China-US Trade War Unveiled: Analyzing the Root Causes and Effects

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Abstract. The China-US trade war has emerged as one of the most significant and complex issue in contemporary international trade. It affects not only the cooperation between the two countries, but also the global economy. Therefore, the analysis of China-US trade war has significant meaning in understanding the global trading system and making economic forecasts. This paper analyses the causes of trade war from the perspective of trade deficit, globalization, and property rights, indicating that the US started trade war for its own interest and felt the stress from the development of China. Apart from causes, the effects are also crucial. This paper analyses the import and export volume, investment effect, economic effect, and political effect, showing that the impacts of China-US trade war are widespread. Based on the analysis above, this paper gives several suggestions in the hope that China and US could strengthen exchange and cooperation, reduce trade disputes, and contribute to the development of global economy.

1 Introduction

Nowadays, the global economy is recovering with the end of the COVID-19 pandemics, but the economic growth is slowing down. According to the International Finance Forum (IFF)'s Global Finance and Development Report 2023, the global economy is expected to grow by 3.1% in 2023, down from 3.4% in 2022. Developed economies are expected to grow by 1.5% and developing economies by 4.1%.

At the same time, due to geopolitical conflicts and inflation and other factors, the development of global economy is full of uncertainties. A growing number of countries are using trade restrictive measures in the name of "national security", and the global economy is experiencing the countercurrent of "deglobalization" [1].

As one of the most important economic and trade relations in the world, trade frictions between China and the US are bound to affect the situation of global economic development.

This paper analyses the China-US trade war from the import and export volume, the relationship between the two countries, and the economic development of the two countries. Most importantly, this paper gives some reasonable and feasible suggestions based on the analysis.

According to the existing literature, whether in trade, investment or financial relations, the decoupling trend between China and the US is expanding, and the degree of interdependence is decreasing [2].

Some scholars believe that trade frictions are detrimental to both China and the US, along with the escalation of trade frictions, the losses to both countries would be greater [3, 4].

Many other countries apart from China and the US are being directly involved. For developing countries, on the one hand, China-US trade war have had a great negative impact on global economic integration and on the export and employment of developing countries. On the other hand, it has brought new opportunities to developing countries, including attracting foreign investment, and expanding export markets.

Therefore, this article explores the causes and effects of trade frictions and puts forward countermeasures and suggestions.

2 China – US trade war

2.1 Background

The relations between China and the US, as one of the most significant bilateral relationship, have been developing in frictions and twists since the establishment of trade between the two countries.

The China-US relations began to take shape and have entered a new stage of development since the establishment of People's Republic of China in 1949. However, the relationship between the two countries was strained during the Cold War, and the outbreak of the Korean War in 1950 further soured the China-US relations. Meanwhile, there was little cooperation between the two nations in various fields because of their divergent ideologies and moral standards.

Since China's reform and opening up, China-US relations have greatly improved. In 1978, Deng Xiaoping visited the US, opening a new chapter in China-US relations. Since then, there has been a growth in the two

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nations' economic and trade, cultural and educational interactions as well as collaboration. With the signing of many agreements, such as August 17th Bulletin and September 3rd Statement, the relationship between the two countries has become more stable and friendly [5, 6].

However, due to the diverse conflicts of interests between the two sides, there are still many unstable factors in China-US relations. For instance, the scientific and technological advancements in China have garnered attention from the US. Against this backdrop, the China-US trade war broke out.

2.2 Process

In March 2018, US President Donald Trump announced tariffs on steel and aluminium imports from China, triggering the first wave of the trade dispute. Subsequently, China also imposed tariffs on some imports from the US to counter its action. There followed a period of tension as both sides started to impose tariffs on each other. Despite the trade agreement, there are still some areas of friction in China-US trade. Refer to Table 1 below, which describes the key points in time of China-US trade war.

Table 1. The process of China-US Trade War.

Time	Events
Jul, 2018	China-US Trade War begins
Dec, 2018	Call a truce in the trade war at the G20 summit
May, 2019	US adds Huawei to 'entity list'
Jan, 2020	Phase-one trade deal signed
Sept, 2020	US issues restrictions on import of Xinjiang cotton
Mar, 2023	The US Department of Commerce decided to re-exempt 352 categories of Chinese imports from tariffs
Sept, 2023	The Customs Tariff Commission of The State Council released the 12th list of goods subject to additional tariffs imposed by US

2.3 Causes

2.3.1 Reducing the US trade deficit

A trade deficit is when the value of goods and services imported by a country or region exceeds the value of goods and services exported. A trade deficit is often considered a sign of a country or region's declining economic strength, as it reflects an over-reliance on external resources and a lack of competitiveness in domestic industries.

