SIJDEB, 2(3), 2018, 213-224
p-ISSN: 2581-2904, e-ISSN: 2581-2912

SRIWIJAYA INTERNATIONAL JOURNAL OF DYNAMIC ECONOMICS AND BUSINESS
http://ejournal.unsri.ac.id/index.php/sijdeb

The US-China Trade Competition: An Overview

Siby KM[1] and **P Arunachalam**[2]
[1,2] Cochin University of Science and Technology, India

Abstract: An impending trade war between US and China, the world's two largest economies can cause insurmountable consequences of unfathomable magnitude. It can cause distortions in the complex web of interconnected commodity and value chains sprawled across the boundaries, ultimately leading to suboptimal social welfare of the international community. The present paper intends to provide an overview of the US-China trade imbalance and resulting trade tensions that it begets .The paper analyses various reasons for the US- China trade competition and its implications on world trade quoting world bank data from 1992-2016 and concludes by proposing the likelihood of not getting the scenario escalated.

Keywords: Trade war; global value chain; economic nationalism; protectionism; isolationism

Introduction

International trade is being labelled as 'engine of growth' for centuries. The rapid expansion of international trade has caused greater dependence among the world nations, where a web of commodity and value chains forms close knit interconnections extending deep into internal and international levels. The expansion of international trade has over the centuries lifted millions of people out of poverty in developing countries, though it is severely criticised for engendering wider disparities in income distribution both in developed and developing economies. The developed countries were the ardent champions of free trade and played pivotal role in the establishment of international agencies like World Trade Organization and International Monetary Fund who advocated developing countries around the world to pursue free trade policies in order to accelerate economic development. But there seems to be a reversal in the policy stance of developed countries in the present global scenario. The growing trade deficits in developed countries, an accused consequence of booming international trade, is one among the reasons that promoted nationalist populists in various developed countries' driving seats and they undoubtedly and persistently pursue anti trade policies and renegotiate the existing institutional setups promoting multilateral trade like Trans-Pacific Partnership, North American Free Trade Agreement etc. (Friedman, 2018)

[1]sibykm@gmail.com

At a time in history, when international trade and multilateral trading system face the backlashes that it has never ever encountered, this study puts forth an objective of providing an overview of the US- China trade competition which has the potential to impose a grinding halt to the not so smooth functioning global trade relations at present. This paper is divided into five sections. The paper starts off with an introduction of significance of international trade in the present world and the reversal trends persisting in various developed countries in the forms of economic nationalism and protectionism. Then the paper proceeds to analyse various reasons that triggered the symptoms of an impending trade war with two economic giants of world economy i.e. the United States and People's Republic of China .Further the paper looks into World Bank data from 1992 to 2016 to analyse the US-China trade imbalance and its potential threat to the global multilateral trading system. In the fourth section, the paper discusses various implications of the US-China trade war and final section composes of the conclusion of the paper.

Literature Review

The US-China Trade War: Various Reasons

Countries are more integrated and interlinked than in the past and trade war between any nations might generate unprecedented consequences and the situation becomes graver when it is between the US and China, the world's two largest economies. A cooperative approach in international trade which stands on rule based system, invariably leads to the promotion of global welfare and the competitive approach in international trade is most likely to cause an outcome less than the optimum. The trust deficit between trading partners snowballs into protectionism and eventually results in economic nationalism and isolationism. This section of the paper summarises the various reasons that might have caused trade tensions between the US and China.

One predominant reason of trade tensions between the US and China is that Americans are a bit weary of being overtaken by China as global economic super power. China has made remarkable progress in the recent decades with respect to economic growth and volume of international trade. But a comparative analysis of GDP per capita in nominal and Purchasing Power Parity terms of both countries do not suggest an immediate overtake in near the future. The US has GDP per capita of $61687 in nominal terms in 2018 and ranks 8th in the world and in terms of PPP, US ranks 13th in the world whereas China has GDP per capita of $ 9377 in nominal terms and $ 17943 in PPP terms. China ranks 74th in the world in nominal terms and 78th in PPP terms. Undoubtedly China is catching up and it seems to be requiring more time to take the mantle of global economic super power.

