US-China Trade Conflicts: Review on Gains or Losses?

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Abstract

US administration had initiated new trade protectionist policy recently in 2018, which surprised and shaken the balance of world trade, especially balance of US-China trade. This had received immediate attention of researchers worldwide due to the involvement of vast economies in this. This paper reviews the studies conducted in recent past i.e. last two years 2018-2019 and explored the reasons behind initiation of this war, its impact on US, China and world economy. It is concluded after review that none of the economy is benefitted due to these conflicts, rather there is decrease in trade and GDP of US, China and world economy. Therefore, it is suggested by various analysts to negotiate for common interests of both countries so that peaceful trade practices can be continued in future also.

Keywords: US-China Trade, trade war, impact of trade war, world economy

1. Introduction

China has been transformed into one of the fastest-growing economy of the world after economic and trade reforms in 1979. Signing of "Bilateral Trade Agreement" with US was one major reform among all during 1979, which helped the country in sharp expansion in commercial ties with US. These developments led the China to move from 23rd to 3rd rank in context of US export market and from 45th rank to 1st rank in context of US imports within short period of 2000-2010 (Morrison, 2011). As per reports generated by US Census Bureau, China became top country in terms of total trade of US (see table 1 for year wise rank and total percentage in total trade).

Table 1. Position of China in US Total Trade (Rank and Percentage)

Year	Rank	Percent of Total Trade	
		With Top 15 countries	With China only
2005	3rd	74.1%	11.1%
2010	2nd	72%	14.3%
2011	2nd	70.8%	13.6%
2012	2nd	72.0%	14.0%
2013	2nd	72.5%	14.6%
2014	2nd	73.3%	14.9%
2015	1st	74.7%	16.0%
2016	1st	74.9%	15.9%
2017	1st	75.0%	16.4%
2018	1st	75.0%	15.7%
2019 (Jan. & Feb.)	3rd	75.2%	13.9%

Source: United States Census Bureau

The trade between both countries rose rapidly and provided mutual "Most Favored Nation Treatment (MFN)" in 1980. In context of US trade balance, its imports have grown more rapidly as compared to exports from China (see Table 2 and Figure 1 for year-wise growth of exports, imports and trade balance). However, as it can be seen in table 2, the US trade showed decline in 2019 after beginning oftrade war between both economies in 2018, but US imports are still higher than US exports from China.

Table 2. U.S. Trade in goods with China (millions of US dollars)

