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Business, trade and investment relations between the USA and China

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Declaration:

I hereby declare that I am the sole author of the thesis entitled "Business, trade and investment relations between the USA and China ". I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague on .... Signature

Acknowledgement

I hereby wish to express my appreciation and gratitude to the supervisor of my thesis, *doc. Ing. Ludmila Štěrbová, CSc.*

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Introduction

Research Background

The People's Republic of China was established in 1949, but between 1949 and 1972, the People's Republic of China and the United States did not confirm diplomatic relations, and the US official only recognized the Republic of China as the sole legal government for the entire Chinese territory. After the civil war in China, the Chinese Communist Party gained political power and the Kuomintang government moved to Taiwan. To this day, whether Taiwan is an independent country or not is still a lot of controversy in the world. The purpose of this thesis is to understand and analyze the current economic and trade relations between the two countries, and does not focus on historical issues and political issues.

Mentioned in the World Bank database, "on 1 July 1997 China resumed its exercise of sovereignty over Hong Kong; and on 20 December 1999 China resumed its exercise of sovereignty over Macao. Unless otherwise noted, data for China do not include data for Hong Kong SAR(Special Administrative Region), China; Macao SAR, China; or Taiwan, China." (World Bank, 2018) Therefore, all data mentioned and adopted in this paper does not include Hong Kong SAR, China; Macau SAR, China and Taiwan, China. Data come from the World Bank, WTO, China and the US National Bureau of Statistics. This thesis mainly reviews the economic and trade relations between the two countries from 1949 to 2018. Since historical data records are not accurate and cannot be verified, many data are estimated, so only accurate data existed in the thesis that is, 1980-present statistics.

Research objectives

The trade between China and the United States not only has a direct impact on themselves, but also for the special economic status of the two countries in the world, it will radiate to the world. Therefore, the trade between the two sides is treated as a special case.

This thesis mainly enriches the content of the theory by understanding the trade structure and development of China and the United States from the early to the present, and further researching and analyzing the modern trade friction on the basis theoretical research. Through the analysis of trade wars between developing and developed countries, we understand the factors of international trade imbalance.

Main content

The first chapter mainly introduces the background of the topic, the purpose of the research and the research content. The second chapter mainly describes the trade history of modern China and the United States. The third chapter is an analysis of the recent trade war between China and the United States. Through the analysis and research of trade wars, we can understand the causes and impacts on the international market. The fourth chapter and the fifth chapter analyze and explain the main problems of the two countries in international trade through the understanding of the previous article. This is also the main problem involved in most international trade.

Based on the needs of different parts of the research, this thesis uses logic analysis, historical literature research, data research, qualitative analysis and quantitative analysis methods to try to analyze the trade between China and the United States in a more comprehensive and accurate way.

The last chapter is a summary of the views. Due to the continuous development of the world economy, trade between countries will become more frequent. China and the United States are the two largest economies in the world, and the trade patterns and problems between them are not only in themselves, but also the difficulties brought by economic globalization to the importing and exporting countries of the world. Effective settlement and negotiation, ensuring the interests of both parties, and jointly promoting the development of economic and trade is a permanent arrangement.

1 Review of trade between China and the United States

Trade between China and the United States began very early. However, in the turbulent world structure and after many wars, the trade relations between China and the United States are constantly changing. Today, China and the United States both play an important role in the global value chain. The main nodes of trade between the two countries are the following four stages.

1.1 Modern time trade

In order to open up direct trade channels with China, American merchants drove "Chinese Queen" merchant ships carrying unique materials, such as American ginseng, fur, cotton, and pepper to Guangzhou in August 1784, and in the next year they purchased goods, such as tea, silk, porcelain, and lacquerware and returned to the United States. Since then, direct trade between China and the United States gradually increased. In the initial trade between China and the United States, the United States exported cotton to China and imported textiles from China. In the 1950s, China became one of the key markets for US textile exports.

From Chart 1, we can see that the trade between China and the United States has undergone several twists and turns. From 1905 to 1911, because of the US Congress implementing the "Chinese Exclusion Act," trade between the two countries fell from $75.88 million to $37.68 million. Since then, the Revolution of 1911 broke out in China. The economic environment in China has improved, and the market has become more open. Therefore, trade between the two countries has grown greatly. In 1929, the Great Depression took place, which led to a 46% reduction in US industry, 32% drop in commodity prices, 70% reduction in foreign trade, and a six-fold increase in unemployment. The worldwide economic recession caused a sharp drop in trade between China and the United States, and the total amount of trade fell from $236 million in 1929 to $107 million in 1933. In 1941, the outbreak of the Second World War also seriously affected the development of international trade. At that time, Japan occupied most of China's trade ports, and only a small amount of materials were transported from Southeast Asia to China. The trade volume between the two countries dropped sharply to $9.13 million in 1944. (Song,1992)

Chart 1 US-China Trade volume

Source: Song, J.-ping., (1992), 'China-US Trade Relations: Retrospect and Prospect', *World Economy*, 03, p18-23

1.2 New China and the establishment of diplomatic relations between establishment China and the United States

In 1949, the Chinese Communist Party gained political power and established the People's Republic of China. When the Korean War broke out in 1950, the new China sent troops to North Korea to fight the US military. As a result of the transport blockade, much of the trade had to be trans-shipped through third countries, and payment needed to be done by other means, which led to a rigid relationship between the two countries and had a very negative impact on trade.

In the late 1960s, the US government slowly improved its trade policy toward China, and the trade relations between the two countries gradually eased. At the same time, the trend of world trade began to shift to globalisation, which gives rich America the opportunity to cooperate with China, which has cheap labour and a huge commodity consumption market. In 1972, the US President visited China and laid the foundation for the establishment of diplomatic relations between China and the United States, and trade between the two countries began to recover.

According to the U.S. Department of Commerce, since the two countries restored their relationship, bilateral trade lines grew 11 times in the 70-year period, and their total value in 1979 was double the previous year. In 1973, an oil crisis occurred in the United States, which had a negative impact on western developed countries, and the growth rate of US GDP fell by 4.7%, so it was difficult to maintain the previous amount of international trade.

