The Impact of the Sino-U.S. Trade War on China's Economy and Countermeasures

Changwei Jiang[1, *]

[1]School of Arts & Sciences, Rutgers University, New Brunswick, United States

*Corresponding author: cj392@scarletmail.rutgers.edu

Abstract. Following the U.S. "Section 301 Investigation", The U.S. has launched unilateral trade protectionism, using unreasonable trade practices again in response to the long-term trade deficit. This move is a serious violation of WTO rules and threatens the development of China's foreign trade economy, and it is important for China, which is in a critical period of economic transformation and development, to study this trade war between the U.S. and China. This paper examines the causes of the trade war and its impact on the lives of Chinese residents, the supply and distribution of heavy industry and agricultural products, and economic and trade organizations, and then proposes corresponding strategies to deal with it. The U.S. trade war has both economic and strategic objectives, it has a negative impact on China, but the Chinese economy is being able to bear it, while the U.S. economy is damaged.

Keywords: WTO; Trade war; China.

1. Introduction

Trade friction between China and the United States has been ongoing since the resumption of normal trade between two countries. With the development of the times, the world is moving towards multipolarity, economic globalization has become a reality, and more and more countries in the world are enjoying the benefits brought by economic globalization. Since the end of the Cold War between China and the U.S., the number of trade between them has gradually increased. In 2019, the U.S. accounted for 11.8% of the total value of China's foreign trade compared to the import and export trade of other countries, with a trade volume of 541.22 billion U.S. dollars [1]. At the same time, the number of trade frictions is increasing. The trade frictions between China and the United States not only have economic reasons, but also are mixed with many political factors, thus making it easy to politicize the trade issues. This has caused the trade issues between China and the United States to worsen. Based on the "Section 301" investigation on China that the Office of the U.S. Trade Representative issued on March 23, 2018, Beijing time, Donald Trump signed a letter asking the appropriate departments to apply significant duties on around $60 billion of imports from China and bar Chinese firms from participating in M&A in the U.S. [2]. In response, the Chinese Ministry of Commerce announced on March 23 a list of suspended concessions against the "232 investigation" on American imports of aluminum and steel products and proposed to impose tariffs on $3 billion of those imports in order to make up for the losses to Chinese interests brought on by American tariffs on those imports [3]. The massive China-U.S. trade war was launched on April 2 2018. The stability of trade and economic relations between China and the United States is not only a matter of the interests of both sides, but also has a certain impact on other countries and the world. The outbreak of the trade war has not only brought some impact on the country's economy and trade, but also penetrated into every aspect of people's daily lives.

2. The Impact of Sino-U.S. Trade War on China

2.1 The Impact of the Sino-U.S. Trade War on the Common People in China

2.1.1 Impact on employment

China will take steps to boost some industries in response to the start of the trade war with the United States in order to prevent a significant impact on supply and demand in mainland China, and the newly established industrial chain will give employment opportunities to citizens to some extent. However, most Chinese companies in the U.S. face the dilemma of moving their markets or closing down. Relatively speaking, China also restricts the economic cooperation of many U.S. foreign enterprises in China, and many Chinese employees working in the U.S. and working in foreign enterprises face the problem of unemployment, and the quality of life will be affected to some extent, and the consumer market will then gradually shrink, which is spilled over from industry to business, and the unemployment rate is further aggravated [4].

2.1.2 Impact on commodity prices

Given that agricultural products make up a significant amount of China's CPI and that China primarily boosts tariffs on agriculture-related items manufactured in the United States (like pork, wine and fresh fruits, etc.), China's price level is bound to rise once the China-U.S. trade war continues. And these are the daily consumption goods that the people cannot live without.

2.1.3 Impact on real estate

When the prices of the above items continue to rise, the mortgage rates will also rise along with them. Although China's first and second-tier cities also have the phenomenon of housing prices bubble, but by price restrictions, loan restrictions, restrictions on sales hindered, the short-term real estate bubble cannot be burst, but the third and fourth-tier cities due to inventory, infrastructure, all kinds of resources are far less than the first and second-tier cities, and pushing up the main force is also based on speculation, if the trade war lasts a long time, once these cities speculators choose to leave, then the danger of the third and fourth-tier city than it's of a second-tier cities are much larger. The people's real estate funds will fall.

