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# Review

## Sino–US Trade War: Conservative Trade Policy in the Grand Economic Strategy of the United States

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# Sino-US Trade War: Conservative Trade Policy in the Grand Economic Strategy of the United States

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## Abstract

The Sino–United States (US) trade war since 2017 has triggered Sino–US confrontations in the economic field and also intensified geopolitical competition. From a historical perspective, the current Sino–US trade war is a continuation of the conservative US trade policy, rather than a dramatic development. From a global perspective, the trade dispute between China and the United States is only part of President Donald Trump’s grand global economic strategy that aims to stabilize the economic hegemony of the United States. Trump’s economic diplomacy targets both China and its Western allies, with the goal of achieving a comprehensive and complete solution. The developmental status of the United States shows that its economic strength is increasingly insufficient to support the status of global hegemony, as well as being increasingly incapable of meeting the global requirements for providing public goods. Therefore, trade wars are essentially trade policy adjustments made by the United States to consolidate its hegemonic foundations and fight against potential opponents, e.g., the trade wars against Germany in the 1960s and Japan in the 1980s. Based on the timeline of the current trade war, Trump was obviously well prepared. Trump’s behavior now clearly violates the basic rules of WTO and his policy does not focus on technology and innovation, which is key to future economic growth. Whether Trump’s well-planned and aggressive economic strategy will work, it will fundamentally change China’s US policy from cooperative to more independent.

**Keywords:** Economic diplomacy; Economic hegemony; Sino–US relationship; Strategic rival; Trade policy; Trade war.

## 1. INTRODUCTION

Trade disputes have characterized the interactions between China and the US in their economic and trade relationships over 30 years. Trade disputes have many different causes, and their frequency and intensity also differ over time. In the 1990s, the US launched 301 investigations against China three times in 1991 and 1994,<sup>1</sup> and trade sanctions and trade revenge occurred subsequently. In the early 21st century, after China’s accession to the World Trade Organization (WTO), the US imposed anti-dumping trade retaliatory measures against China and repeatedly threatened to list China as a currency manipulator. The Sino–US trade dispute that occurred after 2017 as a consequence of the 301 investigations has surpassed any earlier disputes in terms of its scale.

Increased tariffs did not the start the Sino–US trade war. Shortly after the launch of the 301 investigations against China in August 2017, the Chinese Ministry of Commerce began an anti-dumping

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<sup>1</sup> In June 1994, Because of China’s failure to enforce its intellectual property rights (IPR) laws and regulations, USTR designated China a “priority foreign country” under US trade law, and immediately initiated a Special 301 investigation. In April 1991, USTR initiated a Special 301 investigation into China’s intellectual property rights practices after it determined that China did not provide adequate or effective protection of US intellectual property in China; In October 1991, USTR Initiated a Special 301 investigation into Chinese market barriers.

investigation of rubber imported from the US. In January 2018, Trump approved a protective tariff on imported solar panels and washing machines from February 7 (201 investigation). On February 4, the Chinese Ministry of Commerce successively issued the No. 12 and No. 13 announcements in 2018 to initiate anti-dumping and countervailing investigations against US monks. Thus, before the media and the public began to pay great attention to the Sino-US trade dispute, the two sides had already been involved in multiple exchanges.

On March 8, Trump approved 25% and 10% tariffs from March 23 (232 investigation) on imported steel and aluminum products, respectively, where most trading partners were exempted, except for China. In the early morning on March 23, after eight months of 301 investigations against China, Trump signed a memorandum based on the report of the US Trade Office regarding \$60 billion of high-tech and high-end manufacturing goods imported from China, which were subjected to a 25% tariff increase. Within one day, the Chinese Ministry of Commerce launched a counterattack and issued a list of proposed tax breaks containing seven categories and 128 tax products to the value of \$3 billion. In the following two years, China and the US conducted several rounds of contests. In the most recent round, after a sudden reversal during negotiations, the US increased the 10% tariff on \$200 billion of imports from China to 25% on May 10, 2019. In retaliation to President Trump's tariff rate increase on May 10, China announced on June 1 that it intends to increase the tariff rate covering some of the \$60 billion of US exports.

