

The Sino - U.S. Trade War And Way Forward For US President Joe Biden

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Abstract

China and the U.S. have the biggest markets in the world. They both established diplomatic links in 1979 and the bilateral trade was developed swiftly just after China joined the United Nations Organization (UNO) in 1971. America is the Chinese top one export market and the most significant source of foreign investment. However, the main worldwide economic event in 2018 was the Sino-U.S. trade war. In March 2018, the U.S. threatened to levy high duties on Chinese imports. The equivocal shift of import and export of the Sino–US trade relations were distinctively caught in China's trade surplus with the United States, which brought divergence to the trade relations. Consequently, the Sino-U.S. trade imbalance was the main reason behind why Trump incited the trade war. This paper actually analytically discusses the phenomenon of Sino-U.S. trade war as it is considered as a test case for the new American President Joe Biden.

Key Words: China, US, Trade War, CPEC, Zero-sum Game. Technological Superiority

Introduction

China and the United States (U.S.) are the top economies of the world so there was no uncertainty that the Sino-U.S. trade war will not affect the nascent economies of the world. The World Trade Organization (WTO) accentuated new bilateral tariff hikes and the escalated tension of the U.S and China. which presaged a potential conundrum for the world. The world trade policy remained oscillated than ever before. The growing uncertainty of the U.S. trade policy more than 13 times

were noticeably figured out in the Trade Policy Uncertainty (TPU) Index during the time frame from 2018 February to 2019 June. This phenomenal hike in the U.S. TPU Index affected the all U.S. trading partners, especially China. Perhaps, in 2018 the main worldwide economic event was the Sino-U.S. trade war. So in March 2018, America threatened to levy import duties of US\$50 billion on Chinese products, which turned into a reality in June 2018. Set off by American action, China levied with a similar tariff on an indistinguishable measure of its imports from America (Ongan, 2020).

The trade war made serious stuns to the Chinese economy. The impacts of this trade battle on China dependent upon hypothetical situations but triggered the devaluation of Chinese Ren Min Bi (RMB) and carried negative effects to the China's stock exchange as well. For instance, the Shanghai Stock Exchange Composite Index (SSECI) dropped 29.9% business during 28 January to 31 December 2018. It was observed that Chinese industries responded to the trade war by lessening prices and thousands of labourers lost their jobs. To counter with, the Chinese government had vowed to hand cash to the industrialist who laid off few labourers. The Chinese government also adopted institutional changes during January 2018–April 2019. In December 2019, Washington levied duties of US\$360 billion on Chinese products, China settled the score by tit for tat tariffs of US\$110 billion on American items. Moreover, the cascade impact was halted in January 2020 after the signing of 'phase one'¹ agreement, which quickly implemented between the two incredible economic forces and situation cooled further because of the spread of Covid-19 infection. Whilst, the January 2020 phase one economic agreement guaranteed by China to buy an extra US\$200 billion worth of American goods to diminish this economic threat, once the Covid-19 began to take hold. Therefore, Chinese capacity to accomplish that still remained in question (Žemaitytė, 2020).

Genesis of the War

During 1990s, the U.S. conducted "special 301 investigation"² multiple times in China. In this way China consistently remained the focal point of American trade war. At the very same time in 1993 to 2019 the bilateral annual trade was increased drastically. The Economic Policy Uncertainty (EPU) Index, was employed in certain investigations to inspect the effects of economic uncertainties on some financial factors, like home price, foreign direct investments, Bitcoin returns, stock prices and trade rates. Additionally, the Sino-U.S. trade war was three folded: First, there were few concerns including China's widespread digital economic surveillance against the U.S., unfair expansion policies, blended record on implementing WTO obligations, extensive utilization of industrial policies to ensue and protect industries supported by the state, and interventionist policies to cause effect on its currency. Second, it was necessary for the Trump's

¹ An historic and enforceable agreement that required structural reforms in China's economic and trade regime especially for intellectual property, technology transfer, agriculture, financial services, currency and foreign exchange.

² It is an annual report prepared by the U.S. trade representative to identify trade barriers to the American companies and products due to the intellectual property laws, such as copyright, patents and trademarks in other states.

administration to underscore the coercions of import protection, so the trade war was essential for managing the U.S.' trade concerns. Third, there were hot discussions: whether China was trying to variate the standards of the liberal world order and challenge the American economic regime. Hence, the hardliners in the U.S. perceived China as a threat to the American security and trade interests (Hughes, 2005).

