

The US-China Trade War

The US-China Trade War

Beatriz Alegria Fernandes

Introduction:

The political relationship between the United States (US) and the People's Republic of China (PRC) can be characterized as unpredictable and volatile. Although the US has consistently maintained its status as a major global player over the past century, the rise of China as a dominant and influential nation, in an international context, has strengthened mainly in the last few decades. Nevertheless, the impact these events have had has greatly shifted global power dynamics. US-China relations became tense following the Cold War and with the dissolution of the USSR. Currently, the US and China are amidst a major trade war that greatly impacts not only the participating parties, but global economic and political fields as well. In this essay I will analyze the political and economic consequences of this trade war on both nations, as well as on a global scale. I will also explore particular case studies and recur to game theory in order to demonstrate the impact of the trade war on democratic affairs.

Historical scope of US-China relations:

In order to understand the current relationship between the US and China in both political and economic terms, it is crucial to analyze the history that shaped it. The PRC was established in 1949, and in 1950, the Korean War began. The US intervened in order to defend South Korea from communist North Korea, which was supported by China (Zhao et al, 2009). In 1971 China invited members of the US ping-pong team to the country, making the players some of the first Americans allowed in the country since 1949 (Andrews, 2018). In the same year, the United

The US-China Trade War

Nations granted China a permanent seat in the Security Council. The first formal ties between the US and China formed in 1979 when American president Jimmy Carter gave China full diplomatic recognition, whilst agreeing to their One China principle, which dictates that the PRC is the only sovereign nation to hold the name “China” (Schmitz & Walker, 2004). During his administration, President Ronald Reagan demonstrated his clear support of Taiwan, once again causing the dissatisfaction of the PRC (Ching, 1980).

It is also around this time, in the midst of the Cold War, that an antagonistic relationship between the US and China truly intensifies due to their polarizing views of capitalism and communism respectively “with the passing of the global threats of Soviet national power and transnational communist ideology” (Ross, 2015, p.23). Around 2000, the two nations normalized trade relations through US president Bill Clinton’s signing of the U.S.-China Act of 2000, which consisted of a “bill extending permanent normal trade status to China” (Smith, 2000, para.1). Throughout the first decade of the 21st century, China boosted its military budget on defense, becoming a major player in the economic and political global arenas (Cusack & Ward, 1981, p.439). In 2011, US President Barack Obama pushed for China to join the Trans- Pacific Partnership (TPP), “a multilateral free trade agreement that seeks to reduce and eventually eliminate trade tariffs among member countries, and for which the bar for joining is set so high that China would not likely be able to qualify for many years” (Glaser, 2011, p.29). Shortly after, there was a rise in trade tensions between the two nations as the US held a trade deficit with China, but in 2013 “Xi Jinping takes office with a vision for a "new type of major-power relations" between China and the United States” (Byun, 2016, p.1). This made great way with President Obama in the Sunnylands US-China Summit held that year as the “two countries share

more common interest in this space than in any other, and that makes it possible to identify and quickly pursue joint actions that benefit both sides” (Hart, 2014, p.8). From 2012-2015, US-China relations remained fairly stable, but still unpredictable, however it is not until US President Donald Trump was elected in 2016 that this relationship became explicitly precarious, and the trade war established.

US-China Trade War:

War on Tariffs

Although Trump has stayed true to his vow to China’s President Xi Jinping that he would honour the One China policy (Chen, 2019, p.1), Trump announced the implementation of tariffs on Chinese imports to the US as early as 2018. With the economic effort, the US also claims that the Chinese government is spying on the US and engaging in theft of international property (Stuart, 2019). These accusations towards China were not only reciprocated with a similar increase in tariffs, but also infuriated China, creating political turmoil between the countries that would eventually lead to the initiation of a trade war. A trade war consists of the defense of a protectionist economic approach, that is enforced through the raise of tariffs on foreign goods. This battle is more so one of leverage and representation, rather than an economic one. This means that the goal is to maintain the appearance of dominance and stability, rather than raising tariffs in reality. The tariffs on trade are a method used to reach a particular goal, which in this case, is power and control.