Table 1. **Country's GDP per Capita**

Country	GDP per capita ($)	Rank	GDP per capita PPP ($)	Rank
US	61,687	8	61,687	13
China	9,377	74	17,943	78

Source: IMF World Economic Outlook (Oct 2017)

Another poignant reason for trade tensions between the US and China is the ever worsening trade deficits of the US *vis-à-vis* China. A detailed analysis of the US- China trade statistics based on World Bank data are delineated in the third section of the paper. However, it is to be mentioned here that the astounding growth of China was always deemed as a threat by various US governments over the decades, blaming them to be stealing away the American jobs (Autor, Dorn, & Hanson, 2016). The ambience for an impending trade war was always persistent between the US and China. The Americans over the period made so many allegations against China of deliberately undervaluing its currency to gain unfair advantage in exports, of dumping its products on world market at uncompetitive low prices which is made possible by imposing low wages on its workers and thus violating their human rights.

At this juncture an interesting fact to observe here is that almost 60 per cent of Chinese exports to the US are from foreign companies predominantly US based MNCs whose operation base is China, which they choose to undercut their production costs and to supply the products at minimum possible price to the customers. Hence any imposition of trade barriers on Chinese exports most likely to be in effect opposite to the vested interests of various American stakeholders who choose to base their operations in China. Donald Trump who opposes outsourcing won't seem to be minding the plight of US companies using Chinese platform for their exports. The example of Wall Mart quite suits the case to show the extent of US imports from China. In 2004, Wall Mart alone purchased $18 billion worth of Chinese products, making it the eighth largest trading partner ahead of Australia, Canada and Russia. (Hughes, 2005).

Another aspect which provoked the US to initiate trade war with China was the alleged Chinese cyber and intellectual property theft of US technologies. China has over the years demanded the transfer of technology from US companies in return for access to China's market. The US claims that it has lost billions of dollars in revenue and thousands of jobs owing to Chinese intellectual property thefts. The forced technology transfer is rather irritating for the US companies especially tech firms. The United States Trade Representative, which conducted a seven month investigation into the intellectual property theft issue, estimated that Chinese theft of American intellectual property cost America between US$225 billion and US$ 600 billion annually (Martin, 2018). This has provoked US president Donald Trump to impose tariffs on US$ 50 billion worth of imports from China as a punishment for the alleged theft of American intellectual property.

Findings

The US-China Trade Statistics

The US trade deficit with China was in the order of $376 billion in 2017 caused by the drastic difference of $130 billion worth the US exports to China and $506 worth US imports from China (Hausmann, 2018). The major constituents of US import from China are consumer electronics, clothing and machinery, most of which are produced by US manufacturers using China as a hub of low cost assembly. The raw materials that the US exports to China get converted into finished products at Chinese manufacturing sites and when they return home as finished products, they fall under the category of exports. This outsourcing is facilitated by the abundant labour supply in China at a relatively low wage rates. The depreciated Chinese Yuan *vis-à-vis* US dollar further boosts this outsourcing.US always blame about the Chinese currency manipulation as Yuan is pegged to US dollar using a modified fixed exchange rate. But ultimately what this outsourcing causes is the loss of American jobs that US president Donald Trump promised his electorates to bring back.

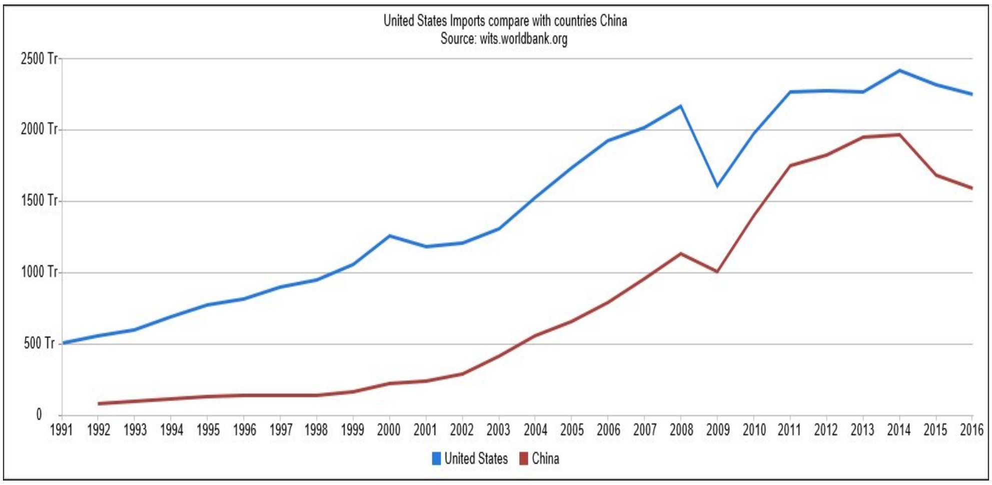
Various US governments from time to time retaliated to this scenario by imposing various degrees of 'trade protectionism'. On the flip side American consumers benefit from these trade deficits as far as they get various consumer products at lowest possible prices, though it causes loss of American jobs. Both the US and China have been increasing volume of imports since 1991 with an exception of a moderate dip in times of global financial crisis but an analysis clearly states that the gap between US and China is getting widened over the years. In 2016, total US imports valued at US$ 2,248,209 million whereas the total imports of China stood at US $ 1,587,921 million.

