

# The Impact of US-China Trade War and Protectionism--In Terms of China

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**Abstract.** This paper focuses on the consequence of the trade war between China and the US on China's economy under trade protectionism policies. This paper first introduces the history of trade wars, the motives of trade protectionism and the status of the trade war. Based on the above background information, this paper explains that trade deficit is the core reason for the outbreak of sino-US trade war, and introduces in detail a series of economic and technological sanctions adopted by the United States against China. Based on the above information, the paper concludes the impact of the Sino-US trade war on China's economy. The trade war between China and the US has slowed down the development of China's economy, technology industry and financial market through a series of measures, including high tariffs, trade bans and technology monopolies, while also bringing high unemployment to China.

**Keywords:** protectionism, US-China trade war, impacts on China.

## 1. Introduction

After world War II, trade liberalization promoted the continuous development of economic globalization. However, as capitalist countries experience economic crises one after another, trade protectionism frequently rises and trade wars break out from time to time. It is clear that protectionism and trade wars improve the competitiveness of their goods and protect their key industrial sectors. But it will do more harm than good to the economy. There is no winner in a trade war. If tariff barriers are raised, it will have a significant impact on the import and export trade, stock markets, labor markets and unemployment rates of participating countries.

The world's two greatest economies are the United States and China. After 40 years of progress, the former has become one of the world's major developed economies, while the latter has become one of the world's largest developing economies. The 11th CPC Central Committee held its third Plenary Session from December 18 to 22, 1978. The party's ideological plank of "finding truth through facts" was re-established during the summit. It opted to focus on economic development rather than political battles. This paved the way for reform and liberalization. Xiaogang Village, one of the poorest villages in Fengyang County, Anhui Province, abandoned the collective production structure and led the way in establishing collective land contracts in the winter of the same year. The technique, which became known as the Family Accountability System (HRS), was implemented countrywide in the early 1980s, replacing a 25-year-old system of people's communes. This was the planned economy's first breakthrough. China began the shift from a planned economy to a market trading system as it opened up to international commerce and investment. The rate of domestic economic development has been coordinated with the rate of economic globalization involvement.

Since China has accessed to the WTO in 2001, China's trade policy has been committed to speeding up opening-up, actively developing foreign trade and promoting sustained export growth [1]. Asean, the European Union and the United States are by far China's three largest trading partners. In addition, China actively participates in the development of the world economy and continuously strengthens its cooperation with the third world countries. By the end of 2017, China's GDP had changed dramatically from 1978. China has become the second largest economy in the world and plays an indispensable role in world's economic development [2].

The United States is already wary of China's rising role in the global economy and of policies that harm the interests of the United States and other advanced economies. The United States has accused China of unreciprocal trade policies, high tariffs and other trade policies. Most fundamentally, China's

development puts the dollar's status as the world's common currency and as a worldwide digital and high-tech leader in jeopardy. As a result, the trade war between the US and China is not an accident. President Trump slapped \$50 billion in tariffs on Chinese imports to the US on March 22, 2018. A day later, Us Section 232 went into effect, imposing tariffs on steel and aluminium products from a number of countries, including Canada. Raise average American tariffs on Chinese imports from 3 percent to more than 12 percent. It also led China to retaliate by imposing tariffs on American imports, raising the average tariff on Chinese exports to more than 18 percent from less than 10 percent [3]. This has heightened concerns about "beggar-thy-neighbour" policies reminiscent of the Smoot-Hawley Act of the 1930s, which could be the first large-scale protectionist measures taken by the US since the Great Depression of the late 1930s [4]. The high U.S. tariffs have undoubtedly had a large impact on the Chinese economy on all fronts. Economic growth has slowed, stock market indices have remained low, and unemployment rates have climbed high.

Following the high tariff barriers, the U.S. has introduced a lot of policies to restrict the development of China's technology industry. These include banning U.S. companies from exporting chips to China and banning U.S. companies from buying products from Chinese technology companies, which has dealt a serious blow to the Chinese industry, which has not yet mastered the core technology. This has greatly reduced the competitiveness of Chinese electronic technology products in the market and slowed down the industrialization of Chinese high-tech industries to a large extent.