The US has trade deficits for a long time [7]. According to the data of the US Department of Commerce in 2017, the US imports of goods and services in 2017 were $2,895.3 billion, exports were $2,329.3 billion, and the annual trade deficit was $566 billion, a new high since 2008. Among them, the trade deficit with China and Ireland are at record highs. The US government has been trying to narrow the trade deficit through various means, such as launching a trade war, promoting the return of manufacturing, and raising tariffs.

Figure 1 below shows the trade balance between China and the US from 2017 to 2022, indicating the trade balance of two countries has fluctuated with the beginning of trade war.

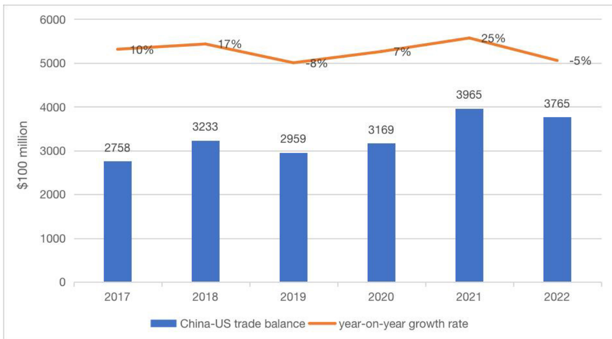

Fig. 1. China-US trade balance (Source of data: US Department of Commerce, General Administration of Customs of China; Picture credit: Original)

2.3.2 Slowing down globalization

As globalization continues, many countries have benefited greatly. For developing countries, cheap labor attracts a lot of investment and foreign companies, while for developed countries, they can enjoy low costs and accelerate economic expansion [8].

In the past, US's global advantage was concentrated in three areas, which includes industrial advantage, technological advantage, and the dollar and military hegemony. Nevertheless, these advantages are gradually disappearing with the development of globalization. Owing to globalization has boosted global trade and capital flows, it has given other countries more opportunities to participate in international markets. In addition, developing countries have pushed for local currency settlements to reduce price pressures on their exports, which has undermined the dollar's global role.

As the world's largest trading country and the second largest economy, China's development process of capital globalization has triggered concerns and reactions from Western countries, especially the US. From the beginning of President Trump campaign, he has slightly shown support for "America First" ideology and may advocate slowing down the globalization of the US. Therefore, the US launched a trade war in an attempt to decouple China-US trade, undermine the stability of the global industrial chain, and achieve its purpose of anti-globalization.

2.3.3 Protecting US property rights

The rapid development of China's economy and technology has made the US worry that China would change the world order, and President Trump and his administration have been worrying about China for it may threaten US's high-end technological property. To safeguard US's intellectual property rights, particularly in the realm of advanced technology, the US implements sanctions and restrictions on China. On August 13, 2018, the President of the US signed the Export Control Reform Act and the Foreign Investment Risk Review Modernization Act. These measures aim to reinforce restrictions on high-tech exports and limit foreign companies' access to technology through investments. Meanwhile, the $50 billions of Chinese exports that the US has imposed tariffs on are mainly targeted at the high-tech sectors outlined in the "Made in China 2025", reflecting the intention of the US to curb China's efforts to close the technological gap.

2.4 Effects

2.4.1 Import and export volume

The proportion of China-US trade in the foreign trade of the two countries has also dropped significantly. According to the data released by the General Administration of Customs of China, the trade volume between China and the US from January to July 2023 was 381.514 billion US dollars, down by 15.4% year-on-year, of which China's exports to the US fell by 18.6% to 281.655 billion US dollars, and China's imports from the US fell by 4.7% to 99.859 billion US dollars. China's trading relationships have shifted, with the US now ranking as their third largest trading partner, trailing behind the Association of Southeast Asian Nations and the European Union.

In terms of specific trade items, China-US trade in high-tech products continued to shrink. According to the statistics of the US Department of Commerce, the import and export volume of high-tech products in the US has increased in 2022, but the proportion related to China has decreased. In 2022, the US imports of high-tech products from the Chinese mainland decreased by 0.4% year-on-year, accounting for only 23.7% of its total imports. The US exports of high-tech products to the Chinese mainland also decreased by more than 30 billion yuan, a year-on-year decrease of 2.4%. Among them, the optoelectronics and information and communication industry are the largest decoupling between China and the US. The total amount of optoelectronic products exported by China to the US has gradually declined, and the total amount of optoelectronic products imported by the US has shrunk seriously. In 2016, China's total exports of optoelectronic products to the US reached 5.6 billion US dollars, and by 2022, it fell by 67.6%, and its total imports fell from 22.39% to 6.35%.

