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US and China Trade War

**Introduction**

The US China trade war is an amplified economic tug of war between USA and China. These two nations are the world’s largest economies. The United States of America had become the third largest trading partner of China by the year 1984. However, by this time, China was only on the fourteenth largest trade partner of the United States of America. China’s most favored nation status was always challenged in the congress by anti-Chinese groups that were putting pressures on the legislators in the congress. By the year 1991, China would only account for one percent of the total amount of imports from the United States of America. At the time of president Clinton, the renewal of the most favored nation status of China was done by linking it with all seven conditions related to human rights. Now, in the year 2018, a trade war has emerged between the two great nations that is having disastrous effects on the world economy. This research paper analyses the trade war on the basis of several aspects mentioned in the body of the paper.

**Body**

How the trade war started

The trade war between United States of America and China was started by the tariffs that were placed by President Trump in the year 2018 on Chinese goods. These tariffs amounted to a total of two hundred billion dollars on Chinese products. In retaliation, the Chinese government started putting tariffs on US imported products. These tariffs amounted to sixty billion dollars. The fact is that China has a higher market for export goods in USA then the other way around (Yılmaz, 71-93). This is clear from the fact that during the year 2017, China had already exported goods worth five hundred billion dollars to the USA. However, in contrast to this, the USA has only exported around hundred and thirty billion dollars of goods to the Chinese market. Over the past two years, three rounds of tariffs have been delivered by Washington. Finally, a fourth one was placed in May 2019, which amounted to around two hundred billion dollars. The last tariffs target the meat and musical imports from China with a heavy tax duty of fifteen percent.

Since the 1974 act, the government of the United States of America has the right to impose any sort of measures against a trading partner if and only if their actions are deemed as harmful to the interest of the government and the people of the United States of America. It is expected if this trading dispute is not resolved quickly, it might continue onwards for over twenty years (Kaur and Gupta, 81-86). According to the rhetoric of the Trump administration, these tariffs were a necessity and will help to protect the intellectual property of the United States of America. Furthermore, it also helps in minimizing the trade deficit between the United States of America and China. By putting tariffs on the Chinese products, the Trump administration hopes to divert the attention of the domestic consumer toward domestic products by making the imported goods less accessible due to their high price.

How it was fueled

The biggest reason that fueled the USA and China trade war was that there was a high trade deficit between the USA and China. Since the year 2012, the trade deficit between United States of America and China has widened considerably. By 2012, the trade deficit between the two great nations was at three hundred and fifteen billion dollars and from then on onwards, this rose exponentially. By 2015, it had reached a value of 367 billion dollars (Chong and Li, 185-202). However, in the year 2015, this trade deficit fell to three hundred and fifty billion dollars. Since that time, the trade deficit has reached to a height of four hundred and twenty billion dollars. This was the most primary reason that prompted the administration in power under president Trump in the United States of America to place tariffs on Chinese products and imbalanced the global economy with unforeseen ramifications.

China has an advantage on other nations that it can produce products at a much lower cost than other countries. The problem is how china is able to keep the cost of production so low. According to economists, China uses two most prominent ways in order to accomplish this. Primarily, there is a lower standard of living in China. This allows companies in China to get the highest amount of work out of their workers at the low wages (Stokes, 133-150). This is one of the reasons why most multinational companies have outsourced their production to China and other Asian countries. Secondly, China has an exchange rate that is partially fixed with the movement of dollar. The government in China has artificially controlled the exchange rate of its currency, Yuan. These two reasons have helped China to secure its place in the world’s top economies and has led to an increase in its exports to its trading partners.

How it affects the USA

People

The tariffs placed in the USA and China trade war affect the people of USA, primarily in two ways. Primarily, it increases the price of consumer goods and secondly it forms a dead weight loss in the economy. Furthermore, it has allowed producers and industries within the United States of America to come into competition with Chinese producers. According to studies conducted by major economic institutions within the USA, it is estimated that the tariffs placed in 2018 have increased the average price of the goods manufactured in the USA (Taheripour, et al). However, it is argued that the effect of this increasing production cost has not directly thrown at consumers but large companies have mostly absorbed the effect of this. However, in the long-term sense, the cost of products for consumers will definitely increase as corporations would have to move their investments out of China. This is because companies would need to find new places in order to source their raw materials that are more cost-effective than China.

