THE CHINA-US TRADE WAR

Case ID: 2020015D

Foreword

By September 2019, the China-U.S. trade war had lasted more than 400 days with no end in sight. Increasingly negative effects were becoming evident in international trade and markets. The trade war could be traced back over the past year and would likely continue for some time. The China-U.S. tensions morphed into a tariffs dispute and eventually into direct actions against firms in advanced technology sectors. This case study will catalogue the causes of this conflict, with references to the events and pressure points that precipitated into a full-blown trade war by July 2018. A chronological summary of major developments to date is supplied in the closing section of this case study.

The Start of the War

On March 22 2018, U.S. President Donald Trump invoked Section 301 of the Trade Act of 1974\(^1\) to slap steep tariffs on billions of dollars’ worth of imported goods, targeting Chinese products in particular. This move sent shockwaves around the globe. The U.S., despite being a member of the World Trade Organization (WTO), unilaterally announced its imposition of 25 per cent tariff on US$50 billion worth of Chinese goods. To protect American steel and aluminium industries, tariffs of 10 per cent and 25 per cent were also levied on all steel and aluminium imports respectively. Over 1,300 categories of Chinese goods were included in the list of import tariffs, including aircraft parts, batteries, flat-panel televisions, medical devices, satellites, and various weapons. Trump
explicitly stated that these protectionist measures were meant to defend U.S. economic interests against China’s alleged long-running unfair trade practices.\(^2\)

Under Trump’s predecessor Barrack Obama, the U.S. government made several failed attempts to hold China accountable for violating WTO rules, to which China has been a signatory since 2001. During his presidential campaign, Trump made ‘Stop China from robbing us,’ ‘Make China pay’ or ‘Make America great again’ part of his rallying cries. His threats to take severe action against China once elected attracted significant support from the American electorate.\(^3\) Soon after he clinched the Presidency, Trump began to deliver on his promises to get tough on China. He accused China of various unfair trade practices including currency manipulation, IP theft or forced technology transfer, lack of reciprocity or one-sided trade policies. Trump said that China would be a threat to national security if the size of its economy overtook the U.S.\(^4\) These reasons justified the trade war. The tariffs were implemented despite Trump having earlier expressed willingness to maintain a friendly relationship with China in January 2018.\(^5\)

Another reason for the trade war was to reduce the U.S. trade deficit with China. Trump had complained about the US$375 billion trade deficit with China earlier in 2017.\(^6\) The U.S. claimed that the U.S. sold products to China at a low price while paying high prices for Chinese goods (Exhibit 1)\(^7\). Based on findings by the United States Trade Representative (USTR), many U.S. businessmen were concerned about the leakage of the intellectual property to China because of forced technology transfers as a condition for market access.

Trump vowed to cancel international trade deals he perceived as unfair. In his 2018 State of the Union Address, Trump signalled the beginning of the US-China Trade War:

\[\text{Now we have a trade deficit of US$500 billion a year, with intellectual property theft of another US$300 billion. We cannot let this continue... America has also finally turned the page on decades of unfair trade deals that sacrificed our prosperity and shipped away our companies, our jobs, and our Nation’s wealth. The era of economic surrender is over. From now on, we expect trading relationships to be fair and to be reciprocal. We will work to fix bad trade deals and negotiate new ones. And we will protect American workers and American intellectual property, through strong enforcement of our trade rules.}\] \(^8\)

Following that speech, the U.S. imposed its first round of tariffs on Chinese products worth US$34 billion. China retaliated with tariffs on an equivalent worth of American products. A few weeks later, the U.S. imposed a harsher round of tariffs. China again responded in a similar fashion. To date, both sides have imposed four rounds of direct and retaliatory tariffs.
As you read this case study, keep in mind the following questions:

- How did the U.S. government, in particular Trump and his administration, come to the decision to start the trade war by imposing heavy tariffs on billions of dollars’ worth of Chinese goods?
- Were all possible pros and cons properly accounted for?
- Did the U.S. foresee all ramifications and possible contingencies from starting a trade conflict?
- What would your decisions have been had you been in charge of U.S. trade policies?

