

The Impact of Trade Disputes to China and the U.S

Rui Bao^{1, †}, Yukangfei Fan^{2, †}, Shenyang Feng^{3, *, †}, Yilin Lu^{4, †}

¹ Mercyhurst Preparatory high school

² Woodbridge High School

³ Dulwich High School Suzhou

⁴ Dulwich High School Suzhou

*Corresponding author. Email: 201803030@stu.ncwu.edu.cn

†These authors contributed equally.

ABSTRACT

Began in 2016, the China and U.S. government had a trade dispute. It all happened when U.S. former president Donald Trump mentioned that China is using industrial policies to U.S. market, which the U.S. uses a lot of fossil fuel in daily life. When the U.S. imposed anti-dumping rules against Chinese products, which the Chinese government has to repel back, that has affected the many products such as U.S. currency exchange rate and original oil in the global stock market. The dispute has created both positive and negative impacts for both countries. The U.S. government has demonstrated that having free trade gives a lot of benefits. On the other hand, recent data has reflected the impact of the tariff on Chinese products shows a lot of negative consequences. Tariff is nothing but more than a kind of tariff, and the use of it regarding the trade with China has strained the relationship between the two countries. Therefore, both countries governments should stop having an argument between them about trade disputes to create positive effects and further development for both countries.

Keywords: Trade war, Relationship between China and the US, Impact

1. INTRODUCTION

This article examines whether America's trade war with China will have an impact on the global economy. With economic globalization, more and more countries provide technical support to each other, provide services and other links to produce global economies. China ranks first in the total economic and trade volume. The US government's trade stance on China has caused a huge impact on The Chinese economy, which will lead to some problems in the development of the global economy in China. The question we need to solve is what kind of policies China should adopt to cushion the economic impact of the overbearing attack from the United States

1.1. Literature Review

Tan, D. H. Y., & Chen, C[1] explored that while the United States will impose a higher cost on China initially, it will also suffer a similar adverse impact on economic growth during the mid-term. The aggressive fiscal expansion is attractive to the Chinese government, but it will influence the long-term output. In this case, the current policy of the Chinese government cushions the

economy adequately near to the near to medium terms and reduces the possibilities of international repercussions. The author used two sets of scenarios to model the economic impact of the Sino-US trade dispute. One issue that arose from this article is that the author only looks at this dispute from a macro perspective, and this may lead to an overlook of some micro issues that may influence the conclusion.

Zhang, Y.[2] points out that the trade war cannot resolve US trade deficits and halt China's technological enhancement. The conclusion is the US-China trade war will not benefit either country. The article also shows the issue of China's development model that leads to continued excess savings and suggests that the Chinese government needs to speed up its economic reforms. The US government might need to reduce capital account surpluses by allowing and encouraging banks to accumulate a synthetic currency. This article is possibly biased because it lacks the US's economic structures.

Han Run (2018) [3] expresses the impacts of the trade war between China and the U.S. in March 2018. This thesis aimed to describe the economic impact that trade war would have on the global economy. The thesis also

mentioned micro and macro result and problems of the trade war, which will impact the different industries in both countries.

The thesis first illustrates the progress that both countries will be making and talks about both countries' policies against each other. For example, the U.S. has imposed a high tariff rate on imports like iron and aluminum to China, aimed at China. China has fought back quickly against the law imposed by the U.S. government by imposing tariffs on crops, cars, and other imports made by the U.S.

Second, the thesis describes the economic background of two countries, which both countries were aims tariff on several essential goods. This aiming was because of the two countries' comparative advantage. For example, the labor in the U.S. is much more expensive than in China because China has a larger population to produce more goods with lower labor and price, which become more competitive to U.S. manufacture products.

Finally, it describes the impact on China's economy by the trade war. It caused many adverse effects on China's economy because many multinational corporations are based in the U.S. Therefore, they could move their firm in China to other lower labor countries such as Vietnam, which would cause much unemployment to China.

Mary Amity, Stephen J Redding, and David Weinstein (2019) [4] described the impact of the trade war between China and the U.S., which began in March 2018. This thesis aimed to show the impact on prices and welfare on two countries.

