

# US-China Trade War Explained

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The trade negotiation between the United States and China is in its 11<sup>th</sup> phase and is yet another wasted effort. Economists and analysts were having their eyes and high expectation on this round expecting that the long-awaited deal would be finalized until Donald Trump made an abrupt and shocking tariffs threat on more Chinese goods just two days before the commencement of the 11<sup>th</sup> round of trade talks; this time on \$325 billion worth of goods, citing that China has broken the deal. Although the symbolic trade negotiation between the two still proceed as planned, nothing significant to resolve the conflict was made. The only progress in this so-called trade war are the increasing tariffs and growing spillover effects. The situation causes economic conflict between the two world largest economies, which is predicted to have huge impacts on not only the U.S. and China market yet also the global economy at large. However, what exactly is happening with US-China trade war and what triggered such event; most importantly, how much does the trade war cost? Before getting to know in details about the worrisome trade dispute the U.S. and China engage in, it is compulsory to examine and understand the “trade war”.

## ❖ What is Trade War?

Trade war is a situation in which economic conflict between countries arise resulting from extreme protectionism policies. Trade war is triggered when one country raises or imposes tariffs/quotas on imports from one or more countries and the other

side retaliates with the same form of protectionism. The motion carries and leads to the trade war. Trade war is often applied by the U.S. to protect the local American businesses and boost American economy as marked in the history of trade wars<sup>1</sup>. Trade war was last seen in 1994 after the U.S. and Canada resolved their trade dispute and normalized their trade relations. However, the recent years since 2018 suggests the signs of re-emergence of another trade war after 20 years of silence. This time it is between the two world giant economies, particularly the United States and China.

## ❖ When and How did the Trade War between the U.S. and China begin?

The trade war is the result of a series of the intimidating events between the U.S. and China. Trump’s big hit in his campaign for presidential election had been about salvaging the U.S. from trade deficit that the country has been incurring with its trading partners. But after he came to office in 2017, trade deficit worsened and incurred \$810 billion deficit in trade of goods, hitting a high record in nine years (Wiseman, 2018).

As a matter of fact, on January 23, 2018, the U.S. announced the imposition of tariffs on imported products one after another, ranging from solar panels, washing machines, steel and aluminum with 30 percent, 20 percent, 25 percent and 10 percent of tariffs respectively. The tariffs do not particularly target the Chinese firms, but the

<sup>1</sup> International Relations EDU. (May 17, 2018). *Top 5 Trade Wars Throughout History*. Retrieved from: <https://www.internationalrelationsedu.org/2018/05/top-5-trade-wars-throughout-history/>

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Chinese Commerce Ministry expressed strong dissatisfaction over such move. Later on, Trump ordered the U.S. Trade Representative (USTR) to impose tariffs on about \$50 billion worth of Chinese imports after the investigation conducted by the USTR on intellectual property theft.

**Tit-for-tat:** On April 02, 2018, China could no longer handle the situation and decided to retaliate with full force by applying the tit-for-tat strategy. China then announced an increase of tariffs to 25 percent on 128 U.S. products, including frozen pork, wine, fruits, and nuts. From then on, the motion carries and the two countries began to target each other directly and expanding the range of the products that are subjected to high tariffs, targeting almost every imported commodity, including agricultural products, automobiles, aquatic products, chemical and construction materials, textiles and consumer products. As the effects of additional tariffs kick in, both Trump and Xi are aware of the worse repercussions but no one voluntarily backs off, as several rounds of trade talks were all vanished into thin air for good.

