China-US Trade Relations: A Fresh Perspective

SAJAL KABIRAJ
MD. NURALAM SIDDIK

Abstract

This paper discusses the present relationship between China and the United States with respect to trade and its implications. These two countries are the powerhouses of the global economy, and their relationship should be thoroughly analyzed in order to assess how their potential trade war could affect the world. This paper introduces the background of each country, discusses their relationships and closes with a future outlook and conclusion. It offers a fresh perspective to China-US Trade relations in 2018 and beyond.

Keywords: *International trade, trade barriers, China, USA.*

Introduction

"We are not in a trade war with China; that war was lost many years ago by the foolish, or incompetent, people who represented the U.S." This quote made by United States president Donald Trump in April 2018 emphasizes how serious trade relations between China and the United States have become recently [Bryan, 2018]. The United States maintains a trade deficit of $300 to $500 billion (depending on the source) with China and has complained about Human Rights violations and Intellectual Property Theft by Chinese authorities. China, on the other hand, blames the United States for its recent protectionist measures.

This conflict is of particular global interest: China and the United States are among the most influential nations in the world. As major economies of the world, both nations engage together in various financial organizations such as the World Trade Organization, which China was made part of in 2011 [WTO, 2018] after 15 years of negotiations and due to US initiative [Wang, 2013] or the International Monetary Fund (China joined in 1945 and rejoined in 1980) [IMF, 2017]. On the political side, they collaborate on all kinds of global issues in the United Nations [UN, 2018]. Various members have tried to appeal to both sides at the IMF Spring Meetings, since their dispute could potentially be the beginning of a global recession [Jiming & Posen, 2018]. Furthermore, the conflicts could cause a new political divide. It is not an exaggeration to say that the recent issues between both countries can affect the future of our planet.

This paper attempts to provide a more thorough understanding of the conflict in China-U.S. trade relations. The first **section** covers historical milestones in bilateral trade between the two countries and the reasons that have led to the current situation. Export data of the year 2016 has been used to examine the pattern of trade and its key industries. **The conclusion** provides an overview of most recent developments and their correlation with each other. All in all, the aim of this paper is to use statistical and historical data to explain current events in the trade relations between China and the United States, and provide an outlook on possible consequences.

History

Official trade relations between China and the United States have been in existence since 1844; the first attempts to connect had been made roughly 60 years before.[i] By signing the treaty of Wanghia, the US acquired trading rights with China. In the 1950s and 60s, conflicts of interests in the Korean War and the Vietnam War led to a complete freeze in Chinese-US trade, which lasted for roughly 20 years. In the beginning of the 70s, US Secretary of State Henry Kissinger and US president Richard Nixon finally managed to create a common ground for modern trade relations by implementing a five-step plan to establish China as a major global trading partner. During the Cold War, this step was partly politically motivated to consolidate against the

common enemy, Soviet Union. However, it would have a long-lasting impact on both countries' economies. From then on, China's Gross National Product was expected to grow from 7% to 50% of the United States' GNP [Wang, 2013].

Until 1979, trade grew with every passing year reaching a cumulative $2.4 billion within just eight years. Various treaties concerning taxation and 'most favored nation' status were signed in the subsequent years. Subsequently, China did not have to pay high tariffs on its exports to the US anymore. Other barriers for people, products and capital were removed continuously. By 1984, the United States had become China's third most important trade partner after Japan and Hong Kong, especially due to high Chinese textile exports [Wang, 2013].

However, the improvements would not last long. As a reaction to the Tiananmen Square incident in 1989, the United States imposed heavy sanctions on China. The relations remained tense during the 90s with claims of dumping, market access limitations and intellectual property theft arising. They eventually improved when China opened up to global markets in the early 2000s, joined the WTO, acquired U.S. Treasury securities and opened its currency and stock exchange to foreign investors.[ii] Till date, both countries come together on a continuing basis to negotiate for future economic cooperation.[iii]

Figure 1: Development of trade relations
Source: Authors' own research

Current Shape of Trade

Both countries' combined share in the world economy is 40% [Jiming & Posen, 2018]. Both countries are severely dependent on each other; for example, China holds U.S. bonds amounting to $1.2 trillion [Murray, 2018]. As a result, any U.S. measure affecting the Chinese economy, currency or liquidity, will impact both economies. In addition, both countries have common trading partners such as the European Union[iv] or Japan[v]. Furthermore, the two countries' companies are closely correlated, too. U.S. firms get involved in joint venture collaborations with Chinese enterprises on a large scale; others sell to or supply from the Chinese market. US FDI (foreign direct investments) in China amount to roughly $100 billion.[vi] In spite of having divergent political systems, both countries have become increasingly interrelated with every passing year.