To begin with, the thesis illustrates what the U.S. government has been doing to other countries around the world, especially in China. It has applied an enormous amount of competitive tariff to the imports by China, which the policies have caused changes in the price of goods and welfare. It has made the intermediate and final goods' price increase a lot, which has made a considerable decrease in the number of imports for consumers to choose from, making a significant change in the supply chain of many industries in the U.S. However, it has brought much tax revenue and welfare to people, which helps the U.S. export protect from more competitive imports. By putting a high tariff on imports, especially from China which has harmed the relationship between them. It has caused some firms to decide to move their firm to other countries, but that would cause much money to do that.

Pablo Fajgelbaum, Amit Khandelwal (2021) [5] described the impact of the U.S. on China's economy and some problems to the producer and consumer in both countries. The U.S. government is mainly putting tariff targeting on goods from China, which affects many problems to both country's market.

Firstly, the thesis has described that in 2018, the U.S. government launched a trade war with China, which U.S. government started to begin by putting 350 billion dollars tariff on the goods that were being manufactured in China, such as iron, washing machine and solar panels which lead people to realize that the U.S. is targeting China, which these tariffs to made in China product are still happening 2021. The trade war has harmed the producer from both countries by decreasing the demand in the foreign market by government policies that control the number of goods being exported out of the nation. The consumer of two countries has been taken away by less choice of imports from the U.S., which cause a decrease in the amount of spending in each people. It has to lead the GDP decrease for both nations.

2. RESULTS

More harm can be done by the dual ideological posturing and alarmist political demands of international rivals. For example, Republican presidential candidates have taken ideologically principled positions against industrial policy and government intervention. By contrast, Donald Trump's 2016 call that China was "killing us" with industrial policies worth emulating.

In the case of U.S. policies supporting fossil fuels, especially coal, the pervasiveness and persistence of those policies has made them all but extinct over time. The most obvious example is coal leasing on federal lands, as "approximately 40% of coal production in the United States comes from federal lands" [6]

When the United States decided to impose anti-dumping duties on China, the news caused turmoil in global financial markets. As China was the first target of the sanctions, the prices of listed companies, including the A-share market, fell sharply after the opening. Furthermore, many investors were affected by the news in commodity markets, including rubber futures on several major commodity markets, including the Tokyo Mercantile Exchange and Shanghai Futures Exchange, which fell by the daily limit. In addition to the rubber related financial derivatives affected, the international market, including the original oil, Lun Copper, the U.S. dollar and so on in a number of the heavy index have varying degrees of decline.[7]

The specific reaction of the market to the US tariff on China shows that both stock and futures prices have dropped. Therefore, the U.S. tariff on China will reduce the volume of trade in the international market.

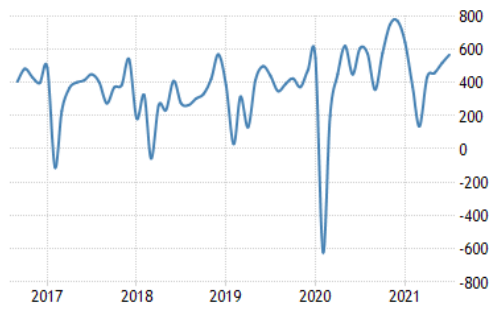


Figure 1. China Balance of Trade

Retaliation against the US came from 161 countries and the European Union. The study's findings suggest that the trade war import tariffs have no significant negative impact on U.S. imports from the rest of the world but have reduced Chinese imports. In both countries, the non-tariff effect seems to positively impact trade flows from other parts of the world. The presence of numerous suppliers of the same products around the world may make this possible. The US and China source products from other countries.

3. DISCUSSION

Since Donald Trump started raising import tariffs on China's products, China's exports will hugely impact. In the meantime, American companies have to choose products from other countries at higher expenses. For example, China is a big exporter of tires. As the taxes were imposed, American importers had to pay higher prices. Based on researchers, "We estimate the likely impact on U.S. consumers and find that by the end of 2018, import tariffs were costing U.S. consumers and the firms that import foreign goods an additional \$3 billion per month in added tax costs and another 1.4 billion dollars per month in deadweight welfare (efficiency) losses."

