

The US-China Trade War

What Is the Outcome after the Trump Presidency?



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Abstract

One of Donald Trump's campaign promises in 2016 was to put an end to China's unfair trading practices by imposing significant tariffs on American imports of Chinese products. The goal was to bring the Chinese government to the negotiating table.

The practices denounced by Trump – currency manipulation, forced transfers of technology, intellectual property theft, market access restrictions – are in line with the criticisms voiced by Americans (and Europeans) these past twenty years.

By unilaterally imposing massive tariffs, the Trump administration departed from the traditional American approach favoring multilateral mechanisms and limited use of targeted tariffs.

The Trump “trade war” of 2018 and 2019 is therefore less of a paradigm shift than a change in method.

How does this trade war play into the technological and strategic competition opposing China and the United States? What are the consequences of the 2018-2019 tariffs escalation on the U.S.'s and China's economies? How will it impact the multilateral trading order? Following the “Phase One” deal signed in January 2020, what are the future prospects for the China-U.S. relation?

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Introduction

On January 20, Joe Biden, winner of the American presidential election in November, will be inaugurated, putting an end to four years of extraordinary Trumpian trade policy.

After the Obama administration launched the “pivot” strategy towards Asia in 2011, which many people now consider to be too cautious, Donald Trump promised and, in fact, took an increasingly aggressive stance towards the People’s Republic of China (PRC). This annoyance with unfair Chinese trade practices, materialized by the 2018-2019 tariff escalation, is neither completely new nor the sole preserve of US power. Rather, this US-China “trade war” is taking place at a time when a number of Western powers are getting tough on Chinese predatory practices, and are trying to obtain commitments from China on sensitive issues, such as intellectual property rights, foreign investment and hidden subsidies.¹ China was described as a “strategic competitor” of the United States in December 2017² and the 2019 European Commission’s report on China correspondingly described it as an “economic competitor [...] and systemic rival”.³

Nevertheless, Trump’s United States has been isolated in a standoff with China with limited success. With criticism of the United States’ traditional allies (which have also been targeted by some tariffs), human rights overlooked, attacks on multilateralism and a preference for unilateral measures: this trade war only reflects the foundations of Trumpian foreign policy.

1. M. Julienne, “Towards a Tougher Bilateral Relations between EU and China: When Politics Catches Up to the Economy”, *Lettre du Centre Asie*, No. 84, Ifri, September 18, 2020.

2. D. Trump, “National Security Strategy of the United States of America”, December 2017, cited in J. Seaman, “US-China Relations: A Structural Clash”, *ISPI*, September 27, 2019.

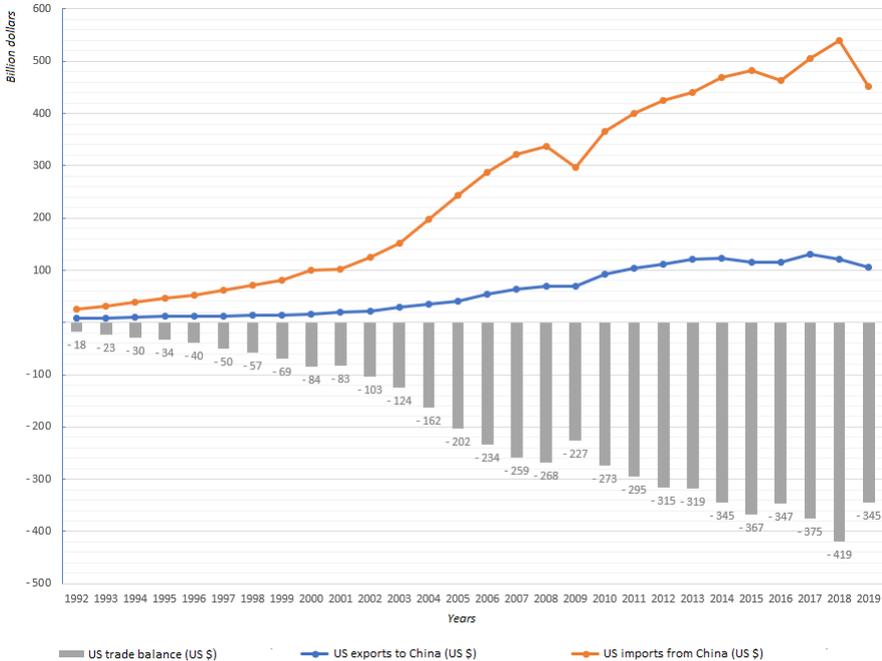
3. European Commission, “EU-China: A Strategic Outlook”, March 12, 2019, p. 1.

Trade tensions prior to Trump's presidency

What does the United States blame China for?

The current trade tensions between the United States (US) and China stem from one fact: the American trade deficit with China has grown considerably since the early 2000s. Indeed, although the total volume of trade between both countries has increased since China joined the World Trade Organization (WTO) in 2001, American imports significantly exceed exports, especially in goods (see Figure 1).

Figure 1: US-China trade in goods (2002-2019)



Source: data from the United States Census Bureau,⁴ available at: usatrade.census.gov.

4. However, there is some debate about how this trade balance is calculated: the United States includes exports from Hong Kong while China does not, on the grounds that these include many re-exports from ASEAN countries (which are not strictly speaking “Chinese”).

The American trade deficit with China amounted to \$ 345 billion in 2019, or two-thirds of the total US trade deficit. The two sectors with the most pronounced imbalances are the textile and the mechanical and electronic equipment industries.

According to the Americans, the deficit is attributable to Chinese practices, which are perceived as “unfair”, or even unethical, that restrict US exports while “cheating” to boost Chinese exports. These practices mainly include the undervaluation of the yuan against the dollar, making Chinese products misleadingly more competitive. However, the International Monetary Fund (IMF) explained that this statement has not been correct for some years.⁵ In 2015, the IMF stated that while “the undervaluation of the renminbi [the yuan’s other name] was a major factor in causing significant imbalances in the past,” the yuan’s exchange rate is currently “at a level where it is no longer undervalued”.⁶ Other predatory practices still continue, such as forced technology transfers, intellectual property right violations, or massive subsidies to Chinese companies (particularly exporters)⁷. The restrictions imposed on American companies looking to set up or invest in China are also singled out, as is more generally, China’s lack of openness to imports. Indeed, Chinese tariffs remain much higher than American ones, both on all trade (7.6% compared to 3.3% in 2019), and on trade in agricultural (13.9% compared to 4.7%) and non-agricultural products (6.5% versus 3.1%).⁸

However, some economists also emphasize the importance of other factors, which are not China’s fault, to explain this imbalance. The German economists, Mildner and Schmucker, for instance, refer to the dollar’s role as the world’s dominant reserve and transaction currency,⁹ the size of the US market and its attractiveness to foreign capital and even the savings and spending behavior of American consumers. The relocation of (mainly Asian) manufacturing sites to China and the country’s place in the global value chain also explain the US deficit. Finally, the United States’ solid economic growth, along with a high

5. “Le FMI maintient son jugement sur le yuan”, *Le Figaro*, August 9, 2019, available at: www.lefigaro.fr.