#### ❖ **Impacts of the US-China Trade War to International Trade and Global Economy**

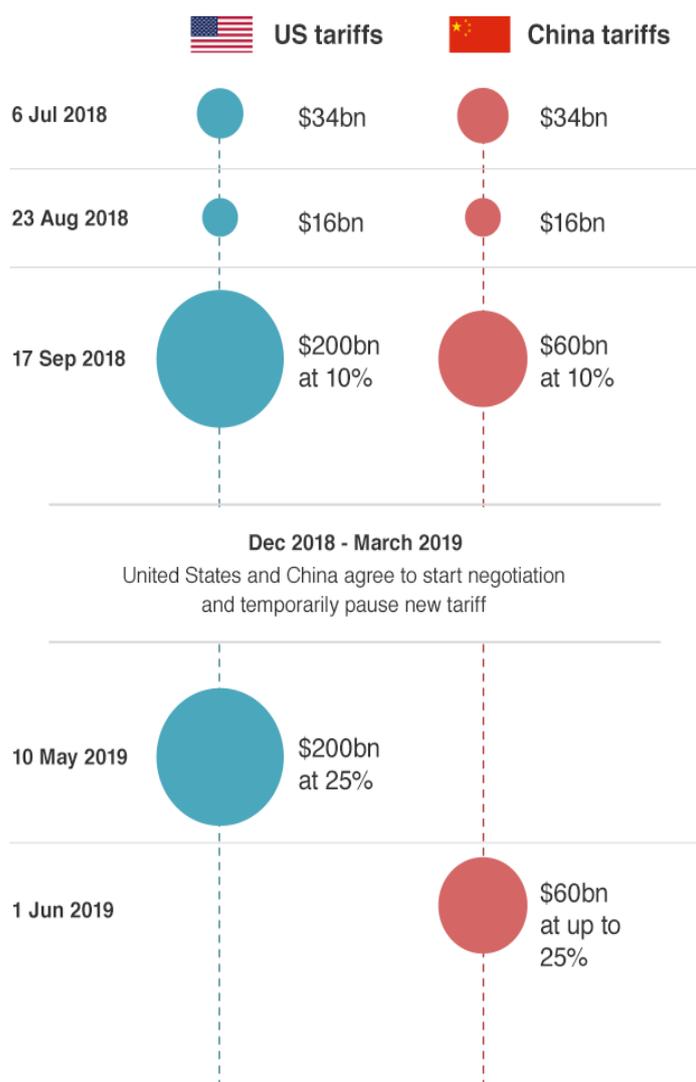
As of now, Washington and Beijing are strangling each other by the neck with at least \$250 billion in tariffs. Trump's trade war put a setback to his protectionism policy. The U.S. trade deficit reached the highest record in ten years amounting for \$891 billion (Tankersley & Swanson, 2019) putting Trump in an uneasy position as he once addressed in his tweet that "Trade wars are good and easy to win". Much worse, it hurts the American farmers the most as a result of China's retaliatory tariffs. Some of them are readied to give up their farmer-hood while others have already sold their machinery and put their lands on rent. The same thing happened in China. Data showed that China experienced the worse economic slow growth it ever has since 1990 with a gross domestic product (GDP) in 2018 at 6.6%, a 0.2 percentage decrease from the previous

year (Harada, 2019). This economic slowdown is expected to carry on to 2019 and 2020 if the trade war is not resolved. The Shanghai Composite, a Shanghai Stock Exchange, also showed sluggish performance and took an even huge blow following the announcement made by Donald Trump to hike the tariffs on \$200 billion worth of Chinese goods to 25 percent, a shocking announcement made three days prior to the coming round of trade talks in Washington. The new tariffs are already in full effect now. Without waiting longer, China also hits back with increased tariffs of 25% on \$60 billion worth of US products, expected to be taking full effect starting from June 01, 2019. This concluded yet another failure of their trade talks. The impacts of the trade war also span to global economy and international trade environment because the countries that are subject to U.S. tariffs also retaliate in the similar form of measures, creating restrictions to the once free-and-open trade environment. As the international trade environment become unfriendly, the global economy was reported to be taking a toll with only four percent growth in 2018, a decrease from five percent in 2017 (Wallace, 2019). Likewise, the International Monetary Fund (IMF) has also cut down its growth forecast for 2019 to 3.5 percent from the initial forecast of 3.7 percent amid growing trade tensions between the two greatest economies. Additionally, Roberto Azevedo, the head of World Trade Organization (WTO), addressed trade war as the worst crisis for the entire multilateral trading system since the General Agreement on Tariffs and Trade in 1947, where "some very basic principles of the organization, principles of cooperation, principles of non-discrimination are being challenged and put into question" (Gallas, 2018). The US-China trade war does not only cause trouble in trade industry but it also affects other industries as well. It has caused the fall in tech stock where Facebook, Amazon, Apple, Netflix and Google's parents concurred \$800 billion lost in value (Cowles, 2018). The most recent statistics show that Asia Shares, particularly those of Mainland Chinese, Hong Kong,

Japan, South Korea, and Australia dropped dramatically after China announced new retaliatory tariffs on the U.S. (Huang, 2019).

In contradiction to Trump's remark in the early phase, the trade wars are essentially lose-lose situation where nobody could win, be it the United States and China themselves or the bystanders.

### How the US-China trade war has escalated



Note: Data as of 14 May 2019

Source: Peterson Institute for International Economics, BBC research



Source: Peterson Institute for International Economics, BBC Research<sup>2</sup>

<sup>2</sup> See more at BBC. (May 14, 2019). *China hits back in trade war with US*. Retrieved from: <https://www.bbc.com/news/business-48253002>

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