Historical data reveals that there has not always been a trade deficit on the U.S. balance with China. In 1985, U.S. exports to China amounted to $3.856 billion, whereas imports were $3.862 billion (see table below). From then on, the points discussed above such as Chinese opening and the acceleration of globalization contributed to an imbalance that increased every year. From the mid-90s till the present, Chinese exports in electronics, machinery, textiles and furniture have created a large trade deficit.[vii]

Month	Exports	Imports	Balance
January 1985	319.2	293.1	26.1
February 1985	222.7	281.0	-58.3
March 1985	239.5	293.0	-53.5
April 1985	265.6	283.3	-17.7
May 1985	329.3	295.1	34.2
June 1985	280.9	348.7	-67.8
July 1985	383.1	344.4	38.7
August 1985	320.9	311.8	9.1
September 1985	339.1	391.8	-52.7
October 1985	377.1	385.5	-8.4
November 1985	316.3	327.5	-11.2
December 1985	462.0	306.5	155.5
TOTAL 1985	**3,855.7**	**3,861.7**	**-6.0**

Table 1: U.S. trade in goods with China, 1985; in million $
Source: Authors' own research based on United States Census Bureau [2018]

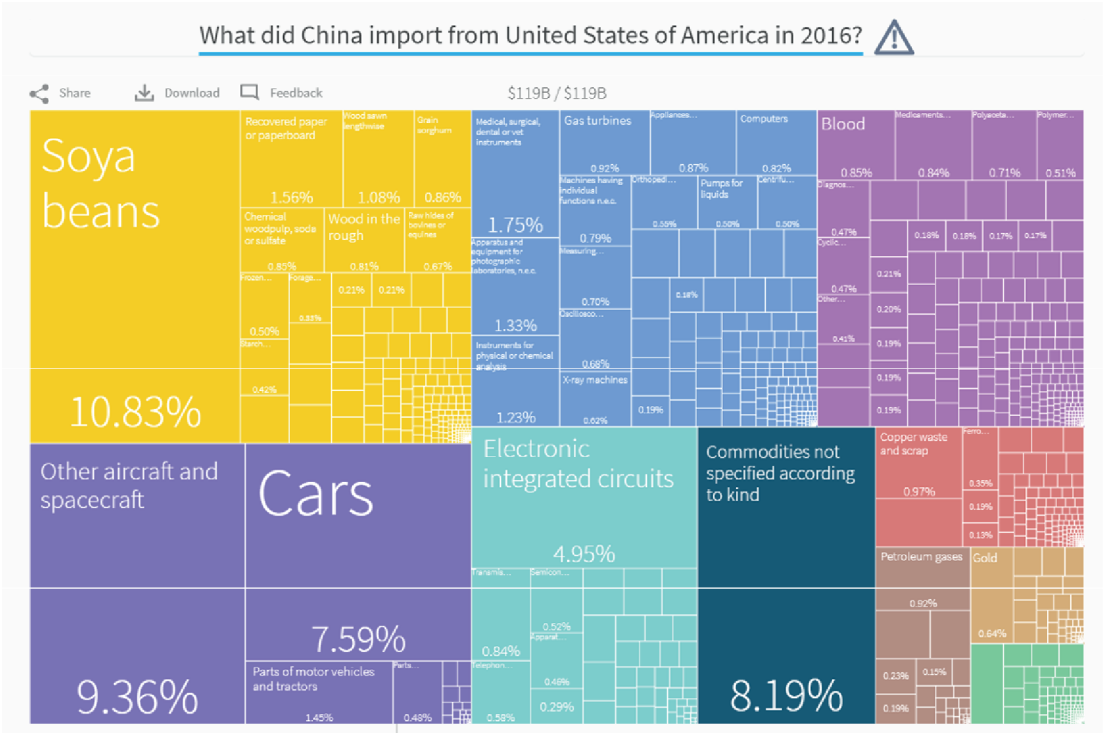

Figure 2: What did China import from Unites States of America in 2016?
Source: Center for International Development at Harvard University [2018b]

In 2016, U.S. exports to China were recorded at $119 billion, according to the Harvard Atlas of Economic Complexity.[viii] Vegetables, foodstuff and wood were the largest items exported, valued at $27.3 billion (soya beans formed $12.9 billion). Other large exports included recovered paper or paperboard ($1.85 billion) and wood sawn lengthwise ($1.29 billion). The main companies involved were Tyson Foods, Pepsi, Nestlé United States, Coca Cola and Kraft Heinz.