**Implementation of Tariffs**

After Trump’s inauguration, he proposed to implement protectionist policies the scale of which had not been seen since the 1970s (Exhibit 2). Trump pledged to “Make America Great Again” at his presidential inauguration. Part of his plan was to substantively alter U.S. trade deals to better protect the economy. Trade tariffs in the U.S. have continually fluctuated since the country’s founding in 1776. In 1900, when the U.S. was focused on developing its nascent industrial sectors through the restriction of imports, tariffs accounted for about 30 per cent of the total value of its imports. The lowest trade tariffs ever for the country occurred in 2016 when they averaged just 1.5 per cent. Trump’s recent trade policies were similar to those in the 1970s, which had also been intended to strengthen the U.S. economy.

The first tariffs imposed by the U.S. took effect from 6th July 2018. The value of tariffs was set by Robert Lighthizer, the U.S. Trade Representative, after a seven-month investigation into China and the country’s intellectual property practices. The tariffs were set based mainly on estimates of the economic damage caused by China’s alleged intellectual property theft and the forced transfer of technology to Chinese firms. The Director of the U.S. National Security Agency Keith Alexander, who described Beijing’s practices as “the greatest transfer of wealth in history”, supported the imposition of tariffs out of the state interest. However, the tariffs did not receive widespread support from economists who believed that regular economic interactions among countries were a source of prosperity and peace. According to the theory of comparative advantage, all countries benefit from specializing in the goods and services that they could produce more efficiently and then trading with one another.

Over 40 WTO member countries, including the 28 members of the European Union (EU), expressed opposition to U.S. tariffs on steel imports. They warned that Trump’s decision could have repercussions not only on traders’ commercial interests, but also on the predictability and stability of the rules-based multilateral trading system. Unilateral trade action by the U.S. also
posed an existential threat to the WTO, which was responsible for a rules-based system of international trade. Trump ignored such views, hoping the tariffs would boost the competitiveness of U.S. steel and aluminium industries and shield them from foreign competition. The Trump administration claimed that the U.S. relied too heavily on other countries for its metal, most of which came from Canada and the EU (Exhibit 3). Although Trump worried that a trade boycott could deprive the country of critical supplies for defence purposes, he nevertheless still went ahead with these tariffs, to the annoyance many trading partners.

This trade conflict occurred during a critical period of China’s efforts to deleverage its economy (i.e. reducing its debt level, done by paying it down with liquidated assets or increased export earnings). Owing to the economic slowdown characterised by a sluggish investment environment and low domestic household consumption, China’s initial response to the new tariffs was moderate. China also heeded the calls from the U.S. for stronger intellectual property protection, with China’s Premier Li Keqiang promising in March 2018 to safeguard the rights of foreigners investing in its economy henceforth. In April, China also announced plans to eliminate all laws requiring foreign automakers and shipbuilders to partner with state-owned partners. Despite these positive signs, Sino-US relations deteriorated when the U.S. proceeded with the tariffs on imported steel and aluminium in violation of WTO rules. China eventually retaliated, but within the framework of WTO rules. On 6th July 2018, China announced a 25 per cent tariff on 545 U.S. products, matching the level of U.S. tariffs imposed so far. The list included soybeans, corn, wheat, cotton, rice, sorghum, beef, pork, poultry, vehicles, aquatic products, and so on (Exhibit 4). According to the trade data of the Foreign Agricultural Service of the U.S. Department of Agriculture (USDA-FAS), China was the second-largest export market for U.S. agricultural products in 2017. Soybeans had the largest share with a value of US$12 billion. Because of this, China’s retaliatory tariffs were mainly targeted at American agricultural products.

