SINO-US TRADE WAR

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Abstract

This research provides historical background and an in depth analysis of China and United States' commercial relations including historical evidences, major trends and tensions with reference to all these factors it establishes reasons to look at the likelihood of Sino-US trade War. The paper highlights the recent change in government in the US and its policies toward China. It also looks at the potential impact of any such trade war.

Keywords: China, United States, Trade War, Commercial Ties.

Introduction

Economic and trade reforms between China and the United States began in 1979. Ever since both the countries have helped each other and China has elevated its status on as one of the fastest-growing economies. China's policy for trade liberalization along with massive economic growth is the leading cause of sharp improvement in economic ties between both the states. Apart from growing trade relations: there is a rising trade tension between United States and China. There are number of factors behind these strained trade relations China's slacked attitude towards the obligations of World Trade Organization (WTO), breach of US intellectual property rights (cyber violations of trade secrets and forced technological reforms on firms), China's promotion and protection of its own industrial policies, extra focus on foreign and trade investment, absence of transparent rules and policies, overburdened industries and its surplus of merchandise with United States. China's economic rules, regulations, policies and trade experiments have a greater impact on US economy and some sectors are highly concerned about it. This paper presents an overview of contemporary US and China trade relations, pinpoints major areas of conflict, analyzes Trump administration trade posture towards China, and predicts possible future behavior of both states.

During his election campaign, the US President Donald Trump made some alarming statements. One of them was about threatening China against a 35% to 45% tariff on all imported goods from the country, which he also said would not be "willy-nilly."[1] Trade sanctions against China were a cornerstone of his election campaign. He went on to accuse China of being the biggest currency manipulator, which is ripping the US economy apart. Mr. Trump's unexpected policy moves have already unnerved the

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global structure, and Sino-America trade war will present a very significant turning point in the global economic facade. Economies of both the states are directly dependent upon each other. The sum of US products and services trade with China is roughly estimated at $ 659.4 billion in 2015 and exports were worth as $ 161.6 billion, on the other hand imports were amounted as $ 497.8 billion. According to officials the US products and services trade deficit with China was $ 336.2 billion in 2015. It is interesting to see that China is the biggest commodity trading partner of the US with a $ 598 billion in total goods trade during 2015.[2] This shows that US and China are bound in economic co-dependence. They have both become increasingly reliant on each other for sustainable economic growth and anything that happens between the two countries would send shockwaves across the globe as the countries have increasingly become dependent on each other for trade benefits.

The words of Mr. Donald Trump need to be taken with caution. He has already lived up to some of his promises like quitting from the Trans-Pacific Partnership (TPP), banning the entry of Muslims from specific countries mentioned in a list, and issuing an executive order for erecting a wall along the US-Mexico border.

Peter Navarro was made the head of White House National Trade Council on December 21, 2016,[3] He is the champion of the protectionist agenda and is much known for attacking China in his previous statements. He is a zero-sum economist, who, like Trump, believes that every item not made in the US symbolizes the theft of job from an American.[4]

It is expected that Mr. Navarro will play an integral role in shaping Trump's economic policies. Therefore, the threat of Sino-American trade war is not just rhetoric, but also real and is most likely going to change the economic landscape of the world. It is expected that Mr. Navarro will play an integral role in shaping Trump's economic policies. Therefore, the threat of Sino-American trade war is not just rhetoric, but also real and is most likely going to change the economic landscape of the world. The most immediate effects will be felt by the Trump's voters as companies like Wal-Mart import cheap goods worth billions of dollars from many countries like China and the owners of these companies are those who supported Trump to win his new office. The prices of all these manufacturing goods and products would increase mainly because of tariffs and it will become out of reach of the population of lower economic back ground.[5]

Furthermore, China has frequently pointed out that it is responsible for 2.6 million jobs in the US through their trade relations. Hence, America might lose more from this looming trade war. China will not permit itself to be taken lightly. It will not merely sit down and watch; rather it will follow a 'tit for tat' policy towards the US.

Chinese trade experts with ties with their government have given a notion to retaliate by switching some aircraft contracts from Boeing to Airbus, food trade with rival states like Brazil, and creating difficulties in potential sales areas of Apple Manufactured iPhone in China.[6]

However, at the venue of international conference of the World Economic Forum at Davos in January 2017, the Chinese President argued, “No one will rise as winner in a trade war.”

A trade war will harm both countries and send a wave of uncertainty among other countries in the world too. It would be like lose-lose situation for both economic giants. There is no place for protectionist orientation in this increasingly interconnected global world. However, one cannot ignore. Mr. Trump’s rhetoric and the world might see a shift in China-US economic relations, which would trigger a trade war. These are still early days of the Trump administration, and one will have to wait and see how the future unfolds in the coming days.

