

# Analysis of Sino-US Trade Friction and Its Coping Strategies

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## ABSTRACT

Since the financial crisis, the United States has significantly tightened its trade policy towards China, mainly manifested in the gradual strengthening of efforts to combat trade disputes and the acceleration of initiating trade disputes. The Sino-US trade disputes have shown a trend of expanding industrial scope, high-end development, and comprehensive coverage of the industrial chain. From the perspective of industrial security, the Sino-US trade disputes almost involve core industrial raw materials, traditional industries, emerging industries, and high-end service products, reflecting a clear strategic opposition. The negative impact on China's industrial development cannot be underestimated<sup>1</sup>. This paper analyzes the main characteristics and impacts of Sino-US trade friction, identifies risk issues, and proposes corresponding preventive measures and suggestions.

## KEYWORDS

Sino-US trade friction; trade disputes; preventive measures

Since China joined the World Trade Organization (WTO), trade between China and the United States has become increasingly frequent, forming a mutually beneficial economic and trade cooperation relationship. In terms of export commodities, China mainly exports daily necessities, mechanical parts, and other low-end products to the United States, while the United States mainly exports high-end manufacturing products such as automobiles, transportation equipment, and chips to China. For the United States, importing these goods from China significantly reduces the potential high labor costs of low-end manufacturing. For China, the high-end manufacturing products from the United States fill the technological gaps in China. However, in recent years, with the rise of anti-globalization sentiment in the United States, the Sino-US trade environment has deteriorated sharply.

## 1 The Evolution of Sino-US Trade Friction

The evolution of Sino-US economic and trade relations mainly lies in the changes in the US trade attitude towards China. The root cause of this round of Sino-US trade friction is the US dissatisfaction with China's rapid rise, which "threatens" the US economic hegemony. Therefore, the US has undergone significant changes in its trade attitude towards China, and this change is a gradual process. Reviewing history and sorting out the evolution of the US trade attitude towards China can better grasp the essence of this round of Sino-US trade friction. Since the resumption of diplomatic relations between China and the United States, the US trade attitude towards China can be roughly divided into three stages.

### (1) Friendly Cooperation and Mutual Benefit Stage

Under the US-led international trade system, from 1979 to 2000, the United States guided China into its dominant international trade system out of the idea of "peaceful evolution." After China joined the international trade system, the United States gained more labor markets and numerous benefits, while China achieved rapid economic and social development through trade exports. Therefore, in the field of economic and trade, China and the United States have always been in a win-win relationship. The "Leontief Paradox" does not exist in Sino-US trade, and the comparative advantages formed by factor endowments and technology determine the distribution pattern of Sino-US trade benefit<sup>3</sup>. As the relative advantages between the two countries increase, the United States, with stronger comparative advantages, gains more relative trade benefits.

### (2) Competitive Cooperation Stage

Since China joined the WTO, it has seized strategic opportunities and achieved rapid economic and social rise. This has aroused the vigilance of the United States, and Sino-US economic and trade relations have gradually shifted to a competitive cooperation relationship. The Iraq War broke out in 2003, leading to a sharp rise in international oil prices, as a country with a large demand for oil and relatively small oil reserves, China's oil imports surged with the strong growth of international oil prices, which had a certain impact on China's economic development. At the same time, after joining the WTO, China's low labor costs quickly transformed into comparative advantages, taking over part of the trade deficit between Southeast Asian countries and the United States, gradually replacing Japan as the largest trade deficit country with the United States. Samuelson believes that under the premise of inelastic demand, China's technological innovation will shake the dominant position of the United States in the economy, making it impossible for the United States to

benefit from China's export expansion. Therefore, the US government regards the growth of China's trade with the United States as a threat to its economic development<sup>2</sup>.

### (3) Continuous Intensification of Sino-US Trade Friction Stage

Since 2008, with China's rapid rise, the United States has begun to adjust its strategy towards China, seeking to contain and curb China's development, and Sino-US economic and trade friction has gradually heated up. According to data from the General Administration of Customs of China, in 2018, China's trade surplus with the United States reached 323.32 billion USD, accounting for 36.3% of the United States' global trade deficit (891.3 billion USD) that year. In order to curb China's rapid development, the United States initiated a trade war with China in March 2018. On the surface, the causes of Sino-US trade friction are the "serious imbalance in Sino-US trade payments and the increasingly serious 'hollowing out' phenomenon of the US domestic manufacturing industry." However, its root cause is more about a new round of debate on the discourse power of global trade rules. As an international public good, traditional international trade rules are mainly in the hands of hegemonic countries. However, with the continuous advancement of globalization, the rapid rise of many developing countries, especially emerging economies, has made the current global economic situation unpredictable, and the reconstruction of trade rules is imminent. Through one-on-one pressure and other forms of trade negotiations, the United States can continue to move in a direction conducive to its own development. Reviewing the historical laws of the development of world powers and their changes in world status, it can be seen that this trade friction is an inevitable challenge for China's development at this stage.