Table 2. **China and US- All Products Import with the world (US$ thousand) from 1992 to 2016**

	China	**United States**
Year	**Import (US$ Thousands)**	**Import (US$ Thousands)**
1992	80585302.02	553496477.7
1993	103958937.6	603153563.6
1994	115613605.9	689029906.4
1995	132083499	770821455.9
1996	138832740.4	817627136
1997	142370324.5	898025455.6
1998	140236767.2	944350101.5
1999	165699066.6	1059220095
2000	225093731	1258080275
2001	243552880.6	1180073832
2002	295170104.1	1202284490
2003	412759796.4	1305091627
2004	561228748	1525268509
2005	659952762.1	1732320798
2006	791460867.9	1918997094
2007	956115447.6	2017120776
2008	1132562161	2164834031
2009	1005555225	1601895815
2010	1396001565	1968259901
2011	1743394866	2263619063
2012	1818199228	2274461871
2013	1949992315	2274461871
2014	1959234625	2410855476
2015	1679564325	2313424569
2016	1587920688	2248208943

Source: World Bank data 2016

Figure 1. **United States Imports Compared with China**



Source: World Bank Data 2016

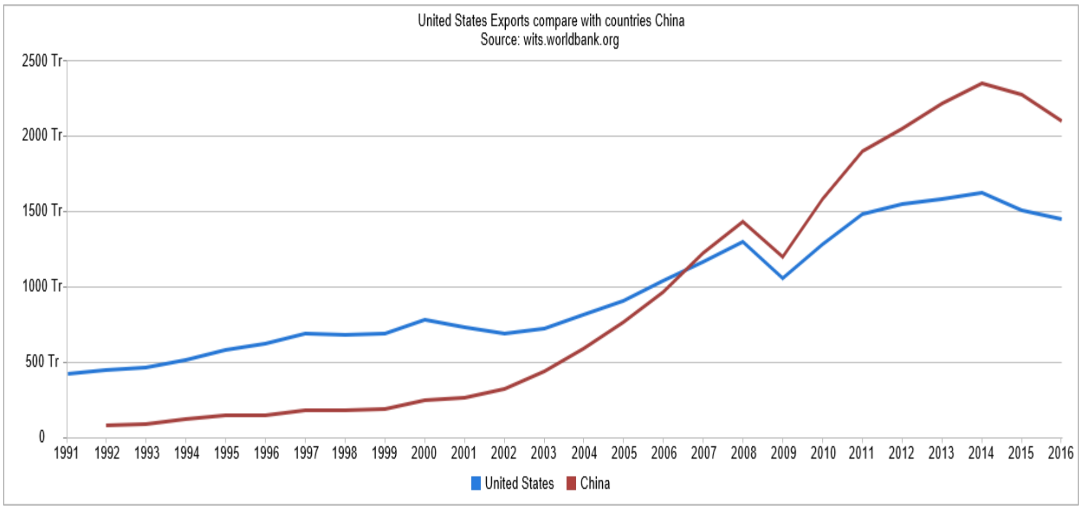
But in terms of export, China is making a huge leap especially after the year 2009.As per the World Bank data, US exports valued at US $ 1450457 million whereas China exports stood at a US $ 2,097,637 million.