2.2 The Impact of the Sino-U.S. Trade War on Product Suppliers and Distributors

2.2.1 Impact on product suppliers selling automotive heavy industry

On June 15, 2019, The American government declared that it will levy a 25% tax on around $50 billion worth of Chinese imports, resulting in a series of impacts. Chinese customs will collect a tariff of 25% on U.S.-made imported vehicles, which will have a complex impact on the Chinese automotive industry. The tariff increase on U.S.-made imported vehicles is bound to seriously affect the domestic competitiveness of U.S.-made imported vehicles and have some impact on the U.S. auto industry. In turn, domestic suppliers of products selling U.S. automobiles will face the risk of closing down [5]. On the contrary, China's tax increase on U.S. imported cars is more beneficial to the development of domestic cars, which can shift the market demand for U.S. imported cars to domestic cars. Overall, the China-U.S. trade war is not conducive to the normal development of international trade, but the impact of the tax increase on imported cars is also a complex impact, which has a positive significance in accelerating the domestic production of imported cars and protecting the stable development of the domestic car market. Relatively speaking, other suppliers of heavy industrial products both gain and lose in the China-U.S. trade war.

2.2.2 Impact on product suppliers of mainly agricultural products

Take soybeans as an example, China is the number one importer of U.S. soybeans. Soybeans will unavoidably be in short supply since fewer Chinese suppliers are bringing them into the United States since the trade war involving China and the U.S. began. The cost of goods manufactured from soybeans will increase along with the cost of soybeans and the products made from them. Similarly, China in this trade war before a large number of agricultural products dependent on U.S. exports are therefore the reason for the rise in prices, the corresponding products made from these agricultural products will also rise in cost, which may make the risk of product suppliers to close down.

3. Suggestions for China's Approach after the Sino-U.S. Trade War

3.1 China's Approach to Meet the Supply and Sales of Agricultural Products as the Main Products

China is the world's most populous country, so a certain amount of grain reserves is necessary. Beans have a long history of production in China and have their own high nutritional value, so they are in high demand. However, although China has a lot of arable land, but the production is much inferior compared to the United States. First of all, it is the topography; the United States has a large area of plains, very suitable for mechanized production. However, China's topography is complex, and most of the rural economy is backward, modernization is not enough to achieve large machine production, generally manual planting. Secondly, Chinese agricultural planting technology is still limited and it is still not possible to fully popularize mechanized planting [6]. In order to meet a certain supply of beans, distributors can establish special bean production bases in the plain areas to cultivate more bean species with high yield and nutritional value, and cooperate with professional machine production to ensure the yield of beans, therefore alleviating people's demand for beans to a certain extent. And the construction of a certain scale of bean production base requires a certain amount of labor, and then dealers can create additional jobs to minimize the impact of unemployment among the people due to the trade war between the United States and China. In addition to the United States, there are many countries in the world that grow beans, product sellers can transfer partners and cooperate more with soybean suppliers in other countries to solve the problem of difficult supply and demand of soybeans. The supply and demand of soybeans is sufficient to regulate the prices of soybean products to a certain extent, so that they are maintained at a stable level and do not bring more negative effects to the people [7].

Since China imports a wide variety of agricultural products to the United States, not only beans, but also many other agricultural products will be in short supply and prices will rise as a result of this trade war. The same approach mentioned above can be used to solve such problems.

3.2 China's Approach to Solve the Supply and Sales of Heavy Industrial Products

Taking automobiles as an example, China's automobile market has been restricted by Western Europe, the United States and Japan. And the outbreak of trade war between China and the United States means that the cooperation between the automotive industries of these two countries may be interrupted. And to solve this problem, besides shifting the import target to other countries, China also needs to develop its own auto production technology to get rid of the impact of China-U.S. trade friction on the auto industry fundamentally. Similarly, not only cars, but also aircraft, high-speed rail, and even defense weapons are facing such problems. The development of high technology is the core of a country’s development, but also the embodiment of a country’s comprehensive national strength. In this trade war, the United States mainly restricts the export of high-technology to China. This shows that in order to weaken the impact of the trade war on China, the only way is putting develop high-tech on the agenda. Also, China should also adjust its strategic deployment, focusing on the direction of independent innovation, such as Made in China 2025 [8].