## 2 Main Characteristics of Sino-US Trade Friction

### (1) The Frequency of Trade Friction is Increasing Year by Year

Since the 1980s, the United States has imposed sanctions on China in the form of trade protection. In recent years, the US trade deficit has also been increasing during the same period. During China's accession to the WTO, the United States mainly relied on "special safeguard" measures to increase the frequency of trade sanctions against China in a short period of time, thereby reducing China's dominant position in trade. Imposing import tariffs on China, organizing unconventional investigations against anti-globalization sentiments, and implementing "double reverse" policies and other trade protection measures have become the main themes of US trade policy towards China.

Taking the "301 investigation" announced by the United States in August 2017 as an example, according to the unconventional investigation clauses, the United States can investigate the trade behavior of other countries to obtain trade compensation, thereby achieving the purpose of protecting domestic enterprises. In fact, the "301 investigation" is a unilateral trade sanction by the United States against China, which clearly violates the multilateral trade agreement advocated by the WTO<sup>4</sup>. As of August 2019, the United States has initiated 47 unconventional investigations against Chinese enterprises, causing huge economic losses to Chinese export enterprises, especially high-tech enterprises represented by ZTE.

### (2) Trade Friction Involves a Wide Range of Industries

Sino-US trade affects the overall situation and involves a wide range of fields. Sino-US trade friction is not only an economic activity but also has political, cultural, and social effects. In the cultural field, since the main areas of US trade sanctions against China touch high-tech products, the right of Chinese students to study high-tech in the United States will be greatly affected.

In April 2018, the US announced a list of 50 billion US dollars of taxable goods from China, showing that the taxed goods are mainly concentrated in high-tech fields such as aerospace, communication technology, medical and health, and mechanical manufacturing, which have a greater impact on China's high-tech enterprises. Overall, the industries involved in the tax list have further expanded, and the proportion of consumer industries has increased significantly. Sino-US trade friction is likely to lead to corporate bankruptcy, corporate restructuring, and reduced investment, thereby triggering a series of social problems such as worker unemployment, wage reductions, and price increases.

### (3) Trade Friction Models and Sanction Methods are Increasingly Diversified

Sino-US trade friction models are diverse, and sanction methods are increasingly diversified. The United States formulates targeted sanction plans based on China's actual trade situation to achieve the purpose of "striking" key points. Before China's accession to the WTO in 2001, China's trade sanctions against the United States mainly included technical trade barriers, anti-dumping, and quota restrictions. The main means for the United States to restrict imports from China were "337 investigations," anti-subsidy, and special safeguard measures.

As of 2018, China has suffered 356 anti-dumping investigations from the United States; in 2002, the United States implemented special safeguard measures against China for the first time; in 2006, the United States conducted an anti-subsidy investigation on copper paperboard from China, which was the first case of an anti-subsidy investigation against China.

### 3 The Impact of Sino-US Trade Friction

Sino-US trade disputes are not only disputes over trade products but also disputes over economic development strategies and industrial development strategies. Trade disputes are concentrated in the strategic key areas of economic development, and the conflict between development strategies has significantly intensified.

#### 3.1 The Impact of Sino-US Trade Friction on the United States

##### 3.1.1 Further Expansion of the US Trade Deficit

From 2011 to 2018, the US trade deficit with China was obvious, and the total deficit showed an upward trend. It is worth noting that since the United States imposed trade restrictions on China in 2017, the trade deficit has not decreased but has increased. In 2018, the total US trade deficit with China reached 323.327 billion US dollars, a year-on-year increase of 17.24%. These results run counter to Trump's attempt to reverse the decline in the trade deficit by raising import tariffs.

##### 3.1.2 Decline in the Quality of Life of the People and Overall Decline in Social Welfare

US imports from China mainly include low-end goods such as audio-visual equipment and daily necessities, most of which are daily necessities for the people. Under the high pressure of Sino-US trade friction, the prices of the above daily necessities have continued to rise, and the people's dependence on these goods is very high, which has greatly increased the cost of living for the people, reduced the quality of life, and ultimately led to the loss of high social welfare.

#### 3.2 The Impact of Sino-US Trade Friction on China

Affected by Sino-US trade friction, China's total steel exports in 2017 fell sharply to 16.08 million tons, a year-on-year decrease of 61.03%. Considering the serious overcapacity crisis of China's steel products before the trade friction, it can be predicted that under the influence of trade friction, China's steel exports will be more difficult. In addition, photovoltaic products, which account for 80% of global production capacity, have also been affected. According to data from the Ministry of Commerce of China<sup>5</sup>, China's photovoltaic product exports in 2017 were only 115 million US dollars, a year-on-year decrease of 91%; in January 2018, the United States implemented a four-year global safeguard measure on photovoltaic products imported from China, imposing a 30% tariff on photovoltaic cells and their component products that exceed the quota. Overall, trade friction has severely restricted the exports of China's manufacturing enterprises, and the overcapacity crisis needs to be resolved urgently.