Before the US provoked the trade war with China in 2017, the number and frequency of US 301 investigations against China had been decreasing in the 21st century. The most recent Sino-US trade dispute was in 2010 when the US launched a 301 investigation of China's clean energy policy. The following are three reasons for the easing of the Sino-US economic relationship compared with that in the 1990s.

- a) After China joined the WTO, most of the trade disputes between China and the US moved into the WTO framework and the US did not need to initiate 301 investigations.
- b) The 301 investigations in the 1990s focused on intellectual property theft in China. In particular, the issue of software piracy affected the profits of US Information Communication Technology (ICT) companies. Due to China's strict protection of intellectual property rights and the fight against piracy, the intellectual property rights problem no longer caused harm to US companies.
- c) China and the US have engaged in more than 90 bilateral dialogues and communication mechanisms, including the Sino-US Strategic and Economic Dialogue Mechanism, the Sino-US Joint Economic Committee, and the Sino-US Joint Commission on Commerce and Trade. These mechanisms aim to resolve the economic concerns of both sides. Thus, issues and potential contradictions related to economics and trade can be discussed before serious problems emerge, and these mechanisms have played important roles in preventing trade wars.

However, China and the US could not reach a consensus after multiple rounds of negotiations based on various mechanisms since 2017, and the dispute has worsened. The situation demonstrates that China and the US differ considerably in terms of their understanding of bilateral economic and trade relations. In contrast to earlier trade disputes, the current dispute extends far beyond the scope of state-owned enterprises and the level of openness. For the US, the trade war has become a key component of its new comprehensive global strategy.

## 2. SHORT- AND LONG-TERM GOALS OF TRUMP'S TRADE WAR

### 2.1. Short-term Goals

The first goal is solving the old issue of the trade imbalance between China and the US. China often regards standard disunity as an explanation for the excessive trade deficit between China and the US, and Trump clearly highlighted this when signing the memorandum after the 301 investigations: "No matter which kind of statistical method, the trade deficit is unacceptable." The trade imbalance between China and the US has many causes, but the most important is related to the different roles the two countries play in the international division of labor. The rapid growth of exports from China in the last 20 years is mainly due to labor-intensive production, which focuses on processing and assembling imported intermediate products and

then exporting the final goods, where most of the industries are run by multinational enterprises funded via foreign direct investment (FDI) and outsourcing.

According to the Research Report on Sino-US Economic and Trade Relations<sup>2</sup> issued by the ministry of commerce of China in May 2017, 59% of China's trade surplus comes from foreign-funded enterprises and 61% from processing trade. Thus, the large trade surplus between China and the US is a result of the global resource reallocation by US multinational enterprises. These companies from developed countries move labor-intensive industries out of the US, but Trump believes that China has taken away employment opportunities in the US. From 1999 to 2009, the US manufacturing multinationals cut 2.1 million US employees in the country and US manufacturing companies (non-multinational companies) cut 3.3 million employees, where technological change and outsourcing comprise important factors that caused the significant cyclical decline in US multinationals and other manufacturing jobs (Laura, 2012). The inter-industry trade shows that Sino-US trade is complementary and it would be difficult to correct the deficit of US trade with China in the following couple of years (Guobing and Anthony, 2007). In addition, the US applied a high-tech embargo policy against China for many years and this policy severely blocked the channel for increasing imports through trade in technology. Therefore, the trade surplus can be explained by the different industrial structures in China and the US, as well as the different roles played by the two countries in the international division of labor and strict US import rules. This problem cannot be treated as a short-term trade issue.