6. “Chine: le yuan “n’est plus sous-évalué”, estime le FM”, *Challenges*, May 26, 2015, available at: www.challenges.fr.

7. M. Yu and R. Zhang, “Understanding the Recent Sino-U.S. Trade Conflict”, *China Economic Journal*, 2019, Vol. 12, No. 2, pp. 160- 174.

8. According to the World Trade Organization’s documents: for China, see www.wto.org; for the United States, see www.wto.org.

9. For an assessment of the dollar’s supremacy in the international monetary system – particularly compared to the renminbi – see F. Nicolas, “Dollar contra renminbi: chronique (prématurée) d’un déclin annoncé”, *Questions internationales*, No. 102, July-August 2020.

employment rate and strong domestic demand, helped to increase the US trade deficit by maintaining a high volume of imports.¹⁰

The effects of this imbalance on US growth and employment are manifold. American politicians' main argument is this deficit penalizes growth and destroys jobs. According to an Economic Policy Institute report,¹¹ the United States' growing trade deficit with China between 2001 and 2018 caused the loss of 3.7 million US jobs, including 1.7 million since 2008.¹² Around 75.4% of these lost jobs were in manufacturing. The manufacturing industries most exposed to Chinese exports have experienced the greatest job losses,¹³ following the normalization of trade relations with China (Permanent Normal Trade Relations, in force since 2001). These job losses affected all States, but the most affected were New Hampshire, Oregon, California, North Carolina and Minnesota. Although disputed by some scientists,¹⁴ this finding confirms the growing skepticism among the working class – who are supporters of both Donald Trump and of the left-wing populist Bernie Sanders – vis-à-vis China and globalized free trade, and justifies the protectionist attitudes of politicians targeting this electorate.

Past grievances

The many criticisms of China's unfair practices and the trade imbalance are not, however, something that originated with President Trump.

When diplomatic relations between the United States and the PRC were normalized in the 1970s, there was already a certain mistrust of China. However, it was obscured by a trend advocating the development of US-China trade relations and, more generally, the opening up of China to international trade, that was supposed to automatically result in the

10. C. Mildner and S.-A. Schmucker, "The US-China Trade War", *CESifo Forum*, Vol. 20, March 2019, p. 4.

11. This think tank is non-partisan, but somewhat left-leaning.

12. R. Scott and Z. Mokhiber, "Growing China Trade Deficit Cost 3.7 Million American Jobs between 2001 and 2018", *Economic Policy Institute*, January 30, 2020, available at: www.epi.org. A slightly older study, conducted by researchers affiliated with the Massachusetts Institute of Technology (MIT) proposed a slightly more conservative estimate in 2016: 1 million direct jobs and 2.4 million indirect jobs were lost in the United States due to offshoring to China. See D. H. Autor, D. Dorn and G. H. Hanson, "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade", *NBER Working Paper*, No. 21906, January 2016.

13. J. R. Pierce and P. K. Schott, "The Surprisingly Swift Decline of US Manufacturing Employment", *The American Economic Review*, Vol. 106, No. 7, pp. 1632-1662.

14. For views challenging the negative impact of Chinese exports on the US economy, see for example: Z. Wang *et al.*, "Re-examining the Effects of Trading with China on Local Labor Markets: A Supply Chain Perspective", *NBER Working Paper*, No. 24886, August 2018; M. Yu and R. Zhang, "Understanding the Recent Sino-U.S. Trade Conflict", *China Economic Journal*, 2019, Vol. 12, No. 2, pp. 160-174.

democratization of its society. This trend particularly explains the support of Presidents George Bush and Bill Clinton for the PRC's entry into the WTO.

However, from the mid-2000s, American politicians and economists were once again concerned about Chinese practices. Several bills have even been proposed in Congress to impose tariffs to punish China for allegedly devaluing its currency (in May 2005 and September 2010 for instance) or for not complying with its intellectual property rights commitments.¹⁵ These concerns were also voiced at the WTO. Even before Trump's election and the outbreak of the trade war, the United States often sued the PRC at the WTO: between 2001 and 2018, the United States lodged 64 complaints against 18 countries (and the EU), including 23 against China on issues such as dumping, illegal subsidies and intellectual property rights.¹⁶ Furthermore, American criticism was expressed at high-level meetings well before 2017. For instance, in October 2010, Obama's Secretary of the Treasury, Tim Geithner, had already stated that China undervaluing the yuan was creating "dangerous dynamics" of "competitive non-appreciation" in emerging economies, and the excessive accumulation of foreign currency reserves was leading to "significant distortions" in the global economy.¹⁷

This concern was pushed to the forefront in 2016 when it became a major issue in the presidential campaign. The Republican candidate, Donald Trump, consequently stated at a rally in Indiana in May 2016 that China was responsible for the "greatest theft in the history of the world" and accused it of "raping" the United States. Campaign documents written by his then economic advisors, Wilbur Ross (now US Secretary of Commerce) and Peter Navarro (current Director of the Office of Trade and Manufacturing Policy), also criticized China's "manipulation" of its currency and its "commercial cheating" habits.¹⁸ Trump also stated even before his election that he would put China on the list of "currency manipulators".¹⁹ The solution to these "unethical" practices was

15. For example, see the Mushier bill H.R.1498 (*Chinese Currency Act*) and H.R. 1575 from 2005 on China's manipulation of its currency, H.R. 6071 (*Emergency China Act*) on the United States' trade deficit with China or even H.R. 3375 from 2011 on Chinese intellectual property rights violations. US Congress official website, accessed at on October 8, 2020 at: www.congress.gov.

16. C. Mildner and S.-A. Schmucker, "The US-China Trade War", *CESifo Forum*, Vol. 20, March 2019, p. 6.

17. "Currency Wars: Fumbling Towards a Truce", *The Economist*, No. 750, October 16, 2010. Author's translation.

18. P. Navarro and W. Ross, "Scoring the Trump Economic Plan: Trade, Regulatory and Energy Policy Impacts", September 29, 2016. See also "TRUMP – Reforming the U.S.-China Trade Relationship to Make America Great Again", available at: <https://assets.donaldjtrump.com>.