The US-China Trade War

There have been, thus far, several tariffs imposed on diverse goods by both countries, usually initiated by the US and then reciprocated by the PRC. According to author Edwin Lai (2019), there have been three waves of tariffs. The first wave was in July 2018 and consisted of a 25% American tariff on Chinese goods worth US\$34 billion. The second wave of “25% tariffs on an additional US\$16 billion of Chinese exports went into effect on 23 August 2018” (Lai, 2019, p.1). It is at this point that China began to retaliate and proceeded to impose “25% tariffs on US\$16 billion of US exports” (Lai, 2019, p.1). The last round of tariffs were imposed in September of 2018, as explained by Lai (2019):

“when President Donald Trump started levying 10% tariffs on another US\$200 billion in Chinese goods. In retaliation, China imposed tariffs, with rates ranging from 5% to 10%, on an additional US\$60 billion worth of American goods, effective on the same day” (p.1)

This war, however, goes beyond just trade, as it includes reducing Chinese direct investment in the US based on security reasons, and the belief that China is spying on the US.

The Huawei Case

In July 2018, Huawei, an electronics company from China, was accused of violating trade sanctions against Iran. Meng Wanzhou, Huawei’s chief financial officer was then arrested in Canada, which contributed to the escalation of the trade war (Stewart, 2019). In March 2019, Huawei sued the US with the aim of restricting U.S federal agencies from using its company’s products (CBC, 2019). President Trump then proceeded to make an assertive global statement, urging other countries to cease the use of Huawei electronics, and once again declared that the company is spying. Whilst Wanzhou remains in custody in Canada, the fragility of North

America's relationship with China is notable. The trade war continues to escalate, with both countries imposing higher tariffs on each other. The most relevant, recent event between these two nations occurred in August 2019, when the US claimed that China is manipulating its currency. The PRC's national currency, the Yuan, has decreased its value significantly, raising questions as to why (Swanson, Stevenson & Smialek, 2019).

US-China Trade War as a Game of Chicken:

Game Theory is an approach to politics and economics that simplifies an international conflict and dispute using deduction, assisting in the creation of a resolution. When applied to this case, the US and China are playing a game of Chicken. According to the scholar Humphreys, the Chicken game consists of two players driving towards each other at full speed, and each player hoping the other will swerve (Humphreys, 2016, p.4). If neither swerve, both parties die, but if one party swerves, they become the chicken. In this particular case, the two players (US and China) dispute contradictory positions to each other and expect the other side to surrender and decrease their imposition of tariffs. If neither country stops creating tariffs, the economic and political repercussions could be extremely negative. On the other hand, if one country defers, they will be seen as weaker politically. In the chicken game, players lack a dominant strategy; their only strategic option is to attempt to do the opposite of what they presume their opponent will do, meaning both the US and China do not see the end of the trade war with any particularly positive outcome, but rather simply hope that the other nation ceases

imposing tariffs first. Unsuccessfully, there is a potential conclusion in which both parties provoke the occurrence of a mutually negative outcome, which would be brought upon by a serious threat of joint miscalculation, and subsequent social, economic, and political harm.

Possible Outcomes of the Trade War:

On a global scale, China provides the global market with cheap labour and products. The nation is a leader in technology, and as a strong political, economic and military power, most nations regard China as a worthy adversary. In the words of author Jessica Weiss:

“the pendulum has swung from a consensus supporting engagement with China to one calling for competition or even containment in a new Cold War, driven in part by concerns that an emboldened China is seeking to spread its own model of domestic and international order” (2019, p.1).

Given the fact that this trade war is ongoing and with no visible end in sight, economists and political scientists have asserted that there are several possible outcomes (detailed below): both parties continue to increase tariffs and hinder international trade; China is forced to give in; or harmony.

Both parties continue to increase tariffs and hinder international trade

It is most likely that the US will continue to impose tariffs on Chinese goods, and that China will reciprocate the actions. This outcome relies on the conception that “economically,

The US-China Trade War

China wants to use the retaliation to force the US to back down from or at least halt the escalation of its protectionist measures. Politically, the Chinese government cannot appear to be weak in the face of unreasonable unilateral provocation from the US". (Lai, 2019, p.178).

China is forced to give in

Economists believe that China is participating in this war as a matter of principle, with little to no economic benefit, as Laid (2019) states, "it is also clear that China would stop whenever the US stops, because the only reason China retaliates is to force the US to back down" (p.178). As such, it is crucial that we consider the possibility that China will eventually compromise if under too much financial constraint. This being said, given the political implications of the conflict and the ties to espionage claims, the Chinese government maintains a stronghold as a matter of dignity.

