U.S.-China Trade War so far; what brought us here?

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1. Abstract

2018 was the year when the U.S.-China trade war officially transformed from being a ‘war of words’ to a war of actions. This paper focuses on three major areas; firstly, it talks about the causes behind this conflict; secondly, it shows a chronological timeline of this conflict; and finally, it talks about the consequences of this conflict. It has been found that over the past three decades, China has made unimaginable progress in the world market; which has begun to threaten U.S.’ global dominance. It was also found that U.S.A. has had a continuous trade deficit with China over the past several years; which reached its peak in 2017, when it fell to -$375.58. Trump administration authorized their first tariffs on imported solar panels and washing machines; and remained hell-bent on fighting China; thus, kept on imposing tariffs on more Chinese imports throughout the year. However, their actions were swiftly & repeatedly repelled by an adamant Chinese government. Results showed that, one year into this conflict caused its participants around $2.9 billion, each. The U.S. agricultural sector probably suffered the worst blow, and was later subsidized by the government. However, the shockwave of this trade war was felt in almost every other sector in U.S.A. Chinese tech industry was severely affected as well. Millions of jobs in the U.S. are at risk of being obliviated as a result of this conflict. Has the worst already gone past, or is it still to come? No one knows for sure; however, there are signs which indicate that we might be moving toward a possible solution.
2. Introduction

The term ‘trade war’ refers to a situation where countries engage in an economic conflict by imposing import restrictions on one another, in order to disrupt each other’s trade. Such disagreements between nations may occur due to various political and ideological differences; or simply as a tool for competing against one another in the global market.

The ongoing trade war between China & U.S.A. is unarguably the biggest and the most discussed trade conflict in today’s world. This disagreement between super-powers of the modern world is not only affecting the economies of these two countries, rather it is causing a serious impact on the global economy. The ideological conflict between China & U.S.A. is not something new; many refuse to accept this conflict to be a simple disagreement between two countries, and refer it to as being a conflict between two ideologies (capitalism and communism). The trade war between these two nations has been going on for quite a while; and with time, this conflict seems to be escalating further and further.

The main reason that caused this trade war to occur is the rapid rise of China. In the past few decades, China has made unimaginable progress in the global market. And they have begun to threaten U.S.A.’s dominance. On top of that, U.S.A. has been facing a trade deficit with China for the past several years; which has become a headache for them that requires to be cured.

President of the United States of America, Donald Trump has ever been a staunch criticizer of China’s trade policies; during his election campaign, he vowed to fight China’s ‘unfair trade practices’, and threatened to impose 35% to 45% tariffs on Chinese imports. And this year, he finally made good on his threats by imposing a series of tariffs on Chinese imports. In January, Trump Administration imposed tariff on the import of Chinese solar panels and washing machines; and followed it up by imposing 25% & 10% tariffs on the imports of Steel & Aluminum, respectively, in March. The Chinese government responded by imposing tariffs on US exports worth $3 billion, in April. But in June, U.S.A. imposed tariffs on a bunch of new Chinese goods (worth $50 billion). The following month, China responded by imposing tariffs on US imports, worth $50 billion. But that was not the end; the trade war kept on raging; in the following chapters of this paper, we will come to know about this trade war in more details.

The tension between these two nations is on the rise; as both parties continue to threaten one another. There is simply no telling how things would go on from here. Will this trade conflict continue? Or will there be a solution? Even if we reach a solution, how long will it hold? Such questions remain to be a mystery for now.
3. Literature Review

The trade conflict between China & U.S.A. is too important an issue to remain unnoticed; various studies have been conducted and various others are being conducted on this topic.

Authors, Antoine Bouet and David Laborde, in their study, ‘US Trade Wars with Emerging Countries in the 21st Century’ (August, 2017) argued that the changing trade policies of the US government is responsible for triggering multiple number of potential trade wars. They further argued that if these trade wars escalate, emerging countries would face serious trouble, and the global economy would face consequences.

Siby K M and Dr. Arunalacham P from Cochin University of Science and Technology, in their study, ‘The US-China Trade Competition: An Overview’ (June, 2018) estimated that the trade war between U.S.A. & China is likely to keep going on and keep reappearing in different forms; however, they made it clear that the situation remains to be in quite a shaky state, and there are clear indications that at any time, this trade war could escalate; triggering an all-out global trade war, that would inflict an unimaginable damage to the global economy.