19. He did this in August 2019. See U.S. Department of the Treasury, *Press Release*, August 5, 2019, available at: <https://home.treasury.gov>.

announced: “Tariffs will be imposed, not as an end in themselves, but as a negotiation tool.” However, Trump and his campaign team rejected the accusation of risking a trade war – for them, it had already happened and the United States had surrendered without a fight.

The tariff war: a change in direction rather than a paradigm shift

Currently, there is consensus in the US Congress that from now on China must conform with rules of reciprocity and fairness in international trade. It is supported by both the Republicans and Democrats. For instance, prior to the G20 meeting in November 2018, several Democrat senators (including the Senate Minority leader, Chuck Schumer, Ron Wyden of Oregon and Sherrod Brown of Ohio) wrote to President Trump to support his “aggressive action[s]” against China and to urge him to “stand firm” against the country.²⁰

Even the Democrat Speaker of the House of Representatives, following the announcement of new US tariffs in 2018, called for the United States to “take strong, smart and strategic action against China’s brazenly unfair policies”.²¹ Two legal reforms, on pre-investment studies (FIRRMA, cf. further on p. 18) and export control (ECA), specifically targeting Chinese companies, were also voted on as part of the National Defense Authorization Act with support from both parties.²² Congress’ and the Trump administration’s position has only been reinforced in recent years by American public opinion becoming increasingly unfavorable towards China (see Figure 2).

20. C. Schumer *et al.*, “Ahead Of G-20 Summit, Schumer, Wyden, and Brown Urge President Trump to Not Back Down on Further Action Against China for Sake of Weak and Meaningless Agreement”, November 28, 2018, available at: www.democrats.senate.gov.

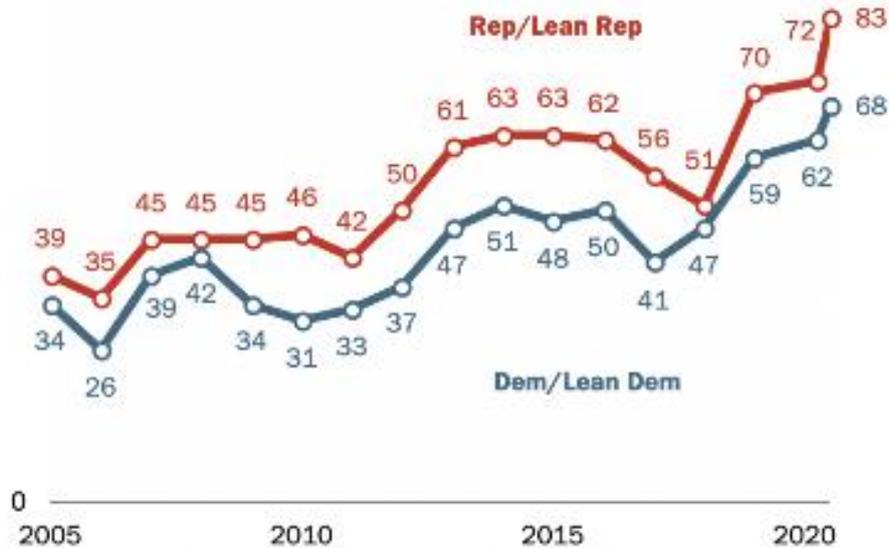
21. N. Pelosi, “Pelosi Statement on Trump Administration’s New Tariffs on China”, March 22, 2018, available at: <https://pelosi.house.gov>.

22. S.-A. Mildner and C. Schmucker, “The US-China Trade War”, *CESifo Forum*, Vol. 20, March 2019, p. 8.

Figure 2: Changes in American public opinion towards China

% who say they have an unfavorable opinion of China

100 %



Source: Survey of U.S. adults conducted June 16-July 14, 2020.

PEW RESEARCH CENTER

Source: Silver et al., "Republicans See China More Negatively than Democrats, Even as Criticism Rises in Both Parties", *Pew Research Center*, July 30, 2020, accessed on October 8, 2020, available at: www.pewresearch.org.²³

Therefore, in principle, the Trump administration is not at odds with either Congress or American public opinion. The Trump administration's criticisms of excessively high Chinese tariffs or the devaluation of the yuan, even correspond perfectly to what historian, Douglas Irwin, has defined as the paradigm of US trade policy since the 1930s, namely the search for reduced obstacles to US exports based on reciprocity.²⁴

23. For more on this topic, see also L. Silver, K. Delvin and C. Huang, "Unfavorable Views of China Reach Historic Highs in Many Countries", *Pew Research Center*, October 6, 2020, available at: www.pewresearch.org.

24. Douglas Irwin examines three periods in US trade policy, with policies primarily designed to maximize customs revenues between the United States' independence and the Civil War and then to protect national producers from the 1870s to the 1930s. Finally, since the 1930s, the "three Rs" (revenue, restrictions and reciprocity) have been the "primary objectives of US trade policy." See D. A. Irwin, *Clashing Over Commerce: A History of U.S. Trade Policy*, University of Chicago

While President Trump's objectives do not fundamentally differ from those of his predecessors, nonetheless, a radical change in direction occurred in early 2018.

Unilateral imposition of high tariffs

At the start of his presidency, Donald Trump seemed ready to engage in genuine dialog, as shown by his meeting with the Chinese head of state, Xi Jinping at Mar-A-Lago, only three months after his inauguration. A "100-Day Action Plan" was then agreed upon to resolve the trade disputes between the two countries. But after the 100 days, no announcement was made, and some months later in January 2018, the Trump administration adopted a much more aggressive stance: it announced the introduction of significant tariffs on solar panels and washing machines for at least four years. The PRC, which manufactures 71% of solar panels in the world, then expressed its "strong dissatisfaction".²⁵ From March, the United States unveiled new tariffs, initially imposed on steel and aluminum imports from all countries, and then a few days later on more than 1,300 additional products from China.²⁶ China did not hesitate to retaliate, introducing punitive measures against 128 American products, such as pork, wine or certain fruits, while remaining relatively measured: the volume of trade involved then "only" represented \$ 3 billion.

As of April 2018, the Trump administration went further than merely imposing tariffs and directly targeted certain Chinese companies. The telecoms equipment manufacturer, Zhongxing Telecommunication Equipment (ZTE), is banned from using goods or services of American origin for seven years, and eight other Chinese tech companies (Hytera Communications, Hangzhou Hikvision Digital Technology, Dahua Technology, etc.) were blacklisted by the US government, that prevents them from importing products from the United States. More generally, these initial designations presaged the sanctions later imposed on Chinese tech companies (such as Huawei in May 2019) and Chinese apps (such as TikTok or WeChat in August 2020).