The US has been the world's largest exporter of soyabeans and China's biggest importer for a long period of time. However, after the outbreak of the China-US trade war, US soybean exports to China have also fallen. In July 2018, the US imposed 25% tariffs on $50 billions of goods shipped from China, including soybeans. In response, China has imposed 25% tariffs on $50 billions of goods shipped to the US, including soybeans. This has led to a sharp drop in soybean trade between China and the US. According to customs data, China imported only 16.73 million tons of soybeans from the US in 2018, more than 50% less than in 2017.

Due to trade friction, China and the US have to carry out trade diversion, importing other countries' goods at relatively high prices to meet their own needs. For example, US imports from China may be diverted to Mexico, while China mainly transfers imports to countries such as Brazil.

2.4.2 Investment effect

In recent years, the US has gone further and further on the road of "safety" of economic and trade issues, and its investment security review mechanism for Chinese enterprises has become increasingly strict, which has directly led to the precipitous decline of Chinese enterprises' investment in the US [9].

Moreover, trade frictions have led to an unstable investment environment, and the restrictive measures and tariff policies of the US have made foreign investors insecure about China's investment environment. Simultaneously, China's additional tariffs on US products have increased the production costs of US companies and weakened the competitiveness of US companies in the Chinese market. All of these factors ultimately led to a decline in investment inflows to China.

Large US multinational corporations are responsible for the majority of US investment in China, whereas smaller and medium-sized US companies are hesitant to include China in their future investment strategies. This also indicates that the overall level of US investment in China is lower compared to similarly sized economies in other countries.

Trade frictions between China and the US have also increased the pressure on the depreciation of the RMB exchange rate. Investors may reduce their investment in the risky currency like RMB because of the fear of trade tensions, especially under the circumstance where trade frictions may cause uncertainty. In other words, they would choose to buy more stable currencies, such as the US dollar, and this may lead to the decline of the RMB exchange rate.

2.4.3 Economic effect

China and the US are the world's two largest economies, and trade frictions between them are bound to have a significant and far-reaching impact on the global economy [9]. According to estimation by the World Bank and the International Monetary Fund (IMF), the China-US trade friction could reduce global economic growth by 0.5% to 0.8%.

Not just for the global economy, trade frictions are also detrimental to both China and the US, and with the escalation of trade frictions, the losses to both countries could be greater. The combined impact of the two rounds of trade frictions shows that the real GDP, employment, social welfare and trade of China and the US have deteriorated [10].

GDP is the core index of a country's economic activities, which reflects the total value produced by a country or region in a certain period of time. There are many factors that affect GDP. For example, the level of investment is one of the main factors affecting GDP. An increase in investment means that more funds are available for production and operation, which will promote economic development and increase GDP. The previous analysis of the trade war led to a decline in investment, which in turn affected GDP.

Trade war has an impact on the economies of China and the US by affecting their international trade. International trade refers to the cross-border exchanges and transactions of goods, services and capital between countries or regions. In 2019, the total foreign trade of the US accounted for 19.7% of GDP, while China's total foreign trade accounted for 31.87% of GDP, higher than that of the US. This shows that China is more dependent on foreign trade. Therefore, in the short term, the trade war is likely to have a greater impact on China than on the US. As the data shows, the escalation of the trade war has reduced the GDP of China and the USA by 1.41% and 1.35% respectively [11].

Figure 2 shows the GDP of China and US, and the economic growth of the two countries both slowed down slightly after the trade war began. It also shows that China may suffer more than US based on the 2021 and 2022 China's GDP.