The second goal is to apply pressure on the innovation policies of the Chinese government. The Trump administration has identified Chinese policy as state-led and market-distorting to force technology transfers. A critical part of the 301 investigations of China before the trade war focused on whether the Chinese government forced US companies to transfer intellectual property rights, as well as whether the policy weakened the ability of US companies to negotiate in the Chinese market, and whether it directly or unfairly helped Chinese companies to acquire advanced US technology. The most impressive result provided in the report on the 301 investigations is the description and judgment of the Chinese industrial development plan entitled "Made in China 2025."<sup>3</sup> As the US trade representative, Robert Lighthizer believes that forced technology transfer will be used by China to achieve the national strategic goal described in "Made in China 2025." In addition, many other reports from the US government clearly state that this strategy is a major challenge to technology leadership by the US.

"Made in China 2025" is the first of three steps that aim to fulfill the strategic goal of building a strong manufacturing country, which was proposed by the Chinese government in 2015. The great plan focuses on 10 key areas that will shift the future competitive advantage, including the new information technology industry, high-end Computerized Numerical Control (CNC) machine tools and robots, and aerospace equipment. The US has been worried about the Chinese high-tech industry for a long time. The Committee on Foreign Investment in the US repeatedly rejected the acquisition of Chinese companies by US high-tech companies on the grounds of the national security. The trade war started at the same time and concerns regarding the Chinese high-tech industry changed into severe anxiety and insecurity. In January 2017, the US President's Council of Advisors on Science and Technology issued a report entitled "Ensuring Long-Term US Leadership in Semiconductors."<sup>4</sup> In this report, after affirming the leading role of the US semiconductor industry, the council expressed concern about the Chinese government's establishment of a national fund to support overseas mergers and acquisitions of state-owned enterprises. In March 2017, the US Chamber of Commerce released "Made in China 2025: Global Ambitions Built on Local Protections,"<sup>5</sup> which questions China's anti-market practices such as policy preferences and government subsidies for China's high technology, and it suggests that these policies could create a market environment with unfair competition for US companies. The 301 investigation launched in August 2017 also focused on the issues mentioned above. However, are the claims in these reports regarding China consistent with the facts?

<sup>2</sup>The report is available at: <http://images.mofcom.gov.cn/www/201708/20170822160324457.pdf>.

<sup>3</sup>The report is available at: <https://ustr.gov/sites/default/files/enforcement/301Investigations/301%20Report%20Update.pdf>.

<sup>4</sup>The report is available at: [https://obamawhitehouse.archives.gov/sites/default/files/microsites/ostp/PCAST/pcast\\_ensuring\\_long-term\\_us\\_leadership\\_in\\_semiconductors.pdf](https://obamawhitehouse.archives.gov/sites/default/files/microsites/ostp/PCAST/pcast_ensuring_long-term_us_leadership_in_semiconductors.pdf).

<sup>5</sup>The report is available at: <https://www.uschamber.com/report/made-china-2025-global-ambitions-built-local-protections-0>.

At present, technological innovation and scientific progress are recognized as the most important means for developing the economy, promoting social progress, and benefiting mankind. Most countries and regions throughout the world, including developed countries and developing countries, have made great efforts to promote innovation and industrial development (Edquist, 1997). Governments play essential roles in these processes by formulating development strategies and guiding scientific and technological progress. The Clinton administration is a good example of how the US implemented its technological development strategy. Clinton's Information Highway National Information Infrastructure created an opportunity that allowed the US to lead the world in the information era. This strategy cultivated a number of high-tech multinationals and stimulated the vitality of the market, but it also restored the US' long-lost fiscal surplus. Under the support of the government, the US laid solid foundations for maintaining its global technology hegemony for more than 20 years. In recent years, the European Union (EU's) Industrial Revitalization Strategy, US' Advanced Manufacturing National Strategic Plan, and Germany's Industry 4.0 and National Industrial Strategy are all good examples of government involvement in technological innovation and high-tech development. These are normal methods that allow a country to achieve self-reliance and competitive advantage. In recent years, China has employed national strategies to achieve rapid progress in technology and economic growth. The American political elite and entrepreneurs are clearly fearful of this trend. Trump transformed this fear into unreasonable accusations and trade sanctions against China, thereby interfering with China's independent development strategy via US laws.