The US following a path towards protectionism not only entails trade war with China, but also repercussions for other countries, especially those of the Asia Pacific region that are traditional US allies, including Japan.

Left without a choice, these hitherto trading partners would have to look towards an increasingly willing China for trade, and inevitably increase their dependence on it, which would be a major step allowing China to dominate the region not only economically, but also politically, at the cost of American dominance. However, the trajectory that the US economy will ultimately take is yet to be seen.

Most Contemporary Developments

Sino-US trade ties are always complex but in the most recent times it has become highly contentious as can be observed in below mentioned points. According to the United States Trade Representative (USTR), there were particular concerns in National trade estimate report of March 2018 over technological practices of China and its industrial policy (such as 2025 initiative named as made in China) and restriction on cyber security.[7]

President Trump had announced a presidential memorandum calling for an inquiry into China’s industrial policies as related to section 301.[8] The memorandum said that United States is planning to impose certain restrictions on China’s investment in sensitive US departments, and increase tariff by 25% on some Chinese products and open a WTO case on China based on intellectual property rights licensing regulations. (Policy made by China on 23 March).[9]

Both the states have ad valorem tariff on each other, for example, USTR has suggested 25% on $ 50 billion worth amount of Chinese commodities that includes color television, electrical and mechanical parts of motor and vehicles. In reaction China on very next day, April 4, targeted multiple US products in case ad valorem tariffs would be implemented. The same day observed some interesting events, China started a dispute settlement case through WTO against the US and Trump responded by proposing tariffs of $ 100 billion amount on Chinese commodities.

On March 8, 2018 there came a proclamation US imposing additional tariffs 10% aluminum and 25% steel. This additional tax is based on the 1962 trade act, section 232 justified by national security.

China responded that it increased duties of estimated $ 3 billion in 2017 on 128 tariff charges on various products from the United States. This includes aluminum products and scrap, pork, nuts and some pack fruits.

On April 09, 2018 China initiated a dispute handling case at WTO against the implementation of tariffs section 232 by US. The Chinese stance was that since the US has clarified its tariffs under the national security umbrella, hence it created some safeguard measures.

President Trump claimed that he would use United States safeguard measures and apply tariff quotas on certain items that include large size housing laundry machines and solar Photo Voltaic (PV) cells and it will be implemented on February 7, 2018.[10]

China retaliated on April 5 that it proposed to cancel tariff concessions comparable to the trade that is cut by the US safe guard steps on washing machines and PVs.

The USTR announced the statement in its annual report on China's agreement with WTO on January 18, 2018. The research report argues that "the United States erred in supporting China's entry into the WTO on terms that have proven to be ineffective in securing China's embrace of an open, market oriented trade regime."[11]

In an important joint statement at WTO by the trade representatives of United States, European Union and East Asian giant Japan apparently referred to China as "severe excess capacity in key sectors exacerbated by government-financed and supported capacity expansion, unfair competitive conditions caused by large market-distorting subsidies and state owned enterprises, forced technology transfer, and local content requirements and preferences;" and they additional argued that occurrence of such polices "are serious concerns for the proper functioning of international trade, the creation of innovative technologies and the sustainable growth of the global economy."

The three states assured to improve collaboration and complete removal of such practices. During the November 8 and 10,2017 State visit of president Trump to China, he stated that firms of both states have signed more than $ 250 billion commercial deals. In an official press release of White House President Trump assured President Xi Jinping fair and reciprocal commercial ties with China. Trump stressed to sort out the trade deficit issue with China. He said both sides need to "immediately address the unfair trade practices that drive this deficit, along with barriers to market success." He blamed past US administrations as responsible for unbalanced and unfair bilateral commercial relations.[12]

- On 18 August, 2017, the USTR declared it had started a Section 301 in depth inquiry of China's practices on transfer of technology, IPR, and prospects on terms and its economic effects upon US. The USTR's act was declared three days later when President Mr. Trump announced an Executive Memorandum inquiring the USTR to define if this type of inquiry was justified.

- On 19 July 2017, there was improvement when the two sides had the first session of dialogue i.e. the Comprehensive Economic Dialogue (CED) between US and China, but no positive developments were seen after the discussion.
- During the initial discussion as head of states on April 6-7, 2017, Presidents Xi and President Trump proclaimed to establish a "100-day plan on trade" and complimentary opening up of new upper-level forum discussion termed as the "US-China Comprehensive Dialogue."

