CHINA-U.S. TRADE WAR: ORIGINS, COURSE AND CONSEQUENCES

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The COVID-19 pandemic, which has fanned out around the globe since early 2020, has drastically reshaped world policies. Amidst a fast unraveling humanitarian crisis and a massive blow to the global economy, the U.S.-China trade war is now of secondary concern. Yet, it is a result of structural geopolitical rivalries and will strike even more forcefully after the ongoing crisis is over.

The China-U.S. trade war is a tool for the rivalry between the world’s greatest economic powers — the United States and China — poised to dominate the first half of the 21st century. The outcome of these two’s economic row will shape the U.S. position as a world superpower alongside the U.S-endorsed international order.
With the Washington-Beijing trade battle, U.S. and Chinese economies sustained limited losses while seeing a partial implementation of the demands as put forward by the Donald Trump administration. In 2018–2019, the bilateral trade between the United States and China dropped by some $100 billion, with the former’s having been able to narrow its trade deficit with the Asian country by $75 billion.

Meanwhile, the United States recorded a marked increase in its goods deficits with countries like Mexico (by $21 billion), Vietnam ($16.4 billion), Taiwan ($8 billion), and Canada ($8 billion). Furthermore, the unemployment rate slumped to a new five-decade low of 3.5 percent, owing to efforts undertaken by the U.S. authorities. Nonetheless, with a boost in tariff barriers came a blow to agriculture and the automotive industry.

The U.S. tariffs on Chinese imports have taken a toll on Beijing’s economic growth outlook, foreseen to fall to 5.8 percent in 2020, yet excluding the economic impact of the coronavirus outbreak. Worsening conditions worldwide put an extra strain on the Xi Jinping administration, currently facing the challenge of how to transform the state’s development model.

Under the so-called “phase one” deal signed on January 15, 2020, Washington and Beijing at least partially managed to ease existing tensions as the United States pledged to abandon a fresh round of duties while cutting tariffs for $120 billion of Chinese goods from 15 percent to 7.5 percent. Meanwhile, China vowed to boost imports of services and industrial goods from the U.S. by $200 billion throughout 2020 and 2021, over a baseline of $186 billion in total imports in 2017. Commitments included $78 billion in additional manufacturing purchases, $54 billion in energy purchases, $32 billion more in farm products, and $38 billion in services.

Newly accepted export quotas may impede Chinese import flows to the European Union, compelling Beijing to at least partly fulfill its obligations. A decline in Chinese consumption will lead to negative consequences for the German economy, with all Central and Eastern European countries doomed to suffer losses.
The Origins of the China-U.S. Trade „War”

Prior to the election in 2016 of Donald Trump on Make America Great Again and America First platform, the politician sought to woo voters living in regions most affected by deindustrialization processes while being at a lower level of development. In an intensive election campaign, the issue of economic ties with China emerged as a central topic amongst the country’s political observers. Both Donald Trump and Peter Navarro, the president’s principal White House adviser, laid out a list of chief allegations against China that included intellectual property theft, forced technology transfers, currency manipulation, state subsidies and the mounting trade deficit. Amid them, attention was drawn to a drop in the trade deficit of $375.42 billion in 2017 and the restoration of 5 million jobs lost between 2000 and 2014. President Donald Trump vowed to reformulate his country’s principles of cooperation with China to reap benefits to the United States in the first place. With a new policy in place, the Trump administration sought to put an end to Washington’s conciliatory position toward Beijing while allowing the United States to restore the previous might it had lost as a result of some past negligences.