The third goal of Trump's trade war was winning the mid-term elections. The mid-term elections on November 6, 2018 were the most important political event for Trump during the first two years of this administration, where one-third (33 seats) of the Senate and all members of the House of Representatives (435 seats) were reelected. The results of the elections provided an assessment of the first two years of Trump's administration and they also affected the next two years, especially whether his ideas could be implemented in a smooth manner. The trade disputes that led to the imposition of tariff increases on steel and aluminum were undoubtedly aimed at winning voters who represented manufacturing, steel, and transportation in the so-called Rust Belt. Unfortunately, these tariffs will not bring US manufacturing back to its peak times in the 1950s.

The US has focused on high-end production in global value chains for several decades. During this period, the non-core production modules were continuously outsourced, which led to a certain degree of hollowing out for the US manufacturing industry. Immediately after Trump announced the issuance of steel-aluminum tariffs for all countries, the Japanese Finance Minister Taro Aso clearly stated that he would resolutely avoid bilateral trade negotiations with the US because some of Japan's steel products cannot be produced by the US and can only be imported from Japan. The steel industry is only a small part of the US sunset industry. Furthermore, investing large amounts of political resources in the sunset industries and backward industries to support the return of manufacturing is undoubtedly a movement against the current trends. The Chinese government proposed the slogan of Widespread Entrepreneurship and Innovation and formulated the Made in China 2025 strategy to encourage more talent to engage in the high-tech industries and prospective technologies, whereas Trump launched trade disputes in order to protect the sunset industries and win industrial workers who have been abandoned over time. The results showed that Trump's trade war had not brought him the expected mid-term election victory.

## 2.2. Long-term Goals

The slogan "Make America Great Again" has different meanings at home and abroad. Domestically, it suggests enhancing the advantages of US technology, economy, and military strength, as well as enhancing the attractiveness of the American dream. Internationally, it indicates expanding the economic benefits of the US, reducing institutional costs, and consolidating the economy as the basis of the US hegemony. In the long run, Trump believes that the main obstacle to the greatness of the US is the rise of China. The different ideologies of China and the West make China unacceptable in international politics and on the global stage. China's increasing economic power and national strength makes the US feel that its hegemony is under threat, and it seems that Trump is putting China and the US into Thucydides's trap (Graham, 2017).

The reality that China will not implement a political democracy under the Western-led international order ideologically threatens the US global hegemony, thereby leaving the US with limited choices. The

trade war shows that the US is abandoning its coexistence with China in the existing international system and suppressing China by violating the international economic rules created and dominated by the US. The view of Chinese development prospects according to the US government and scholars has undergone some dramatic changes. At the beginning of the 21st century, the Chinese collapse theory was quite popular (Gordon, 2001). Some scholars considered that the one-party system, official corruption, high debt, and foreign trade dependence would bring about the collapse of China in the next 5 to 10 years. These gloomy views of China were refuted by some American entrepreneurs who suggested that the Chinese collapse theory exists only in books and not in reality. However, the theory still had a great effect on public opinions in both the US and other Western countries.

In the following decade, the absolute error of the collapse theory was demonstrated by the rapid development of China and the stabilization of its society. After its accession to the WTO, China complied with international economic rules under the WTO system, as well as strengthened its economic relations with most Western countries because of FDI and international trade. The level of exchanges between China and the West increased subsequently. In 2018, FDI in China hit a record high of \$134.9 billion. How can we explain this unexpected phenomenon? Many American politicians and scholars proposed a new theory by suggesting that as China continues to integrate into economic globalization, Chinese political institutions will gradually integrate into the Western system at some point when it accepts democratic institutions. This will be "The End of History" described by Francis Fukuyama in his famous book. However, in contrast to expectations, the political status of the Chinese Communist Party has been strengthened continuously in the past 10 years and the modernization of state governance has progressed smoothly. The movement allows the Chinese people to increase their affection for the Communist Party and promotes the prestige of the Chinese Communist Party since Xi's administration. As Xi Jinping's core position in the party has been increasingly consolidated, the possibility of China embarking on a universal democratic path seems increasingly unlikely.