Table 1 China-US trade in 1970s

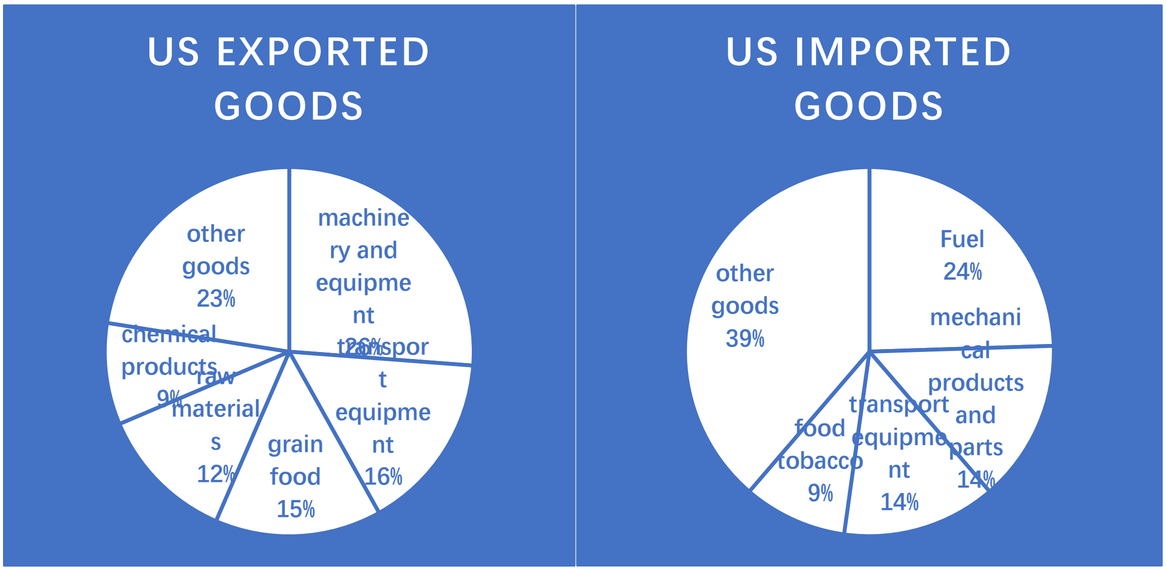
Total China-US trade (million dollars)								
Year	1972	1973	1974	1975	1976	1977	1978	1979
Amount	95	805	934	400	336	375	1148	2315

Source: Chen, S.-biao., (1980), ' New Development of Economic and Trade Relations between the Two Countries after the Establishment of Diplomatic Relations between China and the United States', *International Trade Journal*, 02

In terms of trade structure, in 1974, China's main imports from the United States were primarily agricultural products, such as wheat, soybeans, and cotton, of which total imports of wheat and soybeans totalled $279 million—30% of total imports. By 1979, the United States had become China's third-largest importer (after Japan and West Germany), where the share of imported industrial products had increased from 26% in the previous year to 35%, and exports were mainly agricultural products, textiles, petroleum products, and light industrial products. This change in the structure of trade is mainly due to China’s gradual shift toward industrial development, the gradual improvement of domestic production capacity, and the reduction of food demand, while handicraft products and light industrial products are gradually reflecting advantages in the international market. (Li, J.-liang., 1980)

At the same time, we can see the structure of import and export goods in the United States. Exports: machinery and equipment 26.2%, transport equipment 15.7%, grain food 14.6%, raw materials 12.1%, and chemical products 8.9%. Imports: fuel 24.5%, mechanical products and parts 14.2%, transport equipment 13.5%, food and tobacco 9.1%. China's main exports are food, live pigs, textiles, tea, oil, etc. As can be seen from the structure of the import and export of goods, the goods exported by the United States are needed by China, but the goods exported by China are not needed by the United States, which also creates a huge trade deficit between the two countries.

Chart 2 Structure of import and export goods in the United States



Source: Li, J.-liang., (1980), 'China-US Trade Relations in the 1970s', *Journal of Jinan University*, 04, p61-70

1.3 China's reform and opening up

As a populous country, China’s economic development in the early days of the country was very slow, and most people lived in distress. In order to carry out economic cooperation and seek better economic development, in the late 1970s, China’s government implemented the policy of reform and opening up, and economic and trade relations between China and the United States made enormous progress. At the same time, China and the United States signed the "U.S.-China Trade Relations Agreement" in July 1979, which stipulated that the two sides would grant MFN treatment to each other, and the agreement entered into force on January 1, 1980. The agreement also provides for bilateral exchanges in agriculture, science and technology, mechanisation, and other industries. Looking back at the social environment and economic policies of the time, the United States was in a period of recovery from the economic crisis, and, in order to compete with the Soviet Union in the economic field, generally improved trade policy, tariff provisions, and other relevant provisions. China implemented a "reform and opening up" policy, which is divided into two parts, the first part of which is reform: it has led to a complete economic transformation of agriculture-based China, which has transformed state-owned land into collective ownership, greatly stimulated the enthusiasm of citizens to produce, and, in the last decade, China's grain production has increased by 25%. The government also allowed citizens to set up private companies and no longer controlled prices. The second part is openness: allowing foreign capital to enter the country and establishing special economic zones along the coastline to facilitate maritime transport. Thus, while economic policy and international relations have improved as never before, China's domestic demand is perfectly suited to U.S. exports of goods and foreign capital investment.

Table 2 U.S. Merchandise Trade with China 1980-2005($ billion)

Year	U.S. Exports	U.S. Imports	U.S. Trade Balance
1980	3.8	1.1	2.7
1985	3.9	3.9	0
1990	4.8	15.2	-10.4
1995	11.7	45.6	-33.8
2000	16.3	100.1	-83.8
2005	41.8	243.5	-201.6

Source: U.S. Census Bureau. (2019) *Trade in Goods with China*.

The trade product structure also has expanded from a small number of product categories to cover almost all product categories. Since 1979, the United States has surpassed Germany to become China's third-largest trading partner (total trade amount of imports and exports). In 1988, the trade volume of the two countries reached about $14.3 billion US, becoming the 12th-largest trading partner of the United States. In the 80s-90s, the total US-China trade volume grew from $4.9 billion to $116.4 billion—an increase of 23.7 times. The United States imported textiles and oil mainly from China, accounting for 34% and 26% of China's exports, respectively. Among the commodities exported to China, the share of food and cotton has gradually decreased, and machinery and electronic technology products account for a growing proportion. China's commodity structure of exports to the United States was based primarily on primary products at that time and was upgraded to its current mode with primary processing and even refined products.

However, because of China's population, huge market demand, and different trade structures between the two countries, the United States has gradually incurred a deficit in trade, and, with the development of Chinese industry, this deficit is constantly expanding.

1.4 China joins the WTO

After five years of negotiations, China joined the World Trade Organization in 2001 and officially integrated into the world's multilateral trading system. From the data, we can see how fast the trade between China and the United States has developed after China joined the WTO. In 2001, the total trade volume between China and the United States was US $121.45 billion, with a growth rate of 8.09%. In 2002, the total import and export trade volume between the two countries reached US $147.32 billion, with a growth rate of 21.3%. The trade volume between 2003 and 2004 was US $180.8 billion and US$231.11 billion, up 22.72% and 27.83% year-over-year. Today, the annual trade volume between the two countries has exceeded US $659.84 billion.