On 11 May, 2017, both states came with a conclusion that in reaction to 100- day plan of trade agreement, China will expand and further open up its markets to US beef products, biotechnology goods, credit rating facilities, electronic type payment offers, and bond guaranteeing settlements. The US will open up its markets on Chinese cooked dairy and poultry products and Chinese procurements of US liquefied gas.

US and China Trade War

After the establishment of Sino-US bi-lateral relations in the year 1979 the trade relations rose rapidly and they mutually signed a trade act in July 1979. The Most Favorite Nation (MFN) status was mutually given in 1980.[13] When China began economic reforms the same year net trade between both states was around $ 4 billion.

China occupies significant place as the United States' 24th highest trading partner in the world, 16th biggest export market for U.S products, and 36th important country of imports. In last year i.e. 2017, entire US trade with China was worth $ 636 billion, showing China and the United States' as the biggest trading partner. Many trade experts are of the view that China could be more noteworthy market for US goods in the future. China is one of the biggest growing economies of the world and if it implements economic reforms in a comprehensive measure it will grow faster. China's policies of opening up its markets and infrastructure modernization, up gradation in technology, improving service sector and enhancing the social safety measures will increase the demand of foreign products. Along the east coast of China that is considered as urban part of China, purchasing power has considerably increased. Along with these developments its large reserves of foreign exchange ($ 3.1 trillion as of December 2017) and the massive population (1.39 billion) establish it as an important trade market.

- A study of January 2017 developed by Oxford group of Economics for the US and China Business Council assessed that in 2015 alone U.S exports of goods and service facilities to China, and both sides direct and indirect FDI $ 216 billion to US GDP. The study also claimed that US goods for export and service facilities to China would increase from $ 165 billion in 2015 to over $ 520 billion by 2030.
- In 2016, 3.0 million Chinese visitors (up 15.4% more than the last year), went to US it made China as 5th largest foreign population of visitors in US.

- In 2016, Chinese people (visitors & tourists) paid $ 33 billion in the United States that is the largest visitor expenditure in the United States.
- According to the prediction of the US Commerce Department, by 2021, Chinese visitors to the United States will increase and it might reach up to 5.7 million. According to a study published in 2017, China occupies the world's largest mobile phone network with 1.36 billion mobile phone users and the highest number of internet using population of 751 million,
- Online sales of China in 2016 were $ 752 billion (double than the US online level at $ 369 billion).
- Corporation of Boeing has transported 202 planes to China in 2017 (keeping it on the rank of 26% of total global distributions), and occupying the place of largest Boeing purchaser outside the US.

Boeing claims that in the upcoming 20 years (2017-2036), China's requirement will reach up to 7,240 new air planes worth nearly $ 1.1 trillion and will hold the position of largest commercial airplane customer of Boeing apart from the United States.[14]

General Motors (GM) sales of cars and trucks to China is higher when compared to United States during the period from 2010 to 2017.[15] GM's sale to United States in the year 2017 was 3.0 million and was 3.9 million to China. GM's joint ventures in China during the year 2016 were worth equity income of $ 2.0 Billion. GM vehicles unit sale to China was worth 38.7% of its world total. GM presumes vehicle market of China would increase by 5 million per unit or more by 2020. Adding to it, during the period of 2016, US exports of motor vans to China were worth $ 8.3 billion and thus China occupies the second-largest place as US motor vehicle export country after Canada.

According to predictions by a global financial service Credit Suisse, China overtook the United States in 2015 and become the largest country with middle class at 109 million young population (with net amount between $ 50,000 and $ 500,000); the US level was assessed at 92 million. A research study by the Brooking Institute claims that it has estimated that spending of China's middle class will increase from $ 4.2 trillion in 2015 to $ 14.3 trillion after 15 years (2030). It is estimated that China's middle class purchasing power will be more than three times than United States. During the period of 2007 to 2016, in comparison with 1.6% growth in the US, China's domestic expenditure increased at 8.9% per annum.

There is an inverse relationship between trade with China and Jobs in the US. One of the hotly discussed topics among US economists and policy makers is assessing the cost and benefits of Sino-US trade ties, especially its effect on different production sectors and employees. The major bone of contention is the effect on US employment that results from Chinese imports particularly after 2001 when it joined WTO. Some policy writers blame imbalance of trade between China and US as one of the main cause of less jobs in US. The Economic Policy Institute (EPI) studied that trade deficit of US and China between the period of 2001 and 2013 completely removed 3.2 million jobs in US (mostly manufacturing jobs). The writer further claims that they used economic statistics input and out model that calculated total number of jobs , labor value for export production and the number of displaced labor at import substitution time for private output. The dissimilarity of two values is the empirically assumed eliminated job vacancies due to trade deficit. There are number of economists who reject the idea due to flaws in methodological process.