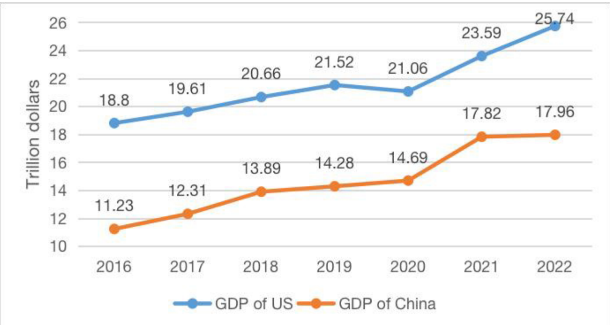

Fig. 2. China and US GDP (Source of data: National Bureau of Statistic, US Bureau of Economic Analysis; Picture credit: Original)

2.4.4 Political effect

As the China-US trade war continues, international trade rules will be affected, which includes the impact on the World Trade Organization (WTO). WTO is a global organization that oversees and regulates international trade rules. Its primary goal is to encourage and facilitate the liberalization and growth of global trade. It strives to create a fair-trading environment for its member nations and guarantees the fairness, transparency, and predictability of trade regulations. However, the unilateralism of the US and the pursuit of its own interests run counter to the WTO.

Since World War II, the US government has adhered to the principle of most-favored-nation treatment, which applies the same tariff and non-tariff barriers to all WTO members. However, the Trump administration has withdrawn from the Trans-Pacific Partnership Agreement (TPP) and imposed tariffs and other restrictions on China, violating the principle of most-favored-nation treatment. Such unilateral actions not only caused a huge impact on China's exports, but also caused other WTO members to worry that the unilateral actions of the United States would undermine the global trade order [1].

Moreover, the US has used "Section 301" to impose huge tariffs on China. The "General Section 301" refers to a provision within Section 301 of the Trade Act of 1974 in the US. This provision originated from the Trade Expansion Act of 1962 and was subsequently modified by the Trade Act of 1974, and it mainly takes unfair measures against trading counterparties. Its main purpose is to protect the rights of the US in international trade practices and to prevent other countries from engaging in unfair or unjust trade practices. Under this provision, the US has the authority to conduct trade investigations on other countries and may also implement various measures, including import restriction, tariff increases, and the suspension of relevant agreements. In order to suppress the Chinese economy, the US government has imposed tariffs on Chinese imports through the "301 tariff" in the name of "national security". This act has worsened and complicated relations between the two countries [3].

3 Discussion and suggestion

A growth in trade between China and the US would positively impact the overall well-being and prosperity of both nations, while a decrease in trade will only reduce the collective welfare of both countries, creating a lose-lose situation in which there is no winner in a trade war.

To minimize trade conflicts between China and the US and establish a mutually beneficial trade atmosphere, both sides could make joint efforts and cooperation.

For the US, it is hoped that the US government can abandon its "decoupling" strategy and hegemonism, and no longer launch a trade war because it is worried about China's development. It is suggested that the US return to rationality and cooperation and work together with China to reach a fair and reciprocal trade agreement and achieve a win-win situation, also learn to respect each other's core interests and major concerns.

China could also make some adjustments to achieve its goal of self-development. To start with, China can stick to reform and opening up, attract the inflow of technology and capital from other countries, and not go on the road of self-isolation. China can also strengthen cooperation with other countries, especially Southeast Asia and Europe, to promote the construction of a common market. In addition, China should also pay more attention to high technology, continuously strengthen scientific and technological innovation, improve the ability of independent creativity, strengthen the training of scientific and technological personnel, encourage innovation and entrepreneurship, and keep core technologies firmly in its own hands.

For both countries, China and the US should strengthen their own economic restructuring, reduce their dependence on each other's markets and reduce the risk of trade frictions by increasing domestic demand, enhancing technological innovation capacity, and strengthening the development of the service sector.

4 Conclusion

The global economy is slowing down and full of uncertainty. As one of the most important economic and trade relations in the world, trade frictions between China and the US are bound to affect not only the domestic economies but the complex situation of global economic development. This paper aims to analyze the China-US trade war from different dimensions, start with the background and process of it, and discuss the causes for trade war, including trade deficit, globalization, and property rights. Meanwhile, this paper also studies the impacts of trade war from different angels, such as import and export volume, investment, economy, and policy. Most importantly, this paper gives some reasonable and feasible suggestions that helps to reduce the trade conflicts between two counties and form a friendly trade environment based on the analysis, and suggests China and US could both make joint effort and cooperation.

The limitation of the present study is that there is a lack of reliable data on imports and exports of specific categories of goods in the China-US trade war, for example, electronic components. Additionally, the analysis lacks the application of data and econometric models. The longer-term impact of the China-US trade war still need to be watched continuously, and may yet turn around as global trade patterns change. In further study, several questions still remain to be answered, for example, how can the trade war come to an end, what is the long-term effect of trade war, which country may suffer more. The usage of econometric model could also be considered in future analysis.

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