However, the changes made TPU Index played a deciding part on the two-sided trade balances, for example, the U.S. and China's tit-for-tat tariff are very new. The President Trump inked Memorandum of Trade with China, which known as "232 measure". It alludes to expand tariffs of US\$60 billion on imports from China. On 4 April 2018, America released intend of 1,333 Chinese products of US\$50 billion, which was subject to an extra 25% trade tariff. China hit back promptly with tariffs on list of the American products of equal value, matching the pace with the U.S. threats in dollar-for-dollar war. Subsequently, the Sino-U.S. trade imbalance was the main factor behind why Trump incited the trade war and the Sino-U.S. trade war might be considered as the beginning of the Sino U.S. economic cold war (Zhang, 2018).

Statistical View

China and the U.S. established diplomatic links in 1979 and the bilateral trade developed swiftly just after China joined the United Nations Organization (UNO) in 1971. There are some statistical analyses of the Sino-U.S. trade before out breaking of the trade war. Their total trade augmented from US\$5 billion in 1980 to US\$583.7 billion in 2017 and converted China as the U.S. major import market. In addition, China surpassed Canada in 2015 as import market of America. On the other hand, America was the Chinese top one export market and the significant source of foreign investment. In 2017, Chinese exports to the U.S. were US\$429.8 billion with per annum increment of 11.5%, whereas imports from the U.S. were US\$153.9 billion with an annual increment of 14.5%. In 2016, the US\$250.7 billion increased nearly by 10%, surpassing the past record of US\$261 billion in 2015 and making an historical record as shown in table 1.0. Afterward the trade surplus between China and the U.S. was recorded as US\$275.8 billion (Qiu, 2019).

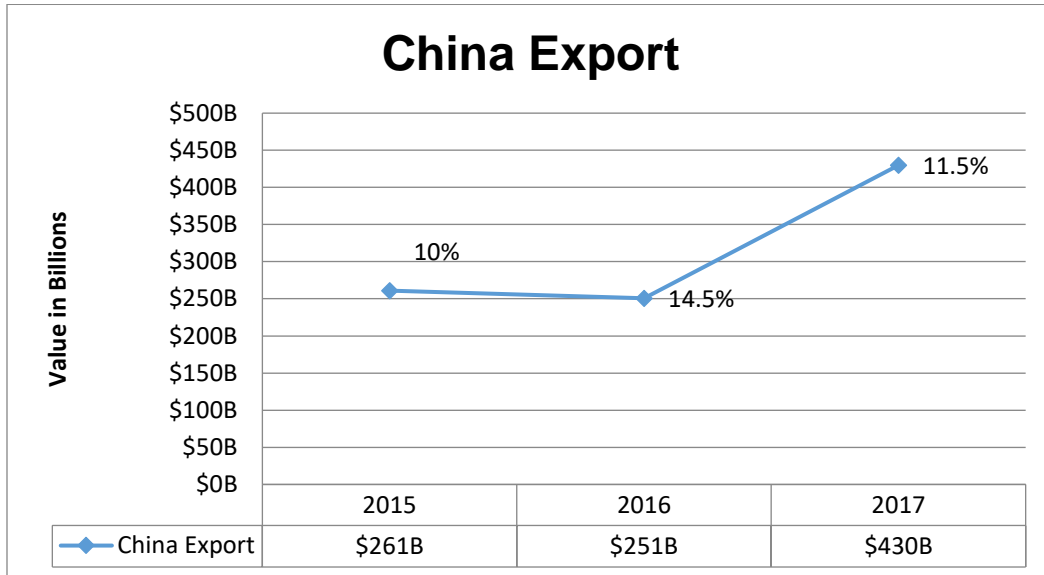


Table 1.0

In response to the trade surplus the United States Trade Representative (USTR) on 15 June 2018 enforced an extra promotion valorem duty³ of 25% on Chinese items with an US\$34 billion. On the very next day 16 June 2018 China retaliated by declaring tariffs of 25% on US\$50 billion of the U.S. products in the Chinese market. On 17 September 2018, the USTR again chose to impose an extra duty of 10% advertisement valorem with an amount of US\$200 billion effective on 24 September 2018 as shown in table 1.1. Consequently, this economic dog fight was staged on regular basis (Liu, 2020).