The US tends to believe that the ideological contradiction between China and the US-led West is irreconcilable. These ideological differences may end with the ultimate rivalry between the US and China when China overtakes the US economically in a few years according to current trends, especially with China's unique oriental culture, socialist values, and communist-led ideology. This rivalry will pose a direct threat to the international order dominated and created by the US. China has demanded changes in the existing international order in various fields for a long time. Chinese voting rights and voices in international organizations are increasing, and the US feels an unprecedented hegemonic challenge.

The basic requirement of "Make America Great Again" is that the US must maintain its leading position in the global economy, which is the cornerstone of the US hegemony (Layne, 2008). If the US undergoes long-term deterioration in the balance of payments, with a high level of debt and a low employment rate, the happiness of the American people and the economic foundation of the US will be severely weakened. The US dollar will also be at risk of losing its reputation as the world's currency. This relative decline in its economic status will make it difficult for the US to assume the responsibility of its hegemony. The absolute decline in economic power will lead to the US losing its ability to provide public goods to the world. This is also the main reason why Trump has continually withdrawn from international agreements and asked allies to increase their military budget. Trump believes that the current institutional cost is too high for the US to handle. Even if the US is the creator of the international economic system, it is difficult to obtain institutional dividends, and the gap between profits and costs widens over time.

Whereas the US worries about its leadership on the global stage, China has maintained an average GDP growth of 9.5% since 1978, which is an amazing achievement for a country of nearly 1.4 billion people. During the first few years after China's accession to the WTO, most of the development was dependent on low-end industries, especially labor-intensive industries such as assembly and processing. China took advantage of its abundance of low-cost labor and became a major trading country in the world. In the last decade, China has developed rapidly in the field of technology innovation. Knowledge-intensive industries became a key driver of China's new normal economy (Mary and Zixuan, 2018). "Made in China 2025" is an ambitious technological development goal that aims to turn China into a technological power. For centuries, China has followed Western countries in terms of technological innovation. Recent trends suggest that China may break the Western-led technology monopoly and lead a new wave of technological development for the first time.

Regardless of whether we measure power in terms of trade and economy scale or technological development, China's comprehensive power is approaching that of the US with an irreversible trend. China's huge potential market and its capacity for innovation indicate that there is a bright future for the Chinese economy, whereas the US is faced by many problems, including political instability, excessive financialization, and the decline of manufacturing. For Donald Trump, one way to deal with these issues is to treat China as a strategic rival, solve problems by provoking trade wars, forbidding intellectual property rights and exports, renegotiating free trade agreements (FTAs), and giving up the WTO framework. Thus, in the long run, the ultimate goal of the trade war is to maintain the economic foundation of the US hegemony.

### 3. TRADE WAR AS A CONTINUATION OF THE CONSERVATIVE TRADE POLICY AND COMPLEX PLAN

#### 3.1. Trump's More Conservative Trade Policy

Some believe that Trump's policy represents a major break with the past (Dominick, 2018). However, based on the history of US trade policy since the beginning of 21st century, Trump's trade war is a continuation of the conservative US trade policy rather than a dramatic change. Beginning with Obama's administration, US trade policy has undergone a process of contraction from multilateral to regional, and then to bilateral.

This strategic contraction is essentially a response to the failure of negotiations with the WTO, especially the Doha Round. The WTO launched a new round of multilateral trade negotiations in 2001. Due to the inability to overcome a series of challenges, the Doha Round suffered major failures. After the entry of developing economies into the WTO in the 1990s, the composition of the WTO changed greatly and the developing countries have achieved importance as powers in the system. The differences in development between developing and developed economies were fully reflected in the confrontations during the Doha Round, such as access to agricultural and nonagricultural markets. On July 29, 2008, the Doha Round announced its failure after six rounds of negotiations. The US initiated Trans-Pacific Partnership (TPP) negotiations in the same year.