Economy

Between these two countries, the United States of America has sustained the most damage to its economy due to this trade war. Due to the trade war, American exporters to China have lost their market share within that country. Furthermore, it has been overtaken by ASEAN countries as the most favorable trading partners and has gone down to number three as a trading partner for China. Furthermore, the GDP of the United States of America has slowed down considerably (Adjemian, et al). It is considerably nowhere near recession but is heavily affecting the growth of the company. Furthermore, the manufacturing industry within the United States of America is struggling to gain hold and the recession in its operations is further deepening. Also, due to this trade war, there is also an increase in the uncertainty regarding the future of the business community within the USA. This is why smaller businesses are stopping themselves from investing the future. This leads to a weaker capex and a slower growth in productivity.

How it affects China

People

The middle class and more especially that middle class that contains white collar workers that are better educated are becoming increasingly anxious of the effects of trade war on the lives of ordinary people. The impacts of the trade war and the concerns related to high food prices has led to people being unwilling to spend. This can become a reason for the deceleration of the Chinese economic growth (Lai, 169-184). Furthermore, for the urban middle class of China that has mostly profited from the economic boom that China has witnessed so far have also started raising their suspicions regarding the rising uncertainty due to this clash. Food prices had further jumped further six percent and prices for food items such as pork have been rapidly increasing and have reached to a height of fifteen percent. In order to combat this, Beijing even set up a task force specially to look at the employment situation within the country.

Economy

The most prominent measure of the effects of the trade war on the economy of China are the idle machinery and the vacant stools at the bar in the industrial of China known as Dongguan. The Chinese manufacturing sector has clearly taken a hit and the industrial growth in their output has been the lowest since last seventeen years. This is because China’s biggest exporting market is the United States of America. Within the last three months the world’s largest economy had only grown by six percent compared to the same time last year (Silver, 494-496). Additionally, the growth rate of the Gross Domestic Product has been low and has been around six percent for the third quarter. The retail sales had also decelerated at a sharp decline of eight percent. This percentage of growth is far worse than the expected nine percent growth by analyst at Bloomberg. However, the fixed asset investment is the only bright spot in the darkness that is the economy of China. This is because it grew by six percent and was above what was expected.

Role of Trump in the trade war and relationship with the Chinese president

Since the late 1980’s, Donald Trump had been the greatest supporter of decreasing the trade deficit of the United States of America. He also wanted to promote manufacturing on the domestic level. He was of the idea that the country was being ripped off by its trading partners. This is why imposing tariffs played an important in his campaign and was also a major plank of it. Furthermore, once he came into power, he put into action his plan of putting tariffs on Chinese products. This was because China had the highest exporter of goods to the USA. This made China the biggest target for President Trump to crush in order to save its failing economy.

Recent news has found President Trump stating that his friendship with his Chinese counterpart, President XI Jinping, is not very good. Most are of the view that this is due to the enraging trade war being occurring between the countries that the two represent. Since the start of this trade war, President Trump and President Xi Jinping have met on several occasions in order to resume some sort of conversation regarding the current trade war. There have been even times when the USA president has referred to President Xi Jinping as an enemy rather than a friend (Higgins). In one tweet, President Trump even went as far to compare President Xi Jinping to the chairman of the Federal Reserve, Jerome Powell. However, this could be construed as a response to China placing five to ten percent tariffs on USA goods that is worth around seventy-five billion dollars.

Steps taken to end this war

In October 2019, President Trump has outlined a plan to deal with the current trade war with China. President Trump outlived the first phase of this deal and even suspended his threats of hiking tariff prices. This coming deal would cover areas such as currency, parts of protection of intellectual property and agriculture. In the last fifteen months this would be the biggest step taken by the two countries in order to end this trade war considering of tit for tat tariffs (Reuters). However, there is still time that this pact will be completed. With over two days of talks and negotiations, President had assured the American people that the two countries were very close to a deal and are making increasing efforts to forma a final agreement regarding a truce to this debacle.

Furthermore, President Trump even held back tariffs of around twenty-five to thirty percent on Chinese goods. These would have amounted to around two hundred and fifty billion dollars on Chinese goods. However, still no decision has been made by President Trump regarding the tariffs that were to be put onto place in December. This shows that the world’s two largest economies are making strides to end their dispute regard trade before they even seal a deal. However, US officials have also accused Chinese representative to have walked away from a deal that was very close to finishing. The reasoning for this that that the Chinese representatives did not agree with amendments in to Chinese law. These changes would have made the enforceability of the deal more permanent.

**Conclusion**

The trade war between the United States of America and China has been going on for over fifteen months now. This has had ramifications for both countries. It has severely affected the lives of the common citizens within both countries. Also, both their economies have been hit drastically leading to stammering around to find ways to lessen the blows. The relationship between both presidents has also taken a hit from being a friend to an enemy. However, the future is bright and steps are being taken in order to end this trade war between both these giants.

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