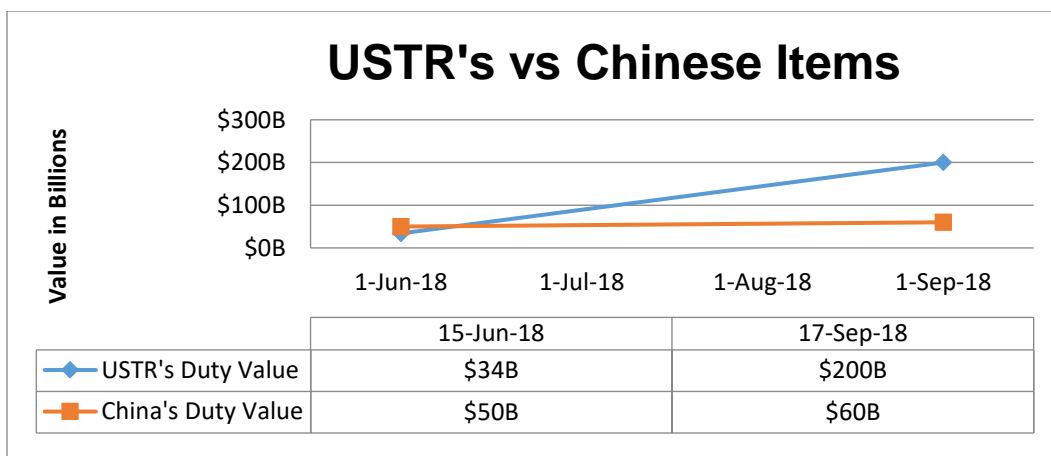


Table 1.1

The Dragon

³ A tax based on the assessed value of an item, such as import duty taxes on goods from abroad.

Science and Technology Innovation Board (STIB)

The Chinese security policy assumed a significant role in promoting the Made in China-2025 plan⁴, which was unveiled in 2015 by the Chinese government expecting to develop the capacity of China's manufacturing industry and empower it to turn into the world's manufacturing force to be reckoned with. In contrast, Trump government implemented stern rules against Chinese investment in the U.S., particularly in Made in China 2025-related technological sectors. China's plan to lessen the technological gap between foreign and local producers. Under such circumstance, it turned out a sound domestic financial framework for high-tech firms (Yu, 2019).

China's Response to The Trade War

The Central Leading Group on Financial and Economic Affairs renamed as Central Financial and Economic Affairs Commission (CFEAC) in March 2018, ascended as the main financial policy making body. It managed the forthcoming international financial concerns and some vital issues well. For instance, the first CEEAC meeting conferred the three main factors, i.e. environmental protection, reducing poverty and preventing financial systemic risks. On 31 July 2018, the Communist Party of China (CPC) Politburo meeting stressed upon "6-stabalizings"⁵, which was an immediate reaction to the acceleration of the trade war (Liu, 2020). China is a main trading nation considered as a country the most ground breaking advancements in the post-World War II, surpassing even Germany and Japan. Chinese export increased from US\$8 billion in 2000 to more than US\$2 trillion (14.1 percent) in 2015. In 2004, China surpassed Japan turned it into the third-biggest exporter in the global market after the U.S. and Germany, and in following three years, turned it into the second-biggest exporter, surpassing the U.S. Since 2009, China has been the world's biggest trading country. China's proportion of exports to (GDP) remained at 33 percent contrast with the 10% for other major economic powers e.g. the U.S., India and Brazil (Athukorala, 2019).

⁴ Inspired by the German government Industry development plan. The goals of the plan to increase the Chinese-domestic content of core materials to 40 percent by 2020 and 70 percent by 2025.

⁵ Stabilizing employment, stabilizing finance, stabilizing foreign trade, stabilizing foreign investment, stabilizing investment, and stabilizing market expectations.