The second largest sector, transport vehicles, contributed another $22.8 billion to United States' exports to China. Its main industries were aircraft and spacecraft ($11.1 billion), cars ($9.01 billion) and parts of motor vehicles and tractors ($1.73 billion). The third largest segment was machinery with total exports to China valued at $20.1 billion. It is one of the most diversified segments with a number of industries forming large components, the largest ones being - medical, surgical, dental or vet instruments ($2.07 billion), apparatus and equipment for photographic laboratories, n.e.c. ($1.58 billion) and instruments for physical or chemical analysis ($1.46 billion).This segment also includes computers ($973 million).

Finally, chemicals and plastics with a total export volume of $15.5 billion and electronics ($12.3 billion) complete the most important sectors of US exports to China. As can be seen in the table below, vegetables, foodstuff, wood and transport vehicles have enjoyed the largest growth rates in the last few years, while electronics had a boom roughly ten years ago, but has stagnated ever since. Minerals (brown-red colored) have also recorded a decline in absolute figures.[ix]

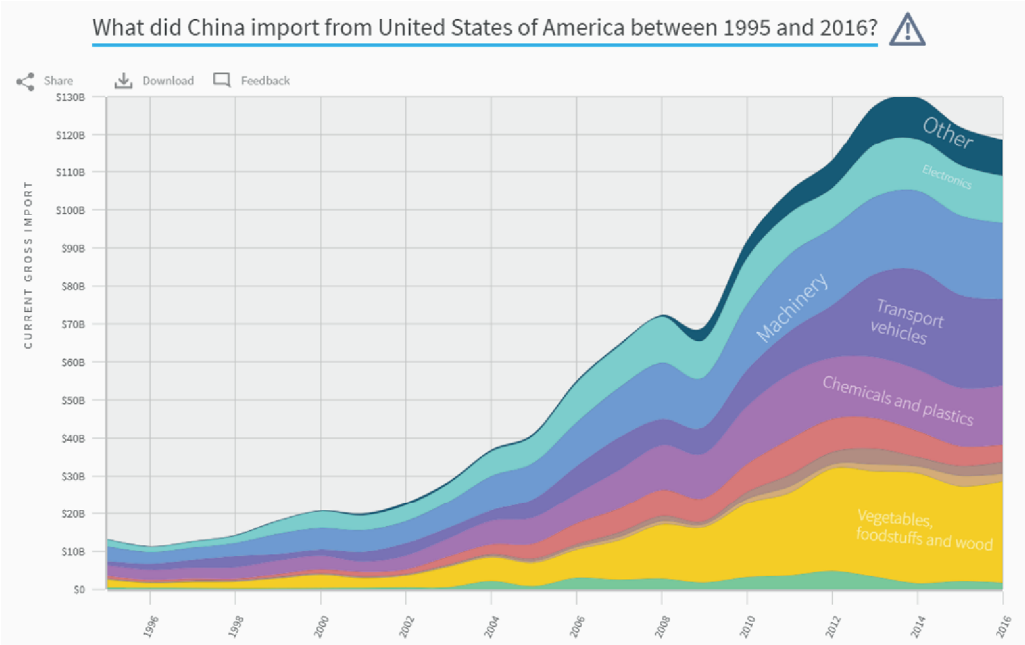

Figure 3: What did China import from Unites States of America between 1995 and 2016?
Source: Center for International Development at Harvard University [2018b].

On the other hand, Chinese exports to the United States were recorded at $429 billion in the same year, which is 3.6 times' their imports. Top Chinese exporting companies are Petro China (oil and gas segment), China Petroleum & Chemical (oil, gas), SAIC Motors (cars and trucks segment), China Shenhua Energy (diversified metals) and Fosun International (iron, steel). While not yet a part of the top 5, but with a significant annual export growth rate of 25.8%, global commerce giant Alibaba was expected to be part of this list in 2017 [Workman, 2017].