The National Bank of Canada conducted a study titled, ‘The China-U.S. trade war of attrition’ (July, 2018); where they predicted that the trade conflict between these two nations is going to continue for a foreseeable future. However, they believe that eventually, both of the nations are going to step back and sit for a negotiation; as this conflict would not benefit either party, if it were to continue indefinitely.

KPMG Economics & Tax Center, in their study, ‘Trade Wars: There Are No Winners’ (August, 2018) revealed that if this trade conflict escalates, the global economy would suffer; and depending on their analysis, they estimated that if this trade war continues, the world GDP will decrease by around 3%.

A study conducted by the Washington based consultancy ‘Trade Partnership Worldwide’ revealed (in August 2018) that the trade war between U.S.A. & China could close the books on more than 2 million jobs in the U.S. economy.

Hugo Erken, Björn Giesbergen and Inge de Vreede, in their study, ‘Re-assessing the U.S.-China trade war (November, 2016), found that this trade war in general would only lead to economic losses. They considered two scenarios. The first one showed, given the trade war continues; in the year 2030 China would lose 1.6ppts of economic growth, U.S.A. would lose 0.9ppts; and the global economy would lose 0.7ppts. The second scenario (escalation scenario) showed that in 2030, China would lose 5.7ppts, U.S.A. would lose 1.6ppts; and the global economy would lose 2.0ppts.
4. Methodology

After much discussion, it was decided that due to the nature of the topic, it would be best to go for a ‘qualitative’ paper. Secondary data, collected from web-based sources were used for conducting this analysis.

The first objective was to determine the causes behind the U.S.-China trade war; in other words, to analyze why the United States of America launched its trade war on China. Therefore, some statistical data were collected from the internet; based on which, a number of charts were prepared, using MS excel; in order to show how China’s progress in the global market, during the past three decades, and how its continuous trade surplus with U.S.A. have led the two nations to this trade war.

The second objective was to create a timeline of this trade war. Thus, a bunch of papers and news articles were studied, in order to get acquainted with the ongoing affairs regarding this trade conflict. And eventually, a timeline of this trade war was prepared by enlisting the events chronologically.

The third and final objective was to determine the consequences of this trade conflict; in other words, to measure the magnitude of the damage it has caused so far. In order to fulfill the final objective, some more papers and news articles (this time, more recent/latest ones) were studied.
5. Why is there a trade war between China & U.S.A.?

5.1 U.S. Allegations against China:

The United States of America has waged this trade war on China, accusing them of being engaged in vulturous practices; through which they are ‘allegedly’ granting their local companies an unfair superiority over foreign competitors. Cyber attacks against American firms, theft of trade secrets and jobs, expansion of government subsidies, forcing foreign companies to share their intellectual property in exchange for market access, etc. are included among the U.S. allegations against China.

However, if we look from another angle, we might find some other factors that led U.S.A. to wage its trade war on China.

5.2 China’s rapid progress in the global market:

Over the past few decades, China has been making serious progress in the global market; their economy has been skyrocketing. If we were to understand the magnitude of China’s progress in the global market, we would need to go over some statistical analyses.

(a) Top 10 GDPs in 1990

<table>
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<th>Country</th>
<th>GDP (in $ Billions)</th>
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<tr>
<td>USA</td>
<td>5979.6</td>
</tr>
<tr>
<td>Japan</td>
<td>3140.7</td>
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<tr>
<td>Soviet Union</td>
<td>2659</td>
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<tr>
<td>West Germany</td>
<td>1592.7</td>
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<tr>
<td>France</td>
<td>1278.7</td>
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<tr>
<td>Italy</td>
<td>1171.1</td>
</tr>
<tr>
<td>UK</td>
<td>1094</td>
</tr>
<tr>
<td>Mexico</td>
<td>534.2</td>
</tr>
<tr>
<td>Brazil</td>
<td>533.9</td>
</tr>
<tr>
<td>Canada</td>
<td>533.9</td>
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The chart, shown in the previous page is a list of top 10 GDPs in 1990. As we can see, U.S.A. on this list is leading the parade with a GDP of **$5979.6 billion**, followed by Japan & the then-Soviet Union in 2nd and 3rd positions, respectively. The key thing to note here is that there is no sign of China on this list; meaning that, China, in the year 1990, was not among the top 10 GDPs of the world.

