

# Analysis of the Effects of Trade Disputes Between China and America on Heilongjiang Province

Jin-ping ZHANG

Harbin University of Commerce, Harbin, China

**Keywords:** Trade Between China and America; Trade Dispute; Heilongjiang Province.

**Abstract.** China and America have both issued huge amount of commodities lists of trade sanctions on each other since their trade disputes aggravated. Currently, America is the second largest trading partner of Heilongjiang Province. Two countries' trade disputes will not have overall negative influence on Heilongjiang Province obviously. However, there is a certain impact on the local high technology import and export industries and enterprises, such as soybean processing industry, manufacturers of components of aircraft and engines. Local government should take some corresponding measures to eliminate or reduce these possible negative impacts. Meanwhile, a new opportunity is being brought to Heilongjiang Province to improve its economic growth pattern, product structure, consumption structure and widen scope of trading partners.

## 1. Introduction

After China's accession to the WTO, trade disputes between China and America are the most frequent and intense, and mainly involve trade imbalance, intellectual property protection and the RMB exchange rate. America imposed a 25% tariff on steel and a 10% tariff on aluminum products on national security grounds at March 23, 2018, which opened a new round of the two countries' trade disputes. During just four months, it has experienced three stages: trade imbalance disputes, intellectual property protection disputes and a series of bans on enterprises and a requirement to open financial markets. The intellectual property protection dispute and the bans to enterprises have a little effect on Heilongjiang Province in terms of current industrial structure and import and export product structure, because they are directly against Chinese advanced technology manufacturing industries in the upward and downward industry chains of those industries in America. Besides, there is no doubt that Heilongjiang Province do not have a dominant power on opening financial market, as it is related to national macroeconomic policies. Consequently, the effects of the trade disputes on Heilongjiang Province mainly focus on the trade imbalance. Therefore, This paper analyses the possible positive and negative influences of US\$50 billion and US\$200 billion tariff lists arising from the trade sanctions on Heilongjiang province's foreign trade, especially discusses the negative effects.

## 2. The Negative Effects of Trade Disputes between China and America on Heilongjiang Province

### 2.1 The Short-run Direct Effect from the View of America's role in Heilongjiang's Foreign Trade

**The Effect on Foreign Trade Scale of Heilongjiang Province.** Russia was far ahead than other trade partners, accounting for more than 50% of total value of Heilongjiang Province's imports and exports trade during 2013-2017, see Table 1. Although the second trade partner is always a different country, its average proportion is only 7.66%. And the highest proportion in 2017 is only 10.7%. America was always in the third place, accounting for a range from 5.0% to 7.5%. From a national perspective, America is the second largest trade partner of Heilongjiang Province. From the data of 185 countries and regions that traded with Heilongjiang Province in 2017, America has a relatively large proportion, but it has a few impacts on Heilongjiang Province in terms of the absolute value of trade.

**Table 1.** Heilongjiang Province's Total Value of Imports and Exports of Major Trading Partners, 2013-2017, %

Rank	2013		2014		2015		2016		2017	
	Econo my	Propor tion	Econo my	Propor tion	Econo my	Propor tion	Econo my	Propor tion	Econo my	Propor tion
1	Russia	57.5	Russia	59.8	Russia	51.7	Russia	55.5	Russia	58.1
2	EU	5.9	ASEA N	6.1	ASEA N	8.0	EU	7.6	EU	10.7
3	USA	5.0	USA	5.5	USA	7.1	USA	6.2	USA	7.5
4	ASEA N	4.8	EU	4.8	ASEA N	6.3	Brazil	4.7	——	——

Remarks: there are 28 EU members in 2013-2015 and 25 EU members in 2016-2017.

Source: adapted from China Customs General Administration, Harbin Customs and Heilongjiang Statistics Bureau.

From Table 2, we can see that Heilongjiang's trade with America accounts for a small proportion of China's trade with America, far below the average level of national 32 administrative regions. The total amount of bilateral trade between China and America accounted for 14.3% of total amount of China's foreign trade in 2017, while the total value of Heilongjiang's trade with America accounted for only 7.5% of the total value of its foreign trade.

**Table 2.** Total Value of China and Heilongjiang Province's Import and Export Trade with America, 2013-2017

	2013	2014	2015	2016	2017
The total value of China's import and export trade with America(US\$100 million)	1525.8	1590.1	1487.4	1344.0	1539.4
Total value of Heilongjiang's import and export trade with America (100 million US dollars)	19.6	21.5	14.9	10.2	14.14
Proportion (%)	1.28	1.35	1.00	0.76	0.92

Source: adapted from China Customs General Administration and Heilongjiang province Statistics Bureau.