These tariff actions from both countries severely impacted each other. The U.S. targeted high-tech Chinese goods to undermine Beijing’s ‘Made in China 2025’ initiative—China’s effort to transform the country into an advanced manufacturing powerhouse. In response, China intentionally targeted U.S. agricultural exports that were mostly produced in pro-Trump states (Exhibit 5). This could result in economic instability and job losses, with detrimental effects on the prospects of Republican candidates running for office in the 2018 midterm elections—something undesirable for the Trump administration. The China-U.S. trade war continued to escalate with the U.S. imposing tariffs on an additional US$16 billion worth of Chinese goods in August 2018. Trump recently threatened to tax even more Chinese imports, which would raise the total value of all goods affected to more than US$500 billion (Exhibit 6).
The Trade War’s Impact

It remained unclear whether the U.S. or China would be harder hit by the trade war. Some argued that China could easily find substitutes for U.S. agricultural products, but that the U.S. would find it more difficult to look for alternatives to Chinese goods. Despite this, the unemployment rate in China rose in December 2018. There was one important difference between the two political economies. China, with its more centrally managed economy, could simply direct state-owned enterprises to stop purchasing U.S. goods, while the U.S. federal government lacked similar authority over its free enterprises. The ongoing trade war also had the potential to damage other economies not directly involved in the conflict.13

In 2015, China overtook Canada as the largest trading partner of the U.S. The U.S. imported nearly US$500 billion’s worth of Chinese goods (about 15 per cent of total U.S. imports). The U.S. had also been China's top trading partner since 1998, when it overtook Hong Kong as the largest importer of Chinese goods. China’s Foreign Trade Degree of Dependence (FTD), the ratio of the total volume of foreign trade to GDP, was 33.6 per cent in 2017.14 According to Zhu Haibin, chief China economist at JP Morgan, China’s exports to the U.S. accounted for 3 per cent of China’s GDP in 2017. U.S. tariffs on Chinese exports could cut China’s GDP growth by between 0.1 and 0.5 per cent, depending on the scale and intensity of the conflict. Zhu wrote in a report: “The impact would be larger if it affects business confidence and investment decisions.”15 In 2018, China’s GDP grew at its slowest rate since 1990. China’s National Bureau of Statistics also reported that the regions in Southern China suffered worst from the slowdown.16

According to other JP Morgan analysts, China was caught between tightening its monetary policy to deleverage its economy and loosening it to boost growth.17 These analysts suggested that the correct policy choice for China was to loosen its monetary policy to support domestic demand, then letting the Renminbi (RMB) depreciate to improve the competitiveness of Chinese exports and to offset the effects of the tariffs. It remained to be seen what China’s policy choice would be to remedy its debt situation in the midst of the trade war.

As for the U.S., one ironic short-term effect of raising tariffs was a sudden, sharp increase in its trade deficit with China. U.S. companies importing Chinese goods scrambled to stockpile inventory ahead of the tariffs. Some pro-Trump states—most of which were dependent on agricultural exports to China—were at greatest risk of suffering from the trade war. For example, Louisiana’s exports to China were worth about US$5.7 billion annually, and China’s retaliatory tariffs could hurt these state economies. However, some countries such as Vietnam and Taiwan have stepped in to partly fill the void left by Chinese buyers.18
The trade war could also escalate the employment rate in the U.S. The Trade Partnership, a U.S.-based economics research firm, suggested that the impact would be worse than initially expected, affecting around 400,000 jobs. Companies would have to pay more for raw materials such as metal, iron, and electrical components that they needed for their products. The price increases due to higher tariffs could even overtake the value of labour in finished products, depending on the final tariff levels as well as whether they would be expanded to cover more goods from other countries such as Canada, Mexico, and the EU.

Taiwan, South Korea, and Southeast Asian nations such as Singapore and Malaysia were the largest exporters of intermediate goods to China. Examples of these intermediate goods included semiconductor chips and display screens. These components were usually manufactured in various locations across Asia before being sent to China for final assembly into finished products such as mobile phones and computers. Taiwan supplied many components to China for final products destined for the U.S. market, and exports of intermediate goods made up almost 2 per cent of its GDP, according to Capital Economics, a British research firm. Since these countries were the most export-oriented in Asia, they were especially vulnerable to trade wars; and could suffer knock-on effects from the U.S. tariffs.