What served a pivotal role in the decision to start the China-U.S. trade war were structural changes in their balance of power. Since the late 1970s, the Middle Kingdom has hit annual gross domestic product growth averaging 9.5 percent, to $14.14 trillion in 2019 up from $305 billion back in 1980. China’s tremendous economic success became what the World Bank referred to as “the fastest sustained expansion by a major economy in history.” China has become one of the world’s leaders in artificial intelligence and telecommunications technologies while having an appetite to take on the role of a top global player in areas like renewable energy and high-tech industry. China is pushing for moving from a global assembly plant to a design center and a production facility for highest-added value products. Beijing’s activities

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[1] In 2016, Trump won big support in the so-called Rust Belt in the Great Lakes area (Pennsylvania, Ohio, Michigan, Indiana) in what turned into one of the decisive factors behind Trump’s victory.
[2] Among U.S. states won by Donald Trump were those having the lowest GDP per capita while struggling with stagnation and high unemployment rates (Mississippi, Arkansas, West Virginia, Idaho, Montana, Alabama)
China is pushing for moving from a global assembly plant to a design center and a production facility for highest-added value products. This pose a tough challenge to the economic position of world players like the United States, the European Union, and Japan.

With the development of the Chinese economy came a proportional increase in its defense expenditure as Beijing has allocated 1.9 percent of its gross domestic product (GDP) to the military. China poured $250 billion into its military in 2018, becoming the world’s second-biggest spender only to the United States -- whose defense spending hit $648 billion⁸. In its policy, Beijing has begun a transition from its strategy of „keeping a low profile” (韬光养晦) in international affairs towards a way more assertive „great power diplomacy” (具有中国特色的大国外交) and efforts to push forward „the great rejuvenation of the Chinese nation” (中国民族的伟大复兴). China’s mounting military might, while teamed with the revisionist policy followed by the Communist Party of China (CPC), became what Washington considered the top threat to U.S. security⁹.

Geopolitical Interests of China and the U.S.

There is no doubt that it is Washington, which sees both the quantitative and qualitative growth of China’s power as the key challenge of the 21st century, that kicked off the sharp economic competition with Beijing. This marks the first time the United States has come to grips with a country that is capable of undermining Washington’s “mild hegemony,” both when military and economic matters are at stake. It is in the U.S. best interest to maintain a profound influence on both world politics and global economy, which allows Washington to keep its advantageous strategic position and a Western vision of world order built upon core democratic values.

The international commercial expansion of titans like Huawei, Lenovo, ZTE, Xiaomi, as well as Baidu, Alibaba, and Tencent, or the BAT, represents a threat to the dominance of U.S.-based corporations with their influence stretching worldwide. Barring them all from developing any further through a set of tariffs and punitive measures is one of the core goals of the trade battle and -- once attained -- this will allow United States information and communications technology (ICT) firms to secure their business interests. Chinese state-subsidized companies are top rivals of those sitting across the United States in domains like smartphone manufacturing (Apple–Huawei/Xiaomi), 5G technology (Cisco–Huawei/ZTE), and artificial intelligence where America’s Google and Facebook see high competition from China’s Baidu, Alibaba, and Tencent. Chinese pursuits of the technological transformation of the economy may potentially harm Washington’s economic primacy.

What is the ultimate goal of the Communist Party of China officials is to develop a self-reliant approach in all critical industry and service sectors in a bid to become a developed economy. The implementation of this scenario may lead to China’s winning the position of a superpower while narrowing down U.S. influence. Thus it is in Washington’s best interest to hinder these efforts or bring them to a halt.

Beijing’s prime goal in the trade row with the United States is to bring back economic stability while lifting both tariffs and non-tariff barriers against key strategic Chinese companies. The Xi Jinping administration is aware of adverse trends and a slowdown in economic growth falling to

[10] This approach was openly formulated back in the early 1990s, as part of the so-called Wolfowitz Doctrine.
For eighteen months between July 2018 and May 2019, the Donald Trump administration imposed tariffs on more than $360 billion of Chinese goods, with duties stretching between 10 percent and 25 percent. In response to U.S. tariffs, Beijing hit back with a new round of tit-for-tat duties ranging from five percent to 25 percent on $110 billion worth of U.S. goods. In addition to an intensified protectionist policy came negotiations that ended up with a preliminary deal the two sides inked on January 15, 2020.