**The Effect on Trade Balance of Heilongjiang Province.** The analysis of the impact of the trade disputes on Heilongjiang province's foreign trade scale shows that although America has always been the second largest trading partner of Heilongjiang Province, their total amount of import and export trade are not more than 7.5%, and few imported and exported products are included in their tariff lists mentioned above. Taking 2017 as an example, Heilongjiang province's total value of exported goods included in the tariff lists only accounted for 0.69% of the total value of exports to America, 0.10% of the total volume of foreign exports, while its total amount of imported goods related in the tariff lists only accounted for 52.18% of the total amount of imports from America, 2.4% of total amount of foreign imports. Therefore, although the impact of the trade disputes on Heilongjiang's imports is much greater than its exports, there is a little influence on its imports and exports and terms of trade in general. In fact, the value of import and export is measured by prices. If the price factor is taken into account, the trade disputes may lead to a decline in the exports of a product and cause a fall in the domestic price of this product. However, if the export market cannot find suitable substitutes and new suppliers in the short term, this may raise the export price of the product in turn. Thus, there is an inverse relationship between the export volume and export price of this product, which may offset the negative influence on trade balance. It means, Heilongjiang province's foreign trade balance is not likely to be affected substantially.

**The Effect on Economic Growth of Heilongjiang Province.** Reference to Table 3, Heilongjiang Province's scale and foreign trade dependence degree of foreign trade and trade with America show a downward trend. Especially, there was a sharp decline between 2014 and 2015 and a small fluctuation from 2015 to 2017. From the perspective of its dependence on foreign trade in

the past three years, foreign trade contributed a little to its economic growth and even kept in a decline trend. Therefore, the impact of the trade disputes on Heilongjiang province's economic growth is very small. Considering that products in the tariff list is less relative to the structure of Heilongjiang's imports and exports, the impact on its economic growth rate can be neglected.

**Table 3.** Heilongjiang Province's Total Value of Import and Export, RMB100 Million and Foreign Trade Dependence Degree, 2013-2017,

Items	2013	2014	2015	2016	2017
Total value of import and export	2407.9	2389.9	1300.2	1093.1	1280.7
Gross national product	14382.	15039.	15083.	15386.	16199.
Foreign trade dependence degree (%)	9	4	7	1	9
Total value of imports and exports to America	120.4	131.9	92.3	67.6	95.5
Trade dependence degree with America (%)	0.84	0.88	0.61	0.44	0.59

Source: adapted from Heilongjiang Province National Economy and Social Development Statistical Bulletin, 2013-2017.

Remarks: Heilongjiang Province's total value of imports and exports were 38.88 billion US dollars, equal to RMB 240.79 billion, and its total value of imports and exports to America was 1.96 billion US dollars, equal to RMB 12.04 billion in terms of average exchange rate US \$1= RMB 6.1428 in 2013.

**The Effect on Industrial Development and Enterprises in Heilongjiang Province.** As there is a little change in the structure of imports and exports of Heilongjiang Province from 2013 to 2017, this paper mainly analyzes the impact on the basis of related data in 2017.

On the one hand, Heilongjiang province's total value of exports to America was US\$782 million and accounted for 14.9% of its total exports in 2017. 32 types of exported products involved in the America's tariffs list worth 5,388,200 US dollars and account for 0.69% of the total exports to America in 2017. Those exported products which worth more than 100,000 US dollars can be classified into five categories, components of aircraft and engine2, 592,800 US dollars, CNC horizontal lathes985, 000 US dollars, hybrid mixers245, 100 US dollars, wine-making machines242, 000 US dollars, mechanical seals110, 700 US dollars and totally 4,175,600 US dollars. These exports to America are mainly undertaken by high technology industrial enterprises, own market shares in both the domestic and other countries, and their amount involved is very small. These negative impacts can be completely internalized by these enterprises. There are six export-oriented enterprises related to the tariff list (4, 83,900 US dollars), including 3 firms in Harbin and 3 firms Mudanjiang City. Therefore, the overall impact is very narrow. If necessary, government policies to provide funds and supports will be more effective.