Australia, a close trading partner of China’s, was also a victim of the trade war. Falling manufacturing output in China diminished demand for raw materials that formed the bulk of Australian exports. The current import tariffs imposed by the U.S. would cost every Australian resident about US$198 per year, according to Dr. Yixiao Zhou, an economist from Curtin University in Perth. This figure would be much worse if the tariffs were broadened to cover all imports. Inflation and interest rates were expected to rise globally as a result of the trade conflict, and Australians dealing with higher costs of living and increased mortgage payments would be especially hard hit.

On the other hand, the trade war could benefit some countries more than others if China diversified its trading partners away from the U.S. For example, Australian farmers could benefit in the long term from the trade conflict if China imported agricultural products such as soybeans from Australia instead of the U.S.

**Sino-U.S. Intensions and Dynamics**

There were early indications that China was not keen on a trade conflict. On 10th April 2018, Chinese President Xi Jinping expressed his commitment to free trade by offering to reduce the 25 per cent levy on imported automobiles, as well as to relax restrictions on foreign ownership of automobile plants. There were also signs that China was committed to strengthening trade links
with the U.S. as well as internationally. After all, globalisation and free trade had underpinned China’s open-door policy in the late 1970s, which led to its successful economic transformation and lifted hundreds of millions of its citizens out of poverty. Both Xi and Li opposed Trump’s isolationism. The Chinese leaderships responded to the U.S. tariffs in a measured way, believing that a full-blown trade war would leave all sides worse off.

China had also appeared eager to further open its domestic market to the world. Li announced that the Chinese government planned to ease market access to its service industries, particularly elder care, healthcare, and education. He also said that China intended to further improve access to its financial sector and completely open up the manufacturing sector to foreign investments. This would include abolishing some of the existing restrictions on foreign ownership of businesses.

Additionally, China had begun to improve its intellectual property (IP) protections. This had long been a major concern of the U.S. and especially Trump, who said China’s IP theft was one main reason for imposing tariffs. China decided to open up its manufacturing sector completely and committed to ending its practice of forced technology transfers through compulsory joint ventures. Foreign companies had complained for decades that they were forced into such agreements in exchange for market access.

Li also promised to lower tariffs on consumer goods, which would be a boon for both U.S. and global manufacturers. According to the market intelligence firm Euromonitor, in 2016 China had the second largest domestic consumption market after the U.S. On “Singles’ day” (11th November, an annual shopping festival) in 2017, Chinese consumers spent about US$25 billion just on Alibaba’s e-commerce platforms. This was about four times the size of total U.S. online spending that year for both “Black Friday” and “Cyber Monday” combined. If China followed through with its promise to reduce tariffs on consumer goods, it would open up significant new business opportunities for foreign companies.

In a press conference on 20th March 2018, Li announced that China would reform certain government institutions. The plan was to enact laws to enable foreign firms to compete on equal footing with local enterprises. In order to facilitate the approval of overseas business project applications, the central government promised that it would cut red tape, streamline processes, merge regulatory bodies, and speed up the business compliance procedures. All these measures would further enhance free trade and create a fairer business environment.

In two recent meetings, one by the National People’s Congress (NPC), China’s national legislature, and the other by the Chinese People’s Political Consultative Conference (CPPCC), a top political
advisory body, China reiterated its desire to keep its economy open. However, despite China’s aversion to a trade war with the U.S., an acceptable compromise could not be reached to avert it.

At the 10th BRICS summit in Johannesburg on 25th July 2018, Xi expressed his opposition to the trade war, saying that it would no produce any winners in the long term. He told the countries in attendance—Brazil, Russia, India, China, and South Africa—that escalating unilateralism and protectionism would deal a severe blow to multilateralism. He said that the trade war should be stopped to stave off significant damage to the economies of the countries involved and to the global economy, saying that the world faced “a choice between cooperation and confrontation”. Despite these statements, China’s subsequent retaliatory tariffs to protect its own economic interests further exacerbated the trade conflict.

**Discussion question**

- What would have been a better way for China to safeguard its economic interests without escalating trade tensions with the U.S.?