Table 3 US Export and Import data on Chinese merchandise trade ($ billions)

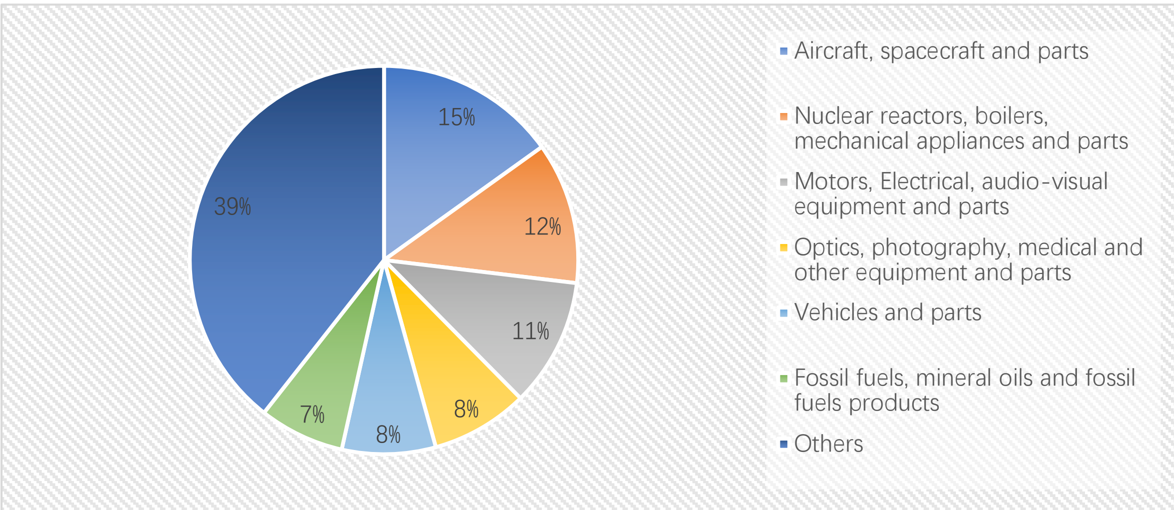
Years	Export	Import	Total	Balance
2001	19.18	102.27	121.45	-83.09
2002	22.12	125.19	147.32	-103.06
2003	28.36	152.43	180.80	-124.06
2004	34.42	196.68	231.11	-162.25
2005	41.19	243.47	284.66	-202.27
2006	53.67	287.77	341.44	-234.10
2007	62.93	321.44	384.38	-258.50

2008	69.73	337.77	407.50	-268.04
2009	69.49	296.37	365.87	-226.87
2010	91.88	364.94	456.82	-273.06
2011	103.93	399.36	503.30	-295.42
2012	110.59	425.64	536.23	-315.05
2013	122.02	440.43	562.45	-318.42
2014	124.02	466.66	590.68	-342.63
2015	116.19	481.88	598.07	-365.69
2016	115.78	462.81	578.59	-347.04
2017	130.37	505.60	635.97	-375.23
2018	120.34	539.50	659.84	-419.16

Source: U.S. Census Bureau. (2019) *Trade in Goods with China*.

Moreover, the structure of import and export trade between the two countries has changed completely, and the following two pie charts are detailed categories of import and export trade between China and the United States from 2018.

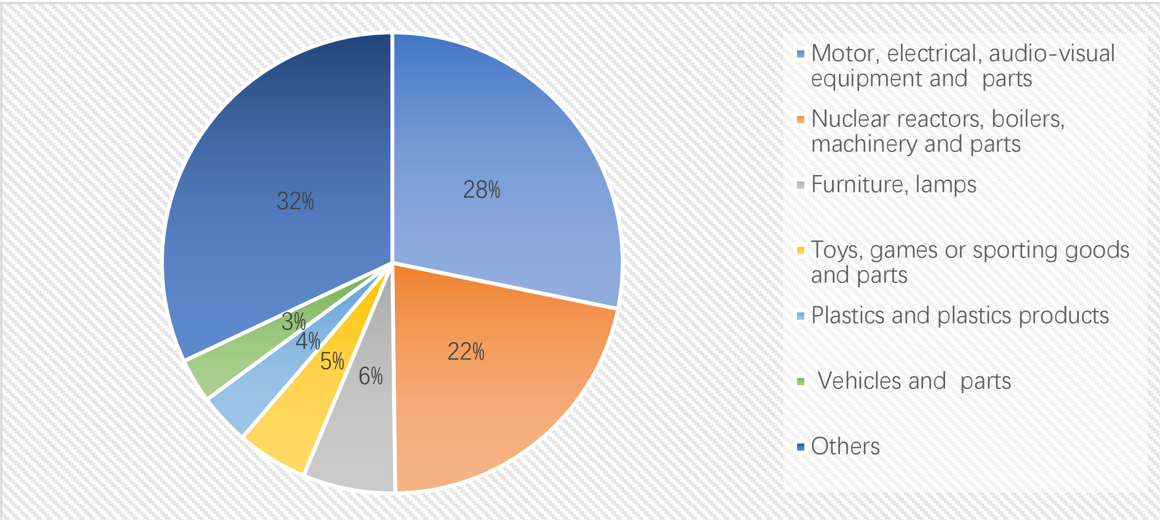
Chart 3 The composition of the major commodities exported by the United States to China



Source: China Ministry of Commerce. (2019) *2018 US Trade in Goods and China-US Bilateral Trade Overview*.

Compare Chart 2 and Chart 3. It is clear to see there is an increase in demand for technology and energy products in China, showing that China is unable to produce its own high-technology products and needs to import equipment and parts from the United States to meet domestic production needs. At the same time, the United States began to change the structure of exports, replacing exports of raw materials with high-tech products exports; compared to China, the United States is at a higher position in the global value chain.

Chart 4 The composition of the major commodities imported by the United States to China



Source: China Ministry of Commerce. (2019) *2018 US Trade in Goods and China-US Bilateral Trade Overview*.

Back to the comparison of imported products, compared to At the same time, we can see the structure of import and export goods in the United States. Exports: machinery and equipment 26.2%, transport equipment 15.7%, grain food 14.6%, raw materials 12.1%, and chemical products 8.9%. Imports: fuel 24.5%, mechanical products and parts 14.2%, transport equipment 13.5%, food and tobacco 9.1%. China's main exports are food, live pigs, textiles, tea, oil, etc. As can be seen from the structure of the import and export of goods, the goods exported by the United States are needed by China, but the goods exported by China are not needed by the United States, which also creates a huge trade deficit between the two countries.

Chart 2, the United States converted from importing raw materials, textiles, and light industrial products into importing electronic products and manufactured goods. China's industrial manufacturing level is already at the forefront of the world, which is why the trade deficit between the two countries is growing. The long-term trade imbalance has seriously damaged the local economy in the United States. Low labour costs and abundant resources give the price of Chinese manufactured goods an absolute price advantage; in order to change this huge trade deficit, the United States has made adjustments in trade policies.