## 2. Trade wars and protectionism

Simply explained, a trade war occurs when one country sets taxes or quotas on imported commodities and another country responds with trade protectionism of its own. Trade wars occurred frequently as early as the feudal period. An example is the First Opium War in 1840. Before the First Opium War, China was the world's largest trade surplus country. In order to change this situation, Western countries, led by Britain, dumped large quantities of opium into China in an attempt to reverse the trade deficit. The Qing government took a number of strict measures in response. These included the prohibition of drug smuggling and the seizure of British merchant ships [3].

Protectionism is the concept and policy of establishing import limitations in international trade to protect home goods from foreign competition in the domestic market, as well as giving domestic goods with various favors to improve their international competitiveness.

Protectionism primarily employs two types of methods to limit imports: tariff barriers and non-tariff barriers. The former primarily inhibits massive imports of foreign goods by imposing high import tariffs; the latter includes the use of non-tariff measures such as import licensing and import quotas to limit free imports of foreign goods.

## 3. US-China Trade wars

### 3.1 Reasons

For the Trump administration, the bilateral trade deficit between the US and China has been a major source of irritation. On the one hand, the US-China bilateral goods trade deficit has grown dramatically. According to the data, the trade deficit was only about 10.4 billion US dollars in 1990, grew to 83.8 billion US dollars in 2000, and reached about 419.2 billion US dollars in 2018 [5]. The Trump administration, on the other hand, argues that the United States suffers from persistent trade deficits that hurt manufacturing and employment. This is one of the main reasons for the trade war between the United States and China starting in 2018. For the US-China trade deficit, several factors may combine to cause it.

### 3.1.1 overestimating China's added value

Standard trade figures are calculated by the full value of imports and exports. However, most scholars agree that this is not a reasonable method to count the current value of imports and exports. It may take several steps for a company to produce a final product. Traditionally, companies produce most of the steps themselves. Today, each phase may take place in a separate country, allowing modern businesses to optimize revenues by leveraging each country's comparative advantages. Because many of China's exports are only the final step in the manufacturing process, the added value from China is minimal. According to relevant studies, a value-added method like this would lower the US trade imbalance by 33% in 2009 and by an average of more than 25% since 2000 [6]. With analyzing the redistribution of added value of products by outsourcing activities and found that under traditional data, the US-China trade deficit was only about a half of the value [7]. Also, China's added value was about 87% in 1980 and only 63% in 2009. As a result, traditional trade flow data, which counts the overall value of goods, makes America's trade deficit with China better than itself [8].

### 3.1.2 Shifting labor intensive production from developed countries in Asia to China

With the development of other developed countries in Asia, labor-intensive industries are gradually moving to China. The transfer is based on the transfer of comparative advantage. Starting in 1980, Japan developed into capital-intensive production and the Asian Tigers became major exporters of labor-intensive goods. However, starting in 1990, once the Asian Tigers moved into capital-intensive production, China became a major exporter of labor-intensive products.

According to data, the US trade deficit with Asian countries (including China) accounted for 100% of the entire trade deficit in early 1990, and 83.3 percent in 1995. Despite the rapid expansion of its bilateral trade deficit with China, the US trade deficit with Asian nations (including China) accounted for only 63.1 percent of the global trade deficit in 2016 [8]. This is evidence of the US trade deficit with China increasing as a result of the US transferring import manufacture to China from other Asian countries. [8].

### 3.1.3 The imbalance between consumption and production in the US domestic market

Another reason is that the root cause of America's trade deficit is insufficient national saving. We believed that insufficient deposits in the United States and high deposits in China were the reasons for the big trade deficit of the United States with China [9]. Americans tend to consume, so their savings rate is low. Americans consume so much that domestic production can easily fall short of spending. As a result, the US will turn to imports. Then, when most imports come from China, there will be a large trade deficit between China and the US [10]. The fundamental cause for the trade deficit in the United States is that Americans spend more than they generate. In theory, the trade imbalance between China and the United States might be due to low savings in the United States and high saves in China. There is no empirical support in the existing literature, hence more research is required.