For example, total imports of China cannot compete directly with the production of US. There are many other items that are made by other states and they may enhance the Chinese items and it is not complimentary that only Chinese items will displace US jobs and private producers. There are also some items from China with parts made by US, for example, semiconductors.

Multiple products from China are finally gathered merchandises (such as Apple iPhones) with a comparatively little amount of value added from China, and the jobs opportunities created or reinforced by changing the production items are not considered for in the data of trade. Finally, other issues than trade, such as innovation in technology, can have an impact employment sectors in some important levels.

As China is one of the biggest source of US goods imports, the total effect on the economy of US is comparatively little. In the year 2010, a Bank of Federal Reserve in the state San-Francisco has studied US customer expenditure and calculated that, the US private usage expense of privately sourced items and services is 88.5% of total US sum of importations are of 11.5%. Chinese Imports are 2.7% of US PCE, but it is less than the half of total volume. The remaining amount goes to US business groups and transportation workers, sellers, and the people from marketing the Chinese-based commodities, and the study further estimated, that it would reduce share of China of US PCE to 1.9%.[16]

Various experts of economy believe that trade has an overall good effect on the economic activity of the state. Imports with less cost improve the buyer well-being, enhance customer options, and assist in reducing prices. However, there are a large number of economists who argue that the trade benefits are not uniformly distributed. Some areas may have bad impact and it will effect employment and earnings, and these types of negative impacts can be more focused in some areas or companies, and balancing to these effects would be more challenging. Another study of 2014 by the Economic Research of National Bureau of Federal Reserve (NBER) found out that enhanced import dissemination from China during the period 1999 to 2011 whether, directly or indirectly, caused total loss of jobs in US ranging from 2.0 million to 2.4 million and resulted in 10% decrease in US industrial jobs during the mentioned period.[17]

Another study by NBER declared that the rise of China as an economic giant has "persuaded the major shift in shapes of dynamics of world trade" by this it had " put a challenge on much of the approved scientific wisdom about the working of labor markets adjustment to trade shocks." The study argued that for workers in competing firms of imports, "adjustment in local labor markets is remarkably slow, with wages and labor-force participation rates remaining depressed and unemployment rates remaining elevated for at least a full decade after the China trade shock commences. Exposed workers experience greater job churning and reduced lifetime income," in some aspects because the phenomenon of job loss due to high imports will be from the exposed industrial regions and it will increase the trade shocks.[18]

The report also argues that there is a small visible proof for significant off setting of job opportunities in private companies and it is not exposed to trade off set trade capabilities. Multiple critics of both NBER studies claim that trade has and will have an impact on job composition in US economic activity but it will not have major impact on US jobs opportunities in long terms. The critics justify their stance that from 2010-2015 the total opportunities in manufacturing increase by 6.8% although imports of China increased up to 32.4%. Along with this total manufacturing out return from US also increased by 15.3%. There are also many economists who argue that US production capacity is the major reason of job loss in manufacturing sectors.

Conclusion – At the Edge of the Cliff

The year 2016 brought some major changes with cross border stocks and investment between both the states at $ 90 billion and trade flow increase at $ 600 billion annual rate. At this time when the president of US is less incline to understand the value of cooperation and willing to change the economic relations with China, many Washington based propagators of pro-trade are silent. The contrary stance of economists and president may spark another public debate and generally it is not a good omen for business activity. It is quite evident from the tweets of president trump that he is obvious for a trade war with China as precisely summed up in a recent conference that he has an persona of "to blow things up". President Trump has openly claimed that he will implement 45% tariff on Chinese exports based on manipulation from Chinese firms.

Indeed China is involve in currency manipulation and want to prop up the value of Yuan in international market although it avoid international stock markets for a decade or so. There are many other justifications for increasing issues between China and US on trade, that includes U.S Discriminatory policies against China, biasness for its own owned enterprises, large benefits for private industries, American intellectual property theft, conflicts on cyber-crimes, strict inspection of Chinese commodities are some of the most pertinent trade issues between both the states.

President Mr. Trump with coordination with his economic advisors gives China's trade surplus as one of the major reason of uneven trade distribution and recommend China to take immediate actions to resolve it. On the other hand China threatened to change import of Boeing Aircraft to Airbus and agricultural commodities from US to Australian and Canadian markets.