2 China and the United States trade war

China-US trade has been in an unbalanced state for a long time, with the US trade deficit with China reaching $420 billion, and a long-term trade deficit adversely affecting US GDP. U.S. President Trump believes that China's trade exports have subsidies, dumping, and intellectual property theft and other improper means of trade, which is the main source of the trade deficit, and China's theft of American intellectual property rights will also make the United States' core products lose international competitiveness, which has an incalculable negative impact on the United States economy.

2.1 Causes and Process

In August 2017, the U.S. government launched a trade survey of China under section 301 of the "Trade Act of 1974" to determine China's theft of intellectual property rights and innovative technologies, and such behaviour has had a negative impact on American business.

In January 2018, the U.S. government announced a 30% and 50% tariff on washing machines and solar panels, but China is the world's largest producer of solar panels (China's mechanical and electrical products account for 36.3% of U.S. imports). In February, the United States government announced an additional 109.95% anti-dumping duty on Chinese cast iron sewage pipe fittings, plus 106.09% anti-dumping duties and 80.97% countervailing duties on aluminium foil products.

In March 2018, when the trade war officially began, the U.S. government announced 25% and 10% tariffs on imported aluminium products and steel. The stated reason as national security. This decision is not only for China; US mechanical and electrical products, transportation equipment, and base metal imports also rely on Mexico and Canada. In 2018, the United States imports of transportation equipment from Canada accounted for 17.7%, minerals 35.8%, and base metals and products 18.8%. Import of transport equipment from Mexico was 28.3% and base metal 9.2%. On March 22nd, Trump announced that, according to section 301 of the "Trade Act of 1974", the United States would impose tariffs on 1,300 categories of products (aircraft parts, batteries, televisions, medical devices, etc.) from China, with a total value of $50-60 billion. According to Chart 4, these are the main goods imported by the United States from China. In April 2018, China imposed retaliatory tariffs on 128 categories of products imported from the United States in an effort to offset the impact of the US government's tariff increase (aluminium, airplanes, automobiles, pork, and soybeans are subject to 25% tariffs; fruit, nuts, and steel pipes have a 15% tariff).

In May 2018, China and the United States began negotiations over the trade dispute. China has pledged to reduce the U.S. trade deficit with China and substantially increase U.S. merchandise imports, but the talks were unsuccessful, and the White House announced that it would impose a 25% tariff on Chinese goods, projecting $50 billion. On July 6th, U.S. tariff sanctions against China came into effect; in the first round, the United States imposed additional tariffs on $34 billion of Chinese goods, and China hit back the following day with the same amount of extra tariffs. The total amount of tariffs imposed by the two countries accounts for 0.1% of global GDP. On August 8th, the United States imposed a 25% tariff on the remaining $16 billion worth of Chinese goods, and the Chinese side imposed a 25% tariff on US goods of the same value.

A period of fierce trade war ensued between the two countries. On September 17th, the US government announced that it planned to impose a 10% tariff on Chinese goods worth $200 billion, starting from September 24th, and increasing to 25% in 2019. The Chinese government announced on the second day that it would impose a 5-10% tariff on US products worth about $60 billion. The United States expects the total value of goods subject to tariffs to be about $260 billion US. After five years of negotiations, China joined the World Trade Organization in 2001 and officially integrated into the world's multilateral trading system. From the data, we can see how fast the trade between China and the United States has developed after China joined the WTO. In 2001, the total trade volume between China and the United States was US $121.45 billion, with a growth rate of 8.09%. In 2002, the total import and export trade volume between the two countries reached US $147.32 billion, with a growth rate of 21.3%. The trade volume between 2003 and 2004 was US $180.8 billion and US$231.11 billion, up 22.72% and 27.83% year-over-year. Today, the annual trade volume between the two countries has exceeded US $659.84 billion.

Table 3 shows that this accounts for 48.3% of the total number of US imports of Chinese products, and Trump also said that, if China continues the trade war, the United States will impose tariffs of another $267 billion on Chinese products, which is essentially 100% of China's exports to the United States. China is expected to import $120 billion of US goods in 2018, but the value of the tariff-added goods has reached $110 billion dollars. Obviously, this is an extremely irrational war. When neither country receives any benefits, it also creates obstacles for the development of the world economy. At the end of 2018, the two countries announced a moratorium on increasing tariffs and a process of renegotiating.

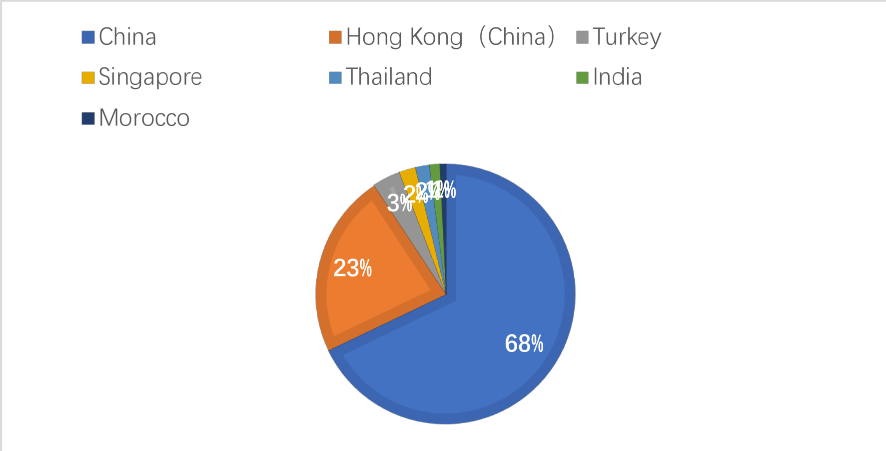
As of 2018, the US trade deficit with China has reached $419.16 billion, which has exceeded the GDP of South Africa in 2018 (31st in the world). Some people think this is the main cause of trade wars, but this is not true, because the trade deficit does not harm the economy of a country. According to the theory of monetarism and Adam Smith's expression of trade balance theory, the trade deficit is a successful performance of a country in production and trade. IMF economists counted the data and economic situation of 151 countries from 1963 to 2014, and they believe that the impact of tariffs on trade balance was not significant, so we should understand the true purpose of this trade war.

Firstly, this is not the first trade friction between China and the United States. As early as 1987, China and the United States had disputes over intellectual property rights and subsequently signed the "US-China Science and Technology Cooperation Agreement" in 1991. However, in 1994, the US government argued that China did not protect US intellectual property rights and launched "the Special 301 investigation" and added 100% punitive tariffs to China's electronic products, clothing, toys, etc. China also imposed a 100% tariff on US tobacco, alcohol, cosmetics, and other products. The two countries reached a consensus in subsequent negotiations and cancelled the relevant measures. The same thing happened in 1996. After China's accession to the WTO in 2001, the United States continued to be dissatisfied with China's intellectual property protection issues and filed a lawsuit against the WTO in 2004. After two years of trials, the Dispute Settlement Panel dismissed the US appeal because of insufficient evidence. In 2010, the United States sued the Chinese government for a policy of transition subsidies for the new energy industry. Eventually, the two parties terminated the WTO appeal process after consultation.