Table 3. **China and US- All Products Export with the world (US$ thousand) from 1992 to 2016**

	China	**United States**
Year	**Export (US$ Thousands)**	**Export(US$ Thousands)**
1992	84940013.57	447330091
1993	91743944.7	464757162
1994	121006260.2	512336855
1995	148779499.5	582964674.6
1996	151047454.7	622784151.6
1997	182791585.8	687532539.9
1998	183808983	680434597.9
1999	194930778.5	692783808.5
2000	249202551	780331840
2001	266098208.6	731005997.8
2002	325595969.8	693222414.2
2003	438227767.4	723608647.8
2004	593325581.4	817905572.1
2005	761953409.5	904339487.2
2006	968935601	1037029245
2007	1220059668	1162538150
2008	1430693066	1299898877
2009	1201646758	1056712078
2010	1577763751	1278099187
2011	1898388435	1481682202
2012	2048782233	1544932014
2013	2209007280	1577587252
2014	2342292696	1619742864
2015	2273468224	1501845864
2016	2097637172	1450457291

Source: World Bank Data 2016

Figure 2. **United States Exports Compared with China**



Source: World Bank Data 2016

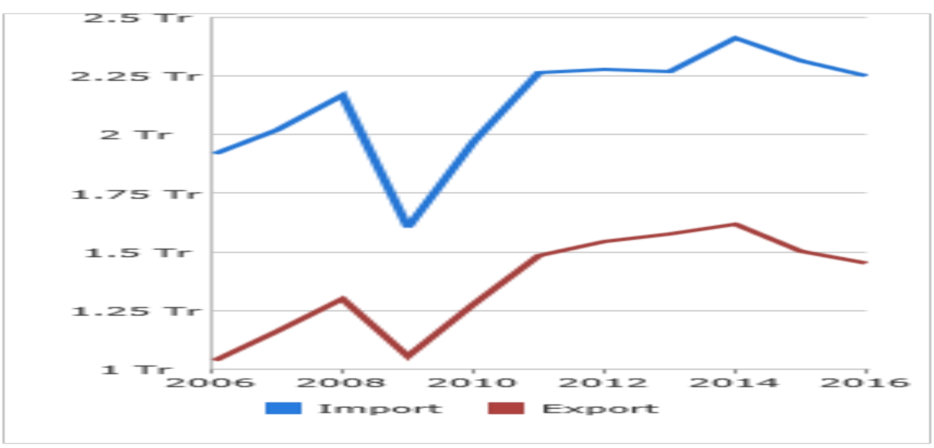
The above figures and diagrams clearly state the pace by which China registered its growth in exports while limiting its volume of imports. At the same time a reverse picture is evident in the case of the US imports and Exports.

Table 4. **Trade Summary for The United States**

Exports		**Imports**	
Exports (in US$ Mil):	14,50,457	Imports (in US$ Mil):	22,48,209
No. Of products:	4,563	No. Of products:	4,558
No. Of partners:	223	No. Of partners:	220