There were also calls for China to invite U.S. participation or leadership in negotiations for the Free Trade Area of the Asia-Pacific (FTAAP). This would have demonstrated China’s sincerity in wanting to stop the trade war and to embrace fair international trade. Moreover, China still seemed to be unwilling to fully supplant U.S. leadership in the Asia-Pacific region; and there were criticisms of China for failing to initiate concrete steps to stop the trade conflict beyond mere rhetoric. Others speculated that Chinese compromise with the U.S. was not feasible, since acceding to U.S. demands would be unacceptable to the Chinese public. It could also have been that China feared any concession would be taken as a sign of weakness, inviting further demands from the U.S. This was a likely scenario given Trump’s strong anti-China stance that stemmed from his view of China as a threat to the U.S. economy. Besides, Trump’s strong revisionist and nationalist beliefs had resonated with his political base in spite of its contradictions with the long-established global order created by the U.S. itself.

As for the U.S., the trade war could be seen as a strategic move to protect its global status. The patterns of global geopolitical leadership had already started to shift. The rise of China as an economic power was viewed as a threat, and China already had a significant trade surplus with the U.S. at a time when it planned to further advance its economy and strengthen its global and regional leadership. For example, the Asian Infrastructure Investment Bank and the New Development Bank were set up by China as alternatives to traditionally U.S.-dominated institutions like the World Bank and the International Monetary Fund (IMF). Also, China promoted a large-scale pan-Asian infrastructure plan under the Belt and Road Initiative. All these initiatives posed a grave
threat to American hegemony. According to Trump, the U.S. needed to push back against these efforts by China to surpass it. 38

Despite knowing that a prolonged trade conflict with China would hurt the U.S. as well, Trump continued to increase the tariffs on Chinese goods. He referred to China’s retaliatory tariffs on a number of U.S. agricultural products as a brutal attack on U.S. farmers. 39 At the same time, Trump also rejected criticisms of tariffs on U.S. allies. The U.S. was not going to back away from trade wars. Trump wrote on Twitter:

_The end result will be worth it...Every time I see a weak politician asking to stop trade talks or the use of tariffs to counter unfair tariffs, I wonder, what can they be thinking? Are we just going to continue and let our farmers and country get ripped off?_

Not all the Americans were supportive. According to the Washington Post-Schar School poll, a majority of Americans disapproved of Trump’s handling of the trade conflict. They saw escalating tariffs against Chinese goods as disastrous for some U.S. industries. Higher prices for imported goods was also a big worry. 40

The looming mid-term elections in November 2018 was a worry for Trump, especially for races in pro-Trump states most affected by China’s tariffs on agricultural goods and Boeing passenger jets. The manufacturing sector that Trump had vowed to protect faced higher production costs due to tariffs on raw materials. The agricultural sector, which included growers of soybeans in the U.S. Midwest and nuts in the state of California, lost significant export volumes. 41 Trump’s policies also severely affected the flow of Chinese investments. Chinese acquisitions and investments in the U.S. dropped by 90 per cent to just US$1.8 billion in the first two quarters of 2018. 42 California was hit especially hard, since it had been the final destination for a quarter of all Chinese direct investment in the U.S., amounting to more than US$16 billion in 2016. 43

Surprisingly, Trump’s approval rating in the 15 states that were most affected by the tariffs remained high at an average of 57 per cent. The majority of survey respondents approved of Trump’s presidency despite disagreeing with his policies on international trade. 44

When voters were asked about their top priorities in the midterm elections, trade ranked below other issues such as the economy, jobs, health care, immigration, guns rights, and taxes. Economist Mark Zandi of Moody’s Analytics commented that this phenomenon could be in part because higher tariffs had yet to impact most Americans. Many large American firms had not even passed on the costs of the new tariffs to consumers yet due to the stockpiling of supplies before they came
into effect. “The impact was fairly negligible for most Americans right now,” Zandi remarked. He added that when the American people started to feel the impact of the tariffs, Trump’s approval rating could fall and he could be forced to call off the trade war to win back support.