The US has not given up multilateral negotiations, but instead the focus of its trade policy has clearly shifted to the regional level (Arne, 2018), which is a critical shift. As the creator and defender of the multilateral trade framework, the US was not in favor of advocating a regional trade framework or FTAs with its big trading partners. The North American FTA (NAFTA) is an exception because of its special economic and geopolitical meanings for the US. Advocating regional FTAs may undermine the WTO-based multilateral trade framework and reduce the influence of the WTO. However, due to the failure of the Doha Round, the US was increasingly disappointed at the slow progress of the WTO. It is increasingly impossible to use the WTO as a tool to safeguard US interests. This is an important reason why the US turned to the TPP.

Obama's administration engaged in long and arduous negotiations with member states to reach the TPP agreement and made many compromises (Menon, 2016). For Trump, the concessions and compromises of the TPP greatly damaged the interests of the US, and thus the goal of safeguarding the interests of the US economy was absolutely not achieved. Trump made a commitment to abolish the TPP agreement during the campaign period. After the successful election of the president, Trump further changed US trade policy by abandoning regional FTAs (Sherman and Karen, 2018) and renegotiating with its trading partners at a bilateral level. Subsequently, Trump's economic diplomacy focused on the following three areas.

- a) Renegotiating the NAFTA was completed on October 1, 2018 and the new agreement's name was changed to the US–Mexico–Canada Agreement (USMCA).
- b) Bilateral negotiations were initiated separately with China, Japan, and South Korea. These three countries are major trading partners of the US and all have large trade surpluses with it. Negotiations for the renewed US–Korea FTA were completed and entered into force on September 24, 2018. The US is also conducting negotiations with Japan and provoking a trade war with China to impose pressure on bilateral negotiations.
- c) In US–Europe trade negotiations, the European Union has recently begun to discuss a simplified version of the TTIP, thereby indicating that progress has begun under the pressure from Trump.

There are two reasons why Trump prefers bilateral negotiation rather than multilateral negotiations, such as TPP and WTO. The first reason is that the multilateral framework is becoming increasingly difficult to adjust. The agreements reached are usually the result of compromises between different parties. These negotiations are generally time-consuming and laborious. Second, as the current superpower, the US has comprehensive and overwhelming advantages when confronting any countries, and thus bilateral negotiations will maximize the advantage of the US and protect its national interests to the greatest extent. According to this logic, Trump has adopted a strategy of simultaneously negotiating with different trading partners, but using different tools and with diverse attitudes toward them. Therefore, the trade war can be seen as a bargaining chip that allows the US to use its economic hegemony for bilateral negotiations. At present, changing the trade policy from multilateral-based to bilateral-based can be viewed as Trump's best way of serving the interests of the US economy.

### **3.2. Trump's Complex Plan for a Trade War**

Based on observations of the first rounds of the trade disputes between China and the US, it is clear that Trump was fully prepared for the forthcoming trade war and strictly adhered to his campaign promises. There are no uncertainties regarding Trump's behavior. He had a sharp strategy in place and a considered judgment regarding employment.

The US is essentially an entrepreneurial empire. Trump started with domestic tax cuts to obtain the recognition of the entrepreneurs running the multinationals. Without the recognition of the leaders of business and industries, the trade war with trading partners of the US would lose key domestic support. Donald Trump has been an American businessman for decades and he knows the drawbacks of American business. The main reason that large companies set up factories and invest overseas is to reduce the high production costs in the US. Among these costs, tax on firms is the most important cost. Therefore, Trump initiated the largest tax cut in US economic history for 31 years, where company income tax was decreased from 35% to 21%. Progressive tax cut is the most direct and simple method for reducing business costs. In addition, the increased costs caused by higher tariffs will inevitably lead to dissatisfaction among domestic enterprises. However, it can be considered that the domestic tax cut balanced the negative effect ahead of time. Therefore, the tax cut and trade war were not isolated policies but instead they were interconnected, where the two policies had a very specific timing arrangement. Indeed, Trump has been endorsed by big companies. When he signed the memorandum for the Section 301 investigation; Marillyn Hewson was invited to support Trump publicly and she is the president of Lockheed Martin, which is the largest US arms dealer. This was a clear signal to the outside world.