It is quite evident that China is also considering other platforms of retaliation such as investing in companies and industries that can assert political pressure on Congress. On domestic grounds Chinese premier is more likely to have a trade war with America to distract the attention from environmental destruction, surveillance on media and restricted internet access. In this situation when US measures for stagnating Chinese economy, people and institutions of China will side by the Chinese premier. As China bears a heavy crown of nationalism it will maximum utilize its capabilities to brunt the trade war with Mr. Trump's government and its allies.

Ironically, association between Asia-pacific, Trans Pacific Partnership (TPP) countries which are labeled as hostile towards China can be a potential beneficiary to achieve its dream of worldwide trade at the expense of US association between Asia-pacific is open to all member states, many states apart from original 12 members are willing to join it with the promise of deliveries. All of aspiring members are eager to transform their economy on domestic grounds, and motivated to join investment and supply chain development. China is eager to join TTP but demands to change its name as "Free Trade Area of the Asia Pacific."

In contemporary era the international trade market is against the protectionist agenda and unilateral withdrawal from International trade agreements. As long as WTO's struggle for peaceful settlement of trade disputes and a "legal protectionist measures" there are less chances of eruption of a major trade war. But the President who has the potential to turn all the odds and who is firm to win such wars and the other side Chinese premier will not sit back idle, the inevitable seems to be a happening of near future.

We can predict and foresee the future of trade between both the states but there is no concrete method to stop it. Facts don't matter now. There appears no urge for cautious negotiation. We cannot assume cautious heads will take decisions and govern the states. The guiderails and emergency measures that have the capability to stop both the states from running off the tracks in the past have failed miserably.

NOTES

[1] A looming war: USA-China trade issues http://opinion at premiumtimesng.com/2017/02/11/ and impacts-of-the-looming-us-chinese-trade-war-on-emerging-economies.

[2] https://ustr.gov/ and countries- and regions/china-mongolia-taiwan/ and peoples republic- of- china.

[3] https://www.washingtonpost.com/business & /economy/meet-mr.death-by-china-trump and inside-man-on-trade/2017/02/17/164d71458-ea205-11e6-80c2-30e57e57e05d.

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[7] A copy of the report can be found at https://ustr.gov/sites/ and default/files/files/. Press/ of Reports/2018% and 20National%,20Trade,%20Estimate%20Report.pdf.

[8] Wayne M. Morrison: For more information on Section 301 trade sector, see CRS In Focus IF10708, imposing U.S. Trade Laws: Section 301 and China, CRS Legal Sidebar LSB010108, Tricks of the Trade: Section 301 Investigation of Chinese Intellectual Property Practices Concludes (Part I), by Caitlain Devereaux Lewis; and CRS Legal Sidebar LSB10109, Tricks of the Trade: Section 301 Investigation of Chinese Intellectual Property Practices Concludes (Part II),by Caitlain Devereaux Lewis.

[9] A copy of the study can be found at https://www.whitehouse.government/presidential-actions/presidential-memorandum-actions -of-united-states-related-to-section-301-investigation/

[10] Ibid.

[11] A copy of the report can be found at https://ustr.government /sites/default/files/files/Press/Reports/on/ China%202017%20WTO%20Report.pdf.

[12] The White House, Press Release, November 9, 2017, at https://www.white.house.gov./the-press-office/2017/11/09/remarks-of-president-trump-on -business-event-president-xi-china-beijing-china

[13] The United States has suspended China's MFN status in the year 1951, which cancelled major bilateral trade. China's MFN status was restored on conditions in 1980 under the clauses set it under Title IV of the 1974 Trade Act, as rectified (including the Jackson-Vanik freedom-of-immigration clauses). China's MFN status (which was again provided under U.S. trade law as "normal trade relations" status, or NTR) was re designated on an per annum until the year January 2002, when the petition was imposed in 2000 giving permanent NTR status (PNTR) to China once it join the WTO.

[14] Boeing Corporation, on Current Market Outlook, of 2017-2036, September 2017, p. 32, at http://www.boeing.com/ resources/boeing.dot.com/commercial and /market/current-market- of outlook-2017/assets/ and downloads/2017.compressed_0.91917.pdf.

[15] A major chunk of these vehicles was manufactured by GM and its joint-venture partners in China. GM's website states that it currently has 11 joint ventures and two completely owned foreign firms and industries(employing 58,000 workers) in China.

[16] Federal Reserve Bank of state San Francisco, FRBSF and Economic Letter, of August 11, 2016, available at http://www.frbsf.org/.economic-research:/publications/economic-letter/2011./august/.us-made-in-china/

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