THE CLASH OF TITANS OR US - CHINA TRADE RIVALRY

PAUL BOGDAN ZAMFIR
LECTURER Ph.D. CONSTANTIN BRÂNCUŞI UNIVERSITY OF TÂRGU-JIU, ROMANIA
e-mail:alchimistul35@gmail.com

Abstract:
This paper aims to investigate one of the most controversial current economic issues, respectively the trade war between United States(US) and China, from the perspective of applying a protectionist policy in their bilateral trade. Also, as a result of its special role in the equation of this research are presented the main current issues which affects Sino-American bilateral trade. In addition a special focus is on economic demands launched by the United States to China which are analyzed in the scientific content of the paper, using in this sense, a methodological framework according to the research in question. Further are highlighted the effects of this war, both from the perspective of the two belligerent countries that are United States and China, as well as in the vision of World Trade System. There are also some real causes are mentioned that were on the basis of this trade war along with the potential risk of triggering the global economic crisis. Because the trade war between the two largest economies in the world but it is far from ending, in the near future the prospects of Sino-U.S. relations on long-term will be hit by serious question marks. The trade war between the two largest economies in the world is far from over. There is also little hope for the two sides to strike a comprehensive agreement in the near future, and the prospects for the long-term Sino-American relationship are fraught with major uncertainties.

Keywords: *United States, protectionism, China, custom duties, bilateral trade, trade war, Entity List*

Classification JEL: *F13, F14, O51, O53*

1. Introduction

According to (Bondarenko, 2019) trade war represents ”the situation where countries repeatedly fight back against each other by increasing the tariffs on the products of the other ”. In recent economic literature (Ghibuţiu, 2018) is sustained the idea that the trade conflict between the two largest economies of the world respectively US and China made its mark on the growth of the world economy, generating even recession fears.

But more economies in Asia, like Vietnam and Taiwan have benefited from it under the conditions in which a growing number of companies moves their production from China and US importers are looking for alternatives to chinese goods.

The economic struggle of the 21st century has begun now and is a fierce battle for economic supremacy between the two economic superpowers of the world, USA and China, especially in the field of advanced technologies. Against this background, the economies of the European Union will benefit from the trade conflict, on the condition that increasing tensions does not to affect the US and China economies so as to be not forced reduce dramatically their imports. If the barriers are higher between China and the US, their bilateral trade will decrease.

2. Brief remarks on the US-China trade war

The US - China trade war has yet been started from 2018, by the decision of the Trump Administration to impose an increase with 25% customs duties on steel imports and 10% at aluminum imports from China.**[3]** Thus, from that moment, these tarrifs have been constantly climbing, currently covering custom duties applied by US to imports from China of 253 billions USD (about half of US annual imports from China) and respectively, custom duties of retortion imposed by China on US imports,worth 113 billions USD (most Chinese imports from the US).

Moreover, the trade climate between the two powers became more tense when the US Government has proposed introducing additional tariffs on goods imported from China (for example: TVs, medical equipment, aircraft components and batteries), worth 50 billions USD. These actions - mostly unilateral and extremely discriminatory - are incompatible with the rules of World Trade Organization (WTO) and affects not only the two parties involved, but at the same time they have strong global reverberations.**[4]** Trade barriers would not only affect both countries, but it would have a negative impact, global supply chains, raising prices for consumers around the world.

In addition to the protectionist trade policy applied by US on imports of certain product categories from China, US Commerce Department adopted a document entitled Entity List, that is, a list of foreign companies to which American companies can no longer sell technology without the explicit consent of the US Government. Among the most important Chinese companies appearing on the Entity List is Huawei the second largest producer of smart phones**.**

3. Current issues that affects US – China trade relations

In terms of trade with China, US is accusing a number of interconnected issues, that are largely justified, but which at the same time generated confusion among Chinese officials and negotiators, whereas at different times of this trade conflict The Trump Administration referred to various topics, also formulating different requirements against China. **[7]** Further are presented the main sensitive economic themes which affects the US trade with China respectively: trade balance, restricting investments in USA and China, customs duties and non-tariff barriers, theft of intellectual property and technology, the status of the Chinese economy without an open market, as can be seen in Table no.1.