On the other hand, Heilongjiang Province's total amount of imported products from America was 632 million US dollars and accounted for 4.6% of its total imports in 2017. 13 types of products included in the America's tariffs list worth 329,796,800 US dollars and account for 52.18% of total imports from America in 2017. More than 5 million US dollars of imported products involved can be divided into five categories, soybeans 324,626,900 US dollars, chemical rubber 3,232,800 US dollars, plastic plate 1,565,000 US dollars, non-foam plastic plate 79,200 US dollars, off-road vehicles with no more than 3000 milliliters of emissions 74,500 US dollars. There are 3 import-oriented firms in Harbin and 1 import-oriented firm in Mudanjiang city related to the tariffs list, 329,424,800 US dollars in total, including Jiusan Oils & Grains Industries Group 243,402,200 US dollars and The Great Northern Wilderness Grain Group 324,622,700 US dollars, accounting for 98.43% of the total. Both of them imported soybeans from America. It can be concluded that the effect of China's import tariff list against America's on Heilongjiang province concentrated in soybean trade and 2 companies engaging in import of soybean. As soybean is an important agricultural product in Heilongjiang Province, and soybean industry is also national and local key industry. This adverse effect can be eliminated by enhancing government support for the soybean industry and diversify soybean imports.

## 2.2 The Long-run Indirect Effects of the Trade Disputes from a Perspective of International Trade Transmission Mechanism

**Effect on Price Stability of Heilongjiang Province.** In theories, China and America imposed trade sanctions and raised tariff barriers on each other, which may have some impacts on the home prices of related products in two countries, that is, the domestic prices of products subject to export restrictions will fall, and the prices of the same products in importing countries will increase. These specific impacts depend on the price elasticity of demand and supply and cross elasticity of demand of the exported and imported goods. It is necessary for Heilongjiang Province to consider whether there are substitutes of imported products restricted by America in the home market, or whether there are substitutive countries of origin. It also depends on the proportion of imported products limited by America accounted for sales of similar products in Heilongjiang Province, the extent of a decline in the export volume of products imposed high tariff to America and whether there are substitutive domestic markets or new export markets. From its structure and value of imports and exports with America mentioned above, the exports will not affect the market price of similar products in the local market. However, the China's counter-sanctions list will have influences on the local market price of soybean and its products. Genetically modified soybeans imported from America are mainly used to produce edible soybean oil and soybean meal in China. Due to the price mechanism in the industrial chain, imposing tariffs on imported soybeans from America may push up the domestic soybean market price, which in turn leads to a fluctuation in the prices of soybean oil and Soybean meal. As soybean meal is the main feed for poultry and livestock, it may raise the prices of meat, eggs and milk indirectly in the long run.

For the local enterprises, China's list of products imposed tariffs in counter-sanctions mainly includes high-tech products and agricultural products. High-tech products have high profit margin. Since Chinese market is very important for some American export companies, such as some large scale of medical equipment companies who have proposed to internalize the impact of tariffs on export prices. In addition, buyers and sellers can also make negotiations to solve the price problem caused by increasing tariffs together.

**Effect on Employment of Heilongjiang Province.** Export contributes a little to Heilongjiang province, although it has a positive effect on employment. And some exports are not locally produced goods. Therefore, there is a little impact of a fluctuation in exports on its employment. It can be seen from this paper's introduction that Russia is always its largest export market, while trade with America accounts for a small proportion of its total foreign trade, and few exported products are affected by the trade disputes. Therefore, the trade disputes have almost no impact on employment of Heilongjiang province.

On the basis of the product structure of its exports to America in 2017, these products restricted by increasing tariffs can be sold to the domestic market and third parties' markets. This has no impact on firms' scale of production and export, and has no indirect affect on the employment. Moreover, if China restricts on the imports from America, Heilongjiang Province will has some local products that can substitute imported products, such as soybeans, and the expansion of its production scale may increase level of employment.

**Effect on Consumers' Cost and Convenience of Living.** In theory, restriction in imports will raise domestic price level in the short term. However, if these imported products either have some domestic or imported substitutes, or are not necessities for consumers, their living costs and convenience will not change significantly in the long run.

For Heilongjiang province's imported products imposed high tariffs by America in 2017, there are 11 types of products belonging to industrial raw materials or components, only two types of products, yellow soybeans and off-road vehicles being part of final consumer goods. However, off-road vehicles are luxury goods and purchased by only a very small number of people. There is no impact on the overall cost and convenience of living. Besides, Heilongjiang Province is not only engaged in a large scale of production and processing of soybeans, but also an important market for soybeans and soybean products. Soybean is a necessity for most of residents in Heilongjiang Province. Therefore, a rise in soybean price may have some impacts on many ordinary

householders.