According to historical data, in the above five trade frictions, trade between China and the United States continued to grow, and it did not have a high impact on trade. The two sides did not cause more serious consequences, but we can see that the core issue debated between China and the United States is intellectual property protection. The main products exported by the United States are high-tech products, such as new energy facilities and parts, electrical machinery, aviation facilities and parts, vehicles and parts, and medical equipment and parts. The core competitiveness of American goods is advanced technology.

For China, there are indeed unfavourable behaviours. Due to the behaviour of individual companies, illegal profits are obtained by imitating or forging well-known commodities. In 2013, the OECD also published a report "Trade in Counterfeit and Pirated Goods: Mapping the Economic Impact". The report pointed out that China has become the world's largest manufacturer of counterfeit goods, and its counterfeit goods accounted for 63.2% of global counterfeit goods (Chart 5 Fake goods originate). In the data released by US Customs in 2015, US Customs seized goods valuing $1.35 billion. Among counterfeit goods, the total value of Chinese goods is about $1.17 billion—87%.

Chart 5 Fake goods originate



Source： OECD.(2016) Global trade in fake goods worth nearly half a trillion dollars a year - OECD & EUIPO.

Moreover, the Chinese government has controlled investment in the Chinese market at a certain level. The Chinese government has restricted some industries, such as the military and the communications industries, and does not allow foreign-invested enterprises to invest. Also, China encourages foreign companies to enter the Chinese market in a joint venture, and there is a "mandatory technology transfer" in the operation process. The United States believes that this kind of behaviour causes US goods to lose their core competitiveness.

2.2 The impact of China-US Trade Warfare

2.2.1 China

According to the statistics of the General Administration of Customs of China in January 2019, the total value of China's foreign trade imports and exports in 2018 was 4.55 trillion US dollars, an increase of 9.7% over the previous year, but decreased by 4.5 percentage points compared with the growth rate in 2017. It may be affected by the United States. However, compared with 2015 and 2016, China's trade has still increased in value, but the pace of development has been slowed down.

Table 4 China's foreign trade imports and exports ($ trillions)

Years	Export	Growth Rate	Import	Growth Rate	Total	Growth Rate
2015	2.11	-1.9%	1.56	-13.1%	3.67	-7%

2016	2.06	-2%	1.56	0.6%	3.62	-0.9%
2017	2.28	10.8%	1.86	18.7%	4.14	14.2%
2018	2.45	7.1%	2.10	12.9%	4.55	9.7%

Source: Central People's Government of the People's Republic of China. (2018) *The General Administration of Customs introduced the full year of 2017 import and export.*

On August 4, 2018, within two months after the official start of the trade war between the two countries, China's market capitalization fell from the second place in the world to the third place in the world. It can be seen that the evaporation of stock market value is not good news for China's capital market, and many companies may go bankrupt. And in 2019, the United States filed a lawsuit against Huawei, China's largest telecommunications equipment manufacturer, accusing Huawei of stealing US trade secrets. According to Chart 4, the United States imports about $150 billion of mechanical and electrical products produced in China, accounting for 28% of US imports from China. On December 28, Chinese Customs announced that it would allow US rice to enter the Chinese market. Subsequently, the COFCO Group announced the purchase of millions of tons of US soybeans. At the same time, the Chinese government is also committed to reducing subsidies in agriculture. In 2018, China imported $698 million of grain from the United States, a decrease of nearly 50% from 2017. The decline in imported cereals will increase grain cultivation in China, improving the lives of peasants. However, after increasing imports and reducing subsidies in January 2019, it is foreseeable that China's agriculture will face very serious challenges; the situation of farmers who have lost their subsidies will become very difficult, and the market price of soybeans will fall sharply. To solve this problem, farmers may grow other cash crops to reduce their losses, but this will affect the balance of agricultural products as a whole.

2.2.2 U.S.

According to the U.S. Department of Commerce, China-US trade reached $659.84billion in 2018, but exports to China fell by 10billion compared to 2017 trade commodity data, and imports grew by 34billion. Vehicles and spare parts were reduced by 27%, and industrial or medicinal plants and fodder were reduced by 71.3%. That is the main reason why the United States is asking China to reduce tariffs on imported vehicles and increase soybean imports.

In February 2019, the U.S. Department of Commerce released its first month of trade data. In January, total imports and exports of United States goods amounted to $334.15billion, an increase of 1.6% over last year, an increase of 3.4% in exports, an increase of 0.6% in imports and a 4% decline in the total trade deficit. Among them, trade data fell across the country in China and the United States, with total trading value decrease by 12.4%, U.S. exports to China falling 27.5% and imports down 9.1%.

In the trade war, the United States has achieved the results they want in macroeconomic data, but, because the tariffs imposed led to more expensive imports of raw materials and parts, higher production costs, and the inability of some companies to afford sudden increases in spending, they are at risk of layoffs. Moreover, the United States exports product parts and industrial semi-finished products to China, which are converted into finished products through assembly and production, and then shipped back to the United States for sale, such as the Buick cars produced by General Motors in China, which require an additional 25% tariff to enter the United States, making the price beyond the reach of automakers and consumers.

Overall, the actions of the United States belong to trade protectionism in this war; there are tariff increases, unilateral trade sanctions on the grounds of intellectual property protection, restrictions on foreign investment, and other acts. However, we know that the implementation of trade protectionism will affect the standard of living of the people to some extent, because higher tariffs increase the price of goods that are eventually sold. The United States government hopes to promote domestic productivity development and exports in this way, which is not conducive to long-term economic development. As some of the trade advantages of the United States have a gradual downward trend, looking back on past trade frictions, it can be said that this is a means of the United States government to regulate the domestic economy. At present, however, the process of globalisation is accelerating, and countries are playing an important role in global value chains, which in particular affects processing-oriented developing countries and has the same negative impact on other countries.

2.2.3 International

While the United States has added additional tariffs to China, some of these also have affected major U.S. trading partners, such as Canada, Mexico, and South Korea. On March 1, 2018, the United States government announced an increase in tariffs on steel and aluminium; China, the European Union, Canada, Mexico, and other 7 countries, as well as the WTO, set up an investigation team application, because it affected their interests. Canada and Mexico, as the second- and third-largest exporters, have been even more affected. Similarly, after the start of the trade war, stock markets in Europe and the US were hit hard, with the stock market down 2.93%. Asian stocks also fell 4% afterwards, showing that the trade war had a serious impact on capital markets.