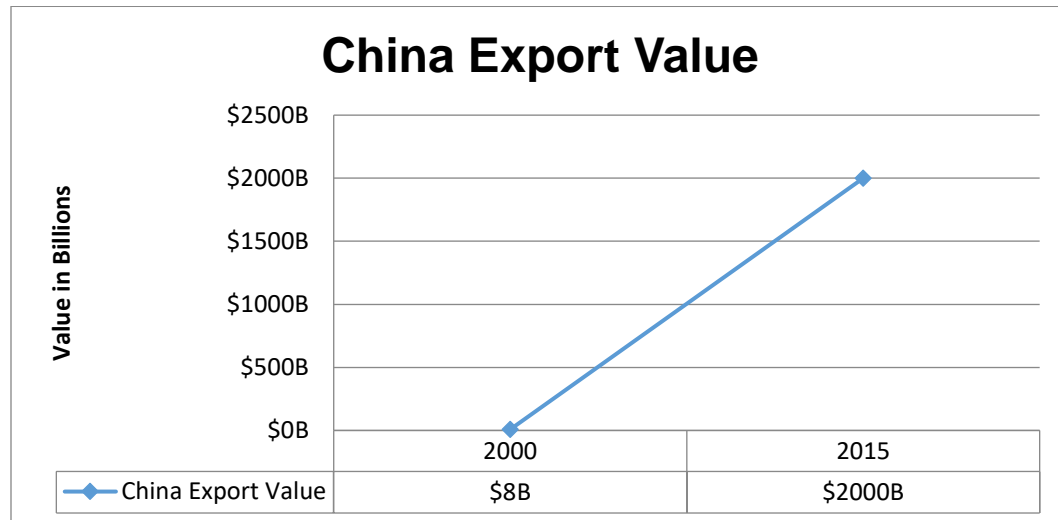


Table 1.3

China’s Palpable Losses

This is true that China was slammed by the trade war and during the time of five months between March 2018 and August 2018, the Shanghai Composite Index (SCI) gauged the Chinese financial exchange plummeted by 18% and the RMB was devalued almost 8%. The trade war made Chinese firms to lose roughly US\$15 billion and caused unemployment, particularly in China's east coast. To check the effect of the trade war on Chinese market, we first to gauge the Chinese trade surplus of US\$375.2 billion with the U.S. in 2017 as shown in table 1.4. The worst condition if we imagined the trade volume would have been contracted by 27% even then China lost only US\$101.3 billion trade surplus with America. China's exports to the U.S. was not higher than 4% and "Made in China" policy reduced China’s financial reliance on the U.S. Furthermore, after different rounds of ministerial level dialogues, Xi Jinping met the President Trump at the G20 Summit in Buenos Aires 2018. The two leaders concurred on suspending tariffs for 90 days to open new round of talks. The truce was accepted to be an impermanent détente, additional moves were made by the two sides but were not considerable during that dialogue window, so the future of this war is still vague (Sun, 2019).



Table 1.4

CPEC as Reducing Agent

Through the construction of China Pakistan Economic Corridor (CPEC), the trade relations among China and the regional nations along the geography has improved regional economic dependency which caused significant reducing impacts on the trade war. In the meanwhile, China has opened up new business avenues, including Africa, Eastern Europe, South Asia, Central Asia and West Asia which shifted Chinese market focus from America to the new market players (Lanteigne, 2020).

The Eagle

Zero-Sum Game

President Trump blamed China for evading worldwide trade rules, keeping a large import/export imbalance with the U.S. and its currency artificially low along with intellectual property theft. He highlighted the import/export imbalance with China intrinsically damaged the American economy. The Sino-U.S. import/export imbalance tumbled from US\$419.2 billion in 2018 to US\$345.6 billion in 2019, yet the underlying consequences for the general U.S. economy, including GDP development, were minor. The U.S. tariff have negligible effect on the Sino-US dispute on intellectual property theft which remained an irritated point in bilateral economic relations since 1990s. The main issue was the RMB kept purposely undervalued in relation to the U.S. dollar been a longstanding dispute in the monetary relationship. In 2019, the Trump government formally labelled Beijing a ‘currency manipulator’. Whereas, the currency manipulator label was detached in January 2020 before signing the phase one trade agreement (Žemaitytė, 2020).

