The Future of U.S.- China Trade: Partners or Opponents

China's rise as a global economic power exceeds predicted expectations. It defies widely accepted ideas that capitalism thrives only through democracy. Following a historic visit to China by former United States' President Richard Nixon in 1972, and the subsequent visit to the U.S. in 1979 by former Chinese leader, Deng Xiaoping, China "stepped ever more firmly into the international arena". (Schoppa, 370) Today, under authoritarian ruler Xi Jinping, China is a global force to be reckoned with. As Xi strives to flaunt China's strength among peer nations, the United States included, trade is an arena in which it increasingly flexes its muscle. As power struggles ensue between China and the United States, imposition of tariffs, quotas, and import restrictions attempt to limit competition, often at the expense of one or both nation's economies. To limit the effects of a prolonged trade war with China, the United States should adopt the approach coined by Elizabeth Economy as the "four Cs: coordinate, cooperate, compete, and [when necessary] counter" (Economy, "The Xi Vision").

To understand the purchasing power of China's consumers, it is important to recognize its size. China is home to 20% of the world's population; its middle class is the largest in the world, larger than the entire population of the United States. China is a relatively resource-poor nation, relying heavily upon imported goods to provide its citizens with products for necessity, convenience, and luxury. It must look outside its borders to meet the needs of its vast middle class, as its consumers drive the supply and demand of the world's markets.

Due to its massive work-force, China can manufacture huge quantities of products to sell abroad. It is the largest exporter of goods in the world. The success of its economy depends heavily upon exports. Xi Jinping's ambitious "Made in China 2025" focuses on the market of ten industries, "including aerospace and aviation, high-end machinery and robotics, new energy vehicles, advanced information technology, and high-performance medical devices." This ten-year "strategy includes localizing and indigenizing technologies…[and] substituting foreign technologies" (Economy, Third Revolution, 119). If successful, China will drive out competition and potentially corner the global market.

China expert Robert Daly says that, despite many domestic issues, China has a "sense of national project, [and is] more sure of its direction than the U.S." (Daly, "U.S.- China Relations"). The industrious nature of its citizens moves China's economy steadily along. George S. Yip, Professor of Marketing and Strategy at Imperial College Business School in London, believes China has a competitive edge over the United States, citing its "triple threat: world class manufacturing, world class scientists, and enormous home market" (Yip, "China's Rise From Imitation to Innovation"). Because of these factors, China will flood the market with products that set, or are on par with, the world standard, offering them at a cost below competing brands.

In contrast, as the Chinese economy appears to thrive, the United States' economy continues to struggle following the 2008 financial crisis. Some experts fear recession by 2020. Compounding this problem is an abundance of domestic issues that fracture the people of the United States along party lines. A Democratic House and Republican Senate seldom agree over key issues, achieving little and weakening the nation's confidence in its elected officials, and ultimately, the direction of the United States. This detail is not wasted on China. Regarding trade with China, Robert Daly, states that it is "…in the United States interest to make a deal as early as possible while [it has] maximum pressure. It's in China's interest to prolong [trade negotiations] as long as they can...." (Daly, *Your Money*)

A prolonged China-U.S. trade war will have negative effects for both countries. United States President Donald J. Trump leans toward protectionism. He threatens U.S. withdrawal from the World Trade Organization, a threat legitimized by the actual withdrawal of the U.S. from the Paris Climate Accord, the United Nations Human Rights Council, and the Trans Pacific Partnership. To other nations, this represents an abdication of the U.S. position of global leader. To China, it equates to opportunity. “Washington now faces its most dynamic and formidable competitor in modern history” (Campbell & Ratner, 66).

Information provided online by the Office of the United States Trade Representative presents a relatively current snapshot of Chinese/U.S. trade. It is evident that the trade relationship between China and the United States is one of importance, having significant impact on both nations’ economies. U.S. foreign direct investment in China is substantial, representing $107.6 billion in 2017. It is fair to describe the complex Chinese/American economic relationship as symbiotic, as well as competitive. However, it is in no way equal, the United States trade deficit with China representing $375.6 billion in 2017 (www.ustr.gov). In all categories, except agricultural products and services such as travel and computer software, the United States imports far more from China than it exports.

