the demands of the other for the fear of appearing weak. The domestic politics and image building has become a major catalyst
in directing the trade war. Both Trump and Xi will not be ready to appear the “loser,” keeping in view the upcoming elections in the United States and the abolition of term limit in China. Trump and Xi have come to power by exploiting the idea of making their respective countries “great” again. Domestic nationalism has been fanned and exploited to gain popular support and legitimacy for the trade policies.

A commentary in the journal Qiushi fully expressed the ongoing Chinese sentiments. It argued, “China will not be afraid of any threats or pressure the United States is making that may escalate economic and trade frictions. China has no choice, nor escape route, and will just have to fight it out till the end” (Reuters, June 16, 2019).

No doubt that the trade war is affecting the world economy, but it has also been very heavy on symbolism. 2019 is a tough year for Xi Jinping because it is full of prominent anniversaries and carries a very strong symbolic importance. It will be the 70th anniversary of the establishment of the People’s Republic of China (PRC) and Xi as the leader cannot look weak and defeated.

It appears that the trade war will continue to gain momentum as the two sides have different parameters to reach a solution. Beijing has been adamant that Washington should lift the existing tariffs, while the latter wants a stronger commitment toward an overall restructuring of the Chinese economy. The United States insists on an equal playing field for foreign investors in China. Even though the Chinese government adopted the FIL, it is being perceived as being too little too late. The United States wants stricter and more concrete changes to the Chinese legal system. The Chinese side has shown promise to undertake the changes by the FIL, but one cannot ignore the fact that major structural changes will require time and patience on the part of the United States. If China is continued to be pushed on the back foot and it feels threatened, it may further harm the overall global economic order. China today is deeply interlinked with most of the countries of the world. With its Belt and Road Initiative (BRI), it continues to make further inroads. The perceptions attached to the rise and position of China globally is very essential for the Chinese Communist Party (CCP), as it gains its legitimacy to rule from such notions, and the continued tariffs have the capability to completely affect the domestic peace and stability of China.

On the other hand, the United States believes that China has taken advantage of the investments and has not reciprocated at the same level. There is a general belief that if this does not get resolved, the American companies may shift bases to other developing countries such as Vietnam and Bangladesh. However, one cannot ignore the fact that shifting companies and industries will take time, and in the short run it will affect the Chinese domestic economy. The trade war is pushing the commodity prices higher and is thus also adversely affecting the consumers in the United States and worldwide. The stance adopted by the United States has also led to the general perception that a strong power is bully and that it wants to restrict the Chinese development and growth.

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Conflict of Interest
None.

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