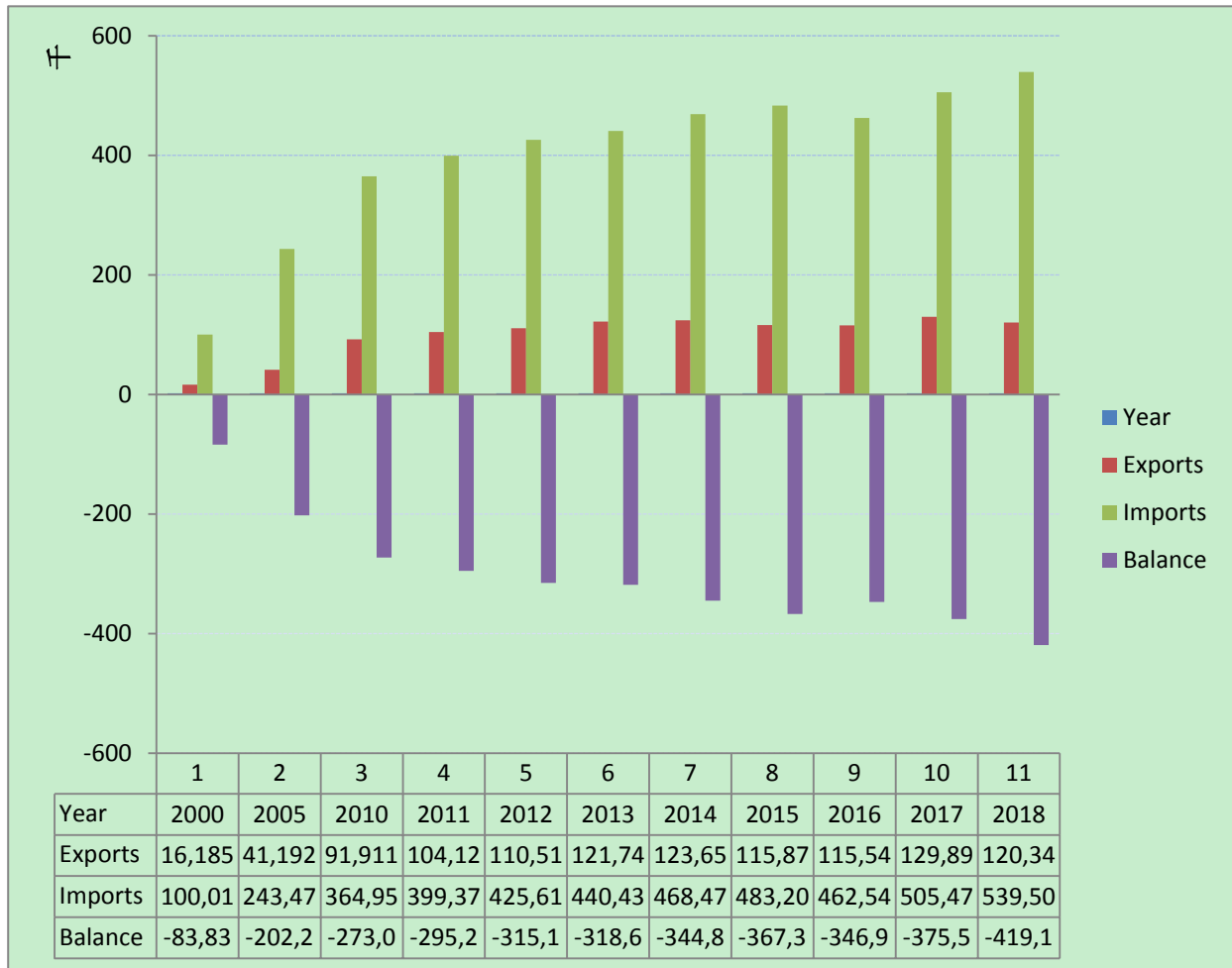| Year	Exports	Imports	Balance
1985	3,855.70	3,861.70	-6.00
1990	4,806.40	15,237.40	-10,431.00
1995	11,753.70	45,543.20	-33,789.50
2000	16,185.20	100,018.20	-83,833.00
2005	41,192.00	243,470.10	-202,278.10
2010	91,911.10	364,952.60	-273,041.60
2011	104,121.50	399,371.20	-295,249.70
2012	110,516.60	425,619.10	-315,102.50
2013	121,746.20	440,430.00	-318,683.80
2014	123,657.20	468,474.90	-344,817.70
2015	115,873.40	483,201.70	-367,328.30
2016	115,545.50	462,542.00	-346,996.50
2017	129,893.60	505,470.00	-375,576.40
2018	120,341.40	539,503.40	-419,162.00
2019 (Jan. & Feb.)	15,567.90	74,798.20	-59,230.30

Source: United States Census Bureau (https://www.census.gov/foreign-trade/balance/c5700.html)

	1	2	3	4	5	6	7	8	9	10	11
Year	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017	2018
Exports	16,185	41,192	91,911	104,12	110,51	121,74	123,65	115,87	115,54	129,89	120,34
Imports	100,01	243,47	364,95	399,37	425,61	440,43	468,47	483,20	462,54	505,47	539,50
Balance	-83,83	-202,2	-273,0	-295,2	-315,1	-318,6	-344,8	-367,3	-346,9	-375,5	-419,1

Figure 1. U.S. Trade in goods with China (millions of US dollars)

Source: United States Census Bureau

This expanded US-China trade relations benefitted both countries, as it provided large export market to China and benefitted the consumers of US with availability of lower-cost products (Li et al., 2018). However, trade war started between both countries, when US announced the increase of tariffs on nearly 50% of its imports from China. Due to this, China announced special tariffs, which affected nearly 70% of imports from US (Bown, 2019).

2. Causes of US-China Trade War

Trump initiated this step as it was felt that China is practicing unfair trading practices such as currency manipulation (Bown and McCulloch, 2009; Li et al., 2018; Liu and Woo, 2018) and China's negligence in enforcement of Intellectual Property Rights (Bown and McCulloch, 2009; Morrison, 2011). Some other major reasons found behind this trade war were widened gap between trade of these two countries (Chong and Li, 2019; Sheng et al., 2019), adverse effects on job creation in US due to China's trade surplus and escalating threat to national security of US (Liu and Woo, 2018, Chong and Li, 2019), strengthening of manufacturing sector of US and curbing high-tech business units of China (Sheng et al., 2019).