Press, 2017, p. 2, cited in P. Allard, "La politique commerciale de Trump: faire reculer la Chine", *Potomac Paper*, No. 36, March 2019, p. 12.

25. L. Mediavilla, "Guerre commerciale : le conflit entre la Chine et les États-Unis en douze dates", *Les Échos*, January 15, 2020.

26. A. Swanson, "White House Unveils Tariffs on 1,300 Chinese Products", *The New York Times*, April 3, 2018.

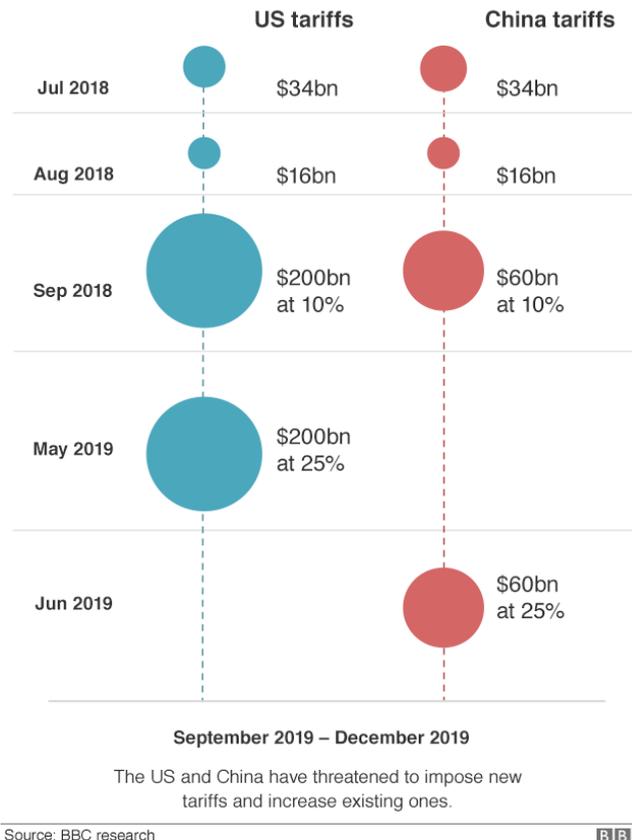
But the real turning point came in June 2018, when Donald Trump imposed 25% tariffs on \$ 50 billion worth of Chinese exports.²⁷ The Chinese Ministry of Commerce then accused the United States of declaring a “trade war” and announced tariffs on an equivalent number of American exports. From September, new US customs tariffs of 10% – supposed to increase to 25% by the end of the year – were imposed on \$ 200 billion worth of Chinese exports, inevitably followed by Chinese retaliation on around \$ 60 billion worth of US products imported into China.²⁸ Initially, the United States agreed to delay this increase as part of the negotiations on the fringes of the G20 in Buenos Aires at the end of 2018. Xi Jinping and Donald Trump then agreed to negotiate an agreement on sensitive issues, such as protection of intellectual property rights, forced technology transfers, cyber espionage and non-tariff restrictions. China also committed to increasing its imports of products from the agricultural, industrial and energy sectors. However, after the shared optimism of early 2019, the increase in tariffs from 10% to 25% was finally implemented in May, as according to Washington, China had “reneged on some of its commitments”.²⁹ China increased its tariffs on \$ 60 billion worth of US products in retaliation (see Figure 3). The lack of progress at the G20 in June 2019, led Trump to announce on Twitter new “small additional tariffs” of 10% on \$ 300 billion worth of Chinese imports.

27. These customs taxes would come into effect in two stages: on \$ 34 billion in July and on the remaining \$ 16 billion in August.

28. It is interesting to note that the Chinese response specifically targeted the regions that mainly voted for Trump in 2016, as well as the States where most Republicans most actively engaged in the trade war were from (such as Senate Majority Lead Mitch McConnell from Kentucky, or the influential member of the Senate Agriculture Committee, Charles E. Grassley from Iowa). For a comparative map analysis, see E. Porter and K. Russel, “Firing Back at Trump in the Trade War with Tariffs Aimed at His Base”, *The New York Times*, October 3, 2018.

29. Office of the United States Trade Representative, “Notice of Modification of Section 301 Action: China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation”, May 9, 2019, accessed on October 9, 2020 and available at: www.federalregister.gov.

Figure 3: The escalation in the US-China trade war



Source: "A Quick Guide to the US-China Trade War", *BBC News*, January 16, 2020.

However, the US-China negotiations at the end of 2019 were more productive: in mid-October 2019, after two days of discussions in Washington between the US president and the Chinese Vice Premier, Liu He, the United States pledged to halt the increase on some tariffs in exchange for Chinese concessions on financial services and intellectual property.³⁰ These promises culminated in an initial agreement, known as "Phase One", signed by both parties on January 15, 2020 in Washington. This agreement focused on intellectual property, technology transfers, agricultural and food products, financial services and exchange rate transparency.

30. L. Mediavilla, "Guerre commerciale : le conflit entre la Chine et les États-Unis en douze dates", *Les Échos*, January 15, 2020.

Whatever Donald Trump says, imposing tariffs is not new.³¹ His immediate predecessor, Barack Obama, had already imposed 35% tariffs on Chinese tires in April 2009. However, the Trump administration's choice to unilaterally impose massive tariffs, as a means of exerting pressure in negotiations with China, marks a radical change in direction on a number of points.

Initially, the justification for this trade war was theoretically based on the idea of "economic aggression" developed by the Trump administration, that first appeared in documents, such as the National Security Strategy in 2017,³² or the Trade Policy Agenda in 2018.³³ This idea blurs the boundaries between economic and security areas, justifying economic retaliation measures based on threats to national security.

These purported threats also form the legal justification for the trade war. Two main texts are in fact used to justify US tariffs. The first is the 1962 Trade Expansion Act, and more specifically Section 232, that allows the US president to take unilateral action to "adjust" certain imports in the name of national security. The second is the 1974 Trade Act, with Section 201 authorizing temporary trade defense measures, and Section 301 in particular, that permits existing tariff concessions to be suspended, or non-tariff-related restrictive measures to be imposed, if a partner does not fulfill its commitments or engages in "unreasonable" practices jeopardizing US trade.³⁴ These provisions have had relatively little use in the United States in the last 30 years.³⁵

Although President Trump used pre-existing laws, the new way they have been used has broken with that of his predecessors. Firstly, it is theoretically justified by an unprecedented degree of conflation of national security and economic interests, and legally by provisions rarely invoked in the 21st century. Secondly, it is totally unilateral. Its legal basis only comes from US legislation that predates the WTO. Tariffs imposed by the Trump

31. Donald Trump said in a recent interview with Fox Business: "Nobody ever even heard of tariffs. They never even heard of tariffs. Nobody. In fact, when I first started doing it, they didn't even know what it meant." "Fact Check: Trump Makes at Least 14 False Claims in First Post-Hospital Interview on Fox Business", *CNN*, October 8, 2020, available at: <http://lite.cnn.com>.