Table no.1 The main economic requirements of US to China

Themes	**US requirements**
1. Trade balance	China should reduce its trade surplus in trade with the US 200 billion dollars until the end of 2020 compared to the level of 2018.
2. Restricting investments in the US	China cannot take retaliatory measures against the US by issuing the significant restrictions on Chinese investments in strategic sectors.
3. Restricting investments in China	China must facilitate the investments of US companies, to remove restrictions on foreign investments and property requirements.
4. Customs duties and non-tariff barriers	China must continue to open its economy to importsand to reduce customs duties at US levels in all "non-critical" sectors. China should also eliminate some non-tariff barriers to import in many major sectors.
5. Intellectual property and technology theft	China must immediately give up subsidies and other means of supporting industries contained in its strategic plan "Made in China 2025", to stop policies to promote technology

	transfer and eliminate the theft of intellectual property supported by the government.
6. China's statute of economy without open market	China has to give up its status as an economy with no open market invoked by the US within the World Trade Organization

Source: Informations synthesized by the author based on data from Bey, M. (2018)

Which would be the main trade issues raised by the US in relations with China?.

First of all, there is the bilateral trade imbalance, being known that, in the context of President Trump's trade policy reducing the US trade deficit with China is a priority. Most American economists appreciates however, that this deficit is not a major issue and in any case it cannot be resolved through customs duties.**[1]** China records trade deficits with many countries exporting natural resources and surpluses with some advanced economies, such as the U.S. which imports processed products from this country. Thus, the US Administration would be desirable to reach an agreement to sell more in China, especially agricultural and energy products, which would reduce China's trade surplus.

Secondly, the US accuses China of maintaining numerous restrictions on market access, starting by imposing of very high customs duties. For example, until recently, customs duties imposed by China on the import of motor vehicles were 25%, and even though they were recently reduced to 15%, their level is still very high. Then there are numerous sectors in which China restricts foreign direct investment, usually demanding the foreign companies to be minority partners in joint ventures. China's protectionism in the sphere of investment puts foreign companies in a disadvantageous position, resulting in a technology transfer to Chinese state-owned enterprises, which subsequently become their competitors.**[8]** But it is just as true that, newer, China has shown availability to reduce restrictions in the field of motor vehicles and financial services, which can be a positive aspect in the current context of the US - China negotiations, conducted with the purpose of finalizing the trade dispute.

The third problem, closely related to the second, but probably the most stringent, is the technological competition between the two largest economies from the world. The accelerated pace of technological progress - and especially the potentially transformative technologies, such as the next generation of telecommunications networks (known as 5G), artificial intelligence and quantum computers - is the factor that generates the fear of Washington.

Therefore, China's efforts to take over the technological leadership - and in particular the Made in China 2025 initiative, which aims to establish China's supremacy globally in the high technology sectors - are considered by US officials as an existential threat for US national security and economic competitiveness. Chinese companies are relevant in this regard, like Huawei, which have prevailed globally through the theft of intellectual property and maintaining close relations with the Chinese state, and gaining more and more influence, contributing to the establishment of international standards.**[6]** Both the US and China allocate the most substantial sums for research and development expenses worldwide and, naturally, there is a fierce competition for the development of future technologies.