U.S. companies such as Nike, Walmart, and Old Navy find China an affordable place to manufacture products. Of legitimate concern for new United States companies desiring to tap into China’s cheap labor force and vast consumer market is intellectual property theft and forced technology transfer. China denies theft occurs and insists that technology transfer is simply a part of doing business in China, arguing that American companies agree to share technology in exchange for access to Chinese markets. Often, this *shared* technology is utilized by Chinese companies to improve upon an existing idea or product through new innovations. Eventually, a competing Chinese company evolves, often at least partially funded through a monopolizing State-Owned Enterprise. The originating U.S. company is then forced out of the market. Because of China's denial of this practice, the U.S. is unable to bring this issue to the table during trade negotiations, calling into question China's willingness to play by the rules.

It is evident, in order to continue trade with China, the U.S. needs to decide if it is willing to pray the price to do so. An embargo would have significant impact on American consumers and the economy. It would also negatively impact China's economy. In an interview on C-Span on February 25, 2019, Robert Daly reiterates, that "To change Chinese trade practices, somebody is going to have to pay a cost."

For Americans, this cost is felt greatest at the local industry levels. For example, in the Northwest the salmon industry and in the Midwest the soybean market feel the pinch. The Midwest region is home to many who strongly support President Trump. To many, questionable trade practices in this region's agricultural industry by China seem like a targeted attack aimed at President Trump and his supporters.

In the Northeast, the Maine lobster industry is suffering. Because of China's growing middle class, more families can afford luxury items such as Maine lobster, a staple item on many tables during the Chinese New Year celebration in February. However, due to a 25% tariff levied by China in response the U.S.' own 25% import tariff, lobster sales to China declined during this period in 2019. Some suppliers were unable to export a single lobster to China. To meet the demand, China turned to Canadian suppliers. Ultimately, the Chinese people got their lobster, but the New England lobster industry paid a steep price in lost sales.

This example paints a picture of what trade wars look like at the local level. It is obvious who the casualties are. In an interview aired on Money Talks, South Dakota Republican governor Kristi Noem sums it up nicely: China's questionable "fair trade practices" in combination with "sustained low commodity prices, frankly, is driving a lot of family business out of business."

On February 24, 2019, President Trump tweeted, "I am pleased to report that the U.S. has made substantial progress in our trade talks with China on important structural issues including intellectual property protection, technology transfer, agricultural services, currency and many other issues. As a result of these productive talks, I will be delaying the U.S. increase in tariffs now scheduled for March 1…. A very good weekend for U.S. & China!"

President Trump's tweet sparked concern because of his failure to set a new deadline to come to a resolution with China over trade relations. This truce period has many U.S. industries concerned, expecting tensions to rise again and tariffs and negotiations to be ongoing. China's strategy is to play for time, a "repetition of a deal we've seen for several decades" (Daly, *Your Money*). The reality is that the Chinese are in a better position to wait out an on-going trade war with the U.S. by accessing other nations' markets.

As China continues to seek power and position under Xi, the U.S. must learn to deal with China as a peer. Trade wars have no winners, and both China and the U.S. stand to lose significantly if they continue with the same strategies. "…U.S. tariffs may sting, but they will neither change Beijing's fundamental incentives nor portend a general turn away from global free trade…." (Xuetong)

Perhaps it is time for the United States to deviate from its current protectionist stance and coordinate stronger ties within international organizations in the Asia-Pacific region, such as the Asia Pacific Economic Cooperation. China is proactive in this area, establishing "free trade agreements with Australia, Singapore, South Korea, the Association of Southeast Nations"

(Lind, 72), and establishing the Asian Infrastructure Investment Bank (AIIB). Despite the U.S.' adamant opposition to participation in the AIIB, China successfully recruited over 80 nations to join. It remains to be seen what United States withdrawal from the World Trade Organization (WTO) would look like, but there is little doubt China will continue to push for reforms within the WTO.

China's Belt and Road Initiative (BRI) provides an avenue for the United States to cooperate with China by investing in the AIIB. The BRI is a massive undertaking to physically and virtually recreate the Silk Road and Spice Routes. This project will establish trade routes between approximately 70 countries, which contain 65% of the world's population. Unfortunately, China is "using economic coercion to bend other [weaker] countries to its will" (Lind, 72). China says it has little interest in establishing military bases in other countries. However, China's navy frequents dozens of ports along the intended BRI route. There is no reason to assume that China will not protect its economic interests in these ports, militaristically if necessary. The United States can provide some stability to the region by reconsidering the possibility of joining the AIIB. This will allow the U.S. negotiating power if international rules of trade are ignored or broken by China.

Joint ventures between Chinese and American companies should continue. However, China must address its technology transfer and intellectual property theft issues. A possible approach to encourage Chinese fair-trade practices are U.S. incentives, such as tariff reductions on products China relies heavily upon the U.S. to provide, such as soybeans or cotton. Another possible incentive is issuance of more Chinese student visas. In this "high stakes contest between two high-regarding, distrustful countries" (Daly, "U.S.- China Relations"), someone must take the first step toward easing tensions and building a mutually beneficial relationship.