32. D. Trump, "National Security Strategy of the United States of America", December 2017, p. 1 and 17, available at: www.whitehouse.gov.

33. Office of the United States Trade Representative, *2018 Trade Policy Agenda and 2017 Annual Report of the President of the United States on the Trade Agreements Program*, March 2018, p. 2.

34. P. Allard, "La politique commerciale de Trump : faire reculer la Chine", *op. cit.*, pp. 9-10.

35. Section 232 of the Trade Expansion Act has only been used 26 times between 1963 and 2017, only five of which led to presidential action and Section 301 of the Trade Act 33 times since 1995. Section 201 of the Trade Act has not been used since 2001. See P. Allard, "La politique commerciale de Trump : faire reculer la Chine", *op. cit.*, p. 9; "Section 301 of the Trade Act of 1974", *Congressional Research Service*, August 31, 2020; B. Leininger, "U.S. Trade Act: Section 201", *Pacific Customs Brokers Ltd*, October 6, 2020, available at: www.pcb.ca.

administration are not part of any multilateral framework (unlike those imposed by President Obama in 2009),³⁶ and according to the WTO, are also a violation of international trade rules.³⁷ The January 2020 agreement also bypasses the WTO, since it stipulates that control of its application comes under a bilateral mechanism and not that of the organization's Dispute Settlement Body.

More than a trade war: a technological and strategic competition

The strategy used and the scale of measures show that the outbreak of the trade war is not only related to the increasing US deficit, but also to structural changes in China viewed with concern by the Americans. The trade war is indeed part of a substantive debate in the United States about China's rising power and the US response to it.³⁸ The economic and military emergence of the PRC is increasingly worrying the United States, as is China's technological upscaling, as it is now a leader in several sectors (5G, Internet of Things, etc.)

According to the economist, Imad A. Moosa, the real explanation for this trade war lies in the economic application of the famous "Thucydides' trap".³⁹ This expression refers to the conflict between Athens and Sparta from 431 to 404 BC, as told by the famous historian Thucydides. The two city-states had fought as allies in the Greco-Persian wars. Following the Persian defeat, Athens dominated the region for several years, but was concerned about Sparta's growing power as its new rival. The two cities ended up clashing in the Peloponnesian War which culminated in Sparta's victory. The cycle leading to war between the established power and its ambitious rival, is what the American political scientist, Graham Allison, called "Thucydides' trap", which, according to him, applies to the current rivalry between the United States and China.⁴⁰ Allison examines the possibility of a military war, but according to Moosa, the same reasoning

36. Indeed, tariffs on Chinese tires imposed by Obama in 2009 used a section specifically negotiated when China joined the WTO. Furthermore, following a Chinese complaint, their legality was confirmed by the WTO.

37. A. Swanson, "W.T.O. Says American Tariffs on China Broke Global Trade Rules", *The New York Times*, September 15, 2020.

38. L. Nardon, "Les États-Unis face à la Chine, de Henry Kissinger à Donald Trump", *Potomac Paper*, No. 31, Ifri, November 2017.

39. I. A. Moosa, "The Thucydides Trap as an Alternative Explanation for the US-China Trade War", *Global Journal of Emerging Market Economies*, Vol. 12, No. 1, January 2020, pp. 42-55.

40. G. Allison, *Destined for War: Can America and China Escape Thucydides's Trap?*, New York: Mariner Books, 2017.

explains the recent trade war. Indeed, the United States now feels economically threatened by Chinese industry that has significantly moved up the value chain and is no longer just the world's factory. The "Made in China 2025" program unveiled by the Chinese Prime Minister, Li Keqiang, perfectly illustrates China's ambition. This plan is designed to enable Chinese industry to upscale, and particularly certain key sectors – that receive considerable state aid – such as new information technologies, aerospace and aviation, transportation and electric vehicles, etc.⁴¹ These are precisely the sectors targeted by the White House with the tariffs imposed in 2018.⁴² More than improving the trade balance, the United States seems to want to limit Chinese access to US technologies and markets, as these contribute to the growth of China's economy and power.

Therefore, according to the economist and Director of the Centre for European Policy Studies. Daniel Gros, "this is not a trade war, it is a battle for technological and geostrategic domination".⁴³ President Trump's hard line approach regarding China is still popular in the United States, "not so much because of the bilateral trade deficit or lost trade opportunities, but because of concerns that China may be eclipsing the United States and their technological leadership in several crucial sectors for national security".⁴⁴

Therefore, many of the American measures in this trade war obviously target Chinese companies in these sectors, imposing a partial and selective embargo on their access to the US market and technologies. In addition to the tariffs, the Trump administration, for example, introduced new restrictions on exports of civil nuclear technology in October 2018.⁴⁵ The Foreign Investment Risk Review Modernization Act (FIRRMA), which was passed by Congress in August 2018, has also extended the powers of the inter-agency committee (Committee on Foreign Investment in the United States – CFIUS) authorized to block takeovers based on national security considerations.⁴⁶ This boosting of the foreign (and especially Chinese)

41. S. Kennedy, "Made in China 2025", *CSIS*, June 1 2015, available at: www.csis.org (accessed on October 11, 2020).

42. A. Swanson, "White House Unveils Tariffs on 1,300 Chinese Products", *The New York Times*, April 3, 2018.

43. D. Gros, "This Is Not a Trade War, It Is a Struggle for Technological and Geo-Strategic dominance", *CESifo Forum*, Vol. 20, No. 1, March 2019, p. 6. Author's translation.

44. *Ibid.*, p. 25. Author's translation.

45. D. E. Sanger, "U.S. Puts New Restrictions on Nuclear Technology Exports to China", *The New York Times*, October 11, 2018.

