

# An Overview on US-China Trade War

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**Abstract:** *The trade war between China and the United States, the two leading power and biggest economies, has been undoubtedly a focus of the international society since the early 2018. In this paper, we examine different aspects of the bilateral trade between US and China, and try to provide an unbiased analysis among the statements and opinions.*

**Keywords:** Trade war, Sino-US relation, Foreign investment, Emerging power, Foreign policy

## 1. Introduction

In today's world, the Sino-US relation is widely considered as one of the most significant bilateral relations, since both sides are the leading power of the world in terms of the size of their economies as well as armed forces, and their unique status in current international systems such as the United Nations Security Council (both are the permanent member).

Against a background that a rising China is sure to struggle for more share of the world power and pursue interests for its own sake while a comparatively declining US inevitably intends to safeguard its dominant status and vested interests, conflicts in all aspects are almost inevitable. In the economic field, the struggle between US and China is quite evident—the trade war between the two leading powers has been a hot issue for recent years.

In 2017, the United States and China were each other's largest trading partners. However, when Donald Trump, President of the United States, introduced his new National Security Strategy in December 2017, he termed China as America's "competitor", "rival," and even hinted that China might be an "adversary".(White House, 2017) President Trump and his administration then started setting tariffs and other trade barriers on China, which leads to a series of economic conflicts, or in other words, a trade war.

This paper is designed to answer the questions: Why the United States choose to impose a trade war with China? Or in other words, why the trade war happens. In addition, as many other scholars do, we are also eager to understand how the trade war will evolve.

## 2. Why a trade war with China

*Trade war* is not a new word to both the United States and China. The trade barrier against imported opium, set by the Qing government, was widely considered as the flashpoint of the First Opium War in 1839. The military failure of the Qing government led to a series of unequal treaties, and the market of China has therefore been opened but not in an amicable way. The United States, as the signatory of the Treaty of Wangxia, won both the hot war and the trade war with China in the nineteenth century. It is not surprising that President

Trump believes the United States, as a superpower, will win the current trade war with China again, though the world has changed a lot.

In the 1970s, under the pressure of the Soviet Union, the United States and China became a strategic partner of each other. The Reform and Opening Up of China has stimulated the potential foreign investors, and also led to the rapid economic development. Bilateral trade between the United States and China increased from US\$102 billion in 1999 to US\$712 billion in 2017 (Qiu and Wei, 2019), and China has become one of the most important trade partners of the United States.

Unfortunately, started in early 2018, an additional 25% of tariffs on a long list of China's good was imposed by the US government, starting the trade war between two countries. But why did the United States choose to start a trade war with China? National interest might be a possible answer. However, what exactly are the national interests lying behind the trade war? We summarised four possible motivations as below.

### 2.1 "Unfair Trade"

On December 11, 2001, China acceded to the WTO after 15 years' intense negotiations, which is also a milestone for China's participation in world capitalist economy. During the negotiations, China made a series of commitments to reduce trade barriers, including but not limited to lowering its average tariff from 15.8% to 9.8% in 10 years, protecting intellectual property, judicial review and other domestic reform.<sup>1</sup> However, the US government believed that China is continuously breaking the rules of WTO, and benefiting from its unequal industrial policies. (Davis and Wei, 2018) The US government therefore argued that the situation put the United States on a disadvantaged position. These "unequal industrial policies" might include but not limited to China's subsidy policies, currency policies and tariff policies. Unsurprisingly, China holds totally different opinions, as we will discuss in the following section of this paper.

### 2.2 Trade surplus

China's chronically large trade surplus might depress the

international trade competitiveness in the United States, and lead to more domestic problems including high unemployment rate. In fact, China's export of goods to the U.S. was \$505 billion in 2017, while U.S. exports to China was only \$130 billion. (Liu and Woo, 2018) As an ancient Chinese saying goes, "using history as a mirror". The large trade surplus is also the main reason of the First Opium War. The US government supposed that the trade battle would reduce approximately half of the trade deficit with China.

### 2.3 Intellectual property practices

China's intellectual property (IP) practices might impact the interests of U.S. companies. The IP practices could be divided into two parts: (a) forced transfer of technology, which means a foreign company have to cooperate with a local Chinese company (normally state-owned) to sell its products, and the later company might become a competitor in the future in global markets; (b) "intellectual property theft", including counterfeit goods, pirated software, and theft of trade secrets.