WTO’s Director General Roberto Azevedo suggested that countries should opt for engagement and dialogue instead of escalating rounds of retaliation. Speaking at a press conference in Geneva that discussed the China-U.S. trade conflict, he warned that in a worst-case scenario, investors would lose confidence and that “millions of jobs” would be lost. Despite his plea, WTO did not have any significant formal leverage over the U.S. and any movement to end trade conflicts would ultimately be the latter’s sole prerogative.

After initial trade tensions, the U.S. and the EU did eventually agree to work towards eliminating tariffs on non-automobile goods. European Commission President Jean-Claude Juncker said the EU would import U.S. soybeans to make up for the reduction of exports to China.

The IMF also urged the U.S. and China to take urgent actions to rebalance their economies and to stop the trade war and reduce the risks to the global economy. The IMF explained that China’s surplus, comprised of its income from overseas investments and trade surplus, caused imbalances in global financial and trade flows. On the other hand, the U.S. deficit was due to overspending on imports. The IMF encouraged the U.S. to rein in its trade deficit and China to preserve its healthy financial flows, saying that:

Trade and investment disagreements should be resolved without resorting to the imposition of tariff and non-tariff barriers. Protectionist measures should be avoided as they are harmful for growth and do little to correct imbalances.

Discussion question

- How will China and the U.S. respond to the exhortations of the WTO and IMF? Will negotiation and compromise be possible for the sake of global economic prosperity and stability? Or will the superpowers continue to jostle for the position through trade conflict?

When Will the China-U.S. Trade War End?

Some feared that the U.S.-China conflict would continue to escalate, with rounds of retaliatory tariffs. An extended trade war could even ensnare the trading partners of both countries, damaging global trade and the global economy, with long-term negative effects on standards of living. In the
context of China’s current challenges in deleveraging its economy in order to tackle issues such a sharp deceleration in capital investment growth and asset bubbles, the U.S. tariffs would be viewed as economic warfare. China’s nationalistic leadership was likely to choose economic hardship over any perceived political weakness if they were to acquiesce to U.S. demands. Some hoped that both countries could settle their disputes at the WTO to avert a global crisis. Unfortunately, it remained unclear if either country would take the first steps towards de-escalation.

**Summary and Updates**

The world’s two largest economies have issued at least four rounds of tariffs on billions of dollars’ worth of goods in a tit-for-tat manner. To date, the total value of goods affected by these tariffs was US$550 billion for Chinese goods, and US$185 billion for U.S. goods. Even before the current trade conflict, the U.S. had long accused China of unfair trading practices and intellectual property theft. At the same time, it was widely perceived in China that the U.S. was trying to curtail the country’s ascent as an economic power.

The following is a timeline of the major milestones in the ongoing China-U.S. trade war:

- **Day 1:** July 6, 2018 – The U.S. implemented first China-specific tariffs (List 1 – Chinese products valued at US$34 billion; List 2 – US$16 billion); China’s retaliatory tariffs (US$34 billion)
- **Day 5-29:** July 10-August 3, 2018 – The U.S. released second tariff list and revisions (List 3 – US$200 billion); China announced second round of tariffs on U.S. Products (US$60 billion)
- **Day 48-49:** August 22 – 23, 2018 – U.S.-China dialogue; the U.S. and China implemented second round of tariffs
- **Day 69:** September 12, 2018 – The U.S. invited China to re-open negotiations
- **Day 74-79:** September 17-22, 2018 – The U.S. finalised tariffs on US$200 billion worth of Chinese goods; China announced retaliations for U.S. tariffs; China cancelled trade talks with U.S.
- **Day 81:** September 24, 2018 – The U.S. and China implemented third round of tariffs
- **Day 117:** October 30, 2018 – The U.S. reportedly prepared to announce tariffs on remaining Chinese products
- **Day 137:** November 19, 2018 – The U.S. released list of proposed export controls on emerging technologies
- **Day 149:** December 1, 2018 – Meng Wanzhou, Huawei’s Chief financial officer and deputy chair, was arrested in Vancouver per a request by the U.S.
- Day 186-188: January 7-9, 2019 – The U.S. and China engaged in a 3-day trade talk
- Day 270: April 1, 2019 – China banned all types of fentanyl
- Day 279: April 10, 2019 – The U.S. and China agreed to establish trade deal enforcement offices
- Day 310-313: May 10-13, 2019 – The U.S. increased tariffs from 10 percent to 25 percent; China announced tariff hikes on U.S. goods and launched a tariff exemption system
- Day 316-330: May 16-31, 2019 – The U.S. placed Huawei on its ‘entity list’, banning it from purchasing from all U.S. companies; China retaliated by establishing its own ‘unreliable entities’ list
- Day 331: June 1, 2019 – China increased tariffs on US$60 billion worth of goods
- Day 332: June 2, 2019 – China issued a white paper on China-U.S. economic relations
- Day 348: June 18, 2019 – Xi and Trump restarted trade talks ahead of a G20 meeting
- Day 351: June 21, 2019 – The U.S. added another five Chinese entities to its ‘entity list’
- Day 369: July 9, 2019 – The U.S. exempted 110 Chinese products from 25 per cent tariffs, and issued licenses to some of Huawei’s US suppliers
- Day 390-391: July 30-31, 2019 – Shanghai trade talks ended with little progress being made
- Day 397: August 6, 2019 – The U.S. declared China a currency manipulator
- Day 423: September 1, 2019 – The fourth round of tariffs and retaliatory tariffs as per announcements by both countries in August came in force as scheduled
- Day 427: September 5, 2019 – China and the U.S. agreed to the 13th round of trade talks

The ongoing negotiations between both parties and attempts by international actors to mediate have proven ineffective and difficult. The two sides remained far apart on issues such as tariffs rollback and enforcement mechanisms for trade agreements. The uncertainty was hurting businesses and weighing on the global economy. Already, countries have endured much economic pain as a result of the realignment of global supply chains. More loss of confidence and economic slowdown would follow if the trade war persisted.
Exhibit 1

**US trade in goods with China**

- **Imports**
- **Exports**
- **Trade deficit**

US dollars:
- $600bn
- $500bn
- $400bn
- $300bn
- $200bn
- $100bn

2001: China joins WTO
2007-08: Asian economic crisis

- All figures are in billions of US dollars on a nominal basis, not seasonally adjusted unless otherwise specified.

Source: US Census Bureau

Exhibit 2

**The return of protectionism**

Tariffs as percentage of total American imports

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General Agreement on Tariffs and Trade (GATT)

- World Trade Organization founded
- 2018 forecast: First increase since 1970s

Source: US International Trade Commission, US Census Bureau, BBC research
**Exhibit 3**

*Where the US imports its steel from*

Top countries/areas Jan 2018, value in $ millions

- Canada
- EU
- South Korea
- Mexico
- Brazil
- Japan
- Taiwan
- China
- Russia
- Turkey

Source: US Department of Commerce

**Exhibit 4**

*What the tariffs will affect*

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<th>US</th>
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Note: Data as of 15 June 2018

Source: Peterson Institute for International Economics, BBC research
Exhibit 5

How a trade war may hit American states
Annual exports to China compared to 2016 election results

Source: US Chamber of Commerce, USA Trade, US Census Bureau, BBC research

Exhibit 6

How the tariffs battle has escalated this year

Note: Data as of 6 July 2018
Source: Peterson Institute for International Economics, BBC research
Endnotes

1 Section 301 of the Trade Act of 1974 is a tool developed by the United States before the establishment of the World Trade Organization (WTO) to take matters into its own hands, particularly, when it encounters any conflicts or disagreement with a trading partner.


8 2018 State of the Union Address was given by Donald Trump on 30th January 2018 in the chamber of the United States House of Representatives.


23 Cavallo et al. (2019, May 24). The U.S-China Trade War, p. 11.


52 A state document provided a comprehensive picture of China-U.S. economic and trade consultations, and presented China’s policy position on these consultations.