Trump only employs people who understand his opinions and agree with his policy preferences. Former chief economic adviser, Gary Cohn, was a core figure who made a huge contribution to the domestic tax cuts. However, because of his disagreement over the tariff policy, Cohn was fired before the trade dispute started. Trump's determination to govern was demonstrated as a consequence. In addition, in January 2017, six months before the launch of the 301 investigations of China, Trump nominated Robert Lighthizer as the US trade representative, thereby indicating that he was ready to provoke trade disputes. Robert Lighthizer was the deputy representative of the US trade during the Reagan administration and a major contributor to US-Japan trade war in the 1980s. Lighthizer later became a litigator in the international anti-dumping field. His great experience in trade negotiations was valuable in the subsequent Sino-US trade war. This extensive experience explains why Robert Lighthizer was authorized to lead the 301 investigations of China.

In terms of international cooperation, Trump has no interest in the reform of the WTO, but he formed a Western team to contain China in the WTO framework and imposed pressure on China in the Sino-US trade war from time to time. The Sino-US trade war began in 2017 and the US, EU, and Japan issued the following joint ministerial statement for the first time:

"We shared the view that severe excess capacity in key sectors exacerbated by government-financed and supported capacity expansion, unfair competitive conditions caused by large market-distorting subsidies and state owned enterprises, forced technology transfer, and local content requirements and preferences are serious concerns for the proper functioning of international trade, the creation of innovative technologies and the sustainable growth of the global economy. We, to address this critical concern, agreed to enhance trilateral cooperation in the WTO and in other forums, as appropriate, to eliminate these and other unfair market distorting and protectionist practices by third countries."

By May 23, 2019, the US, EU, and Japan had issued six joint statements. Each statement issued during the Sino–US negotiations exerted enormous pressure on China, especially the accusations of China’s market-distorting subsidies, state-owned enterprises, and forced technology transfer. These accusations were highly similar to the content of the US 301 investigation report. Obviously, Trump’s economic diplomacy involves global thinking and a comprehensive strategy. Trump has developed a series of policy options that are not limited to trade issues, thereby constantly accumulating and transforming the chips in his hands in order to win the trade war and achieve the agreement that best serves the interests of the US.

#### 4. WHO IS WINNING AND WHAT IS NEXT?

As short-term goals, Trump once believed that the trade war could prevent Chinese exports to the US, reduce the US trade deficit, and improve the US balance of payments. The truth is actually the opposite. According to reports from the Wall Street Journal and Reuters, despite Trump’s policy of trade protectionism, the US trade deficit continues to deteriorate. The US Commerce Department announced that due to the 10% increase in the trade deficit last year, it reached a record high since 2008 of \$891.3 billion. The US Agriculture Bureau Federation recently announced that according to US court case statistics, the total number of bankruptcy applications for family farms and family fish farms in the US in 2018 was 498. Thus, 498 farms in the US went bankrupt. It should be noted that the bankruptcy rate in the Midwestern US is twice that in 2008 and at its highest level in more than a decade. The weaker demand overseas is more affected by retaliatory tariffs on US goods, which hit US agricultural exports hard. After China raised tariffs in July last year, US soybean exports fell by 20% to \$17.1 billion and hit the lowest level in nine years.

In addition, companies were afraid of rising costs due to rising tariffs in the future, so they increased imports of Chinese goods during the suspension of the Sino–US trade wars, thereby leading to a higher trade deficit for the US. A report by the Federal Reserve Bank of New York estimated the effect of the Sino–US trade war on ordinary Americans and calculated that the trade war will cost every US household \$831 a year (Mary, Stephen, and David, 2019). Thus, the US is suffering from the increasing cost of the trade war in the short run at least.