But let us move 10 years into the future and see what changes take place in this list.

![Chart](chart.png)

**(b) Top 10 GDPs in 2000**

The chart shown above is the list of top 10 GDPs in 2000. U.S.A.’s position in this list remains unchanged (in 1st position); but if we look closely, we will understand what a giant leap forward this nation had taken at that time, within a matter of 10 years. In chart (a), where we enlisted the top 10 GDP’s in 1990; U.S.A.’s GDP was **$5979.6 billion**; while that number rose to **$10284.4 billion** in chart (b). Meaning that the GDP of U.S.A. almost doubled in the year 2000, compared to its GDP in 1990. In chart (b), Japan is the closest competitor of U.S.A; and their GDP is less than half of what the GDP of U.S.A. is (**$4887.5 billion**).
However, the biggest surprise in this list is China. We saw that there was no sign of China in chart (a). But if we look at chart (b), we could see that in a matter of 10 years, not only did China manage to enter the list of top 10 GDPs, but it also sealed the 6th position with a GDP of $1211.3 billion.

Now we are going to move 10 more years into the future, and see what further changes occur in the list of top 10 GDPs.

(c) Top 10 GDPs in 2010

Here on this list, we can see that U.S.A. is still maintaining its position with a GDP of $14964.3 billion. On the other hand, China has jumped to 2nd position with a GDP of $6100.6 billion. The key thing to note here is the rate of increase in China’s GDP at that time. In chart (b) we saw that China’s GDP in the year 2000, was $1211.3 billion. And amazingly, just after 10 years, China’s GDP quintupled (increased by 5x). Now, this massive stride forward by China certainly came as a headache for its competitors, including the United States of America.

But let us not argue about the past, rather we shall move 8 more years into the future and see what happens to this list in the year, 2018.
The above chart shows the list of top 10 GDPs in the recently concluded year, 2018. Both, U.S.A. & China have managed to maintain their positions, with U.S.A. at 1st position & China at 2nd. So, as far as the rankings are concerned, things remain unchanged. However, we must look at the rate of change in GDP of both of these nations, over these past 8 years. U.S.A.’s GDP in 2010 was $14964.3 billion, and rose to $20412.87 billion in 2018; meaning that their GDP over the past eight years increased by $5448.57 billion. On the other hand, China’s GDP in 2010 was $6100.6 billion, and rose to $14092.51 billion in 2018; meaning that their GDP increased by $7991.91 billion over the past eight years. If we compare U.S.A.’s GDP growth with China’s, we will easily notice that the GDP growth rate of China is much more superior to that of the U.S.A.’s.

After having analyzed the four charts shown above, it can be concluded that the rate of China’s GDP growth over the past three decades has been quite remarkable. The speed, at which China is moving forward, has certainly come as a blow for U.S.A.; as in the past, they were leading the global market, unchallenged. But things have become quite different in the recent days; with China, breathing down on its shoulder, U.S.A. is indeed feeling the threat of losing its superiority in the global market. This fear of being overrun by China has certainly fueled U.S.A.’s intention of imposing trade restrictions upon China.
5.3 U.S.A.’s Negative Trade Balance with China:

In the previous section, we saw how China’s rapid progress has been making U.S.A. feel threatened. However, that is not the only challenge for U.S.A.

U.S.A has a trade deficit with China; and this deficit has been rising constantly over the past several years. Having trade deficit with one nation is not the end of the world; after all, you cannot expect to have a trade surplus with all the nations of the world, no matter how self-sufficient or powerful you are. However, having a continuous trade deficit with your closest competitor in the global market is indeed, troubling news.

The chart shown above, projects U.S.A.’s Import & Export situation with China over the past few years. By looking at it, we see an alarming distinction between the levels of U.S. Export & U.S. Import with China. The level of U.S. import of Chinese goods is much higher than the level of U.S. exports to China. Which means, U.S.A. has a trade deficit with China; more importantly, this trade deficit has been going on for quite some time; and in fact, it has been increasing gradually, during the recent years.