Capital Account Surplus and Current Account Deficit

One who conversant with the balance of payments also knows the amount of the current account and capital account should equal zero. The U.S. opened fluid capital business sectors with profound administration, which baited nations with trade surpluses, like China to export surplus reserve funds to the American market. In 2017, the U.S. absolute net monetary inflows remained

at more than US\$375 billion, and the capital account deficit US\$400 billion. Whereas, in the present trade system, the capital account can drive the current account as shown in table 1.5 (Du, 2020).

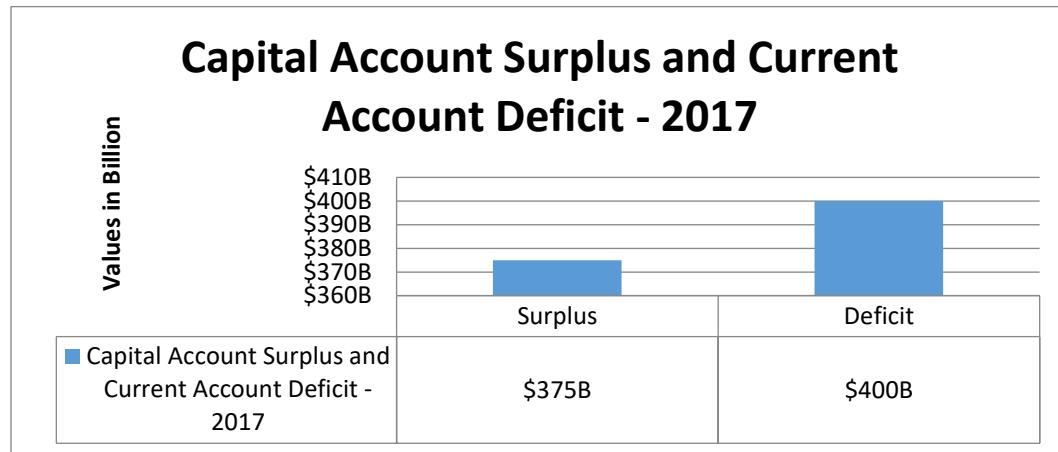


Table 1.5

The Production Sharing

Chinese exports to the U.S. are dominated by manufactured goods, with their share increased from 45 percent in 2000–01 to more than 65 percent in 2015–16. The share of Chinese imports from the U.S. dropped from 78 percent in 2000–01 to 61 percent in 2015–16. The overall declination was observed from 73 percent to 49 percent between these two periods. In last 5 years, the annual pace of expansion in China's imports remained slower than the quick expansion in Chinese exports to America. The equivocal shift of import and export of the Sino–US trade relations were distinctively caught in China's trade surplus with the U.S., which brought divergence to the trade relation with China (Chong, 2019).

Trump's Motivations

By considering China's ascent on the political front, Trump and his administration needed to hamper China's advancement as an economic superpower. Trump government main focus was on electronics, machinery and Information technology. The U.S. directly focused on the Chinese ten-year economic plan - Made in China 2025 because China's total GDP arrived at US\$14092 million 16.1% of the world GDP after the U.S. i.e. US\$20412 million with 23.3% of world GDP. Whilst, the total GDP was higher in China i.e. US\$23159 million contrasted with the US US\$19390 million by buying power parity. It is worth referring that the trade paranoia and the apparent imperil from a quickly rising Chinese economy were might be the main concern in the U.S. as shown in table 1.6 (Kapustina, 2019).