The Chinese machinery sector recorded the highest exports to the U.S.at $123 billion with its main industries - computers ($47 billion), toys ($9.59 billion) and parts and accessories for office machines ($8.74 billion).The second most important sector, electronics, accounted for US-directed exports of $114 billion. Its main industries were transmission apparatus for radio, telephone and TV ($33.2 billion), telephones ($18.2 billion) as well as monitors and projectors ($8.16 billion).

The third set of sectors was textiles and furniture with exports of $86.6 billion; other furniture and parts ($9.73 billion), seats ($9.71 billion) and lamps ($7.28 billion). In combination, these 3 categories accounted for the lion share of $324 billion (75.5% of total export volume to the United States). The other sectors - chemicals and plastics ($30.1 billion / 7%) and vegetables, foodstuff and wood ($23.2 billion / 5.4%) only played a minor role.

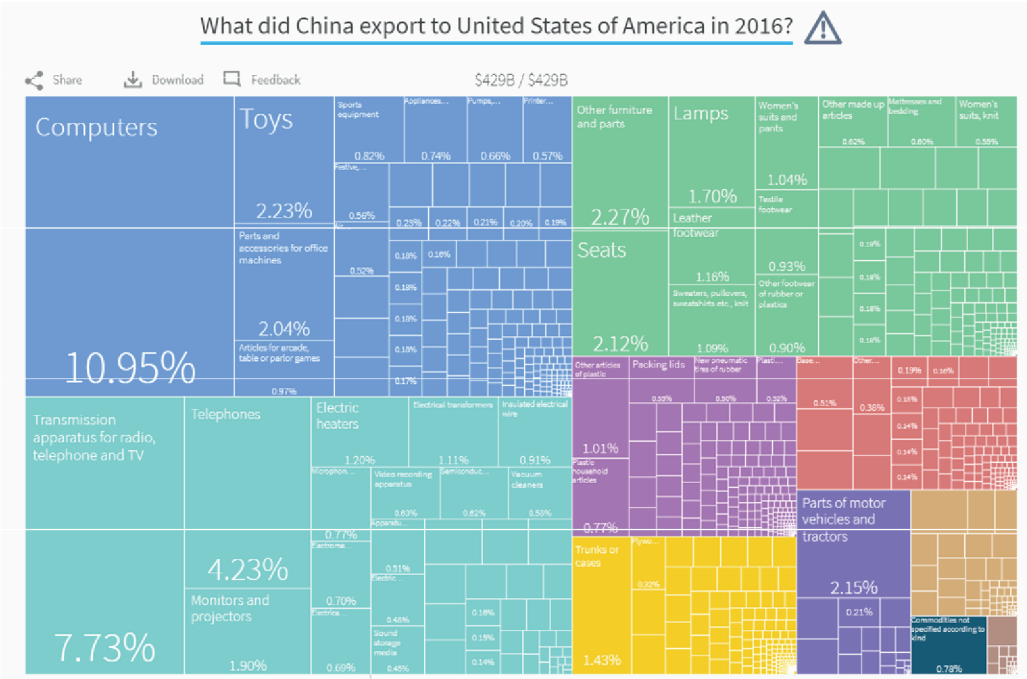

Figure 4: What did China export to Unites States of America in 2016?
Source: Center for International Development at Harvard University [2018a].

As can be seen in the figure below, textiles and furniture form the most important sectors in this statistic. Even though they have grown steadily, they were overtaken by electronics in 1998 and machinery in 2006. Both the latter segments recorded high growth rates in the 2000s that established them at a top position. Regardless of which year of the Atlas Globe you consider, since data recording began in 1995, these three sectors have always been by far the most important ones for Chinese exports to the United States. In terms of net exports (exports – imports) they account for $299 billion of the $368 billion trade surplus that China maintains with its Northern-American trade partner (81.3%).[x]