(e)
The above chart presents an overview of U.S.A.’s trade balance with China over the recent years. As we can see, each and every single number in this chart is a (-) number; which means, that U.S.A. has a continuous trade deficit with China. And if we look at the ‘trend line’ we notice that the gravity of this trade deficit has been intensifying with time, as the ‘trend line’ is downward sloping. U.S.A.’s trade deficit with China in 2007 was -$258.5 billion; and reached its peak in 2017, when it rose to -$375.58 billion. Although, the following year revealed an unprecedented turn of event, as there was a substantial decrease in the level of U.S. trade deficit with China (fell to -$222.56 billion). This shocking phenomenon came to pass as a result of the U.S. President Donald Trump’s rigorous & decisive initiatives for fighting the alleged, unfair trade policies of China; which included a series of tariff imposition on the import of Chinese goods.

Looking at the charts, (e) and (f), we understand why the United States of America has become so desperate to fight China back. This continuous trade deficit with China, and due to the fact that China is moving forward in the global market at an incredible speed; U.S.A. was left with no other option but to take radical action by imposing tariffs on Chinese imports. So far, in the short run, this move by the U.S. government is proving to be quite effective for decreasing the level of U.S. trade deficit with China.
6. The Trade War So Far (a Timeline)

**Donald Trump’s presidential campaign-period (June, 2015 – Nov, 2016):**

Even though the U.S.-China trade war officially began in January of 2018, Donald Trump however, had blown the trumpet long before that. He has always been a staunch criticizer of the Chinese trade policies. During his presidential campaign, he made fighting against the so-called ‘Chinese trade abuses’ a campaign priority; using it as a rallying cry. Throughout the campaign, Donald Trump was reported to have heavily criticized the Chinese trade policies in numerous occasions. In May, 2016, at one of his campaign rallies in Indiana, Trump said, and I quote, “We cannot continue to allow China to rape our country, and that is what they are doing.”

According to different sources, Donald Trump, during his election campaign, did not only criticize the Chinese trade policies, but he also went on to criticize the previous U.S. presidents for not taking necessary actions against China. And he vowed that if he should be elected, he would impose **35% to 45%** tariffs on the import of Chinese goods.

**An unexpected move by the Trump Administration (May 11, 2017):**

Trump did not pull the trigger on China, instantly after assuming office; on the contrary, his administration made a surprising move by striking a trade deal with the Chinese government. This trade deal covered various products, such as; beef, poultry, etc. Even though, this trade deal came as a sign of possible peace procedure; but there were still a lot of speculations regarding certain unresolved issues, such as: disagreements over **aluminum, steel**, etc. products that were not included in this trade deal.
**Trump draws first blood (Jan 22, 2018):**

People who considered Donald Trump to be a ‘mad dog who had no idea about half of the things he said’; were left shell-shocked on the 22nd of January, 2018; as Donald Trump finally converted his threats into action by imposing tariffs on the import of solar panels and washing machines. This move by the Trump Administration was severely criticized by their Chinese counterparts.

**Trump tightens the noose (March 8, 2018):**

Without caring much about the reactions of their Chinese counterparts, Trump administration went on to authorize 25% tariff on the import of Steel; and 10% tariff on the import of Aluminum. President Trump stated that these duties were being authorized in order to boost local companies. While approving the duties, he said, “*A strong steel and aluminum industry are vital to our national security.*”

**China fights back (April 1, 2018):**

U.S.’ imposition of duties on steel and aluminum was seen as a grave offence by the Chinese government. And therefore, within less than a month, they responded by imposing duties on $3 billion worth of U.S. goods. China’s response to the U.S. tariff impositions made the Trump administration realize that their counterparts in this conflict were not going down without a fight. Therefore, for a period of time, both parties reached out for peace talks.

**Failed ceasefire attempts (May 3, 2018):**

As tensions mounted, both parties made attempts for reaching a solution. A series of meetings were held between American and Chinese delegations in Beijing. However, those meetings failed to yield any positive result, and the trade war continued.
The trade war escalates (June 15, 2018):

Failed ceasefire attempts that took place in May, gave way for the trade conflict to escalate. Trump administration authorized 25% duty on $50 billion worth of Chinese goods. And Beijing responded immediately by imposing duty on the import of U.S. goods worth $50 billion.

This immediate retaliation by the Chinese government made the Trump administration become even more desperate; which resulted into a further escalation of the conflict.

Trump takes it to a whole new level (Sept 17, 2018):

On the 17th of September, 2018, Donald Trump made a radical move by imposing 10% tariffs on $200 billion worth of Chinese goods. He also revealed that his administration plans on increasing these tariffs from 10% to 25%; which would be brought into effect from the 1st of January, 2019.