Table 5 Importing countries of base metals and products in the United States ($ billions)

Importing countries of base metals and products in the United States ($ billions)			
Countries and regions	Amount	Growth Rate	Share
China	28.2	10.9	20.2
Canada	26.24	7.1	18.8
Mexico	12.89	13.4	9.2
Germany	6.52	13.2	4.7
Taiwan	6.05	8.1	4.3

Source: China Ministry of Commerce. (2019) *2018 US Trade in Goods and China-US Bilateral Trade Overview.*

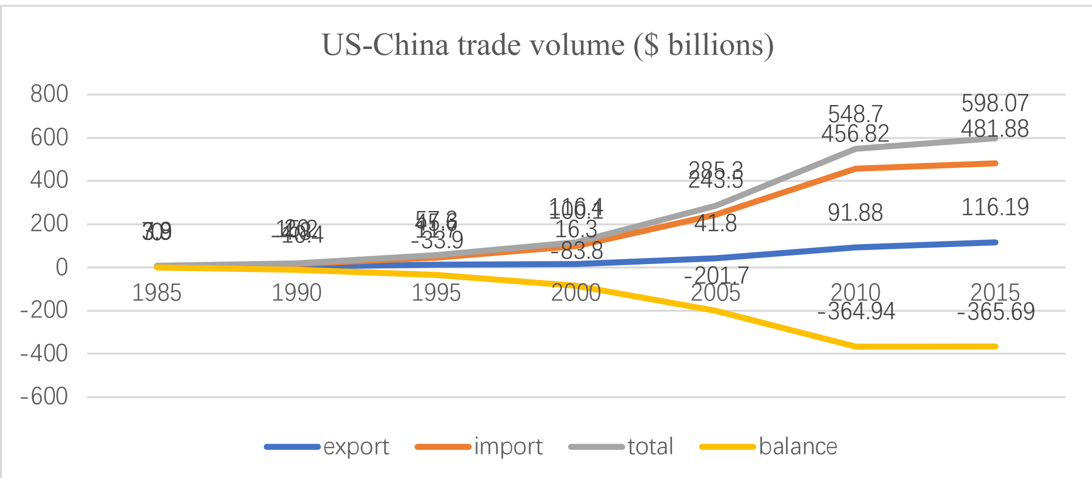
Most importantly, China plays an important role as a processor in global value chains, and many products are not exported by local Chinese companies but by multinationals. They provide technology and materials, and China provides venues and labour to reduce production costs through such collaborative approaches. Increasing tariffs means increasing costs, so these forms of cooperation may no longer work, and the processing and production of these multinationals is likely to shift to other developing countries, such as Southeast Asia.

China also will be more active in finding other working partners, which will provide opportunities for other countries or economies. China is implementing a "One Belt, One Road" plan, which also means that China will strengthen economic cooperation with Southeast Asia and Europe. According to Eurostat data, China's bilateral trade with the European Union reached $708.63 billion in 2018, with a growth rate of more than 10%.

2.3 Consequences of the trade war

Reviewing the trade frictions between China and the United States over the past few times, after reconciliation between the two countries, the trade between the two sides has not been seriously affected from what was occurring before. The trade curve shows that, with the economic development of the United States, its domestic demand also has grown. At the same time, as a developing country with cheap labour, China has gained benefits from the opening of trade and developed its own economy through processing and production. This also is in line with the development theory of global value chains, but what we can see through the curve is that the growth rate of China-US trade is slowing. The biggest reason is the saturation of the market, but it is also from intentional control by the US government.

Chart 6 US-China trade curve



Source: U.S. Census Bureau. (2019) *Trade in Goods with China*.

Since the US-China trade has a deficit, the United States has been trying to reduce the impact of the trade deficit on its own country. At the same time, China's economy has changed after trade frictions, and GDP growth has been affected. In past trade frictions, after China’s economic structure changed, the gross national product would show a downward trend, and in the following years there would be a large increase, compared with prior data, and the GDP growth of all countries has slowed down slightly, because economic environment is increasingly open.

Chart 7 US & China GDP Growth Rate

Source: World Bank. (2018) *GDP growth (annual %)*.

For the two countries, there is no winner in the trade war. The two countries levy additional tariffs on each other and undermine the domestic market balance, making their economic environment unstable. In this war, the United States hopes to obtain more exports and strengthen its own production industry. China wants to avoid greater losses and hopes to transform its economic structure and pay more attention to innovation and technological reform. In the long run, this may not be a good thing. To regain market balance, the two countries should start more cooperation in more area.

3 Major issues of concern to the United States

3.1 Trade deficit

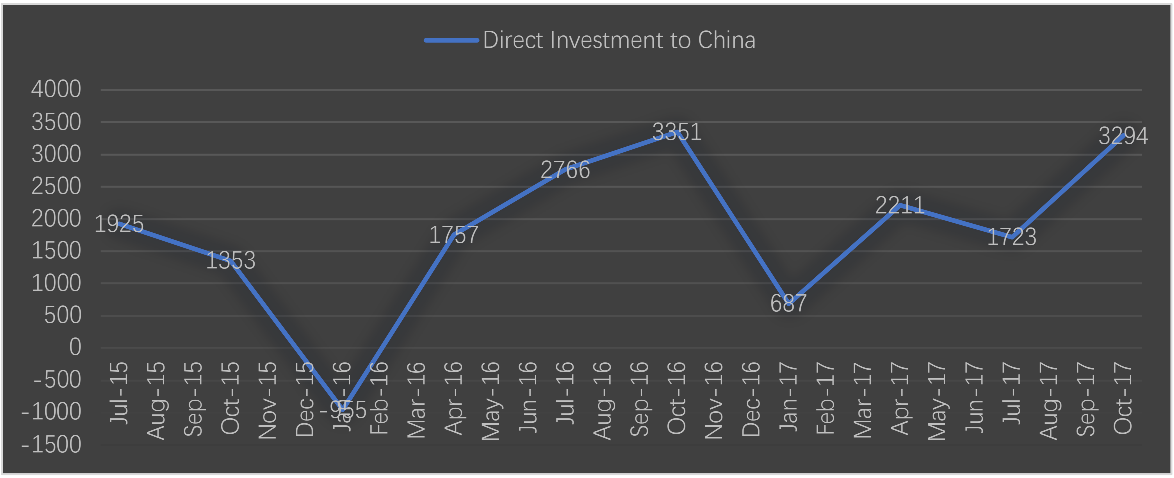
As mentioned, the trade deficit does not mean damage to the country. The reason for the deficit is that the United States, as the world's largest economy that is developing at a high speed, will have a corresponding increase in overall demand. Under the premise of the global value chain, much of the production has moved overseas. However, the long-term trade deficit will put the United States in an unfavourable position in trade with China. China's labour-intensive industries are mostly dominated by processing and manufacturing. The huge profits generated by US capital flows into China are irresistible to American companies, but the growing trade deficit shows that US exports to China are less than the growth of US imports of Chinese goods each year, meaning that the United States buys more goods but exports fewer goods. First of all, this effect is reflected in the price. Excessive imports will lower the price of specific commodities, which will cause damage to domestic producers and reduce production profits. Second, the competition for the same kinds of goods will become more intense, which will have an impact on American companies. The same for the infant industries: such competition is disastrous.