Source: World Bank Data 2016

Figure 3. **Trade Summary for The United States**



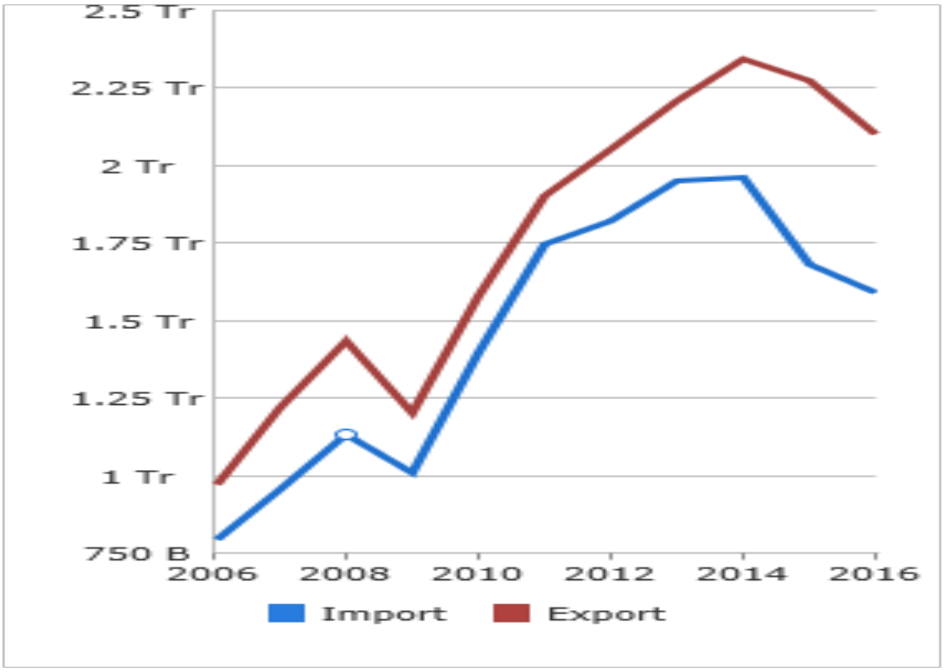
Source: World Bank Data 2016

Table 5. **Trade Summary for China**

Exports		**Imports**	
Exports (in US$ Mil):	20,97,637	Imports (in US$ Mil):	15,87,921
No. Of products:	4,417	No. Of products:	4,456
No. Of partners:	213	No. Of partners:	212

Source: World Bank Data 2016

Figure 4. **Trade Summary for China**



Source: World Bank Data 2016

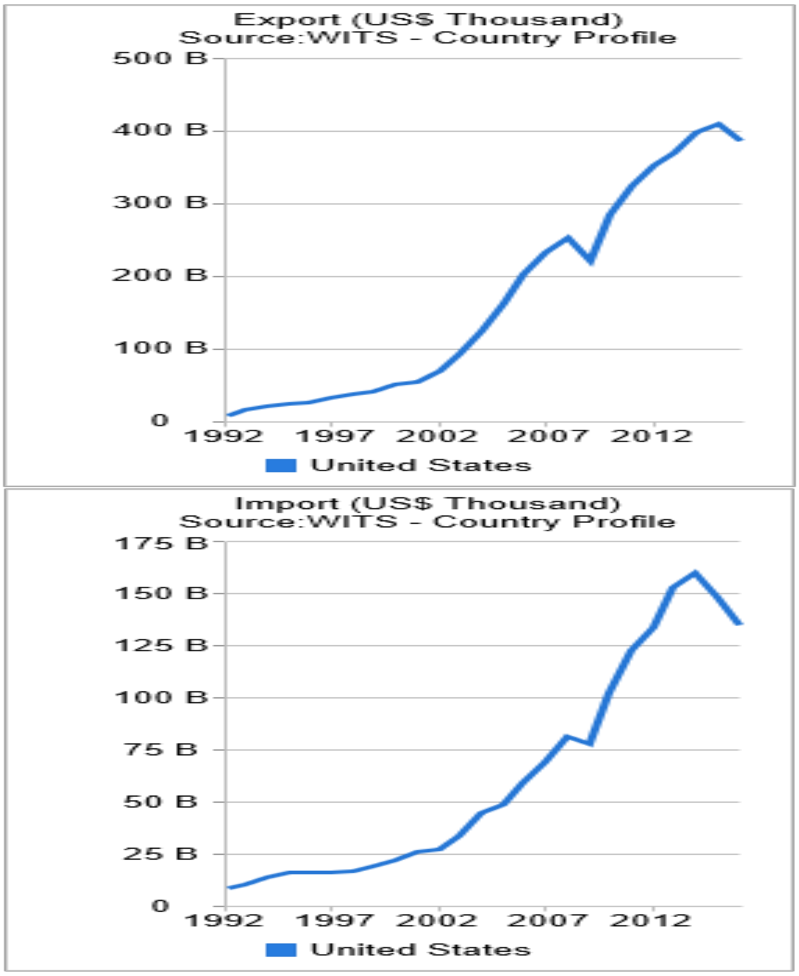
Now an analysis of China's exports and imports with the US will give a summary of bilateral trade surplus of China with the US.

Table 6. **China's Export and Import with The US (1992-2016)**

Year	China's Export with The US (US$ Thousands)	China's Import with The US (US$ Thousands)	China's Bilateral Trade Surplus with The US (US$ Thousands)
1992	8599371.776	8900942.848	-301571.072
1993	16972667.9	10687330.3	6285337.6
1994	21474840.58	13893688.32	7581152.256
1995	24728629.25	16118443.01	8610186.24
1996	26705627.14	16155120.64	10550506.5
1997	32740595.71	16301508.61	16439087.1
1998	37983571.97	16883462.14	21100109.82
1999	42004219.56	19486929.71	22517289.84
2000	52156428.12	22374570.45	29781857.67
2001	54355080.2	26217375.16	28137705.05
2002	70050092.09	27261096.55	42788995.55
2003	92626296.06	33944165.96	58682130.1
2004	125148955.9	44747868.76	80401087.13
2005	163180459	48741358.5	114439100.5
2006	203801045.7	59314269.71	144486776
2007	233168790	69547964.5	163620825.5
2008	252843530.6	81585556.13	171257974.5
2009	221295019.6	77755100.82	143539918.8
2010	283780322.7	102734184.5	181046138.2
2011	325010987.5	123124009.9	201886977.7
2012	352438221	133765823	218672398
2013	369063858.6	153394862	215668996.5
2014	397099249.7	160064513.8	237034735.9
2015	409979244.4	148693056.2	261286188.2
2016	385677759.4	135120133.1	250557626.4