Lu (2018) in his study on trade disputes between both countries analyzed that this trade war was planned by Trump administration. The study explored various reasons behind initiation of this trade war were: slow-down in economic growth of US; anxiety due to rapid growth of emerging economies, especially China; continuous growth in structural contractions which is attributed to the globalization and competition from other emerging countries; some distinctive characteristics of economic system of China which are causing damage to US economy and lead to trade imbalance etc. Most importantly, among all reasons, Lu (2018) elaborated that personal opinions of members of Trump

administration and short-term domestic political situation also played significant role in this policy shift towards China.

So, with main motive to reduce trade deficit by cutting down its imports from China, or to make US companies bring back their manufacturing units to US (Zhao and Dan, 2019), Trump, the President of United States has started this war against China. These tariffs events of both large economies in 2018 suddenly drawn attention of researchers and rest of the world towards seemed factious trade ties (Bown, 2019), which were otherwise not new. Liu and Woo (2018) explored that trade imbalance between these two economies was affecting their economic conditions, which was demanding some immediate policy changes at both ends. The study further added on the issue of forced transfer of technology by China that it was the market power of China, which triggered it to perform such unfair practices at the expense of its trading relationships.

On the contrary, few studies explored that trade war initiation by US against China was more politically driven rather than having any economic purpose behind it (Zhang, 2018; Chong and Li, 2019) as it was easy to blame others such as unfair trade practices, migrants and foreign competition for getting benefit to acquire presidency (Stiglitz, 2018). Similarly, Bown (2019) analyzed that reasons explained by US for initiating this trade war were questionable. It further explained in context of unfair practices regarding technology transfer, that most of the companies themselves prefer to locate their firms in China as it is economically viable to them. The study explored few facts in this regard, first of which clarify that tariffs imposed by China were relative on higher side than US tariffs, which helped incentivize overseas investments, which clearly is not any violation of WTO rule. Secondly, it claimed on 'forcible technology transfer', that when foreign companies have willingly established their production houses in domestic markets, it is not possible to distinguish whether transfer of technology was forcible, stolen or its disclosure was part of any policy.

3. Estimated Impact on US, China and World Economy

There is ample of research, which explored that this trade war between US and China hurts the economies of both countries in short-term as well as long-term context (Bown, 2019). Li et al. (2018) conducted a research using real data of trade between both countries from 2013 to simulate the later effects of trade war on US, China and on whole world. The study concluded that this trade war would have negative effects on welfare, employment, total trade, GDP and manufacturing production of other countries as well. It further explored that both countries will suffer from losses, but comparatively loss of China would be more than US. It added that China will lose on GDP, employment, welfare and total trade. Whereas, US will gain on non-manufacturing production, GDP and welfare; but employment and total trade will get hurt.

Subsequently, various studies have been conducted to study the effects of trade war after the series of tariffs taken by both countries. Almost every study analyzed that the intention of US behind tariff hike was to close the wide trade deficit of US-China. US government believed that it will help in reducing competition from Chinese firms and due to weaken competitiveness, Chinese government will be forced to implement favorable policies (Huang et al., 2018). Whereas, the decision equally hurts the US economy as well. Zhao and Dan (2019) explored that lose of both the counties is more than gain from this war. A report of World Bank analysed that China will lose 3.5% and US will lose 1.6% due to these conflicts (Zhao and Dan, 2019).

Similarly, an earlier report generated by The International Monetary Fund (IMF), 2018 revealed that this trade war will lead to fall in GDP of US by 0.9%, GDP of China by 0.6% and GDP of world by 0.4% (Chong and Li, 2019). The European Commission (2018) also warned through a report that effects of this dispute will not be limited to only affect US and China, rather the whole world economy will get affected (Chong and Li, 2019). Bolt et al. (2019) investigated that this trade movement by both countries have negatively impacted the world economy and claimed that output in total, rapidly fall by 0.2%. Bellora and Fontagne (2019) analysed that this war will lead to drop in world trade and world GDP by -0.76% and -0.08% respectively.

Bolt et al. (2019) argues with the investigation that whole world got affected due to this trade war. The study revealed that Euro area (EA) in one, who is getting benefitted from this war as China diverted its exports to EA at lower prices, which further helped in increasing competitiveness of EA. As per this study, this scenario facilitated EA in increasing its imports and exports from China as well as from US, also European employment picks up, leads to strengthen the GDP/economy of the country.

4. Current Impact on US

Decision of Trump administration to increase tariffs on Chinese products directly affected the economy of US, which further got injured more due to retaliation policy back from China. As the US imposed the tariffs, it immediately

resulted into drop in GDP of US itself, decline in exports and employment, slowdown in investment (Bolt et al., 2019; Bellora and Fontagne, 2019). US exports from China hit a record drop by -29.4% (Bellora and Fontagne, 2019). Amiti et al. (2019) discovered that US after this policy experienced immediate increase in prices of final goods, decrease in varieties of imported goods and immediate cut in tariff revenue. Bellora and Fontagne (2019) explored that farmers and workers are majorly affected due to these tariff movements, especially while collar workers among employment category.