### **3. The Positive Effects of the Trade Dispute between China and America on Heilongjiang Province**

#### **3.1 An Opportunity to Change Economic Growth Pattern**

Under the trade disputes with America, the government should support the development of potential substitutive industries, increase total output of essential and strategic goods produced by home producers, promote economic growth by enlarging consumption and thus reduce its dependence on the international market. The soybean industry and motorcar industry own great development potentials and market demand and supply in China. If import restrictions are carried out in these two industries, domestic motorcar industry can be protected from foreign competition. One reason of counter-restriction on soybean import from America is that Chinese market is very important for the America soybean industry whose soybean export dependency is 50% and about 25% of soybean output is imported by China, that is, the volume of soybean export to China accounts for more or less 50% of America's total volume of soybean export. On the contrary, see Table 4, the Chinese soybean industry is not only highly dependent on the international market, but also has more than 33% dependency on American market. Therefore, restrictions on soybean import from America will cause a huge consumption gap and a rise in price of soybean, which brings a considerable market opportunity for China's soybean planting industry. It is a new opportunity to stimulate development of the soybean industry of Heilongjiang Province.

**Table 4.** China's Soybean Import Dependence and the Proportions of Imports from America, 2014-2017

Items	2014	2015	2016	2017
Soybean import dependence (%)	80	87	76	85
Total soybean imports (10,000 tons)	7 140	8 174	8 323	9 556
Soybean imports from America (10,000 tons)	3 003	2 841	3 417	3 286
Proportion (%)	42.1	34.8	41.1	34.4

#### **3.2 Creating Opportunities for Cooperation with Third-party States**

Facing negative effects of the trade disputes, China could adjust the geographical orientation of foreign trade, diversify export markets and import origins and weaken the risks of international trade cooperation. Taking soybean imports as an example, Chinese soybean import origins mainly concentrated in America, Brazil and Argentina. China could encourage recovering domestic soybean growing areas and expanding imports from the third-party states, not only including Brazil and Argentina, but also Paraguay, Bolivia and Russia. Besides, the government could strengthen agricultural cooperation with more other countries and also ensure the food and agricultural security.

#### **3.3 An Opportunity for Restructuring Products and Consumption**

Many low value added and labor-intensive exported products made in China are imposed high tariffs reference to the American 200 billion US dollars tariff list. This may have a little effect on American demand and supply of market and market price in the long run, because it is easy for America to find their substitutes in the global market, but this will have a large influence on Chinese export companies and local economic growth. We can take this opportunity to push those related industries to innovate technology and products, increase the value added to products and expand their international markets. Taking soybeans as an example, China imports non-genetically modified soybeans from Russia, which can not only fill in the consumption gap resulting from the tariff barriers, but also take the opportunity to reduce the import dependence on genetically modified soybeans and improve the quality and nutrition of domestic edible soybeans. At the same



time, government can also give incentives to relate companies to develop new types of livestock feed in order to reduce the dependence on soybean meal.

#### 4. Summary

Every coin has two sides. On the one hand, trade disputes between China and America may not have a negative impact on Heilongjiang province's foreign trade and overall economic development in the short run. However, there is a possible adverse effect on national price stability as well as the market price of soybean, soybean processing firms' profits and living cost of consumers. It is worth noting that China is opening up gradually, meanwhile, participates in and promotes global economic integration actively. Due to the existence of transmission mechanism between domestic and international economy, long-run negative impacts also depend on the influence of the trade disputes on other regions of China and effectiveness of government policies. On the other side, the trade disputes may have positive effects on economic growth pattern, geographical orientation of foreign trade, structure of import and export products and consumption structure. Overall, negative influences are objective and inevitable, while the effectiveness of positive influences depends on relative government policies, business behavior and consumer behavior.

#### Acknowledgement

This research was financially supported by the National Social Science Foundation (No. 18BJL094).

#### References

- [1] Xu Yanling. The Effect of Trade Disputes between China and America on Foreign Trade Manufacturing Enterprises in Heilongjiang Province [J]. *Statistics and Consulting*. 2018 (4): 6-7.
- [2] Li Chunding, He Chuantian, Lin Chuangwei. Evaluation of the Effectiveness of Policies to Deal with Trade Disputes between China and America [J]. *Chinese Industrial Economy*. 2018 (10): 137-155.
- [3] Deng Zhongliang. Discuss Trade Disputes between China and America from the Perspective of their Trade Structure [J]. *China Circulation Economy*. 2018 (10): 80-92.
- [4] Heilongjiang Provincial Bureau of Statistics. Heilongjiang Province National Economic and Social Development Statistical Bulletin. [Http://www.tjcn.org](http://www.tjcn.org)
- [5] Ku Tianyi. Research on the Effect of Trade Disputes between China and America on Shanghai [J]. *Statistical Science and Practice*. 2018 (6): 23-27.