## 3.2 US policies

### 3.2.1 tariff barriers

The US government increases tariff, which have been imposed in three batches and four phases of 25% on a total of \$250 billion of Chinese exports to the U.S., involving semiconductors, intermediate electronic components, routers, printed circuit boards and other products.

### 3.2.2 A full range of sanctions against Chinese technology companies

Firstly, in order to restrict market access for domestic companies, President Trump signed the 2019 National Defense Authorization Act, which prohibits government agencies and their contractors from purchasing and using products and services from Chinese companies such as Huawei, ZTE, Henergy Communications, Hikvision and Dahua Technologies, and requires its allies to ban SG network equipment from Chinese companies on national security grounds.

Secondly, in August 2018, the Foreign Investment Risk Assessment Modernization Act of 2018 (FIRMA) was passed to authorize the Committee on Foreign Investment in the United States (CFIUS) to impose restrictions on Chinese companies that possess "critical facilities", "critical technologies" or "other investments" made by companies that collect and hold sensitive personal data on U.S. citizens, and prohibits them from acquiring U.S. technology companies with industrially important technologies.

Thirdly, in August 2018, the Export Control Reform Act of 2018 was passed, and in November, the Advanced Notice of Proposed Rulemaking (ANPRM) was made available for comment, resulting in permanent export control legislation that expands export controls to "emerging and foundational technologies." ZTE Corporation, Fujian Jinhua, Huawei, ZTE Aurora, CGNPC, and Hikvision have been added to the list of entities subject to export controls, restricting the purchase and use of U.S. products and technologies by these companies, mainly in the information technology and nuclear energy development industries

### **3.2.3 other measures**

Other measures include limiting talent exchange between China and the United States, prohibiting Chinese science and technology personnel from visiting the United States, tightening visas for Chinese engineering and technology students, and prohibiting Chinese citizens from conducting sensitive research at U.S. research institutions and universities. [11].

## **4. The impact of Trade war on China's economy**

### **4.1 Slowing China's economic growth**

The trade war between China and the United States, which began in March 2018, has been constantly evolving in terms of economic growth. The detrimental effects of rising Sino-US trade tensions on the domestic macro economy are progressively becoming apparent. The growth rate of fixed asset investment and consumption has been at its lowest in more than a decade during May and June 2018. Both the new orders and import indexes of China's official manufacturing PMI fell substantially in June. The export has been described as one of the "three carriages," causing tremendous uncertainty in China's economic growth. [12].

### **4.2 Decreasing the RMB exchange rate**

Since the middle of April, the signs of RMB exchange rate from the former two-way fluctuation to one-way weakening have become more and more obvious, The rate of RMB depreciation has accelerated dramatically, particularly since June. The onshore currency rate of the renminbi against the dollar had fallen by nearly 5.5 percent since the beginning of April at the end of June [12]. The key factor behind the recent one-way depreciation of the RMB is not only the sustained strength of the DOLLAR caused by the accelerated expectations of the Federal Reserve rate hike, but also the impact of the Sino-US trade war on the economy and trade surplus expectations. Due to the impact of sino-US trade frictions, although the Chinese economy as a whole showed some resilience in the first half of the year, the downward pressure is gradually emerging (may and June economic data are weak, investment, consumption record low), causing the RMB exchange rate to suffer greater pressure. To be sure, China's trade surplus will shrink significantly, which will also reduce the expected basis for appreciation of the renminbi [13].

### **4.3 Causing share prices to plummet**

Since Trump signed a Section 301 memorandum and announced tariffs on \$50 billion of Chinese products, the Chinese stock market has been under the shadow of sino-US trade frictions. The gradual escalation of trade friction makes the market investors on China's macroeconomic concerns gradually increased. Stock markets plunged sharply on June 15, when the US formally announced duties on \$50 billion in Chinese imports and China indicated that it would retaliate in kind, with the Shanghai

Composite index shedding almost 240 points in a month. The Shanghai Composite Index broke "2700" on July 6, when the tariff policy between China and the United States was formally enforced, and reached a new low of 2691.02, a new low in more than two years. Since the trade war began in March, the Shanghai Composite index has dropped over 500 points. The advancement of Sino-US trade tensions will continue to have an impact on the Chinese stock market to some extent [12].

