

Research report

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The ongoing trade war between China and the
United States of America

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Introduction:

To understand the current situation between China and the United States of America (USA), one must understand what Trade wars are;

Trade wars are economic conflicts that arise from protectionism. These conflicts tend to start because nations are trying to improve the import and export for their own country. If the nations involved don't compromise, it is usual that certain imports will be affected with a cost increase. By making use of imposing tariffs or quotas on imports, foreign countries will retaliate with similar forms of trade protectionism.

Important to note is that trade wars in one sector can develop to affect others; similarly, trade wars that arise between two countries can grow to affect other countries that weren't initially involved. Therefore trade wars could affect international trade, accompanied by disastrous economic consequences for the entire world.

Nevertheless, the affection on the world has its own advantages and disadvantages. It depends on the trade relationship of a nation and the nation in conflict and on how the nation in question copes with the situation.

The trade war between China and the USA was initiated by the President of the USA, Donald Trump and has been characterized by increasing tariffs and quotas. The goal of the imposed tariffs was to force China to make changes to what the USA calls "unfair trade practices".

Definition of Key Terms

Trade war

An economic disaccord, during which countries impose import restrictions on each other to hinder each other's trade.

Importing

Importing means buying foreign goods and services by citizens, businesses and government of another country.

Exporting

Exporting means goods and services which are produced in one country are purchased in another country.

Quota

A government-imposed trade restriction that limits the number or monetary value of goods that a country can import or export during a particular period.

Tariff

A tax imposed by one country on the goods and services imported from another country.

Protectionism

Protectionism refers to government actions and policies that restrict or restrain international trade for the benefit of a single domestic economy. Protectionist policies are usually implemented with the goal to improve economic activity within a domestic economy but can also be implemented for safety or quality concerns.

World Trade Organization (WTO)

The World Trade Organization (WTO) deals with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.

Domestic Industry

Manufacturers that produce goods within the country in which they are living.

General Overview

Types, and meaning, of tariffs

Almost every nation in the world imposes tariffs on imported goods and services, which is why imported goods are expensive to purchase. One does so to protect their own industry and people. The amount of tariff to be paid tends to be determined by the exporter country. This means that, if a country has a monopoly over particular products, they may ask for large tariff amounts. Therefore, to make up for this tariff amount, the importer country would raise tariffs on its export products, resulting in a trade war. Typically, tariffs are separated into two distinct sectors:

Specific tariff

A type of tariff in which the amount of money to be paid as the tariff is fixed, and thus any changes in the price of the products itself will not have any impact on the tariff amount.

Ad valorem tariff

A type of tariff in which the amount of money to be paid as the tariff is based on a specific percentage of the value of goods which are imported. Therefore, if the price of the product itself either rises or decreases on the market, the percentage will remain the same, though the amount to be paid as the tariff will vary according to the current price of the product on the market.

Reasons for a trade war

A trade war often starts when a nation is trying to protect its domestic industry and create jobs, protecting their people. In the short run it may work; it will create a lot more jobs. But in the long run, a trade war only costs jobs. Because it depresses economic growth for all countries involved.

Intellectual property

When an American company in China wants to produce it has to cooperate with a Chinese company, making it possible for Chinese companies to access confidential information. According to Trump, China violates intellectual property law; the country steals confidential information about important products. Trump wants China to pay for this.

Trade deficit

Look at figure 1

The USA imports from China are a lot bigger than the other way around. In order to correct this, China must buy a lot more products in the USA.

China can produce many consumer goods at lower costs than other countries can. Americans, of course, want these goods for the lowest prices. But how does China keep prices so low?

Most economists agree that China's competitive pricing is a result of two factors:

1. A lower standard of living, which allows companies in China to pay lower wages to workers.
2. An exchange rate that is partially fixed to the dollar.

If the USA implemented trade protectionism, USA consumers would have to pay high prices for their "Made in America" goods. It is unlikely that the trade deficit will change. Most people would rather pay as little as possible for computers, electronics and clothing, even if it means other Americans lose their jobs.



Figure 1: US Trade Deficit With China

Impact on the world

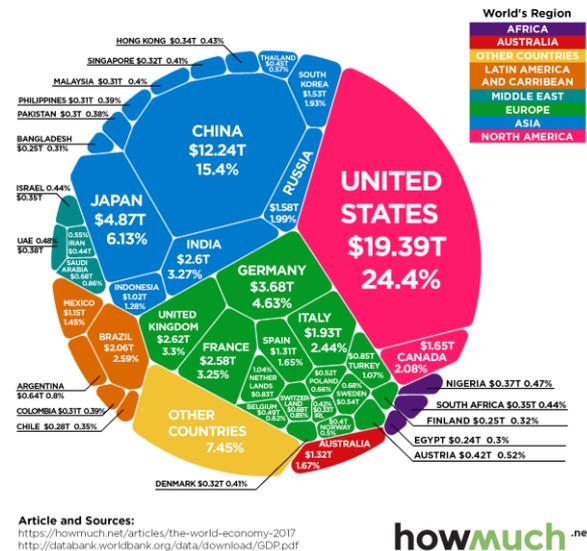
Look at figure 2

The combined GDP of the top four countries in the world (USA, China, Japan and Germany) is greater than the GDP of the rest of the world combined.