Alongside customs policy, U.S. sanctions targeted at Chinese business giants have turned into an essential vector of the federal government’s efforts. On May 15, 2019, President Trump issued an executive order giving the U.S. Department of Commerce powers to block Chinese telecoms giant Huawei from selling its gear and services in the United States. The Chinese firm — alongside 70 affiliates — was added to the so-called Entity List in a move that barred them from doing business in the United States unless they have an exclusive license. With new regulations in force, companies

Individual Phases

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like Google, Intel, Qualcomm, or Microsoft have to cut business ties with Huawei once it gets no permit from the U.S. authorities. Meanwhile, the United States gave a 90-day reprieve for Huawei that marked the fourth consecutive time the Chinese telecoms giant was offered the license extension, the latest of which is set to expire by April 1, 2020. With its phones cut off from Android updates, the Chinese titan might encounter what could become a significant hurdle on its path to the worldwide expansion. Yet this radical step could step up the development of the company’s operating system HarmonyOS as well as the manufacturing of Chinese-made processors and semiconductors.

In line with the so-called “phase one” deal signed on January 15, 2020, Washington and Beijing managed at least partially to ease existing tensions as the United States pledged to abandon a fresh round of tariffs while cutting tariffs for $120 billion of Chinese goods from 15 percent to 7.5 percent. Yet the agreement will leave tariffs on $250 billion in Chinese products in place. Meanwhile, China vowed to boost imports of services and industrial goods from the U.S. by $200 billion throughout 2020 and 2021, over a baseline of $186 billion in total imports in 2017. Commitments included $78 billion in additional manufacturing purchases, $54 billion in energy purchases, $32 billion more in farm products, and $38 billion in services. For example, U.S. agricultural exports of the covered tariff lines were $20.9 billion in 2017 and must double to $40.4 billion by year-end 2021. This leads to the conclusion that China will no be capable of enforcing its commitments, with their role poised to strengthen Donald Trump’s position before the U.S. presidential elections in November 2020.

In addition to increased import figures, China said it would open market access for U.S.-based financial and insurance companies like Visa, MasterCard, or JP Morgan Chase. Though a wider opening up of Chinese markets to foreign companies was first initiated back in 2017, it was only with the pressure from the Trump administration that the entire process could accelerate.

Under the deal, the resolution of trade rows would now be through what was named as the Bilateral Evaluation and Dispute Resolution Arrangement, in short BEDRA, with either party being eligible to quit the deal if the dispute cannot be tackled in any way. The two sides got room for maneuver, with the United States being able to bring back tariff barriers, and China quitting increased import volumes.

Meanwhile, China vowed to boost imports of services and industrial goods from the U.S. by $200 billion throughout 2020 and 2021, over a baseline of $186 billion in total imports in 2017.

With newly imposed tariffs, Washington and Beijing saw a steep decline in the total value of bilateral trade flows. The value of total merchandise trade between the United States and China fell to $558.87 billion in 2019, from $659.82 billion year-on-year. Also, in 2019, the United States reduced the bilateral goods deficit with China to $345.61 billion from $419.52 billion the year before. Meanwhile, the U.S. data reported an $8 billion growth in trade deficit with Canada, while the gaps with Mexico, Taiwan, and Vietnam rose by $21 billion.

[16] U.S. Census Bureau, op. cit.
billion, $8 billion, and $16.3 billion, respectively. The United States attained the goal of the reduced deficit in the balance of trade with China through boosting the value of imports from elsewhere.

In 2019, U.S. GDP growth was 2.3 percent, which is down from 2.9 percent in 2018 and right the same as in 2017, thus since Donald Trump has been sworn in as the next U.S. president. Chinese economy saw back then a series of downfalls, with its official economic growth coming in at 6.9 percent in 2017, 6.6 percent in 2018, and 6.1 percent in 2019. The International Monetary Fund (IMF) downgraded its growth forecast for China to 5.8 percent for 2020, which – with the coronavirus fanning out across the globe – seems somewhat an optimistic prediction. The United States saw favorable dynamics in its labor market, with 6.4 million jobs added since 2017, while the jobless rate fell to 3.5 percent, or its lowest level since 1969.