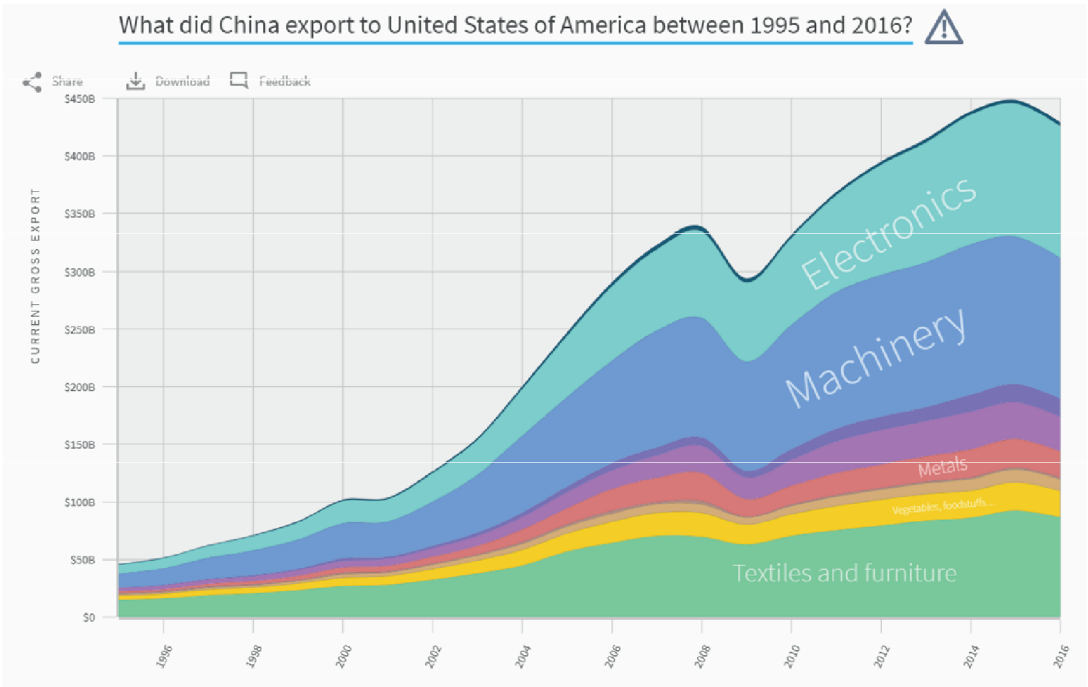

Figure 5: What did China export to Unites States of America between 1995 and 2016?
Source: Center for International Development at Harvard University [2018a].

Recent Developments and Outlook

The recent tensions started when the Trump administration imposed tariffs on steel on all countries, except Canada and Mexico, on March 1st of this year. Taking a look at the global steel production shares (see table below), it becomes evident that even though it only accounts for 6% of U.S. steel imports, China was the main target of this measure. On March 23rd, a tariff on Chinese steel totaling $3 billion came into force. Exactly ten days later, China retaliated with tariffs of the same amount and filed an official complaint to the WTO [Jiming & Posen, 2018]. Even after that measure, Trump spread optimism regarding the future trade relations of both countries, stating that he had good relations with Chinese president Xi Jinping and that "China will take down its Trade Barriers because it is the right thing to do. Taxes will become Reciprocal & a deal will be made on Intellectual Property. Great future for both countries!"[xi]

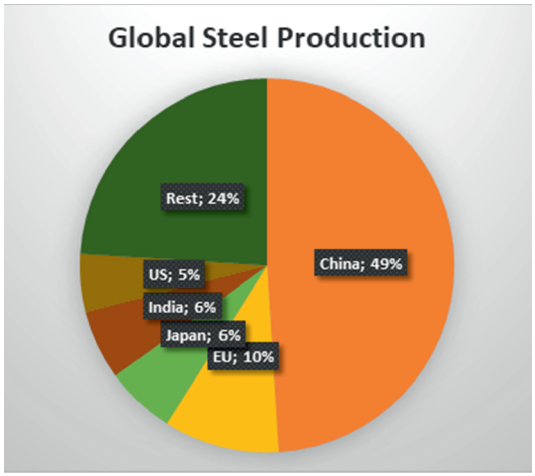

Figure 6: Shares of Top 5 Regions in Global Steel Production
Source: Authors' own research based on Petroff, A. [2018]

United States		China	
March 23	$3 billion imposed	April 2	$3 billion imposed
April 3	$50 billion proposed	April 4	$50 billion proposed
April 5	$100 billion proposed		

Table 2: Tariff dynamics in April 2018
Source: Authors' own research based on data from Iyengar, R. [2018]

During the following months, further U.S. tariffs were imposed on flat-screen televisions, medical devices, aircraft parts and batteries [Bagshaw, 2018]. In response, China began targeting U.S. soybeans [Rugaber & Kang, 2018]. This back-and-forth of protectionist measures has continued throughout the last three months with the most recent one being executed on July 6th, when China imposed a new $34 billion tariff on various U.S. products [Bagshaw, 2018]. The strategy behind these measures has become evident: the U.S. started targeting products of the machinery and electronics industries that were identified as the largest contributors to the trade deficit in the second section of this paper. The Chinese administration's responses were directed to the vegetables, foodstuff and wood segment, the key U.S. exports to China. Justifications trying to link the protectionist measures to national security concerns are merely pretexts. By now, the only goal has become to hurt the trade partner as much as possible and to create an advantage for home-based companies.