Harmony

There is also a possibility that both states reach a solution that is mutually beneficial. According to Kleinberg and Fordham, "liberal international relations theory suggests that mutual gains from trade prevent conflict between states" (2013, p.3). This would mean that both states could cease the implementation of tariffs due to its cost. In this case, the only way the trade war would negatively impact both Chinese and American economies, is if the conflict evolved towards a military arena, no longer making it feasible for either nation to participate.

Significance of the Trade War on Global Economic and Political Arenas:

Firstly, it must be noted that it is hard to predict what the next actions taken by either country will be, as China, especially, is traditionally a wildcard. As put by scholars Cusack and Ward, “because of the turbulent changes during the last 30 years in the People’s Republic of China, unraveling the history of Chinese economic development plans is, to say the least, a difficult task” (1981, p.438). While US conduct seems to be a consistent increase in tariffs fueled by a technological war, the PRC’s behaviour thus far has been reactionary, making it difficult to anticipate.

Impact on the United States

As a leader of the US, Trump’s platform is heavily based on maintaining a protectionist approach to the US economy, and restraining China’s influence on the US market. According to the article “*The China Syndrome: Local Labour Market Effects of Import Competition in the United States*” David Dorn and Gordon Hanson, “Rising imports cause higher unemployment, lower labour force participation, and reduced wages in local labour markets that house import competing manufacturing industries” (2013, p.1). Nevertheless, a poll taken on US citizens asserts that “Americans overwhelmingly think that trade is more of an opportunity to boost the economy than it is a threat to it, according to a WSJ/NBC News polling conducted on 10–14 March 2018 that showed support by a 66–20% margin. And that feeling transcends party lines” (Lai, 2019, para. 13). However, regardless of civil opinion, to continue to engage in the trade war will certainly put the US in an unfavorable economic position. According to statistical data collected by Pantheon Macroeconomics, factory activity in the US has dropped unexpectedly and

The US-China Trade War

exports are rapidly falling, causing the nation's job growth rate to decrease, as "Employer surveys and other data suggest that job growth is on course to slow to just 50,000 or so by late fall" (Khan, 2019, para. 18). Additionally, due to the uncertainty of the economic situation, small businesses are no longer making investments for the future, leading to a decline in contribution to the financial market (Khan, 2019). As reported by the Tax Foundation, "tariffs imposed so far by the Trump administration are estimated to reduce long-run GDP by 0.23 percent, wages by 0.15 percent, and employment by 179,800 full-time equivalent jobs" (York, 2020, para. 3). Essentially, if the US is to maintain its current stance regarding the imposition of tariffs, it is expected that citizen's wages will decline, as well as a decrease in employment and production rates.

Impact on the People's Republic of China

It is important to note that in China's case, there is no bilateral agreement with the US, meaning that the PRC still possesses the ability to trade with numerous other nations without impacting the US (Chong & Li, 2019). However, according to various studies performed on possible outcomes of the trade war, China is always projected to be more negatively impacted than the US, as "analysis simulates that in the worst-case scenario, China will lose 1.1% of its job positions and 1% of GDP. While the findings confirm that the trade war will have some impact on China, it is far from catastrophic" (Chong & Li, 2019, p. 4)

Global Impact

The motivation for the trade war, although an economic issue, is political. If we pay attention to the leader initiating this conflict, Donald Trump, his platform relies on domestic

consumption and a rather unstable perception of foreign world powers. Politically, the willingness of US leaders, both president and vice-president, to comment and defame China, creates an unstable and susceptible bond between the two nations, which could potentially lead to an issue of global proportions.

Initially, we can assume that this conflict will lead to the political polarization of global alliances. This implies the idea that other countries, not involved in the conflict, will inevitably become affected when it comes to their economy. Most importantly, Reuters predicts that “the fallout will slow global growth in 2019 to 3.0%, the slowest pace in a decade, the IMF estimated this week” (Shalal & Timmons, 2019, para. 7). Nevertheless, according to the study ‘*The Varieties of Collective Financial Statecraft: The BRICS and China*’ the authors reach the conclusion that “BRICS governments have been impressively successful in hanging together despite having diverse political regimes, distinct interests, and even long-standing tensions among some members of this group” (Katada, Roberts & Armijo, 2017, p.107). This means that it is a possibility that if this conflict is ever to reach a global scale, there would be other institutions and measures to regulate it and prevent massive economic damage.