The most obvious conclusion is that the USA, Europe and Asia collectively control an enormous swath of the global economic order, totaling over 87% of the globe's GDP. As you can see, the Global South barely makes it onto the visualization.

That's why every time President Trump threatens to increase tariffs on Chinese goods, the world markets take him seriously. He's not talking about small economies where trade deals only have a ripple effect around the world. He is talking about tariffs worth hundreds of billions in annual revenue, which would have a serious impact on the global economy. It may even lead to financial hardship for local citizens.

The World Economy
Gross Domestic Product (GDP) by Country 2017



Article and Sources:
<https://howmuch.net/articles/the-world-economy-2017>
<http://databank.worldbank.org/data/download/GDP.pdf>

howmuch.net

Figure 2: Gross Domestic Product (2017)

Major Parties Involved

World Trade Organization (WTO)

Robert Azevêdo, the head of the WTO, has declared that he will endeavor to mediate between the USA and China, as some fear that the trade war between the world's greatest economies could develop into a full-scale global trade war.

The WTO has been asked by China, the European Union (EU), and other countries, such as Canada, Mexico, Russia and Turkey to investigate the American Tariffs.

Likewise, the USA has asked the WTO to investigate China due to its concern of their infringement of intellectual property rights.

China

China believes that the American government had advocated unilateralism, protectionism, and economic hegemony, and that they intimidated China, as well as other countries, through methods such as imposing tariffs. As a reaction to the imposed tariffs by the USA, China imposed tariffs as well, making it a trade war.

China has openly criticized the USA and its restrictions of various high technology products, their unjust treatment of China's market economy status, and their illogical trade tariffs.

United States of America

The USA find some of the rules in China not acceptable and therefore have imposed tariffs. Trump wants to change the rules concerning trade, because he believes China has been harming the American economy. He wants:

- That China based American companies do not need to cooperate with Chinese companies.
- China to stop spying in those American companies, because China is stealing intellectual property. This way they can make it easy to copy some products.
- To reduce the trade deficit between the two.

Office of the United States Trade Representative (USTR)

The Office of the United States Trade Representative (USTR) is the United States' government agency responsible for developing and recommending United States trade policies to the president of the United States, conducting trade negotiations at bilateral and multilateral levels, and coordinating trade policy within the government. The USTR plays a significant role in the China-US trade war

European Union (EU)

The EU is likely to profit from the China-US trade war; The United Nations estimated that European companies are likely to capture about \$70bn in trade – about \$50bn in Chinese exports and \$20bn in US exports – that have traditionally passed between the world's two largest economies.

Countries that are likely to benefit the most from trade tensions are those which are more competitive and have the economic capacity to replace US and Chinese firms



Timeline of Important Events

Sept. 21, 2011	Before Running for president, Trump criticizes China's Trade practices.
May 2, 2016	During his presidential campaign Trump once again criticized China's trade practices.
April 28, 2017	The USTR is authorized to investigate whether steel/aluminum imports are a threat to national security.
July 6, 2018	USA and China Tariffs are \$34 billion (bn)
August 23, 2018	USA and China Tariffs are \$16bn
Sept. 17, 2018	USA Tariffs are \$200bn at 10%
Sept. 24, 2018	China Tariffs are \$60bn at 10%
Dec. 2018 – March 2019	The USA and China Agree to start negotiations and temporarily pause new tariffs
May 10, 2019	USA Tariffs are \$200bn at 25%
June 1, 2019	China Tariffs are \$60bn at 25%
June 18, 2019	President Xi and Trump rekindle trade talks ahead of G20 meeting
June 26, 2019	Tentative truce reached days before G20 summit
August 6, 2019	Trump declares China is a currency manipulator. China reacts; suspending new US agricultural product purchases
Sept. 1, 2019	USA implements tariffs on more than \$125bn worth of Chinese imports. China, in turn, implements tariffs on \$75bn worth of USA goods
Sept. 2, 2019	China has lodged a complaint with the WTO against the USA over import tariffs affecting \$300bn of Chinese exports.
Now	USA tariffs applied exclusively to Chinese goods: \$550bn Chinese tariffs applied exclusively to USA good: \$185bn

Previous attempts to solve the issue

There have been lots of trade talks (in person or over the phone) between the USA and China, resulting only in temporary trade truces. Because the USA and China are the greatest powers in the world it is hard for other nations to interfere with this conflict, they are afraid that China and the USA will impose tariffs on their domestic products.



Possible Solutions

Conventional wisdom is that both presidents face strong populist pressures against making a deal. For US President Donald Trump, hardliners fear that he might compromise to boost his re-election chances. For Chinese President Xi Jinping, proposals for resolving tensions revive historic emotions about kowtowing to the West. But the uncertainty lies more in the incoherence of the package being negotiated, with key objectives being either illogical or contradictory.

But with Trump as the ultimate decision-maker, some kind of compromise is possible since he is less obsessed with the Huawei security threat argument. This suggests that if he is satisfied enough with Beijing's offer to buy more to support his political base and wants to cater to the interests of the US business community, then the security establishment would have to accept more modest restraints on China's high-tech ambitions. The complexity of the choices and shifting sentiments suggest that if some kind of an agreement is struck over the coming months, it might be more of a "moderated truce" than a real solution. Resolving US-China economic tensions would then have to be postponed to after the presidential elections.

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