46. A. Yoon-Hendricks, "Congress Strengthens Reviews of Chinese and Other Foreign Investments", *The New York Times*, August 11, 2018.

investment control system is mainly designed to prevent China from accessing sensitive American technologies.⁴⁷

Furthermore, many Chinese tech companies have been sanctioned. For instance, the Huawei affair has caused quite a stir: in May 2019, the US Department of Commerce placed Huawei – and 68 (and then 114 in August) of its non-US affiliates – on an “Entity List” imposing certain restrictions. This designation requires an export license to be granted for any export, re-export or transfer of items subject to the US Export Administration Regulations (EAR) to Huawei. In practical terms, this means that Huawei can no longer use electronic components and chips manufactured by American companies, hence cutting off the leader in 5G from access to US technologies.⁴⁸ The United States also imposed export bans on ZTE in 2018, citing trade between the company and the Iranian and North Korean governments (under US sanctions) and espionage risks. Other semiconductor manufacturers have since been placed on this list, such as Fujian Jinhua Integrated Circuit Co Ltd in late 2018,⁴⁹ or China’s leading computer electronic chip manufacturer, Semiconductor Manufacturing International Corporation (SMIC), in September 2020.⁵⁰

While the reasons given vary – espionage, intellectual property right violations, trade with sanctioned countries, etc. – the overall pattern of these actions clearly shows the American intention of maintaining its companies’ dominance in the field of new technologies through constant attempts at “economic containment” of China.⁵¹

47. A. Rappeport, “In New Slap at China, U.S. Expands Power to Block Foreign Investments”, *The New York Times*, October 10, 2018.

48. M. Welles, “Case Study: Trump against Huawei”, in L. Nardon (dir.), “Technology Strategies in China and the United States, and the Challenges for European Companies”, *Études de l’Ifri*, Ifri, October 2020.

49. D. Lawder, “U.S. Restricts Exports to Chinese Semiconductor Firm Fujian Jinhua”, *Reuters*, October 29, 2018.

50. Y. Yang *et al.*, “China’s Biggest Chipmaker SMIC Hit by US Sanctions”, *The Financial Times*, September 27, 2020.

51. P. Allard, “La politique commerciale de Trump : faire reculer la Chine”, *op. cit.*, p. 21.

Impact on the multilateral trade system

It is still too early to evaluate the long-term consequences of this escalation in tariff and non-tariff restrictions, especially since the effects of tariffs are intermingled with those of the global health crisis.

The most obvious consequence of the increased tariffs is decreased trade between the two countries. In 2019, the United States imported \$ 485 billion worth of Chinese goods, or 12.5% less than in 2018. Likewise, Chinese imports of American goods decreased by 19.69% in 2019 (-25.5% for products subject to tariffs) (see Figure 4).

Figure 4: US-China trade between 2017 and 2019

		US imports from China			Chinese imports from the US		
		2017	2018	2019	2017	2018	2019
Non-tariffed products	import value	10.78	12.47	13.09	42.20	47.43	41.42
	perc change	--	15.69	4.99	--	12.41	-12.68
Tariffed products	import value	507.81	542.92	469.68	107.46	106.62	79.39
	perc change	--	6.91	-13.49	--	-0.78	-25.54
All products	import value	518.59	555.39	485.89	149.66	154.06	123.72
	perc change	--	7.10	-12.51	--	2.94	-19.69

Note: the values for imports are in billion US dollars.

Source: E. Bakers and S. Schroeter, "An Economic Analysis of the US-China Trade Conflict", Staff Working Paper, Economic Research and Statistics Division of the World Trade Organization, March 19, 2020.

Nevertheless, some areas of the world have benefited from the shift in trade following the increase in tariffs, such as Vietnam (which saw its exports to the United States increase by 35%), Taiwan, Europe and Mexico.⁵²

Main victims: US companies and consumers

Several studies have shown that it is mainly American companies and consumers that have borne the cost of the tariffs.⁵³ American companies have indeed been forced to absorb this cost increase by reducing their margins – including their employees’ salaries, the number of positions available, or their possible expansion plans – and by increasing the end cost for consumers. According to a study by Moody’s Analytics in September 2019, the trade war had already resulted in the American economy losing 300,000 jobs at that time.⁵⁴ The cost of this trade war is estimated to be between 0.3% and 0.7% of American GDP⁵⁵ and is expected to reach \$ 316 billion by late 2020.⁵⁶ Researchers at the Federal Reserve Bank of New York and Columbia University concluded that US companies’ shares lost \$ 1,700 billion after the tariff increases,⁵⁷ with the trade war also having a very negative impact on business confidence and investments.⁵⁸ The sectors most affected by the decrease in American exports are petroleum and coal products, fossil fuels, metals, agriculture, processed food products and the chemical industry.⁵⁹ As for Trump’s objective of stimulating a revival in the country’s manufacturing industry, it is of course subject to highly politicized debates. In fact, manufacturing

52. Y. Huang and J. Smith, “In U.S.-China Trade War, New Supply Chains Rattle Markets”, *Carnegie Endowment for International Peace*, June 24, 2020, available at: <https://carnegieendowment.org>.

53. See for example M. Amiti, S. J. Redding and D. E. Weinstein, “Who’s Paying for the US Tariffs? A Longer-Term Perspective”, *AEA Papers and Proceedings*, National Bureau of Economic Research, Vol. 110, pp. 541-546, available at: www.nber.org.

54. M. Zandi, J. Rogers and M. Cosma, “Trade War Chicken: The Tariffs and the Damage Done”, *Moody’s Analytics*, September 2019, available at: www.moodysanalytics.com.

55. A. Denmark and R. Haas, “More Pain Than Gain: How the US-China Trade War Hurt America”, *Brookings* (blog), August 7, 2020, available at: www.brookings.edu.

56. S. Donnan and R. Pickert, “Trump’s China Buying Spree Unlikely to Cover Trade War’s Costs”, *Bloomberg*, December 18, 2019, available at: www.bloomberg.com.

57. M. Amiti, S. H. Kong and D. E. Weinstein, “The Investment Cost of the U.S.-China Trade War”, *Liberty Street Economics*, Federal Reserve Bank of New York, May 28, 2020, available at: <https://libertystreeteconomics.newyorkfed.org>.

58. M. Zandi, J. Rogers and M. Cosma, “Trade War Chicken: The Tariffs and the Damage Done”, *Moody’s Analytics*, September 2019, p. 4.