#### **4.4 Limited impact on domestic and foreign trade**

From the perspective of trade finance, trade finance itself is divided into domestic business and foreign business. As far as domestic business is concerned, international trade frictions will not have a direct impact on it in the short term [13].

In terms of international business, the escalation of sino-US trade friction will lead to the slowdown of China's export, which will directly affect China's trade finance business. However, international trade finance is a relatively small part of the business. Take the factoring business as an example. According to the statistics of the amount of banking factoring business released by China Banking Association (as of 2014, no further announcement has been made), international factoring only accounts for one quarter of the total business. Therefore, the actual impact of the export slowdown caused by the escalation of trade friction on China's banking industry is limited [13]. From the perspective of the scope of influence, not all banks can carry out the international business of trade finance, usually concentrated in large commercial banks with a high degree of internationalization and large joint-stock banks. These institutions have diversified business types, strong capital, strong risk resistance and adaptability, and the slowdown of international trade finance business will have a limited impact on the whole industry.

#### **4.5 Technology industry has been hit hard**

##### **4.5.1 Narrow market, sales hindered**

The U.S.-China trade war will also have some impact on the market for technology products. China's domestic science and technology market has experienced more than a decade of significant development, has been from a country that completely depended on imports to the normal market situation, the stock exchange. However, fundamental products and key technology areas are primarily imported from the United States, with the remainder coming from Europe and Japan [14].

Moreover, the U.S. uses state power to legislate against domestic adoption of Chinese technology products. The U.S. has used its national power to legislate against the domestic adoption of Chinese technology products and to force its allies and other countries to ban the use of Chinese technology products, and constantly suppressing Chinese technology companies' international markets. How to face this crisis will test the practical ability of technology companies [15].

On balance, China's technology exports have an absolute advantage over the rest of the world. This makes it difficult to expand the already small market. In total, the trend is still down, the overall market sales shrink, many of China's developing science and technology enterprises are facing the challenges of production cuts and bankruptcy restructuring.

##### **4.5.2 The technology industry is struggling to achieve industrialization development**

China has a certain dependence on the United States for key technology imports. There are still many enterprises without independent R & D institutions and high-tech products with independent insufficient R&D capability, etc. Faced with these problems, the domestic high-tech industry generally chooses to directly purchase U.S. applications, except for a few Chinese brands such as Huawei and ZTE, which

More are primarily created under OEM, with the majority of products being sold to Europe, Asia, Africa, and Australia; the Technology's own brand is quite tiny. And many high-tech products that China need, but whose basic technologies are mostly controlled by the US. China's industrial supply chain will be severely impacted if the United States stops exporting such vital technologies to China [16]. CPU applications from Intel and AMD, for example, are commonly utilized in personal

computers. China would have to spend a lot of money to discover substitutes for Qualcomm's mobile phone chips, Google's cell phone operating system, and so on. Such an industry model would result in greater manufacturing costs for the related manufacturers, lowering their competitiveness [15].

#### 4.5.3 Increase the cost of imports

According to the National Bureau of Statistics' most recent data, China has around 100,000 science and technology businesses. There are 100 leading scientific and technology companies, as well as other spare parts R&D and production companies, among them. More than 70% of the primary core parts, accessories, and materials needed by technology businesses, such as chips and other important spare parts, are imported, with the majority coming from the United States. If we can not find a substitute, the cost of production might rise by 20% to 25%. China has put a 25% tax on the United States only on low-end industries including agricultural products and textiles, according to the current list of trade hostilities between the two countries. This shows the extent of China's dependence on U.S. technology, while the U.S. has imposed tariffs on Chinese companies. The U.S. has imposed tariffs on Chinese companies not only in a wide range of categories, but also to block technology and suppressed markets [15]. The list of goods subject to U.S. tariffs shows that technology companies are the first to bear the brunt. Once the increase in costs due to imported facilities is added, the easiest and most direct way for companies that cannot absorb the high tariffs is to raise the sales price of their goods and pass on the increase to consumers. In this way, technology companies that rely on imported especially those that import U.S. technology components, will lose their price advantage. This will cause a sharp drop in orders. The impact of increased import costs on technology companies' deterioration will become more and more clear [13].