### 2.4 Thucydides Trap

China as an emerging power might take the place of the United States as the world leader. There is concern that China seeks to weaken the national security of the United States and to strike back when China is not strong enough might be a good idea to maintain the international standing of the United States. Just as the Thucydides Trap indicating, the growth in power of China, an emerging country, and the alarm which this inspired in the United States, are the reasons why there must be competition or even war.

## 3. Statements and opinions from both sides

The United States is widely considered as the war "declaimer", although there is opinion that China should be responsible for the war. Therefore, this article firstly examines the statement of the United States Trade Representative (USTR), who is responsible for coordinating U.S. international trade and negotiating with foreign governments on related issues, and other official documents published by the U.S. government.

USTR suggests that the China's record of compliance with WTO rules is "poor", and current Chinese practices disadvantage or harm U.S. companies and workers severely. USTR acknowledges that the United States is using all available tools to strike back, but the goal is to establish a "fair, reciprocal and balanced" trade relationship with China. (United States Trade Representative, 2019) USTR also emphasizes that China, having more fully embraced a state-led, mercantilist approach to the economy and trade, has failed to comply with the expectations that it should not only adhere to WTO rules, but also pursue open, market-oriented policies.

On the other side, the Chinese government suggests that the U.S. actions have brazenly preached unilateralism, protectionism and economic hegemony, which not only harms the Sino-American relations but also threatens the multilateral trading system. The Chinese government states that the trade relationship between two countries is win-win

and this relationship bring concrete benefits to both U.S. producers and consumers, which is adverse to the assessment of the United States. The Chinese government criticizes the trade protectionist practices and trade bullyism practices of the U.S. administration, especially the abuse of non-tariff barriers, large subsidies and "national security review". (Information Office of the State Council of the People's Republic of China, 2018)

As shown above, both sides show extremely contradictory attitudes towards the current trade war.

## 4. Who is the "Offender"

### 4.1 The WTO-related commitments promised by China

There seems to be a consensus that not all the commitments promised by the Chinese government before its accession to WTO are fulfilled. Even Long Yongtu, former Vice Minister and the Chief Representative for Trade Negotiations of Ministry of Foreign Trade and Economic Cooperation of China, acknowledged to the media that China's commitment to WTO is mostly satisfactory but still harbours minor defects. (Bai, 2018) However, pro-China scholars and commentators suggests that most of the main commitments have been carried out well, or even exceeding expectations. For example, the tariffs are much lower, and 120 service industries have been opened to foreign investors, while the WTO's requirement is 100. (Yu, 2018) Since the United States didn't adopt a negative stance toward China's WTO compliance until after 2016, it might be an excuse rather than a fact.

On the contrary, there are also many scholars, even in China, making challenge to the pro-China opinions. Even though China has indeed made some progress, it is far from enough. The market forces are still limited in China, and foreign companies are still discriminated in many industries, even though China has promised "make best efforts to reduce and eliminate" such barriers. Besides, China continues to provide prohibited export subsidies to specific industries, making the international trade competition unfair. (Interestingly, the United States is also similarly criticized for providing prohibited export subsidies) The government is never ready to implement any political reform, but even former Premier Wen Jiabao acknowledged, "without success in political reform, economic reform will not be successful." (Hung, 2004)

Pascal Lamy, Former WTO Director-General, provided a smart answer to the media: "China has done really well in terms of implementing its long list of commitments. But no country is above criticism. ... What I can say is that members have complained about certain services sectors not being open sufficiently and that intellectual property rights protection needs to be improved." Since it's difficult to quantize the percentage of China's implementation of commitments, the answer to the question might highly depend on the position of the respondent.

#### 4.2 Is China stealing the intellectual properties of the United States?

As mentioned in the second section, IP issues could be divided into two parts: (a) forced transfer of technology, and (b) “intellectual property theft”.

For forced transfer of technology, pro-Chinese opinions denies that the foreign companies are forced to yield their rights. However, it seems that the foreign companies refusing to do so might face some challenges to access the Chinese market. Considering that the Chinese market is too large to ignore, even though some foreign companies are forced, they might be willing to cooperate for more commercial interests. Pro-US opinions suggests that such practices might weaken the global competitiveness of the United States in a long-term basis.