59. E. Bekkers and S. Schroeter, “An Economic Analysis of the US-China Trade Conflict”, Staff Working Paper, Economic Research and Statistics Division of the World Trade Organization, March 19, 2020.

employment remained stable and the Industrial Production Index fell for the first time since 2015.⁶⁰

The reactions of US companies varied depending on their sectors, their production chain, etc. According to a survey in May 2019 by the US Chamber of Commerce in Shanghai, nearly 75% of American companies in China responded that the increased Chinese and American trade barriers had had a negative impact on their business.⁶¹ Some companies in particularly affected sectors, such as the automotive or fashion industry, have publicly expressed their dissatisfaction. For instance, Rick Helfenbein, President of the American Apparel and Footwear Association,⁶² criticized President Trump and his determination to stop American companies working in China.⁶³ In total, more than 3,500 American companies (including Tesla, Ford, Target and Walgreen) have filed lawsuits against the United States because of these trade barriers.⁶⁴ Conversely, other sectors, such as the American steel and aluminum industry have significantly benefited from the new tariffs and have openly advocated maintaining them.⁶⁵

Furthermore, US farmers, who are most directly affected by the cross-tariffs, have been hard hit by Beijing's retaliation.⁶⁶ Chinese taxes on many agricultural products, in addition to Chinese tariffs on American soya exports (33% at the height of the trade war) and pork (72%), have resulted in American farmers losing almost all of the Chinese market.⁶⁷ They have only been able to survive with generous subsidies – accounting for more than one-quarter of the net agricultural revenue in 2019 – provided by Washington, anxious not to alienate this significant electorate.⁶⁸

60. Y. Huang and J. Smith, "In U.S.-China Trade War, New Supply Chains Rattle Markets", *op. cit.*

61. AmCham China, Joint Press Release, May 22, 2019, available at: www.amchamchina.org.

62. The American Apparel & Footwear Association is an American organization, representing more than 1,000 brands in the apparel, footwear and accessories industry.

63. For the reaction of many other business leaders in different sectors and their strategies for responding to the trade war, see J. Jaeger, "How Industries Are Responding to the Escalating U.S.-China Trade War", *Compliance Week*, September 6, 2019, available at: www.complianceweek.com.

64. Reuters, "About 3,500 US Companies Sue Over Trump-Imposed Chinese Tariffs", *Voice of America*, September 25, 2020, available at: www.voanews.com.

65. American Iron and Steel Institute, "The Facts: Preserve the Steel Tariffs", October 23, 2020, available at: www.steel.org.

66. V. Le Billon, "Guerre commerciale: un bilan économique peu convaincant pour les États-Unis", *Les Échos*, January 14, 2020, available at: www.lesechos.fr.

67. US agricultural exports to China have fallen from \$ 24 billion in 2014 to \$ 9.1 billion in 2018. See G. McGregor, "The Trade War Cost U.S. Farmers Their China Market: A Deal Might Not Bring It Back", *Fortune.com*, November 15, 2019, available at: <https://fortune.com>.

68. V. Le Billon, "Guerre commerciale: un bilan économique peu convaincant pour les États-Unis", *op. cit.*

In fact, despite the Chinese targeting Trump-voting regions in retaliation in 2016, the political impact of the trade war on the 2018 mid-term elections appears to have been limited.

A less drastic impact on the Chinese economy

The impact of the trade war on China has been more limited. China has been able to compensate for the decreased exports to the United States by increasing its sales to other countries.⁶⁹ Hence, Chinese exports to the Association of Southeast Asian Nations (ASEAN) countries increased by \$ 38.5 billion between 2018 and 2019, and to Europe by \$ 23.19 billion.⁷⁰ As a result of the significant decrease in exports in manufactured and processed goods to the United States, China also reduced its imports of components (from Japan, South Korea and Taiwan), resulting in an improvement in China's trade balance.

However, the trade war has contributed to the slowdown in Chinese growth, adding to other factors responsible for this downward trajectory in recent years. These tensions have also caused the renminbi to depreciate compared to the dollar (by more than 12% between April 2018 and August 2019), as well as a sharp fall in the Chinese stock market, illustrated by the 29.9% drop in the Shanghai Composite Index.⁷¹ Some companies, such as Huawei or ZTE, have also suffered significant financial losses following the embargo on American exports, which deprived them of essential components, and closed the US market to their products.⁷²

Adverse effects on multilateral governance of trade

The American decision to impose tariffs unilaterally and to look for a strictly bilateral settlement for disputes is particularly damaging for the global trade system. In principle, the US criticisms of China fall under the

69. In China, the decrease in American imports mainly affected petroleum and coal products, electrical equipment, machine components, agricultural products and processed food. See E. Bekkers and S. Schroeter, "An Economic Analysis of the US-China Trade Conflict", Staff Working Paper, Economic Research and Statistics Division of the World Trade Organization, March 19, 2020.

70. Y. Huang and J. Smith, "In U.S.-China Trade War, New Supply Chains Rattle Markets", *op. cit.*

71. K. Liu, "The Effects of the China-US Trade War During 2018-2019 on the Chinese Economy: An Initial Assessment", *Economic and Political Studies*, May 2020.

72. For example, ZTE Corp reported a net loss of 7.8 billion yuan (\$ 1.1 billion) for the first half of 2018 because of the sanctions, compared with a profit of 2.3 billion yuan for the first half of 2017. See "China's ZTE Posts 1.1 bln H1 Loss on Impact from U.S. Supplier Ban", *Reuters*, August 30, 2018, available at: www.reuters.com.

Dispute Settlement Body at the WTO that the Trump administration is weakening by choosing to bypass it. Similarly, the US-China “Phase One” agreement does not include a WTO enforcement mechanism. Furthermore, this agreement – and more generally, the increasing number of bilateral agreements so dear to the Trump administration – are by their nature exceptions to the fundamental principle of the multilateral system: non-discrimination between trading partners. As Patrick Allard writes, “a reorganization of world trade around bilateral agreements with their own rules of origin, specific regulatory standards and principles, with their own dispute settlement bodies would, in itself, imply a weakening of the WTO and a dilution of global governance”.⁷³

Especially since this American preference for bilateralism complements a strategy combining intense criticism and total blockage of the WTO: having obstructed the appointment of judges to the Dispute Settlement Body, this was unable to play its role in resolving the trade war.⁷⁴

73. P. Allard, “La politique commerciale de Trump: faire reculer la Chine”, *op. cit.*

74. A. Swanson, “W.T.O. Says American Tariffs on China Broke Global Trade Rules”, *The New York Times*, September 15, 2020.

Discouraging outlooks

What is the future for the US-China agreement?

Despite the president's and his economic advisor, Lawrence Kudlow's optimistic statements in August 2020,⁷⁵ the promises of the "Phase One" US-China agreement, signed on January 15, are unlikely to be fulfilled in 2020 (see Figure 5). Partly due to the pandemic, Chinese purchasing figures for American goods for the first eight months of 2020 are well below what was agreed upon: they only represent 50% of year-one's targets.⁷⁶ In the first half of 2020, American exports of products (covered by the agreement) to China amounted to \$ 33.1 billion, compared to \$ 71.3 billion⁷⁷ under the agreement. Similarly, American exports of agricultural products to China – which were at the center of this first agreement and particularly important for Donald Trump's electorate – are still lower than expected: they total \$ 8.7 billion for the first half of 2020, or half of the set target.⁷⁸

75. A. Guillemoles, "Un répit dans la guerre commerciale Chine-États-Unis", *La Croix*, No. 41609, January 17, 2020.

76. C. Brown, "US-China Phase One Tracker: China's Purchases of US Goods", *PIIE*, October 6, 2020, available at: www.piie.com.