The trade war would eventually make the customers pay more. For U.S. producers, tariffs changed their pricing behavior by protecting them from foreign competition and enabling them to raise prices and markups. For Chinese producers, because the demand for their products decreases, they have to dismiss their employees. Many small businesses may close because of Trade War. The unemployment rate in China would suddenly get increased. For the past 2 decades, China was used as the world's "factory", their economy relied on manufacturing. A huge increase in the unemployment rate will make China's economy fall. For the U.S., they met the same issue, based on the researchers, "Not surprisingly, what they found wasn't good for the U.S. Their analysis suggests that unemployment rates would increase by 0.2 to 0.7 percentage points across U.S. states within four quarters in response to such a tariff. As a frame of reference, a 0.1 percentage point change in the U.S. unemployment rate corresponds to a loss of 160,000 jobs." [8]

The changes made to the policies will have a significant short-term impact on the trade at the beginning. Based on economists, "We estimate the cumulative deadweight welfare cost (reduction in real income) from the U.S. tariffs to be around \$6.9 billion during the first 11 months of 2018, with an additional cost of \$12.3 billion to domestic consumers and importers in the form of tariff revenue transferred to the government. The deadweight welfare costs alone reached \$1.4 billion per month by November of 2018. The trade war also caused dramatic adjustments in international supply chains, as approximately 165 billion dollars of trade (\$136 billion of imports and \$29 billion of exports) is lost or redirected to avoid the tariffs." Later on, because of the increase in unemployment rates, both countries' workers would start having disappointments about their government. On the other hand, the Trade War would impact the relationships between U.S. and China.[9]

Not only U.S. and China but other developing countries will also get impacted. While the U.S. is adding tariffs on Chinese products, many companies move their assembly line to other countries in South Asia and Southeast Asia. Based on the data, "Last year solar energy technology company Enphase, based in California, announced it would produce some of its products in Mexico to avoid tariffs. Likewise, Apple announced that it would move some of its iPhone assemblies from Taiwanese manufacturing company Foxconn's facilities in China to its facilities in India.[10] Southeast Asian countries like Thailand, Malaysia, and especially Vietnam have been some of the biggest beneficiaries of these shifts. For example, Nintendo, Sharp, and Kyocera have all recently announced plans to shift some production from China to Vietnam." As the wages in China grew higher, those Southeast Asian countries are growing more and more attractive to these foreign companies, "US-ASEAN Business Council CEO Alex Feldman says that this isn't an entirely new phenomenon. With wages in China rising higher, companies have been exploring other parts of the world searching for cheap manufacturing labor for years now. For example, South Korea-based Samsung has long manufactured products in Vietnam. [11]New trade agreements are also making Southeast Asia more attractive for countries in the broader Asia-Pacific region." Moving assembly lines outside of China started getting more popular than before. Trade War is accelerating this trend, "Exports out of Vietnam have risen from about \$176.6 billion worth of goods in 2016 to \$290.4 billion last year, according to the International Trade Centre. Many of those goods were bound for the US—last year, Vietnam had a \$39.5 billion trade imbalance with the US, in Vietnam's favor, according to the US Census Bureau. "By and large, Vietnam is winning the US-China trade war, and I expect them to continue to win it," says Eric Miller, a global fellow at the Wilson Center." Not only Vietnam but Mexico also got profits from it, "Mexico passed China

this year to become the US's largest trading partner, though the US still imports more products from China than Mexico. The \$9.9 billion trade deficit between the US and Mexico, in Mexico's favor, for the month of June this year was the largest monthly imbalance on record between the two countries, according to the Census Bureau. India, Malaysia, Thailand, and Taiwan all saw upticks in exports to the US and around the world last year, as the US trade deficit hit a record high of \$891.3 billion for 2018." [12] trade war could impact the economy of the entire world.