## 4 Coping Strategies for Trade Friction

### (1) Calmly and Rationally View Trade Friction and Prepare for a Protracted War

As a rising emerging economy, China should clearly recognize that on the road to the great rejuvenation of the Chinese nation, Sino-US trade friction and other such frictions will inevitably be faced. Facing challenges from all sides, we must recognize the reality and respond calmly; As suggested by Shi and Zhang (2020)<sup>6</sup> in the face of the current complex international situation, we must maintain sufficient strategic determination and handle relations with various countries in accordance with the principles of "reasonable, beneficial, and economical." As long as the United States does not give up its current wrong strategy towards China, the game between China and the United States, especially in the political and global strategic layout, will exist for a long time. In the future, Sino-US trade friction may recur.

### (2) Plan International Public Affairs and Enhance International Economic Governance Capabilities

China should give full play to its international influence as the world's largest trading country and the second largest economy, and actively plan international public affairs<sup>7</sup>. Through the "Belt and Road" initiative, the Asian Infrastructure Investment Bank, the Silk Road Fund, and the international production capacity cooperation platform, improve policy measures and enhance China's international credibility. Actively guide other countries to reach consensus on international public areas that are not fully covered, such as national security and digital trade. To promote inclusive growth in trade among countries and advance the process of globalization, China will contribute. The "Belt and Road" initiative should actively participate in and lead the negotiation of new international economic and trade rules, actively promote the reform of the WTO-led multilateral governance mechanism, and continuously advance the construction of a regional governance system based on the multilateral trade mechanism, such as the "One Belt, One Road" initiative, balance the interests of all parties, and form a common destiny with all countries, striving to achieve inclusive growth through cooperation with all countries. Strengthen China's voice in global economic governance. We should actively and steadily advance the RCEP negotiation process, complete the negotiations on schedule and put them into effect as soon as possible, demonstrate China's outstanding leadership in this process, and be more conducive to China's participation in

global economic governance.

### (3) Deepen Domestic Institutional Reforms and Optimize the Business Environment

In order to better participate in the adjustment of global trade rules, China needs to accelerate the transformation of old and new kinetic energy and move quickly towards the goal of high-quality development. Especially in the manufacturing and service industries, it is necessary to carry out reform and opening-up pilot projects in an orderly manner, actively promote mixed ownership reform, and continuously promote the development of related fields. Encourage and strengthen technological innovation, accelerate the independent research and development of core components, establish corresponding innovation evaluation systems and reward mechanisms, and fundamentally solve technical risks in high-tech fields. Through the improvement of institutional mechanisms, domestic industrial regulation will be gradually relaxed, and the manufacturing and service industries will be activated to a greater extent. Adhere to the "delegation, regulation, and service" as the central orientation, reduce corporate taxes and fees, eliminate the "gray areas" of administrative approval, increase the proportion of corporate financing, more effectively help small and medium-sized enterprises solve financing difficulties, reduce corporate operating pressure, introduce a series of property rights protection policies, achieve property rights protection, encourage small and medium-sized enterprises to carry out technological innovation, introduce relevant technical talents, optimize the business environment, stimulate the vitality of the private economy, accelerate industrial structure upgrading, which is more conducive to promoting the formation of an economic pattern driven by domestic demand.

### (4) Attach Importance to Intellectual Property Protection and Improve Independent Research and Development Capabilities

Improving the independent research and development capabilities of products is not only conducive to increasing the country's social welfare but also to enhancing the competitiveness of domestic products in the international trade market. The painful lesson of ZTE warns export enterprises to attach great importance to intellectual property protection and improve their independent research and development capabilities. According to a 2018 report by 21ic Electronic Network, approximately 30%-40% of ZTE's core chips and components relied on American suppliers (21ic Electronic Network, 2018)<sup>8</sup>. In view of this, enterprises should strive to break through technical bottlenecks, reduce dependence on other countries, and take the export of high-tech products as the guide to avoid falling into the quagmire of price wars. Secondly, enterprises should focus on the cultivation of innovative scientific research talents, establish reasonable salary and promotion mechanisms for high-tech talents, and cultivate innovative and compound talents.

## 5 Conclusion

With the development of globalization, the rapid rise of many developing countries, especially emerging economies, has made the current global economic situation unpredictable, and the reconstruction of trade rules is imminent. Reviewing the historical laws of the development of world powers and their changes in world status, it can be seen that this trade friction is an inevitable challenge for China's development at this stage. Therefore, we must recognize the reality, maintain strategic determination, and remain calm.

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