Cooperation between nations is paramount, but competition has its benefits as well. Competition creates an environment that encourages growth and creativity. In many ways, China and the United States are better because of competition with each other. The search for innovative technologies and invention of new products spurs both nations on in a quest to release a profitable item or idea to the global market. These products can improve the quality of life by meeting a need, providing convenience, or offering a luxury.

To remain competitive, the United States needs to increase funding for research and development. What China provides in quantity, the U.S. provides in quality. However, it is imperative that money flows to this sector, both federally and through private organizations. U.S. colleges and universities turn out some of the best and the brightest; but without adequate funding, proper research cannot occur. Compounding this issue are the heavy restrictions on research at the college/university level. Easing these restrictions will allow the flow of information and implementation of ideas to occur at a faster competitive pace. U.S. investment in research and development is investment in the future of the economy, one that will foster continued healthy competition between the U.S. and China.

Finally, to counter China in areas where it crosses ethical lines in trade, the U.S. may have more success with an indirect approach. If intellectual property theft continues to be an issue in China, the U.S. could work with other nations, such as Germany and the U.K., that have strong technology sectors to develop common laws for protection of intellectual property. By strengthening relationships with allies (including Japan, Philippines, South Korea, and Australia) in the Asia-Pacific region, the U.S. would avoid direct confrontation with China. It could diffuse tensions and hold China accountable to many nations, not just the United States. The goal: "to prevent Chinese domination of East Asia and the global spread of illiberal Chinese practices."

(Daly, “U.S.-China Relations”) By increased involvement in trade governance entities, the U.S. demonstrates a desire to remain involved, to aid in protecting developing nations’ economic and political interests, and to act as a balance to China’s reach for greater regional power.

In conclusion, China already is a global economic and political power, regardless of its trajectory. It is a priority of the United States to ensure it is not supplanted by China in the Asia-Pacific region. As China continues to push forward with its Belt and Road Initiative, it will create one of the most expansive trade routes the world has ever seen. The sheer volume and value of products and ideas moved along this path will be astounding. The United States can ensure prolonged trade wars do not become the normal relationship with China by staying involved and becoming part of the international trade legislation. Now is not the time for the United States to retreat and withdraw. Instead, it must be proactive. Through coordination, cooperation, competition, and, when necessary, countering, the United States can remain a powerful global trading partner.

## Bibliography

Campbell, Kurt M. and Ely Ratner, “The China Reckoning: How Beijing Defied American Expectations,” *Foreign Affairs* 97:2 (March/April 2018), 60-70.

Daly, Robert. Interviewed by Bill Scanlon. *Your Money: U.S.- China Trade Talks*. C-Span. 25 Feb. 2019. Television.

----- "U.S.-China Relations: A New Era in Need of New Ideas" (lecture, Camden Conference, Camden Opera House, Camden, ME, February 24, 2019).

Economy, Elizabeth C. "The Xi Vision" (lecture, Camden Conference, Camden Opera House, Camden, ME, February 24, 2019).

----- *The Third Revolution: Xi Jinping and the New Chinese State.* (New York,NY: Oxford University Press, 2018).

Lind, Jennifer, "Life in China's Asia:  What Regional Hegemony Would Look Like," *Foreign Affairs* 97:2 (March/April 2018), 71-82.

Noem, Kristi. Money Talks C-Span. 22 Feb. 2019. Television.

Overton, Penelope. "Maine Lobster Orders Tank as Chinese Turn to Tariff-free Canada." *Portland Press Herald.* (February 4, 2019). Web 8. Feb. 2019.

Schoppa, Keith R. *Revolution and Its Past: Identities and Change in Modern Chinese History*, Third Edition (New York, NY: Routledge, 2016).

Trump, Donald J. (@realDonaldTrump). 24 Feb. 2019, 5:50 P.M. Tweet.

United States, Office of the United States Trade Representative, Executive Office of the President. "The People's Republic of China." *U.S.- China Trade Facts*, www.ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china

Xuetong, Yan. "The Age of Uneasy Peace: Chinese Power in a Divided World*" Foreign Affairs* (January/February 2019) https://www.foreignaffairs.com/print/1123558

Yip, George S. "China's Rise from Imitation to Innovation" (lecture, Camden Conference, Camden Opera House, Camden, ME, February 23, 2019).