For China, if the trade war continues, comparing the effects, China will lose more than the US in the next few years; comparatively, negative effects to China are larger than to those to the US (Chunding, Chuantian, and Chuangwei, 2018). However, China is implementing a series of policies that decrease the dependency on the US, such as Belt and Road Initiative. After five years of Belt and Road construction, the total import and export volumes of goods between China and the Belt-and-Road-related countries reached US\$1.3 trillion in 2018, with an annual growth rate of 16.3%. China exported US\$704.73 billion of goods to countries along the route, with an increase of 10.9%, and imports from the countries along the route were US\$563.07 billion, with an increase of 23.9%. The impact of the trade war on China is still not clear in the short term, but it is certain that the US multinationals with investments in China are losing money. About \$200 billion of products are affected by the tariff increase and foreign-funded enterprises account for about 50% of the companies affected, where many of them are US multinationals. A large part of the market for the US corporate products produced in China is the US. Therefore, the imposition of tariffs affects the interests of Chinese companies and consumers but also the interests of US companies and consumers. Thus, the trade war will jeopardize the safety of the global value chain and ultimately the supply chain.

As a natural result of the Sino–US trade disputes, China will have to take at least the following three countermeasures.

- a) China will maintain independence at the cost of opening up. Opening up is China’s most important form of economic diplomacy in the past 40 years. China has benefited from reform and opening up, and it will certainly take greater and faster steps toward opening up in the future. At the Boao Forum in 2018, President Xi Jinping proposed a series of major measures for opening up. However, as the US requires more and more in negotiations, China’s opening up will not allow economic sovereignty to be sacrificed. The pace and steps involved in opening up depend on China’s development level, development strategy, and developmental goals.

- b) “Made in China 2025” has never been as important since the Sino–US trade war commenced, and thus, China will stick firmly to the plan. Major powers without strong manufacturing industries will not have a prosperous future, which both China and the US clearly understand. The Sino–US trade war that occurred as a direct consequence of “Made in China 2025” clearly aims to undermine the development of high-end manufacturing and block the developmental path for China. It is foreseeable that the US will interfere with the implementation of “Made in China 2025” in various ways, such as through international organizations, domestic laws, and industrial policy. The Chinese government will be farsighted and maintain its strategic focus to complete the “Made in China 2025” national plan. The Chinese government has realized that giving up “Made in China 2025” will not prevent the trade war and the only result will be to weaken itself.
- c) China will work hard on the Belt and Road Initiative, and strengthen its economic and political relationships with its neighboring countries. By actively expanding the space for Chinese economic development and overseas markets, China will avoid any overreliance on developed countries such as Europe and the US. In addition, due to its advantage in terms of the construction of infrastructure and advanced ICT technology, China has the chance to lead regional value chains and division of labor systems in the regional cooperation framework. In addition to building FTAs, China will forge a friendly economic ecology that is conducive to investment, trade, and production, which will make the Chinese economy more resilient.

## 5. CONCLUSION

Regardless of whether it is Trump’s short- or long-term goal, due to the close ties among the economies of the world, especially the complexity of the bilateral economic relationship between China and the US, it is irrational to believe that both sides can gain economic growth and development without relying on each other. The blockade of Chinese high-tech multinational corporations such as Huawei is also inconsistent with the laws of science and technology development and the market rules of free trade. The rivalry between China and the US has existed for a long time, and the trade war is not a turning point in the Sino–US relationship. Indeed, Trump’s character and behavior simply accelerated the confrontation. The US is fighting with its trading partners about tariffs, whereas China is working with countries that participate in the Belt and Road Initiative to benefit from joint development and reduce the negative effect of the Sino–US trade war. Trump’s trade policy is aiming at the wrong direction even if he has a good slogan “Make America Great Again.” The likelihood is that over time, Trump will fail to deliver what he promised. Trump’s economic strategy will fundamentally change China’s US policy from cooperative to more independent.

### Conflict of Interest

None.

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