As per research by Liu and Woo (2018), the US exports of agriculture sector (approx. $27 billion) adversely got affected due to tariff hike by China. This makes the US government to think for providing subsidies worth $12 billion to its farmers. The domestic firms and consumers, who were more dependent upon exports and imports from China are suffering a lot (Huang et al., 2018).

Bellora and Fontagne (2019) investigated that US markets got hurt badly due to increase in the prices of raw material, decreased demand in export markets, drop in competition because of border protection. Further, researchers examined that investors in both countries is another major category, which is suffering losses due to this unexpected policy announcement (Huang et al., 2018; Amiti et al., 2019).

Sheng et al., (2019) in his study on losing trade war by US claimed that its economy is mainly driven by internal factors rather than competition from outside such as fewer saving rates, more labor hiring charges, expanding government deficits, and transformation of manufacturing sector into service sector etc. It further added that these movements will further deteriorates the trade deficit of country as manufacturing sector will get more weaken in near future. Increase in tariffs leads to hike the prices of raw material, erodes the advantage of having cheap labor and reduces the demand of US products in foreign markets. The study investigated that the increase in tariffs have fully been passed to US firms and consumers itself, which will lead to lose of US in this trade war.

5. Current Impact on China

Majority of the researchers claimed that loss of China would be more as compared to US. The reason explored behind is well justified as trade surplus of China from US alone has exceeded even the surplus in aggregate from other all other countries after 2001 (Chong and Li, 2019). Therefore, decrease in trade surplus of China is clearly the first impact on Chinese economy. Bellora and Fontagne (2019) investigated a record drop in China exports to US by -34.9%.

However, Chong and Li (2019) claimed that this loss in trade surplus will easily be bearable by China. The study explained it very clearly by dividing the value of exports in two parts: one parts covers the value of raw material that use to imported from other countries; and second part covers the incremental value added after manufacturing/production. Therefore, only the fraction of value i.e. incremental value will impact the GDP of country, the remaining loss portion will get shared by other countries proving raw material to China. Thus, China can easily manage this loss by cutting down its imports of all related raw material, leads to indirect effect on GDP of world economy.

The strongest negative impact of this trade war is on the employment of country. China's economy is very labor-intensive, which is the main characteristic behind the success of trade of the country. Due to impact on import-export of the economy, the maximum effect is estimated and seen on the use of labor, which is higher among all effects. Import control by China is equally hurting the Chinese consumers (Zhao and Dan, 2019), as it hurts US consumers.

A study conducted by Chong and Li (2019) revealed that value of Renminbi (RMB) against US dollar has been depreciated over 7%, drop in GDP of China by 1.01%, securities composite index has been decreased by 22% and there is also fall in total reserve assets of China by 938.61 billion dollars of US.

Whereas, Li and Gan (2019) explored that effects of trade war on Chinese economy are for short-term only. In long-run, these impacts will weaken and China will enter into state of equilibrium. Similarly, Sheng et al., (2019) claimed that this war will push China towards strengthening its own innovation and high-tech business units rather than relying on US only or other developed countries. The study further added that China will take advantage from its great domestic market, availability of skilled and cheap labour force, which will help China in covering its losses easily.

6. Conclusion

After decades of prosperous trade relationship between US-China, US administration suddenly shaken its foundations by announcing increase in tariffs, especially against China. Considering this, the paper reviews the

studies from last two years (i.e. 2018 and 2019) and concluded that trade war between US-China is hitting seriously to US, China and whole world economy. US administration has attained the goal of weakening Chinese economy up to some extent, but at the cost of losses to US economy itself. Most of the analysts claimed that the decision of US administration in Tariff hike was more politically driven rather than economic interests in it. Whereas, various researchers have also accused China for its unfair trade practices and keeping RMB undervalued. Therefore, Lu (2018) emphasized that China should review some of its industrial and economic policies for the benefit of its own and others associated countries interests. Such reforms will lead the China towards better position in world trade and more-favorable policies for development of the country in future.

However, this paper reviewed that none of the involved country will get benefit out of these conflicts. So, both US and China should find some balance of their interests to manage their economies and competition and should create win-win situation for all, so that future engagements with each other can be continued peacefully (Zhao and Dan, 2019).

Further, it has been felt by various analysts that future research should consider the impacts more critically and should mainly be based on quantitative data for clear facts.

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