In the meantime, a public debate on what is right and wrong has arisen. Both countries blame each other for having escalated the situation: China refers to the fact that the United States administration was the first to impose large tariffs to deliberately hurt its partner, whereas the United States claims that China has been abusing the rules over the years. In their section 301 list attached to the report on the first wave of tariffs, the U.S. accused China of stealing U.S. intellectual property through four government-backed measures [Jiming & Posen, 2018]. Other claims are directed to market access restrictions for foreign companies, state-owned companies or governmental regulation of the Yuan exchange rate [Gerwin, 2018].

It is still difficult to predict where the trade war is heading. In theory, U.S. tariffs and China further opening up to global markets should reduce the bilateral trade deficit. Chinese consumption of U.S. goods should increase, boosting employment and purchasing power parity in the U.S., which would eventually also increase U.S. consumption. In the long-term, higher competition could improve both countries' GDP, making the short-term sufferings of the trade war pay off. However, the imposed tariffs will lead to increase in prices which could also cause global inflation. Furthermore, higher wages in the U.S. employment market will further result in a rise in inflation. This could lead to a new bubble in stock and property prices, similar to the financial crisis of 2008 [Jiming & Posen, 2018]. Nonetheless, in this scenario, the Chinese counter-measures are not considered. The past months have shown that China is ready to do whatever it takes in order to protect its export-related jobs and the inflows of foreign currencies.

The recent developments in trade relations are also expected to shape the future of the global economy: China is currently in the transformation process from being a global leader in low-skilled labor goods to becoming a leader in high-skilled labor extensive goods. As a part of its "Made in China 2025" strategy, it wants to build up R&D capacities, increase capacities significantly and obtain technologies in the sectors that are predicted to be of utmost importance in future, such as Internet of Things or Artificial Intelligence [Morrison, 2018]. Coincidentally, the United States is focusing on the same sectors. It will be particularly interesting to see if and how the two countries can collaborate in these future fields, or if a cold war-like race for technological leadership breaks out.

Summing up the discussed issues in this paper, U.S. - Chinese trade relations have always been characterized by two countries that co-existed well as long as they had the same interests. During the wars fought on different sides, bilateral trade relations were basically non-existent. That changed when the mutual goal of perpetuating globalization arose. Even though political and legal issues were always present, trade relations have taken a downturn since the Trump administration came to power and made these issues one of its priorities. At the moment, there seems to be a lack of common ground and a conflict of interests. However, in our dynamic, complex, globally interconnected world, it is not possible to predict where the trade relations are heading.

Endnotes

i *United States Department of State [2018].*
ii *Stratfor Worldview [2007].*
iii *United States Department of the Treasury [2018].*
iv *European Commission [2018].*
v *Simoes, A. [2018]*
vi *United States Department of State [2018].*
vii *Center for International Development at Harvard University [2018a].*
viii *Center for International Development at Harvard University [2018b].*
ix *Center for International Development at Harvard University [2018b].*
x *Center for International Development at Harvard University [2018a].*
xi *Washington Associated Press [2018].*