At the end of 2018, the US trade deficit with China reached nearly $420 billion. If this number continues to increase, it will continue to accelerate the decline in its commodity output and increase capital output while affecting US GDP. This situation will affect commodity prices, unemployment rates, and other aspects.

3.2 The outflow of investment has led to an increase in unemployment

Under the conditions of global value chain, the United States, as a country with leading technology and strong economic power in the world, has achieved astronomical figures in its annual foreign investment. From the perspective of export structure, the United States mainly exports high-tech goods; compared with China, the United States has high labour production costs. Higher levels of technology also will increase the efficiency of automated production, and some industries will use machinery, instead of labour, to increase efficiency and reduce labour costs. Moreover, due to the outflow of capital caused by foreign investment in other countries, as a foreign-funded enterprise, the target countries will give corresponding preferential treatment, in terms of taxation and management policies, which also causes American companies to outflow and lose local jobs. The shift of production focus of domestic enterprises to foreign countries will reduce the competitiveness of enterprises in their own countries, which will lead to a reduction in foreign direct investment and cause more serious losses. The reduction of enterprises also will reduce the government's tax revenue and reduce the welfare of the people.

Chart 8 U.S Direct Investment in China ($ million)



Source: CEIC, (2018) *United States Direct Investment Abroad: By Country.*

In recent years, the United States has continued to reduce its investment in foreign countries, while the unemployment rate has steadily decreased, but the amount of investment in China is on the rise. According to the US Bureau of Statistics, at the end of 2017, the overall unemployment rate in the United States was 4.5%, which was in a downward trend, but the unemployment rate in agriculture, forestry, and fisheries reached 15%, and the increase was more obvious. (CEIC, [2018[*United States Current Population Survey: Unemployment Rate*)

3.3 Market opening

The US government always has hoped that China would open up its domestic market. The Chinese government bans foreign investment in specific manufacturing, transportation, culture, entertainment, and media communications industries for the protection of national security. For the banking, securities and insurance industries, only some multinational companies are allowed to enter the Chinese market in the form of joint ventures. The United States believes that this kind of behaviour in China hinders the development of trade in goods and services and violates the commitments given by China when it joined the WTO.

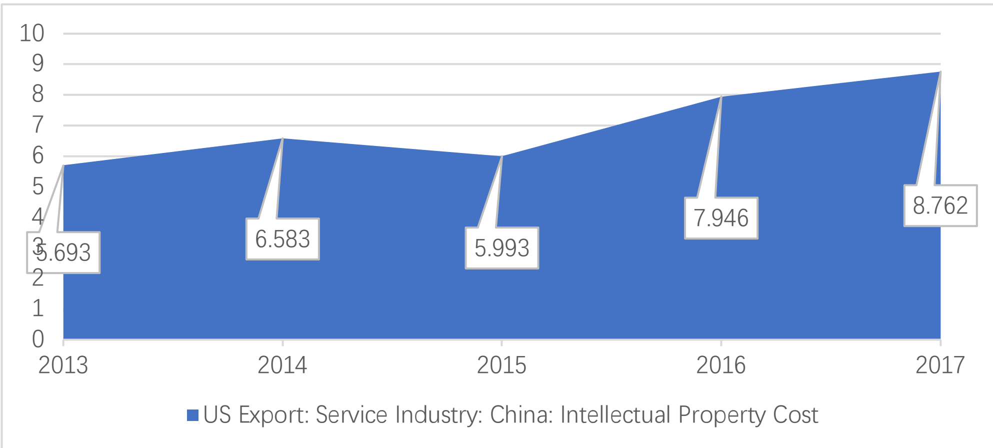
For example, when China joined the WTO, it promised that the foreign companies would allowed to enter the communications industry and the postal industry, and wholly foreign-owned companies would be allowed within 6 years after China's accession to the WTO. (World Trade Organization, 2002) However, the Chinese government subsequently issued a new regulation, “Special Management Measures for Foreign Investment Entry”, which clearly stipulates that “foreign investment in postal companies and domestic express delivery business is prohibited; foreign shares in telecommunications business shall not exceed 50%, and basic telecommunications services must be Chinese holdings." (People's Republic of China, 2018)

After signing the WTO commitments, the government has set up new regulations to prevent and delay the commitment time. The Chinese government's behaviour is aimed at establishing non-tariff trade barriers to protect its own domestic industries from foreign investment, but this approach is unreasonable and unjustified.

3.4 Intellectual Property Protection

The major export commodities and domestic companies in the United States rely on technology that is ahead of other countries. In the context of today's economic globalisation, the core competitiveness of US products and services also comes from technology. If the overall technology is lost in the production process, and with the advantage of labour cost, China can independently produce American products at a low price. As everyone knows, as a big exporter, China's imitations will reduce the market competitiveness of American products worldwide after entering the international market. In contrast, China is spending more and more on buying U.S. intellectual property in recent years, which also proves that China imports more technology products and services from the United States. The US government is considering China's imperfect intellectual property protection system and unreasonable foreign investment regulations. The Chinese government strongly encourages foreign companies to invest in China and restricts foreign companies from owning more than 50% of equity in certain industries. The US government believes this is an act of forcing foreign companies to cooperate with Chinese companies, as well as stealing and learning advanced technology.

Chart 9 US Export: Service Industry: China: Intellectual Property Cost ($ billion)



Source: CEIC, (2017) *United States Trade Statistics: Services: China*.

When some American companies enter the Chinese market in the form of cooperation with Chinese companies, they sign contracts with the Chinese companies and some part of the contracts provide for provisions on technology transfer. The United States government thinks that is belong to the mandatory clauses, and it is not the holder of the patent would like to see. But now China plays an important role as a producer in the global value chain. This means that the Chinese government needs to provide a better business environment, and it should gradually eliminate this mandatory technology transfer practice.