Undemocratic Uncertainty:

In the same way that certain systems could restrain the economic casualties of this trade war, it is also crucial to take into consideration the undemocratic leaders that could propel its political detriment. Both China and the US are currently under the leadership of debatably

The US-China Trade War

precarious leaders. According to the Freedom House Report of 2019, “China’s authoritarian regime has become increasingly repressive in recent years” specifically regarding the lack of media and speech freedom, as well as the recurrent breach of human rights (Freedom House, China, 2019, para. 1). As stated in the report, Xi Jinping has also integrated an amount of personal, concentrated power that has created discontent from the masses, greater than any other leaders in recent decades (Freedom House, China, 2019). According to this report, China is not considered free. On the other hand, the Freedom House report considers the US not only to be free, but one of the world’s earliest democracies (Freedom House, United States, 2019). Albeit the fact that the definition of freedom in the US is heavily dependent on economic, social and racial conditions, it is still bewildering to learn that the democratic institutions and systems that allegedly once stood as exemplary, are currently falling short on reflecting the proper application of a representative and inclusive government. As disclosed by the Freedom House Report of 2019, the US has become progressively undemocratic “as reflected in partisan manipulation of the electoral process, bias and dysfunction in the criminal justice system, flawed new policies, etc...” (Freedom House, United States, 2019, para. 1). With Trump and Xi Jinping in power, the political implications of the economic turmoil go beyond what either nation has previously experienced. The US has always had a strong democracy, but it is now faltering, resulting in the political tensions that, combined with a volatile leader, are difficult to predict. One should think through the consequences of the US re-electing Trump, or a leader with similar political positions, in the following election, who will continue to withdraw from active participation and leadership of the international system. On the other hand, China has never been an established democracy, and given that trade is currently declining, there is a greater focus on economic activity, rather than on enforcing democratic values. Essentially, to be under the leadership of

The US-China Trade War

stable democratic leaders would be beneficial when discussing the consequences of a trade war, as it is impossible to safely predict the political outcomes of decisions made by perilous heads of state.

Conclusion:

The relationship between the US and China has consistently been strained and ever-changing. It is important to reiterate that the economics and politics that govern these nations are extremely interconnected, and dependent on the current political leaders. The implications of a US-China trade war affects not only these two nations, by creating a fraught condition for their relationship, but could also have stark consequences on the global trade market. In the immediate future and given the historically tense relationship between these two countries, there is no visible solution to the volatile economic relationship between the US and PRC but given the status and importance of these two states, the results will deeply affect politics and trade globally. As put by the scholar Eswar Prasad: “the nature of their relationship has far-reaching implications for the smooth functioning of the global trade and financial systems” (2009, p.1). In the immediate future, the most mutually beneficial and realistic outcome for the trade war is the increasingly apparent idleness from both sides. Although it is far from ideal that the relationship between these two countries remains tense and constricted, there seems to be no progress on reaching a legitimate bilateral, favorable agreement. Thus, for the PRC and the US to remain dormant and inactive, and not impose further tariffs, is the more stable and durable outcome, regardless of the lack of positive impact in the nations’ relationship.

References

- Andrews, E. (2018). *How ping-pong diplomacy thawed the Cold War*. [online] HISTORY. Available at: <https://www.history.com/news/ping-pong-diplomacy> [Accessed 19 Oct. 2019].
- Byun, S. (2016). China's major-powers discourse in the Xi Jinping era: Tragedy of great power politics revisited? *Asian Perspective*, 40(3), 493-522.
- CBC News (2019, Jan 26). Here's what's happened since Huawei exec Meng Wanzhou's arrest in B.C. *CBC News*. (2019). Retrieved 19 October 2019, from <https://www.cbc.ca/news/world/huawei-meng-timeline-1.4989139>
- Chen, D. (2019). The Trump administration's One-China Policy: Tilting toward Taiwan in an era of U.S.-PRC rivalry? *Asian Politics & Policy*, 11(2), 250-278.
- Chong, T., & Li, X. (2019). Understanding the China–US trade war: causes, economic impact, and the worst-case scenario. *Economic And Political Studies*, 7(2), 185-202. doi: 10.1080/20954816.2019.1595328
- Cusack, T., & Don Ward, M. (1981). Military Spending in the United States, Soviet Union, and the People's Republic of China. *Journal of Conflict Resolution*, 25(3), 429-469.
- Dorn, D., & Hanson, G. (2013). The China Syndrome: Local labor market effects of import competition in the United States. *SSRN Electronic Journal*. doi: 10.2139/ssrn.2050144
- Frank Ching, Staff Reporter of The Wall Street Journal. (1980, Jun 16). China voices alarm over Reagan desire for links to Taiwan: Peking says any restoring of formal relations could bring a break with U.S. *Wall Street Journal (1923 - Current File)* Retrieved from