References

- Bagshaw, Eryk. (2018). "Australia vulnerable to 'full-blown trade war' as US-China tension deepens." URL: https://www.theage.com.au/politics/federal/australia-vulnerable-to-full-blown-trade-war-as-us-china-tension-deepens-20180616-p4zlvr.html
- Bryan, Bob. (2018). "Trump says the US has already lost its trade war with China." URL: https://www.businessinsider.de/trump-tweet-china-tariff-trade-war-after-stock-market-fall-2018-4?r=US&IR=T
- Center for International Development at Harvard University. (2018a). "What did China export to United States of America?" The Atlas of Economic Complexity. URL: http://atlas.cid.harvard.edu/explore/?country=43&partner=231&product=undefined&productClass=HS&startYear=undefined&target=Partner&year=2016
- Center for International Development at Harvard University. (2018b). "What did China import from United States of America?" The Atlas of Economic Complexity. URL: http://atlas.cid.harvard.edu/explore/?country=43&partner=231&product=undefined&productClass=HS&startYear=undefined&target=Partner&tradeDirection=import&year=2016
- European Commission. (2018). "Which are the EU's top trading partners?" URL: http://ec.europa.eu/eurostat/web/products-eurostat-news/-/WDN-20180326-1?inheritRedirect=true
- Gerwin, Ed. (2018). "Confronting China's Threat to Open Trade - A Smarter Strategy for Securing America's Innovation Edge." URL: https://www.progressivepolicy.org/wp-content/uploads/2018/06/PPI_China_2018.pdf
- International Monetary Fund. (2017). "List of members." URL: https://www.imf.org/external/np/sec/memdir/memdate.htm
- Iyengar, Rishi. (2018). "US-China trade battle: Catch up here." URL: http://money.cnn.com/2018/04/08/news/economy/trump-china-us-tariffs-trade-timeline/index.html
- Jiming, Ha, and Posen, Adam S. (2018). "US-China Economic Relations: From Conflict to Solutions." Peterson Institute for International Economics, Washington, USA.
- Morrison, Wayne M. (2018). "China-U.S. Trade Issues." Washington, USA.
- Murray, Brendan. (2018). "China's Holdings of U.S. Treasuries Rise to Five-Month High." URL: https://www.bloomberg.com/news/articles/2018-05-15/china-s-holdings-of-u-s-treasuries-increase-to-five-month-high
- Petroff, Alanna. (2018). "The global steel industry by the numbers." URL: http://money.cnn.com/2018/03/02/news/economy/steel-industry-statistics-us-china-canada/index.html
- Rugaber, Christopher, and Kang, Dake. (2018). "Facing threat of tariffs, China buyers cancel orders for U.S. soybeans." URL: https://www.pbs.org/newshour/world/facing-threat-of-tariffs-china-buyers-cancel-orders-for-u-s-soybeans
- Simoes, Alexander. (2018). "Country Profile Japan; The Observatory of Economic Complexity." URL: https://atlas.media.mit.edu/en/profile/country/jpn/
- Stratfor Worldview. (2007). "U.S.-China Trade Timeline: 1784-2008." URL: https://worldview.stratfor.com/article/us-china-trade-timeline-1784-2008
- United Nations. (2018). "Member States." URL: http://www.un.org/en/member-states/
- United States Census Bureau. (2018). "Trade in Goods with China." URL: https://www.census.gov/foreign-trade/balance/c5700.html#1985
- United States Department of State. (2018). "A Guide to the United States' History of Recognition, Diplomatic, and Consular Relations, by Country, since 1776: China." URL: https://history.state.gov/countries/china
- United States Department of the Treasury. (2018). "U.S.-China Comprehensive Economic Dialogue." URL: https://www.treasury.gov/initiatives/Pages/china.aspx
- Wang, Dong. "US-China trade: 1971-2012: Insights into the US-China relationship." The Asia-Pacific Journal 11, no. 24 (2013): 1-15.
- Washington Associated Press. (2018). "Trump seeks to ease trade war fears by saying China 'will take down barriers." URL: https://www.theguardian.com/us-news/2018/apr/08/trump-seeks-to-ease-trade-war-fears-by-saying-china-will-take-down-barriers
- Workman, Daniel. (2017). "China's Top 10 Major Export Companies." URL: http://www.worldstopexports.com/chinas-top-10-major-export-companies/
- World Trade Organization. (2018). "Members and Observers." URL: https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm

[Last access to all sources on 07/07/2018]

Sajal Kabiraj is Full Professor of International Business College, Dongbei University of Finance and Economics, Dalian, China. He is recipient of Best Teacher Awards in 2008 & 2014 for teaching and research excellence. He has taught at postgraduate level in universities in Sweden, Austria, Malaysia, Canada, UAE, China and India. His current research interests include International Business, Information Technology, Globalization. He can be reached at skabiraj@dufe.edu.cn

Md. Nur Alam Siddik obtained his BBA degree and MBA degree in Finance and Banking from University of Rajshahi, Bangladesh and obtained Ph.D. degree in Finance from Dongbei University of Finance and Economics, Dalian, China. At present, he is an Associate Professor in the Department of Finance and Banking, Begum Rokeya University, Rangpur, Bangladesh. His current research interests include, International business, financial inclusion, economic development, and sustainable development. He can be reached at nasiddik@brur.ac.bd