Source: world Bank data 2016

Figure 5. **Trade Summary for United States**



Source: World Bank Data 2016

It is an observable fact that over the period 1992-2016, China's bilateral trade surplus gets enlarged periodically and a dip in trade surplus growth is happened only at the time of global financial crisis but from 2010 onwards the trade surplus growth rate regained its momentum and finally reached at US$ 250557.6264 million in 2016

Discussion

Implications of the US-China Trade War

China has maintained consistent trade surplus with the US and in 2017 China had a trade surplus with the US worth $275.81 billion. China's overall trade balance in 2017 was a surplus of $ 422.5 billion. It significantly means that China derived 65 per cent of its trade surplus from the US.As per World Bank data 2016 China's top most exporting partner was the US with the export volume of worth US $ 385,678 million and with a partner share of 18.39 per cent. But the US occupies the fourth position as importing partner with the import volume of US $135,120 million with a partner share of 8.51per cent (Tong, 2005). All these statistics more than provokes the US president Donald Trump, who has unleashed a trade war with China. The Trump administration slapped trade sanctions on

China, including restrictions on investment and tariffs on US $ 60 billion worth of products. In January 2018 Trump imposed tariffs on solar panels and washing machines. Then he came up with steel and aluminium tariffs on account of the excuse of protecting national security. China is more resilient to face these trade wars today than a decade ago. In 2007, 60 per cent of its GDP was from its external trade and it has gone down tremendously by 30 per cent today (Emmott, 2018). But still China has more at stake as it has more trade surplus via greater extent of exports. China has announced its retaliation policy by imposing tariffs on 128 US products ranging from wine to oranges. Now the question remains, is it good for the US and China and for the world as a whole?

Once the trade war between the US and China goes out of control, it will most likely disrupt a lot of supply and distribution chains, the catalysts of international trade. The consequences would not confine to both the US and China. The US consumers would have to pay higher prices for 'made in America' products instead of cheap Chinese products. The US business investments would have to look out for new avenues of low cost assembly (Kituyi, 2018).

Chinese manufacturers will be affected as most of their export manufacturing is the result of foreign investments.This trade competition can dent the ambitious projects of China in technological enhancements especially in Artificial Intelligence. The major discord of the US president Donald Trump is regarding the poor record of China in connection with the intellectual property rights protection, which includes requiring foreign companies to transfer their technology as a condition for investing in China. (Yueh, 2018)

The trade tensions between the US and China could trigger a shift from cooperative game to non-cooperative game in international trade with elements of a 'prisoner's dilemma' in which self-interested actions turn out to be sub optimal for individuals and the world community. Various international organizations need to step in to ameliorate the worsening international trade scenario. The role ought not to be confined to WTO. World Bank and IMF need to interfere with proper caution and diligence. World Bank and IMF need to be revamped if necessary to be better multilateral surveillance and reconciliation mechanisms. (El-Erian, 2018)

Most observers of international affairs are of the view that the trade war is not likely to be escalated and China might play it down by a mild retaliation of charging concessional increase in tariffs. Chinese Supremo Xi Jinping has so far maintained a restrained retaliation. Donald Trump also diluted his strong stand by withdrawing from an across the board tariff by granting exemptions to Argentina, Australia, Canada, Brazil, EU, Mexico and South Korea from his steel and aluminium tariff and also on domestic metal using industries. (Eichengreen, 2018) Donald Trump has even proposed to rejoin the 11 country free trade agreement known as Trans-Pacific Partnership (TPP). Nonetheless, Xi Jinping can use this scenario to project itself as champion of free trade and the US being branded as a danger to the global multilateral system that it strived so hard to build.