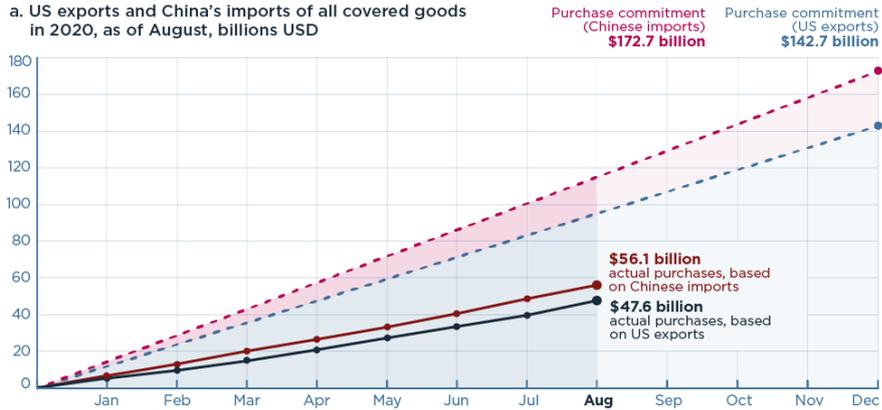
77. V. Le Billon, "Les États-Unis ménagent la Chine mal gré un accord commercial moins fécond que prévu", *Les Échos*, No. 23262, August 14, 2020.

78. *Ibid.*

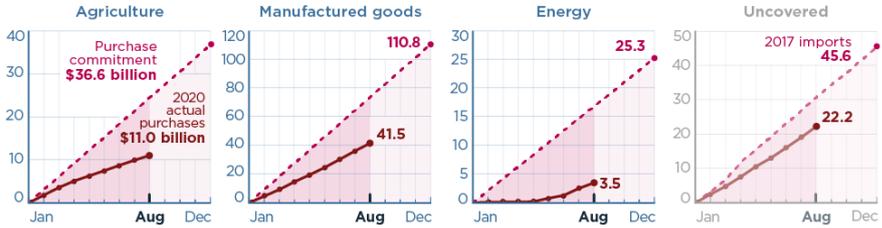
Figure 5: Chinese purchases of US goods against “Phase One” agreement commitments

US-China phase one tracker: China’s purchases of US goods

US exports and China's imports in 2020 of all goods covered by the phase one deal as of August 2020



b. China's imports by product type, billions USD



c. US exports by product type, billions USD



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Note: Numbers may not sum to total due to rounding. “Uncovered” products refer to China’s imports from the United States not addressed by Annex 6.1. Prorating the 2020 year-end target to a monthly basis is for illustrative purposes only. Nothing in the text of the agreement indicates China must meet anything other than the year-end target. The August data for US exports of all uncovered products to China will be available on October 6, 2020.

Sources: Constructed by the author with US export data from US Bureau of the Census, Chinese import data from International Trade Centre (Trademap) for 2017 and from Chinese customs for 2020, and product categories set out in Annex 6.1 of Economic and Trade Agreement between the United States of America and the People’s Republic of China.

Source: C. Brown, “US-China Phase One Tracker: China’s Purchases of US Goods”, PIIE, October 6, 2020, available at: www.piee.com.

Furthermore, the “Phase Two” agreement, which was supposed to follow on from the January 2020 one, is no longer on the agenda. It must not only go further in resolving extremely sensitive problems (intellectual property rights, risks to US national security caused by Chinese companies, promises to redress the trade balance, etc.), but also overcome the deterioration in US-China relations since January with the Coronavirus crisis.

Therefore, in the short to medium term, it seems very difficult for the two countries to find an agreement addressing the American criticisms leveled at China – which target entire sections of the Chinese trade and industrial structure and policies – and ending geostrategic competition between the two powers.

Bipartisan consensus against China

Once president, Joe Biden will undoubtedly maintain a hardline approach towards China, supported by both the bipartisan consensus in Congress, and the majority of American public opinion.

Although the Democrat candidate has criticized his Republican opponent’s “self-destructive” trade war, his campaign team refused to promise he would cancel the tariffs once he became president. Kurt Campbell, a senior advisor in the Obama administration and Joe Biden’s current advisor, has even indicated that the Democrat party recognized that “Trump was largely correct in his diagnosis of China’s predatory practices”.⁷⁹ However, the future Biden administration will differ from the Trump administration through its commitment to re-engage with the WTO and to maintain – or even rebuild – the multilateral system of trade governance.⁸⁰ Similarly, it will seek to further bring the Europeans on board in this standoff with China, on 5G infrastructure for example.⁸¹

79. J. M. Schlesinger, “What’s Biden’s New China Policy? It Looks a Lot Like Trump’s”, *The Wall Street Journal*, September 10, 2020.

80. A. Williams, “Joe Biden to Remain Tough on Trade While Re-embracing Partners”, *Financial Times*, November 16, 2020.

81. M. Karnitschnig, “What Biden Means for Europe”, *Politico*, November 8, 2020.

Conclusion

Although the 2018-2019 tariff escalation launched by the Trump administration represents a major change in strategy, the US-China trade war has been both a part of ongoing US trade concerns since the 2000s, and of a more global technological and geostrategic competition.

Despite the negative impact of this conflict on the American economy, global trade and its governance, the January 2020 agreement has not really ended the dispute. Despite recent complaints by major American companies, most of the tariffs are still in place.⁸² Since January, new restrictions have been imposed on some Chinese tech companies (SMIC, but also ByteDance, owner of Tik Tok, and Tencent, which owns WeChat), and others that still seem to be in the sights of the United States (Alibaba, Baidu, etc.).

It now seems very likely that US-China tensions – on trade issues, but also technological, military and even health ones – will increase during Joe Biden’s presidency and even beyond. However, the strategies used by the United States and China in this competition will be decisive, both for the future of the multilateral trading system and for allies and trading partners of the two powers, who may eventually be forced to choose sides.

82. Agence France Presse, “Tesla, Volvo, Ford and Mercedes Sue US over “Unlawful” Tariffs on Chinese Parts”, *The Guardian*, September 24, 2020.



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