As the trade war with the United States dragged on, China felt compelled to double the value of government-approved infrastructure projects, to $107.8 billion up from $52.8 billion, and to introduce $300 billion worth of tax cuts. Having decided to deliver a 3 percentage-point value-added tax cut in the domestic manufacturing sector – while some other branches saw a 1 percentage-point reduction – Chinese authorities have shown their determination to maintain the economy at a relatively stable level. With total foreign exchange reserves of more than $3 trillion, China could wield a tool for stimulating its economy.

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But an increase in trade barriers did not harm foreign direct investments (FDI) into China. These inflows into China hiked to $139 billion in 2018, by $5 billion year-on-year, while in 2019, inbound foreign investment into China rose to around $140 billion, according to data released by the UN. Chinese businesses yet witnessed a massive slump in their investments, as evidenced by a decrease in external cash flows to $13 billion and $118 billion in 2018 and 2019 from $158 billion in 2017.

Among sectors most affected by tariff barriers was the U.S. automobile industry. U.S.-manufactured vehicles see between 40 percent and 50 percent of its parts and components coming from other countries like Mexico (37 percent), China (12 percent), and Canada (11 percent). Also, U.S. farmers were one of the most visible casualties of the China-U.S. trade war. They were said to have incurred massive

losses due to the trade battle, though to be offset with a $16 billion farm aid package announced by the federal authorities to mollify farmers hit by retaliatory tariffs. While U.S. losses from the China trade war were rather slight, Midwest farmers’ support for Trump might be of paramount importance in the 2020 presidential runoff.

Signed on January 15, 2020, the “phase one” economic and trade deal bolstered the president’s position before the presidential race and his impeachment process. Notwithstanding this, it may be tough for China to deliver the import goals as laid out in the deal. As the coronavirus outbreak spreads worldwide, Chinese production and consumption levels are likely to see a massive drop while the novel virus will thrown global supply chains into disarray. Whether the agreement will be implemented remains up in the air. It will be only after the presidential runoff -- with Donald Trump having high chances of being re-elected -- that the U.S.-China deal could be verified in terms of its likely impact on these two’s trade ties. The deliberate adoption of disproportionate import quotas was meant to show efficient activities carried out by the incumbent administration, though the deal itself was not a solution to the biggest problems in U.S.-China ties.
Since Washington imposed trade sanctions on Beijing, U.S.-EU trade exchange has risen significantly. U.S. goods exports to the EU in 2019 rose to $337 billion from $283.2 billion back in 2017. Similarly, U.S. imports from Europe grew to $514.88 billion from $434.9 billion. Despite President Donald Trump’s pledges to curb trade deficit, its total value with the European Union jumped by $25 billion between 2017 and 2019. Though this could show a positive impact of the U.S.-China trade war on EU economies, the issue is far more complex than this.

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China is the EU’s second-largest trade partner only to the United States. In 2018, EU member states exported to China €209.9 billion of good while its import figures were €394.7 billion, according to data from Eurostat. EU countries had high deficits hitting €184.8 billion. Of all EU economies, Germany served a leading role in trade ties with Beijing, with its exports to China hitting a record €93.7 billion, or 44 percent, and imports of €75.46 billion (19 percent). For comparison, in 2017, Poland exported to China $2.59 billion of goods while imports hit $25.9 billion. Poland’s exports to China occupy a minor role in the country’s total export numbers, or some 1.2 percent, which is less than the country ships to Turkey, Norway, or Slovakia. By contrast, China comes with 12 percent of Poland’s overall imports. The U.S.-China trade war should not pose a hurdle to the latter’s exports to Poland, as it is in Beijing’s best interest to conquer new markets. What may have more of an effect on goods flows could be the epidemic of COVID-19 coronavirus, as it is likely to put a stick in the spokes of many supply chains globally.