4 Major issues of concern to the China

4.1 New Normal

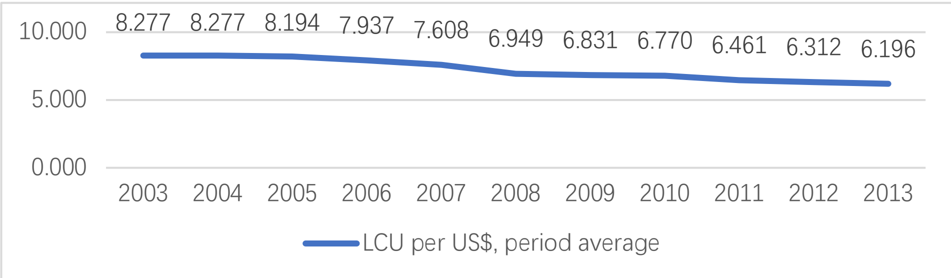
The new normal is the new Chinese economic development trend proposed by Chinese leader Xi Jinping in May 2014. He said, "China's development is still in a period of important strategic opportunities, and it is necessary to enhance confidence and proceed from the current stage characteristics of China's economic development. The new normal, maintaining a strategically normal mindset." (Wu, J-hai, 2014)

Reviewing Chart 7, we can see that China's GDP growth rate is declining year by year, with growth in 2017 down 7.3% from 2007. While this is the result of an overall downturn in the global economy, GDP growth is erratic, compared to countries such as the United States. China has reached the level of developed countries on some economic indicators, but, because the population base is too large, per capita economic indicators still cannot meet the standards of developed countries. Especially with the development of economic globalisation, China's manufacturing advantages are gradually weakening, and increasing amounts of light industry and manufacturing have turned to countries in Southeast Asia. Under the new normal, China's economy will be more stable, because the economy will encounter bottlenecks after rapid development. China's total GDP is now the second largest in the world; the huge number of basic quantities inevitably will allow the growth rate to decline. Also, China now is actively seeking changes in its economic structure, with domestic technology industries and high-tech manufacturing growing more than industrial growth. China chose to change from "Made in China" to "Created in China", and the Chinese government also implemented the "one belt and one road" economic policy, actively looking for more countries for economic and trade cooperation, while strengthening its position and voice in the global economy. (Tang, S-quan, 2014)

4.2 RMB depreciation

According World Bank data, the exchange rate of the RMB against US dollar has been on a downward trend, which also shows that the Chinese government has been stimulating production and exports.

Chart 10 Official exchange rate (LCU per US$, period average)



Source: World Bank. (2014) *Official exchange rate (LCU per US$, period average)*.

The devaluation of the RMB has both good and bad effects on China. The sharp devaluation of the RMB at the stage of China's rapid economic development from 2000-2014 also means that China has an advantage in exports and that other countries are able to buy Chinese goods at lower prices, reinforcing the willingness of other countries to buy Chinese goods. More foreign orders will give domestic companies more jobs and increase the demand of goods they produce, while companies in other countries also will choose to invest in China, because of the devaluation of the RMB, increasing government taxes. According to the report of the Ministry of Commerce of China, in 2015, a total of 19,000 American enterprises invested in China, with operating income of 3.2 trillion RMB, total profit of 225.2 billion RMB, and total tax amount of 224.3 billion RMB. (Ministry of Commerce of China, 2017) However, in recent years, China's economic growth rate has begun to decline, which means that market demand has gradually saturated. The continued devaluation of RMB will require China to buy imported goods at higher prices, raise the price level at home, and also lead to inflation. Long-term devaluation also would reduce the demand for imported goods in the domestic market, leading to a decrease of the volume of imports, which would have a negative impact on the economy.

4.3 Export restrictions

As a country dominated by exports of science and technology goods, the United States has strict export restrictions on China, with the exception of military technology; in order to protect national security, the US restricts biotechnology, aerospace technology, artificial intelligence, robotics, and other 14 high-tech goods from export to other countries. (Cornell Law School, 2017）This, of course, protects the intellectual property owned by the United States, but the purpose of science and technology innovation is to bring benefits to all people around the world, rather than being controlled in their own hands by superpowers to limit the development of other countries, and such protective measures can seriously affect the scientific and technological exchanges between the two sides. China's imports of high-tech goods from the United States in 2016 accounted for 8.2%, decreased by 50% compared to 2001. At the same time, this trade restriction will affect the US-China trade deficit more. (Ministry of Commerce of China, 2017)

4.4 Sanctions

On December 1, 2018, the Government of Canada arrested Huawei's CFO at the request of the United States government, citing Huawei's concealment of commercial activities with Iran and violations of U.S. sanctions against Iran. (Rhianna Schmunk, 2018) It is well known that the United States imposed sanctions on Iran in 2010 and specified sanctions against Cuba, Russia, and other countries in federal regulations. (Cornell Law School, 2016) However, the truth is that China does not have sanction against these countries as strict as those of the United States, so it is inevitable to engage in trade with Russia and other countries conducting international trade in China. It is unfair that the United States has the power to interfere with the freedom of trade of other countries.

China, as the largest importer from the United States, also is paying attention to U.S. trade sanctions against China. Because China has the advantage of labour costs, a large number of low-priced goods enter the United States market, because locally-manufactured goods do not have a competitive advantage in terms of price. If the impact on the domestic industry is greater, the US government will investigate China's dumping behaviour. There have been numerous debates between the two countries over dumping policy—none of which has had a particularly big impact on China and US trade—but, with the development of the economy and the saturation of the market, trade sanctions for specific commodities will cause losses to some of the involved industries, and such losses affect countries like China, which are dominated by manufacturing and exports, which China is reluctant to accept.

Conclusion

Looking back on the economic and trade relations between China and the United States over the past 40 years, they follow an ascending spiral process, although they will often go through peaks and lows, but China-US economic and trade relations have been developing in general in recent years. On the one hand, because of China's accession to the WTO, China has gradually opened up its own huge market. On the other hand, the rapid development of China's economy and the economic recovery of the United States also have created good external conditions for the development of the two countries, which have prompted the economic and trade development processes of the two countries to accelerate.

By analysing the trade history and trade structure between China and the United States, it can be seen that the US market is more open, dominated by technology goods and services. China's market is relatively conservative, mainly focused on manufacturing, and the consumer market is huge, which is closely related to China's population problems. In international trade, especially under today's global value chain theory, China plays a good role as a processor, while the United States, at the top of the value chain, enjoys the economic gains of technology, so the two countries complement one another. As long as China's processing and labour advantages exist, China and the US will maintain this partnership. Through the study of the causes, characteristics, and effects of China-US trade friction, China and the United States have entered an unprecedented period of trade friction, and a majority of the problems are caused by trade imbalance, intellectual property protection, opening of the market, and status in the international market. The problems encountered between China and the United States also are common problems between developing and developed countries. Today's world economy does not have the same huge space for development as before; many industries and markets reached bottlenecks and saturation. In the context of slowing global economic development, the trade war will crate a huge sacrifice to both sides, in terms of economy. As the world's two largest economies, the most important issue for China and the United States is to solve the trade disputes and achieve common development. Otherwise, the trade war will have a negative impact on the global economy.

While US trade policy will have a greater impact on China, the US economy is far less dependent on China than the Chinese economy is on the United States. The United States is still in a leading position in technology, with China having the world's most promising consumer market, and it is clear that the United States will not abandon the Chinese market at this point. In the same way, China has this advantage in exports and manufacturing, and US investment and technology also are needed by China, and the two countries need each other's help to develop their economies, suggesting that the complement between the Chinese and US economies is greater than their competitiveness.

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