4. CONCLUSION

The trade disputes between China and the U.S that result from irrational trade protection has an impact not only on these two countries but also influence other countries that rely on China and U.S's export and import. In the short term, this conflict may lead to an increasing unemployment rate and decreasing aggregate demand. In the long term, it may promote the evolution of the advancement of a country's trade structure to a different degree. [13] Still, it sours the relationship between the two countries and hurts their economic interests. Overall, the negative impact of the trade disputes is larger than its positive effect for both countries. [14]

In this way, we suggested this issue: China and the United States have advantages in different industries. First of all, we should continue to develop domestic science and technology and explore technical personnel to promote the development of core technology industries. Effective use of international law to protect national interests. Second, China should strengthen opposition to irrational trade protection and promote a new trade order. And finally, to improve the international management awareness and transnational management ability, governments should continue to globalize and trade with other countries. [15]

REFERENCES

- [1] Tan, D. H. Y., & Chen, C.. Modeling the economic impact of the Sino– US trade dispute: A global perspective. In L. SONG, Y. ZHOU, & L. HURST (Eds.), *The Chinese Economic Transformation: Views from Young Economists* (pp. 215–236). ANU Press. <http://www.jstor.org/stable/j.ctvp7d4j8.18>
- [2] Zhang, Y. The US–China Trade War: A Political and Economic Analysis. *Indian Journal of Asian Affairs*, 31(1/2), 53–74. <https://www.jstor.org/stable/26608823>
- [3] Han Ren, "The Trade War between China and the United States and its Economic Impact," *Economic Research Guide*, 2018, 26 :118-119
- [4] Mary Amity, Stephen J Redding, and David Weinstein, "The Impact of the 2018 Trade War on U.S. Prices and Welfare," NBER Working Paper 25672
- [5] Pablo Fajgelbaum, Amit Khandelwal, "The Economic Impact of the US-China Trade War," NBER Paper 29315
- [6] Huang Chaofan. The Impact of a new Round of Sino-US Trade War and countermeasures -- Reflections triggered by the Sino-US Tire Special Protection Case. *Northern Economics and Trade* (07),19-21. doi:CNKI:SUN:GFJM.0.2021-07-007.
- [7] Mary Amity & Sang Hoon Kong & David Weinstein(2020). THE EFFECT OF THE U.S.-CHINA TRADE WAR ON U.S. INVESTMENT. <http://www.nber.org/papers/w27114>
- [8] He Yuhuan. Sino-us trade friction influence on China's industrial structure upgrade and coping strategies research (a master's degree thesis, jiangxi university of finance and economics).<https://kns-cnki-net-s.nudtproxy.yitlink.com:443/KCMS/detail/detail.aspx?dbname=CMFDTEMP&filename=1021614204.nh>
- [9] Finley, K.Trump's Trade War isn't just a US–China problem. *Wired*. Retrieved October 3, 2021, from <https://www.wired.com/story/us-china-trade-war-spills-over/>.
- [10] Hu Zhenhu & Yu Xiao. Impact and countermeasures of Sino-US Trade War on Chinese and American economy and global political and economic Pattern. Doi :10.19477/j.cnki.10-1368/ F.2018.08.018.
- [11] Singh G. 2019. China–US trade war: an overview. *Management and Economics Research Journal*, Vol. 5, Article ID 945413, 7 pages. <https://doi.org/10.18639/MERJ.2019.945413>.
- [12] The impact of the China-US trade agreement on developing countries. *VOX*, CEPR Policy Portal.. Retrieved October 3, 2021, from <https://voxeu.org/article/impact-china-us-trade-agreement-developing-countries>.
- [13] Director, S. H. A., Hananel, S., Director, A., Oduyeru Manager, L., Oduyeru, L., Manager, Shepherd Director, M., Shepherd, M., Director, Kustin, M. E., Richards, R., Lee-Ashley, M., Rowland-Shea, J., Graves-Fitzsimmons, G., Zhavoronkova, M., & Spitzer, E. (2017, July 26). Modernizing the federal coal program. Center for American Progress. Retrieved November 16, 2021, from <https://www.americanprogress.org/article/modernizing-the-federal-coal-program/>.
- [14] Huang, Y. The U.S.-China Trade War has become a Cold War. *Carnegie Endowment for International Peace*. Retrieved October 3, 2021, from

<https://carnegieendowment.org/2021/09/16/u.s.-china-trade-war-has-become-cold-war-pub-85352>.

[15] Song guoyou. From Trump to Biden: Assessment

and Prospect of Sino-US economic and trade Relations. *Journal of Fudan University (Social Sciences)*(05),176-182.
doi:CNKI:SUN:FDDX.0.2021-05-021.