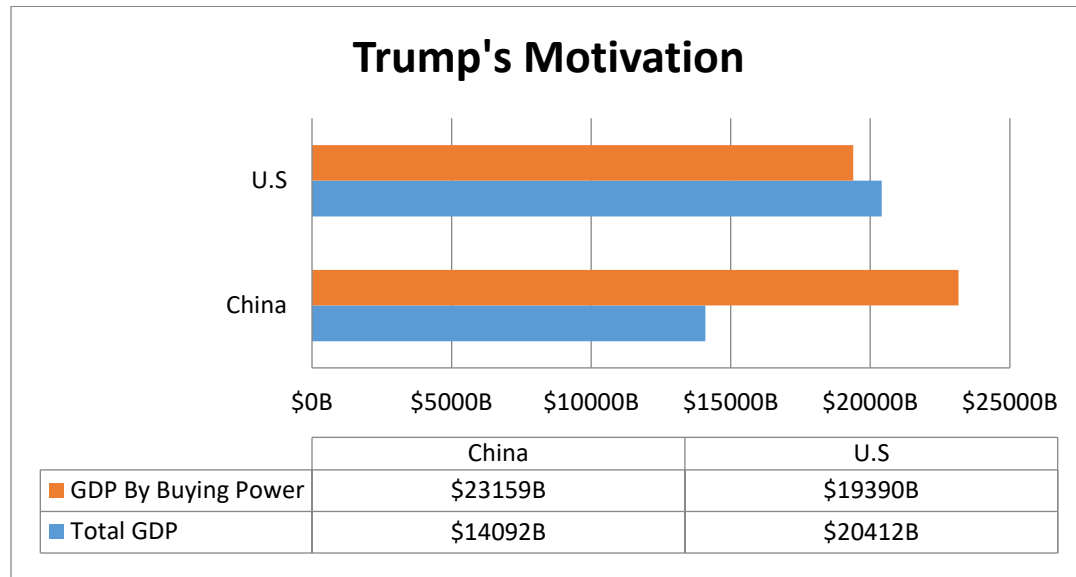


Table 1.6

The Question of Technological Superiority

The Chinese economy was stereotyped as being subjugated by low technology manufacturing, just as a dependence on Shanzhai. This is not true anymore. Albeit, the Chinese manufacturing sector is large, the nation has taken giant leap in various high technological sectors because of a financial policy of Ganchao. The U.S. resistance to the Chinese flagship firm Huawei to set rules for fifth generation (5G) telecommunications standards, was a single example of rivalry between China and the U.S. The Chinese government also planned phase – II policy i.e. 'China Standards 2035' (Lanteigne, 2020).

A Way Forward for Biden

Being the 46th American president Joe Biden should consider the U.S.–Japan trade war during 1980s and 1990s which remained impediment in the way of American development because Japan at that time was a developing country and America was developed. Same as the case with China because research and development (R&D) can improve even change the product quality through rapid advancement since the U.S. is at the top in technological advancement. Thus, no other market can out compete American market in the world. In 1994 and 1996, China remained the target of intellectual property protection. After these two episodes of the same investigations, in the history turned these parties towards the negotiations. As a result, China assured the maximum intellectual property protection and the U.S. agreed to provide modern technical assistance. In 2010 the U.S. again initiated a dispute which was resolved by WTO settlement. However, in this trade war the prices of exported goods were moderate as compared with the Japan- U.S. trade war which inked 'Plaza Accord' 'Plaza Accord' with the suggestions of 27% decrease in American-Japan exports, this case must not be repeated (Chong, 2019).

Biden should expand economic communication between the U.S. and China at the public and government level to promote economic investment and consult about win-win way forward for economic issues. In this globalized age, no one can survive in a unilateralism. Now the white house should adopt the techniques of bargain with ehina. The U.S. can revise the domestic trade laws, particularly for intellectual property protection and patent rights because the mutual economic interests are more momentous than dispute, by adopting this alternative the Sino-U.S. import/export imbalance will be minimized and desist the evocation of the Sino-U.S. Cold Trade War (Lanteigne, 2020).

Conclusion

The Sino–U.S. trade war received prevalent attention due to its labyrinthine nature and involvement of world economies. The trade war had a significant impact on China, America and on the world. By thorough analysis of the trade clash between the U.S. and China and revisiting similar chapters of trade conflicts in the history, specially, associating with the chain of trade clashes between Japan and the U.S., the Sino-U.S. trade war changed the international trade architecture by slowing down the pace of financial markets. Now the countries are divided into two blocs: supporting China or the U.S., simultaneously, established regional currency zones and economic mega-alliances. Moreover, the U.S. strived hard to feeble its main conteste and maintained dominance in the global arena: in politics, national security and economy. The current trade American policy aims to slow down the fast economic growth of China. Whereas, China’s goal to attain world dominance in biotechnology, robotics and artificial intelligence. It will bring financial support to technical industries and will do everything possible not to let America slow down the digitalization and modernization of the Chinese economy. At last, both being economic and political giants of the world should maintain good trade relations rather trade clash. Otherwise, both countries will suffer a great loss. Additionally, it will affect worldwide trade imbalance and lead to a global chaos and mass panic. Nevertheless, amiable trade links will be constructive for the U.S., China and the world.

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