Of course, as long as it is done fairly, competition is healthy, stimulating each country to make progress. The problem is that this competition is distorted by China in several ways, as advocated by the White House. So, Chinese companies operating behind protection barriers often obtain additional resources to capitalize on their innovations in the world. China's Industrial Development Plan, Made in China 2025, sets goals for achieving self-sufficiency in key industries, and some of the tools aimed at achieving these goals will certainly violate market rules. Direct grants to innovators and state-owned enterprises also tilt the balance in favor of Chinese companies in the field of advanced technologies. At the same time, the weak protection of intellectual property rights in China, especially in the case of foreign companies, endangers American technologies. Finally, as some recent reports suggest, China still allows cyber theft of trade secrets In this context, it seems unlikely to accept changes to China's strategic plan called "Made in China 2025" on the development of leading industries even if it would become possible the acceptance of US requirements, especially those related to reduce the deficit of trade balance or increasing the access of American products on the Chinese market.**[5]**

On the same note, the protectionist measures initiated by the US have two main goals: on the one hand the reduction of the US trade balance deficit on the Chinese relation (- 419. 53 billions USD in 2018) and, on the other hand, the reduction of both tariff and non-tariff trade barriers for American products exported to China.**[6]** Thus, the statistical data provided by United States Census Bureau indicates that the total value of US exports to China has registered 123.65 billions US dollars in 2014, recording a slight absolute decrease of 3.5 billions USD, respectively by 2.83 percentage points in 2018. as it can be seen in Table No. 2.

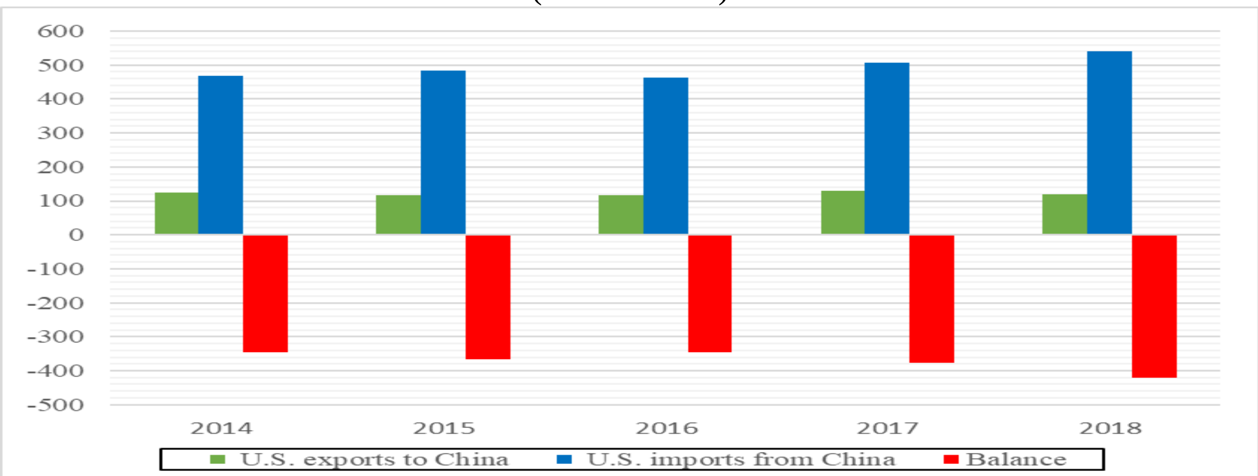
Table no.2 The US - China trade during 2014-2018
(billions USD)

Years	**2014**	**2015**	**2016**	**2017**	**2018**
US Export to China	123.65	115.87	115.54	129.98	120.15
US import from China	468.47	483.20	462.54	505.47	539.68
Balance	-344.82	-367.33	-347	-375.51	-419.53

Source: United States Census Bureau

In another train of thoughts referring to evolution of American imports from China can be observed that the trend is relatively constant with small oscillations within the analyzed range. Thus, if in 2014 the value of US imports from China reached the level of 468.47 billions USD, in 2018 increases to 539.68 billions USD. With regard to evolution of US - China trade during the analyzed period, respectively 2014-2018 is the eloquent the figure below where it can be seen the relatively low level of USD exports on the Chinese market in relation to the oversized value volume of imports, from which appears the worrying trade deficit of the USD with China.