As for the “intellectual property theft”, there is no evidence showing that counterfeit goods, pirated software, and theft of trade secrets are the national behaviour of China. It’s obvious that pirated software exists in almost all the countries, so does counterfeit goods and theft of trade secrets. However, it is also reasonable for some people that the Chinese government should take responsibility to eliminate the illegal products, and it failed to do so. Besides, some major companies of China, e.g. ZTE and Huawei, does have some bad records in the domestic judicial system of the United States.

#### 4.3 Who is weakening the international trade system?

Even though the United States criticized that China is weakening the international trade system, the United States itself has a poor record on weakening the whole international systems, especially considering that the United States has withdrawn from some important international organizations, e.g. UNESCO, and critical international agreements, e.g. Paris Agreement. Compared with the United States, China is more welcome by the international organizations, partly because the Chinese government is more generous in recent years.

From the perspective of China and pro-China scholars, the United States is breaking the international trade system, by frequently violating the WTO rules, and refusing to comply with the ruling of the Dispute Settlement Body of WTO. Even scholars from Europe and America criticized the United States for its attitude towards the dispute settlement system, especially its tactic of blocking appointments to the WTO’s Appellate Body.

However, pro-US opinions suggest that the Appellate Body itself is unfunctional, and fails to respond to China’s unfair trade policy. The consensus-based decision-making engine mechanism makes any reform of WTO nearly impossible, and it is therefore reasonable for the United States to suspend its support to the system.

#### 4.4 China: A developing country but too big

The status as a developing country is not only about the kudos of a country, but also significantly linked to some specific benefits in the current international system. China claimed

itself to be a developing country when it entered the World Trade Organization, and it has remained the claim until today. As a developing nation, China is allowed by the WTO rules to take on fewer commitments than developed nations. In other words, China is gaining special financial and economic privileges from the status.

The pro-US opinions might suggest that even though China was poor indeed in 1986, when China started the process of joining the WTO, there is a huge increase of GDP, GDP per capita, and nearly all main indicators. Thus, the situation is unfair to the United States.

However, as President Xi stated, the Chinese government is still recognising the country as a developing country. It is still fighting hardly with poverty, especially in the Western area of China. The GDP per capita is far lower than the main developed countries, e.g. Japan and the United States. The pro-China opinions suggest that the privilege gained from the WTO rules is fair because the rules are designed to protect the developing nations from insuperable competition which might destroy the domestic economic system. What’s more, the substantial income inequality in China should be also taken into consideration.

Importantly, the developing status in the WTO is basically self-selected or self-claimed. Therefore, it is a political decision rather than a fact.

#### 4.4 Others

There are still many secondary disputed points regarding the main question. For example, the exact effect of the trade war and its harm to both sides, which might lead to further discussion on whether the interest of innocent people is influenced, and should we take citizens into consideration. What’s more, it is essential to understand the relationship between domestic law and international law, but there is still intense academic debate. In conclusion, both sides might find evidence in their favour, and international politics is too complicated to distinguish guilty from innocent.

### 5. Conclusion

Fact is not only fact, but is about position. When it comes to the exact amount of the trade surplus between the United States and China, we surprisingly found out that there is a huge gap between the data from two countries. The method of collecting and analysing data largely impacts the result, and the result, or fact, is the foundation of any discussion.

The modern international community has abolished the implementation of Machiavellianism, believing that no tool cannot be used by the nation for acquiring national interests. However, national interests indeed are the core of international relations. Generally speaking, the trade war is not a consequence of certain misconducts of China or the US as each condemnation against either one of them can be dichotomous according to the different stance; instead, it is caused by the transition of power and the pole-changing situation of the world politics. Here came the war when an old dominant power is in declination while the new power is rising to challenge the old. But to justify both countries can do

no good to the discussion over this topic, and thus the authors want to point out that if one country should be responsible for the inextricable disputes and the prolonged conflicts, the one that pushes too far should be blamed.

Communication and cooperation are essential for all the human beings, and to solve the disputes peacefully will definitely contribute to the sustainable development of all countries. There is a joke saying that, idealists think beautiful, but realists are always right. However, if all of us act as realists, the Thucydides' trap is unavoidable. All countries, of course including both China and the United States should respect the international system established by the current and previous generations, in order to avoid the most miserable fate of humanity.

International Development, Sustainable Development, Gender Studies, Human Security and other fields of Social Sciences.

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