Conclusion

This study comes to the conclusion that so far as trade imbalance persists between the US and China, the trade tensions between these countries would reappear in different shapes and forms. The present trade tensions are not perceived to be escalated to the full scale as China is most likely to play it down. However these instances of trade war are indicators of future turbulences in global economic scenario. Any attempts on world leaders to propagate the policies that invoke trade wars invariably leads to promotion of economic nationalism and protectionism which further damages the multilateral trading system that over the decades promoted global economic welfare. It took decades of negotiations for the establishment of the present world trading system. The end of World War II initiated the global efforts to reduce tariffs. It got the momentum with the inception of GATT in 1947 then by its successor WTO. It took eight rounds of trade negotiations under the auspices of GATT and WTO to promote international trade as we see in the present world. It can all get jeopardised by these instances of trade wars irrespective of its magnitude. Thus the international organizations and world leaders need to involve in bilateral and multilateral discussions to ameliorate the trade tensions and guard against any threats to multilateral trading structure of the world. The study suggests that China instead of pursuing aggressive foreign trade policy, open up its own economy to a greater degree with due respect to intellectual property rights. China needs to recognize that aggressive trade policies may eventually hurt their national interests as well as the global welfare. The US president Donald Trump needs to be reined in by economic advisors not to pursue extreme policies which can have backlashes mostly in poor countries around the world. The global trade as we experience today is not at all a perfect one. It has damaged environment, brought forth economic displacements and generated skewed distributions of gains from the trade. Anyhow unilateralism and protectionism do not seem to be a better replacement to the present system. As Paul Krugman puts forth, the global powers opting for protectionism has to bear the cost of efficiency as imposition of tariffs prevents productive specializations (Krugman, 2018). Moreover trade protectionism hampers the complex global value chains sprawled across the borders. The manufacturers in the upstream of these chains suffer due to production bottlenecks caused by escalated tariffs and the participants downstream the chain loses their opportunity to upgrade through the chain and get benefited. Overall scenario is the loss of welfare to all the stakeholders in the global multilateral system of international trade. In the more globally integrated days of the present era, it is a perfect lesson to imbibe not just by China and the US but also by Russia, EU and other growth aspiring nations of the world.

References

Autor, D. H., Dorn, D., & Hanson, G. H. (2016). The china shock: Learning from labour-market adjustment to large changes in trade. *Annual Review of Economics*, 8, 205-240.

Eichengreen, Barry. (2018). Can a Trade War be Averted?. Available at https://www.project-syndicate.org/commentary/averting-trump-trade-war-by-barry-eichengreen-2018-04

El-Erian, Mohammad A. (2018). The Global Trade Game. Available at: <https://www.project-syndicate.org/commentary/global-trade-trump-china-tariffs-by-mohamed-a--el-erian-2018-04>

Emmott, Bill. (2018). Xi's Strong Hand against Trump. Available at: <https://www.project-syndicate.org/commentary/xi-china-trade-war-north-korea-by-bill-emmott-2018-04>

Friedman, Thomas L. (2018). Some Things Are True Even if Trump Believes Them. Available at: https://www.nytimes.com/opinion/march 13

Hausmann, Ricardo. (2018). The Dark Matter of Trade. Available at: <https://www.project-syndicate.org/commentary/united-states-has-no-external-deficit-by-ricardo-hausmann-2018-03>

Hughes, Neil C. (2005). A Trade War with China?. *Foreign Affairs*, Vol. 84, No. 4, pp. 94-106

Kituyi, Mukhisa. (2018). The Cost of Trade Wars. Available at: <https://www.project-syndicate.org/commentary/trump-trade-war-costs-by-mukhisa-kituyi-2018-06>

Krugman, Paul. (2018). Trade Wars, Stranded Assets, and the Stock Market (Wonkish). Available at: <https://www.nytimes.com/2018/04/04/opinion/trade-wars-stranded-assets-and-the-stock-market-wonkish.html>

Martin, Michael F. (2018). What's the Difference?—Comparing U.S. and Chinese Trade Data. Available at: <https://fas.org/sgp/crs/row/RS22640.pdf>

Tong, S. Y. (2005). The US-China Trade Imbalance: How Big Is It Really. *China: An International Journal*, *3*(01), 131-154.

Yueh, Linda. (2018). How a US-China trade war would hurt us all. Available at: <https://www.theguardian.com/commentisfree/2018/apr/05/us-china-trade-war-supply-chains-consumers>

Worldbank. (2016). Data. Available at: <https://wits.worldbank.org/>