Figure no.1. The volume of US trade with China during 2014-2018
(billions USD)



Source: United States Census Bureau

Relative to U.S. imports from China, it can be observed that in the reference period 2014-2018 the trend is approximately linear presenting small variations. Thus, it is important to underline that the minimum level of imports was 462.54 billions USD in 2016.

Thus, in 2018, US trade deficit with China resides in the value of US exports to China which was only 120.15 billions USD, compared to US imports from this country which reached the level of 540 billions USD.**[9]** The trade deficit exists because US exports to China were only 120.15 billions USD, while imports from China were 539.68 billions USD.

In this analyzed period respectively, 2014-2018, the vast majority of American imports from China were represented in essence of the following categories of goods: computers, accessories, mobile phones, clothing and footwear. The authors of these imports are the american companies themselves, which target to obtain low costs and ships raw materials to China for assembly, such that the finished products shipped back to the US are considered real imports. On the other hand, with regard to US - China trade it can be seen that Chinese imports from the US consist mainly of: commercial aircraft, soybeans and motor vehicles. Also, at the same time with the outbreak of the Sino-American trade war, respectively in 2018, China has given up to soybean imports from the USA.

In the global economic context, it is undeniable that in the plan of international production of consumer goods China has a competitive advantage compared to the other countries participating in the world circuit which is reflected in reduced costs, which naturally determines attractive prices in trading of this category of products.

Therefore, it is clear that Americans want to buy these goods by paying the lowest prices. In this approach arises inevitably this question. How China succeeds practice such attractive prices for consumers around the world? A possible answer to this question is offered by most economists who appreciate rightly that China's competitive prices represents the result of the following two factors combined:

1. A significantly lower standard of living, compared to the US, fact that allows of Chinese companies to offer lower wages to their workers.

2. An exchange rate that is partially expressed in the currency of the United States, respectively USD.**[10]**

If the United States decides to apply trade protectionism, American consumers are forced, in this situation to pay high prices for "Made in America" goods. Under these circumstances becomes unlikely as the US trade deficit with China decrease because most consumers are willing to pay less for computers, electronics and clothing, even if this supposes that many Americans lose their job.

At the global level, China is the country with the largest population and economy. Given these characteristics becomes a categorical imperative for China to share its production between almost 1.4 billion inhabitants. In this equation one of the most relevant macroeconomic indicators in quantifying the standard of living in China is the Gross Domestic Product per capita which in 2017, was raised to the level of 16.600 USD.

In the end of this section, it should be mentioned that China mainly reports the national currency respectively the Yuan to the US dollar using for this purpose a policy of fixed exchange rate. Thus, China buys US dollars from the US Treasury thus providing support for the American currency. Lately, more precisely since 2016, China has changed its position on monetary policy following in this sense as market forces to have a more pronounced impact on the yuan, such that convert the dollar to yuan it became more volatile. Against this background, China's influence on the dollar remains substantial conversion of the US dollar.

4. Conclusions

There is no doubt that commercial dissensions of the two largest economies in the world far exceed the parameters of imports and exports, that is, the sphere commercial itself. In this game there are many other problems of bilateral relations, much deeper than the US trade deficits in China's relationship, forced technology transfers or theft of American intellectual property, which, of course, have a tangency withthe topics of national and military security.

The current US - China trade conflict is an expression of the rivalries between these two great powers exceeding the limits of traditional trade disputes or even of a technological war. In other words, this trade dispute consists in fact, not only in a battle for technological supremacy, but it aims, above all, a struggle for global hegemony.

More thant that, customs duties aggravates not just US - China relations, or between the US and many other countries, but simultaneously increase the risk of undermining the growth of the world economy and the collapse of international cooperation in the sphere of trade, reason for that the latest escalation of tensions between the US and China trade is particularly worrying. The effects of the US - China trade war are already felt, generating costs, that, although are still negligible, can have major repercussions in the economic global context. At the aggregate level, the direct effects of restrictive trade policy measures, recently introduced are relatively modest, but which are already translated, through significant changes, in terms of trade flows and prices, generating costs in the case of sectors and products covered by these measures.

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