President Trump further added that if Beijing chooses to retaliate, then Washington would respond by authorizing additional tariffs on $267 billion worth of Chinese goods.

This latest tariff imposition was not received well by the Chinese government; and in fact it was hugely criticized by experts all over the world; to many, it was ‘utterly disgraceful & absurd’. This move by the Trump administration gave the impression that they were deliberately attempting to provoke the Chinese government, and therefore attempting to escalate this conflict still further.
Beijing retaliates (Sept. 18, 2018):

Despite the threats made by Donald Trump, China retaliated to the latest U.S. actions, within a day; by authorizing duties on $60 billion worth of U.S. goods. This is probably where the Trump administration realized that China could not be intimidated by threats; and imposition of duties would only fire back on the U.S. government, themselves. Therefore, president Trump was forced to reconsider his approach toward this conflict.

Hope of light (Dec 1, 2018):

After almost a year-long trade war; finally, there was some light at the end of the tunnel. The G-20 summit, that took place in Buenos Aires, Argentina, on the 1st of December, 2018; paved the way for a possible ceasefire; as president Trump joined the Chinese leader Xi Jinping for a dinner meeting, where they agreed that this trade war is only harming both of their nations and it should be halted for the time being.

President Trump agreed to delay his plans of increasing the tariffs on $200 billion worth of Chinese goods from 10% to 25%, which was supposed to be brought into effect from the 1st of January, 2019. Both presidents left Buenos Aires with hopes of reaching a fruitful and mutually beneficial trade agreement within the following 90 days.
7. Consequences

The U.S.-China trade war has benefitted none; on the contrary, it has cost both participants, billions of dollars. Whether it be agriculture or tech industries, the shockwave of this trade war was felt in almost every single sector of both of these countries. According to different reports, this trade war has cost both, U.S.A. and China around $2.9 billion, each.

In response to U.S.’ tariff impositions, China had authorized 25% duty on soybean. It is to be noted that in 2017, China had imported soybean worth $12 billion from U.S.A.; but due to the high tariff rate, in 2018, the Chinese government was forced to consider other options. Thus, they turned to Brazil; and the lion’s share of the local demand was met by importing soybeans from Brazil. Due to this, the agricultural sector of U.S.A. suffered a huge blow; as a huge amount of locally-produced soybean remained unsold. The U.S. government reportedly paid $11 billion subsidy to the farmers who were affected by this trade war.

According to a study, conducted by CTA (Consumer Technology Association); due to the duties imposed by U.S.A., the tech industry of China is being forced to spend $1 billion extra, each month.

U.S.’ retail, manufacturing and construction companies are having to pay more due to the heavy tariff on the import of steel and aluminum. Federal Reserve Bank of Dallas stated that, due to the tariffs, the cost of manufacturing and constructions have gone up; and companies are striving to charge the buyers extra for meeting the additional funding required.

The top 3 U.S. automobile companies; Ford, Fiat Chrysler & General Motors revealed that due to the heavy tariff rates, their annual revenue has gone down by $1 billion.

According to some studies, this trade war could close the books on 1 million jobs in the U.S. economy; according to others, this number could rise as high as 2 million.
8. Conclusion

The trade conflict between China & U.S.A. had begun due to a number of reasons; among which, China’s rapid climb in the world market, and its continuous trade surplus with U.S.A., etc. could be identified as the major reasons. This trade war was foreseen by many experts, long before it had officially begun in 2018. Initially, the U.S. government might have had thought this trade war to be an effective solution to their fight against China; however, the current scenario has forced them to reconsider. China did not sit back in this conflict; they responded to the U.S. tariff impositions accordingly; and as a result, both parties lost billions of dollars.

The fact that the participants of this trade war are the two strongest economies of the modern world makes it evident that whatever goes on between these two nations, won’t just affect their own economies; rather the shockwave of this conflict would be felt throughout the world. According to different studies, if this trade war escalates, and continues to go on; the world GDP would decline by 2% to 3% annually. And the number is likely to rise even further, each year.

The year 2018 was not a good year for the global economy; as the trade war between U.S.A. & China raged on; however, the year had ended with a possible hope of light, as Donald Trump & Xi Jinping sat down for a meeting in the city of Buenos Aires, and agreed to halt the trade war for 90 days. Hopefully, by that time, a possible solution will be found, and a mutually beneficial trade agreement will be made; through which the world economy, as a whole would be benefitted.
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