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The U.S.-China Trade War, a brief history and future prospects

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How and why the trade war between the U.S. and China began?

Since assuming office in January 2017, U.S. President Donald Trump has been more than a little sceptical with regards to U.S. trade dealings with China. Even before being elected, during his Presidential campaign, President Donald Trump promised a policy of protectionism in order to encourage local production of goods in a bid to rejuvenate manufacturing industries in the U.S. so as to increase employment in the manufacturing sector. The basic idea behind protectionism in the context of the trade war with China is to increase tariffs, which are taxes placed

on imports, on Chinese imports, in order to increase the cost of these imports. This, in turn, increases the prices of these imports giving a competitive edge to local producers, since due to the extra cost of tariffs the cost on these imported goods increases substantially.

There is a consensus between Republicans and Democrats on the belief that China has mistreated the U.S. economy. The main worries are threefold, firstly what the Americans believe to be the theft of intellectual property by Chinese companies. Secondly, and this became more evident in the May of this year, when the Trump administration put Chinese telecommunication company on the “Entity List” (something President Trump has since said he would revoke at the recent G20 summit), the U.S. claims to have national security concerns with Huawei and how the Chinese government may use Huawei to spy on the U.S. government and American citizens. And thirdly, as mentioned before tariffs are placed in order to discourage local consumers from buying more expensive Chinese products, so as to boost the sales of American products. Moreover, President Trump has made it clear that he doesn't support how local American companies (such as Apple for example), have shifted manufacturing to China as a result of which local manufacturing jobs in the U.S. have seen a decline over the past few decades. Surprisingly, for all of the above, President Trump holds the Chinese government responsible.

How the trade war has played out so far?

In August 2017, the U.S. began a series of investigations into certain Chinese trade practices, in response to which the Chinese Ministry of Commerce issued a warning statement. In January and February 2018, the U.S. imposed the first round of tariffs on Chinese exports, what followed during the next few months was a series of retaliatory tariffs imposed by both China and the U.S. In 2018, both China and the U.S. imposed a total of three rounds of tariffs on each other. The U.S. tariffs were on Chinese goods worth more than \$250 billion. These tariffs, as per President Trump's directives, were 25 %. In response, the Chinese government-imposed tariffs ranging from 5% to 25% on American exports worth approximately \$110 billion. In December 2018, a truce was settled temporarily following negotiations between the U.S. and China at the G20 summit. However, this truce didn't last long as this May the U.S. hit back again with tariffs equivalent to 25% duty instead of what would have usually been 10%. These tariffs were imposed on Chinese goods worth \$200 billion. China responded with tariffs on \$60 billion U.S. imports. In the implementation of such tariffs, both countries have overlooked the impacts of such a trade policy. For example, for local producers in America that President Trump so eagerly wants to facilitate, such tariffs become problematic when they have to import raw materials from China, many local producers have complained how this has increased costs of production. Retail sale growth has decreased for both the U.S. and China. While the bilateral trade balance between the two countries has shown some shift in favour of the U.S., the margin is still large. Capital markets in both countries took a hit last year, with China suffering larger

losses. At the G-20 summit in June, President Trump and Chinese President Xi Jinping agreed to temporarily halt the trade war until further talks were resumed. Under the current agreement, the U.S. agreed to not impose further tariffs, while unchanging ones previously imposed.

Future Prospects and Recommendation

As of yet, neither Chinese nor American leadership has announced a time-frame for talks to resume between both countries and on a deadline for them to agree on a trade deal. In the long term, the Trump administration aims to hurt the Chinese economy. Larry Kudlow, the Director of the National Economic Council of the U.S., has said at an interview on Fox News, “The Chinese will suffer GDP losses and so forth with respect to a diminishing export market.” President Trump himself has tweeted on the 13th of May, 2019 that “Many Tariffed companies will be leaving China for Vietnam and other such countries in Asia.” By this, the U.S. President clearly believes that unless China succumbs to the pressure of excessive tariffs and enters a deal with the U.S., local American companies that do manufacturing in China will soon be leaving China to start operating from other countries. Logically speaking, in a trade war between two countries, the side that has a larger quantity of exports suffers more, and currently, it seems that the Trump administration wants the Chinese Government and companies to bleed as much as possible.

However, one underlying principle that President Trump has failed to understand is that it is not the Chinese Government that ultimately has to pay the price of increased tariffs, increased tariffs translate into increased costs of production or export in this case, for companies including American companies that either

manufacture their goods in China and then import them to the U.S. or manufacture their goods in the U.S. and import their raw materials from China, ultimately raise the prices of their products. Hence, it is evident that such a policy of import substitution benefits neither the local consumer nor local companies of the U.S. and is obviously harmful to the Chinese government as well in the long run. The solution lies in a mutually beneficial trade agreement and the formulation of certain measures to deal with violators. Moreover, instead of a policy of import substitution by local products, American industries need to focus on boosting exports, especially in capturing new markets of products proposed in the “Green New Deal” , such as battery storage, greener transportation, wind energy technology and eventually, a smarter grid. In its cynicism towards China, the U.S. needs to explore newer avenues of business instead of trying to hurt the Chinese economically and subsequently themselves as well.

The impacts on the global economy and especially on those countries that are affected directly need to be considered by the U.S. and China while inflicting tariffs on each other. As early as February 2019 a UN trade agency report warned that other Asian countries would be the ones to suffer most from protectionism. The UN Conference for Trade and Development (UNCTAD) highlighted that the effects of the on-going trade war would be substantial on the entire trading system. It was stressed that the current situation could lead to companies shifting their trade endeavours from current supply chains to elsewhere in an attempt to avoid burdensome tariffs. Other detrimental impacts mentioned include devaluation as well as currency wars and unemployment as a result of stagflation. Political

impacts aren't quite obvious and in the month of July, the U.S. reportedly agreed to tone down their criticism of Chinese rule in Hong Kong. Moreover, after a recent phone call between both parties, it was agreed that talks would be resumed shortly. The agreement to resume talks came allegedly amid Chinese criticism of the U.S. sale of weapons to Taiwan. Such political concessions are not something unseen in the past, what is new however is the utter disregard of the implicit negative impacts of such a trade war between two economic superpowers.