From October 2018 onwards, Germany, for which China is the top trading partner accounting for Berlin’s $200 billion in turnover since 2017, has seen consecutive drops in its industrial output, of more than 5 percent in November and December 2019. Other negative trends are also apparent for the country’s gross domestic product growth rate that stood at 0.6 percent in 2019. And these are likely to follow, chiefly amidst the coronavirus outbreak that has caused both global output and consumption to stall. Poland sees Germany as its prime export partner while being 25 percent dependent on German goods. Their annual trade turnover is higher than $100 billion, with Poland’s exports to Germany, including mainly car parts

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Conclusions and Forecasts

Inked by the U.S. and Chinese officials on January 15, 2020, the “phase one” deal was nothing but a “truce” in these two’s economic rivalry slated to dominate the first half of the 21st century. This is yet far from offering up a solution to the most severe problem, which is a far-reaching interference of the Chinese state in its domestic economy. As most of the trade tariffs remained in force, Beijing and Washington still have a long way to go before reaching full agreement.

The U.S. tariffs on Chinese imports have taken a toll on Beijing’s economic growth outlook, foreseen to fall to 5.8 percent in 2020, yet excluding the economic impact of the coronavirus outbreak. Newly accepted export quotas may put a strain on China’s import flows to the European Union as Beijing will seek to at least partly fulfill its obligations. Under the deal, it pledged to purchase at least an additional $200 billion worth of U.S. industrial and farm products as well as energy sources throughout 2020 and 2021, above a baseline of $186 billion in purchases in 2017. But what China vowed is extremely difficult to achieve, and if Chinese authorities boost purchases of U.S. goods, this will take place at the expense of E.U. imports.

Chinese efforts to become a crucial actor in the international division of labor while working towards technological self-sufficiency will result in fierce global competition. This presents a major threat to U.S.-based multinationals, which suggests that Washington and Beijing are embroiled in a long-term rivalry.

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[27] The Observatory of Economic Complexity, https://oec.world/
Donald Trump’s victory in the November presidential runoff and Beijing’s noncompliance with its import commitments may pave the way for the conflict’s escalation.

Worsening conditions worldwide come as an extra hurdle to the Xi Jinping administration, currently faced with the challenge of how to transform the state’s development model. A highly developed country, with a GDP per capita six times bigger than China’s, the United States still has a relative advantage over Beijing. The People’s Republic of China recognized its high economic growth rate as an imperative allowing the state to maintain the legitimacy of its authoritarian system while coping with both social and demographic pressure.

Coming to a seemingly very beneficial understanding for the United States, the deal has bolstered Donald Trump’s position before the November 2020 presidential elections. The agreed-upon document contains a clause that allows either party to step away from its provisions if the two sides are unable to work out a joint solution under bilateral mechanisms. Under this scenario, U.S. and Chinese authorities got a lot of room for maneuver while being able to pull out if they consider the deal unsatisfactory. Donald Trump’s victory in the November presidential runoff and Beijing’s noncompliance with its import commitments may pave the way for the conflict’s escalation. The coronavirus outbreak in December 2019 and January 2020 contributed to a robust decline in economic growth forecasts, both in China and worldwide. The downturn in production facilities, decreasing consumption, and traffic lockdown will boil down to a far weaker internal market situation, and this may persist till late 2020, at least. The mounting health crisis, which gripped both Europe and the United States, paralyzed economies and incurred huge losses. The coronavirus turmoil has highlighted the negative aspects of globalization of economies and those of international supply chains. Once the epidemic is contained, many countries may put in place a set of measures to solidify national industries and reduce their reliance on external suppliers. Such developments would inevitably lead to heightened economic competition between the United States and China.

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