#### 4.5.4 The double-edged sword of industrial structure

In terms of its impact on the industrial structure, the trade memorandum, which began with the Section 301 investigation, has taken aim at the rise of Chinese technology from the very beginning. With the escalation of trade frictions between China and the United States, China's access to technology in chips, integrated circuits, auto components, military, and other industries could be restricted, slowing the transformation and upgrading process [17]. China's economy is in a new stage to the development of high quality, high and new technology industry development is the only way, in the background of the new economic growth momentum has not yet fully formed, the trade friction in the exposed question requires China to accelerate independent innovation and upgrading of industrial structure, promote the independent research and development of high-end manufacturing ability, will power jack into his own hands, Hold more cards in the future potential great power game [17].

#### 4.6 Raising unemployment in China's labor market

In recent years, with the increasing demand in the Chinese market, the United States began to export more goods to China, and China became the largest export market of the United States. China's exports include mechanical and electrical products, vehicles and aviation, medical instruments, eiderdown textiles and other products. On the afternoon of April 3, 2017, the United States released a list of proposed import tariffs, but among them, China's machinery, aviation and other industries, and these industries are more enterprises' production equipment, few are finished goods. On the whole, if the US adds 25% VAT to the products on the list, if China does not adjust them, some products will withdraw from the US market, which will greatly reduce the trade quota of enterprises. At this time, some enterprises will lay off employees to tide over the difficulties [18].

Statistics show that for every \$17,073 in exports, one domestic job is created. According to the Ministry of Commerce, China's exports to the US in 2017 totaled 2.91 trillion yuan, or about \$462 billion. Based on the 2012 trade employment coefficient, the sino-US trade war could affect 27.06 million jobs in China. The us imposed fines on \$50bn of Chinese exports, mainly in the manufacturing sector, and focused on the industries and companies covered by the Made in China 2025 initiative. By this reckoning, the cap, or the total loss of \$50 billion in exports, could affect 2.9 million jobs in

The country. According to China's current urban registered unemployment rate, will make China's unemployment rate increased by 0.9-1.4 percentage points. In addition, According to Trump's request, China will initially cut its trade surplus with the US by \$100 billion, resulting in the loss of more than 5.8 million jobs in China and a 2.5-3.3 percentage point increase in the registered urban unemployment rate. The trade war between China and the United States will undoubtedly have a big impact on employment in China [19].

#### 4.7 To a small extent, it affects a small fragment of international students

The restrictions on Chinese students studying in the US mainly focus on a few core technology majors, especially since the epidemic is not over, and have not had a big impact on Chinese students overall.

### 5. Conclusions

From the perspective of trade protectionism, this paper focuses on the Sino-US trade war and explores the impact of trade protectionism on China's economy. The article first explains the historical background of trade protectionism and trade war. It shows that trade deficit is the main cause of sino-US trade war and emphatically explains the causes of trade deficit. In the following part, the article specifically explains the measures taken by the United States against China in the sino-US trade war, which are mainly technological barriers and tariff barriers. Based on a series of sanctions adopted by the United States, the article analyzed and concluded that the trade war between China and the United States would slow down China's economic growth, weaken the stock market and increase the unemployment rate. In addition, the Trade war between China and the United States has dealt a particularly severe blow to science and technology enterprises, which have lost the vast American market. In addition, the ban on the export of core technologies by the United States has directly deprived China's science and technology industry of its core technology sources, which has restricted the formation of industrialization.

Of course, there are still many shortcomings in the article. As time goes by, the economic impact of the Sino-US trade war on China will gradually become apparent. Through the analysis of the future economic data of China and the development of technology enterprises, we may be able to draw a more accurate and far-reaching impact.

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