3.3 China's Economic and Trade Organizations' Response to the Sino-U.S. Trade War

The trade war will do more harm than good to both China and the United States. The imbalance of trade between two countries will cause certain losses to the interests of both China and the United States. Therefore, what China’s economic and trade organizations should do in the Sino-U.S. trade war is to coordinate with the U.S. side on economic and trade issues and to minimize the economic losses as much as possible [9]. In the face of the trade war, China should strengthen cooperation with other countries, continue to actively open up our economic and trade scope, carry out the Belt and Road Initiative, and expand the business is also a good strategy to deal with the China-US trade war. At the same time, China should seek out additional export markets, invest in investment markets, diversify its trading with other countries, and encourage the diversification of export trade [10].

4. Conclusion

Although the U.S. is less damaged than China in the trade war, the U.S. has betrayed its own commitment to friendship and cooperation with China by starting the trade war, and the U.S. is now gradually losing its reputation internationally. In this trade war, there are no real winners. Only through negotiations can the economic losses suffered by both countries be stopped. Even if the U.S.-initiated trade war has had a significant detrimental impact on the Chinese economy, China's response has taken U.S. businesses off surprise. First and foremost, the hike in tariffs would result in higher expenses for American farmers who grow crops, prompting them to lodge many grievances with the Trump administration. Additionally, several American vehicles shipped to China are experiencing worse sales, which reduce their competitive edge over Chinese vehicles. Whether such actions of the U.S. government, contrary to the will of the majority of the people, can gain sustained support from the people is also a question to be considered. The China-U.S. trade war is in essence not a superficial contest of economic strength, but more of another contest of comprehensive strength between countries. Therefore, a wise approach can only be for both sides to make compromises and reach an agreed agreement after negotiations. No nation can reject or fight globalization since doing so would be against its own interests. The greatest way for nations to prosper is via friendly collaboration. Trade balance is a requirement for the ongoing advancement of globalization from a macro perspective. The fairness concept must guide negotiations between China and the United States. To further ensure the reciprocal equality of trade status between China and the United States, China must retain its focus on opening up to the outside world and economic development. This will allow it to become independent, powerful in development and competition, and a power in innovation. China needs to maintain its focus on opening up to the outside world and on economic development, so that it can become independent and strong in development and competition, and become an innovative power, in order to better guarantee the mutual equality of trade status between China and the United States.

References

[1] Zhang Xiaoyun, Li Chengwei, Gao Feng, et al. The role of the United States in globalization: past, present and future. Fiscal Research, 2019(12):10.

[2] Bown C P, Kolb M. Trump’s trade war timeline: An up-to-date guide. 2022.

[3] Ministry of Commerce of the People's Republic of China, 2018, Ministry of Commerce spokesperson made remarks on China's release of the list of products to suspend concessions against US imports of steel and aluminum products under 232 measures. http://www.mofcom.gov.cn/.

[4] Gao Huanji. Analysis of the impact of Sino-US trade war on my country's economy. Science and Fortune, 2018-29

[5] Li Chunding. Progress, Impact and Countermeasures of Sino-US Trade War. Chinese Market, 2018(24).

[6] Luo Qi. Development and Response of Sino-US Trade War. Enterprise Technology and Development, 2019(1):2.

[7] Gao Yuqiang, Shen Kunrong. The Agricultural Subsidy System of the European Union and the United States and Its Enlightenment to my country. Economic System Reform, 2014(2):5.

[8] Zenglein M J, Holzmann A. Evolving made in China 2025. MERICS papers on China, 2019, 8: 78.

[9] Chen Jiyong. The background, reasons, nature and Chinese countermeasures of the Sino-US trade war. 2021(2018-5):72-81.

[10] Xiong Jie, Hu Yao, Luo Duanduan. Analysis of the impact of Sino-US trade war. Economic and Trade Practice, 2018(10X):1.