The US-China Trade War

<http://proxy.lib.sfu.ca/login?url=https://search-proquest-com.proxy.lib.sfu.ca/docview/134495822?accountid=13800>

Freedom House. (2019). *Freedom in the World 2019: China*. Retrieved from

<https://freedomhouse.org/report/freedom-world/2019/china>

Freedom House, (2019). *Freedom in the World 2019: United States*. Retrieved from

<https://freedomhouse.org/report/freedom-world/2019/united-states>

Glaser, B. (2011). U.S.–China Relations: US pivot to Asia leaves China off balance. *American Foreign Policy Interests*, 23(6), pp.377-386.

Hart, M. (2014). *Exploring the Frontiers of U.S.-China Strategic Cooperation: Energy and Climate Change*. Retrieved from Centre for American Progress website

<https://www.americanprogress.org/issues/security/reports/2014/11/10/100761/energy-and-climate-change/>

Humphreys, M. (2016). *Political games*. [Place of publication not identified]: W W Norton.

Katada, S., Roberts, C., & Armijo, L. (2017). The Varieties of Collective Financial Statecraft: The BRICS and China. *Political Science Quarterly*, 132(3), 403-433.

Khan, Y. (2019, Sep 17). These 7 charts show the effect of Trump's trade war on the US economy — and why a big slowdown is looming. *Markets Insider*. Retrieved 2 April 2020, from <https://markets.businessinsider.com/news/stocks/pantheon-macroeconomics-charts-show-trump-trade-war-impact-on-us-economy-2019-9-1028531230#gdp-growth-is-slowing-but-it-doesn-t-look-like-recession-is-likely-1>

Kleinberg, K., & Fordham, B. (2013). The domestic politics of trade and conflict. *International Studies Quarterly*, 57(3), 605-619.

The US-China Trade War

- Lai, E. (2019). The US-China trade war, the American public opinions and its effects on China. *Economic and Political Studies*, 7(2), 169-184.
- Lin, L., Zhao, Y., Ogawa, M., Hoge, J., & Kim, B. (2009). Whose history? An analysis of the Korean War in history textbooks from the United States, South Korea, Japan, and China. *The Social Studies*, 100(5), 222-232.
- Prasad, E. (2009). Effects of the financial crisis on the U.S.-China economic relationship. *HeinOnline*.
- Ross, R. (2015). *East Asia in transition: Toward a New Regional Order*. Armonk, N.Y: Sharpe.
- Schmitz, D., & Walker, V. (2004). Jimmy Carter and the foreign policy of human rights: The development of a post-Cold War foreign policy. *Diplomatic History*, 28(1), 113-143.
- Shalal, A., & Timmons, H. (2019, Oct 19). Fallout from Trump's trade wars felt by economies around the world. *Reuters*. Retrieved 19 October 2019, from <https://www.reuters.com/article/us-imf-worldbank-trade/fallout-from-trumps-trade-wars-felt-by-economies-around-the-world-idUSKBN1WY0PZ>
- Smith, M. (2000, Oct 10). *Clinton signs China trade bill, - October 10, 2000*. [online] *CNN.com*. Retrieved 14 Oct. 2019 from <http://www.cnn.com/2000/ALLPOLITICS/stories/10/10/clinton.pntr/>
- Stewart, E. (2019, Aug 19). The US government's battle with Chinese telecom giant Huawei, explained. *Vox*. Retrieved 17 October 2019, from <https://www.vox.com/technology/2018/12/11/18134440/huawei-executive-order-entity-list-china-trump>
- Swanson, A., Stevenson, A., & Smialek, J. (2019, Aug 5). China's currency moves escalate trade war, rattling markets. *NY Times*. Retrieved 19 October 2019, from

The US-China Trade War

<https://www.nytimes.com/2019/08/05/business/economy/us-china-yuan-renminbi-trump.html>

Weiss, J. (2019, July/Aug). A world safe for autocracy? China's rise and the future of global politics. *Foreign Affairs*. Retrieved 13 Oct. 2019 from

<https://www.foreignaffairs.com/articles/china/2019-06-11/world-safe-autocracy>

York, E. (2020). Tracking the economic impact of tariffs. *Tax Foundation*. Retrieved 2 April 2020, from <https://taxfoundation.org/tariffs-trump-trade-war/>