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A Model for Companies to Overcome US–China Conflict on International Trade

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Abstract

This article aims to study international trade specificity and the main activities of Chinese companies in US markets. It addresses the strategic tools of companies and their application in a global and very competitive market, framed by public policies and governments' strategies. It explores the principles of the internal and external environment of the countries. The main research question is: what are the dimensions of a model to potentiate the US–China Companies? The principal methodology used in this research was a literature review, and the analysis was based on the papers that research the theme US and China trade relations. The findings reflect that international trade is conditioned by the government politics, and there are several other obstacles that a US or Chinese company need to overcome: (a) economic forces; (b) technological forces; (c) political–legal forces; (d) sociocultural forces; and (e) physical forces.

Keywords: China; US; International trade; Companies; Strategy; US–China politics.

1. LITERATURE REVIEW

The literature review is structured by several studies on the economic impact of the US–China trade conflict (Kraciuk, 2019). This conflict has costs resulting from the imposition of duties and is being assumed by the Chinese companies, having the consequence of the decrease in their profit margins. However, the losses for China as a result of the introduction of import duties by the United States may be lower if the Chinese decide to take retaliatory action (Thorbecke, 2015).

According to this author, this conflict has many collateral effects, as the increase in exchange rates throughout the supply chain impacts China's exports. However, bilateral trade agreements (BTAs) between China and other countries have facilitated the interconnectedness of global trade.

Friedberg (2015) argues that while it may eventually become far more tense and polarized than it is today, the relationship between the United States and China contains important areas of actual or potential cooperation, as well as intensifying competition (Fang *et al*., 2015).

The Eurozone has opposite macroeconomic effects than when the same shock hits the United States due to the predominance of bank-intermediated financing in the Eurozone (Aporti and Varallo, 2017). A real and financial link exists between China and the Eurozone (Beaino *et al*., 2019), and that creates larger possibilities for China's international trade, as it is not focused in one region but in a wider market.

Aldrich *et al*. (2015) studies state that China's rise depends on a variety of dimensions: its society, economy, and politics. Moreover, those dimensions influence the emergence of BTAs (Maluck *et al*., 2018). However, it is possible to analyze and to compare the trade profiles of China and the United States, as both countries have been pursuing different objectives and strategies related to the negotiation of BTAs.

Nevertheless, the countries' profiles are influenced by differences in socioeconomic, cultural, political, and technological conditions.

China is focused on getting the convergence of several regions (Singh, 2016) converging in the strategic visions of the three key Indo-Pacific players—India, China, and the United States, and rising bilateral strategic cooperation between them (Kim and Leung, 2018). China is using a constructivist approach, exploring the feasibility of a trilateral cooperative framework among the countries. However, during the last 2 years, the United States has serious concerns about the political position of China, mainly regarding defense and security issues—the cybersecurity question (Lindsay, 2015), as the costs of cyber espionage of a globalized economy provoke inevitable frictions and lead the United States to create more obstacles to China trade.

However, Chinese companies had a huge investment in global trade and especially to the United States. Li (2016) studied the adaptation of Chinese investors to the US legal and regulatory systems, and the results of his study state that there is evidence that Chinese investors are largely commercially driven and adaptive to the host country environment, namely adaptation to US institutions governing and employment specificities.

In this context, and on one hand, Jiang *et al*. (2017) confirm the existence of significant spillovers from the United States to China and provide evidence for the increased pricing power of the Chinese market. On the other hand, Yin and Han (2016) argues that Chinese commodity prices depend on the macroeconomic factors (Hartman and Whooley, 2016), but also of the US outperform.

Until the middle-end of 2018 there were a long-term equilibrium between the China and US, with a significant spillover effect from the US to China and vice-versa, regarding the preparation of futures markets. However, as the context of trade conflict assumed high proportions, even the public relations and public diplomacy have had difficulties to influence the continuity of an integrative strategy regarding global trade (Lee and Lin, 2017). It is important to have a continuous focus on a communication framework grounded in public diplomacy.

Another important political issue is, despite its challenges, that Chinese authorities need to focus on potential environmental concerns (Yi, 2016), or they can learn from United States' mistakes and develop its shale resources responsibly. Furthermore, the two countries need to share their experiences and technologies for safely utilizing relatively clean energy resources, especially shale gas (Shi *et al*., 2015).

2. METHODOLOGY

The methodological approach of the research was qualitative, and the primary technique to collect and analyze data was content analysis from the literature review of papers on international trade between China and the United States. For this paper, bibliometric research was performed using B-On, which is a research resource that allows access to thousands of scientific texts included in places such as Elsevier, ISI, Sage, and Springer, among others.

For the beginning of the segmentation, the terminology "US and China trade relations" was used as the initial filter and also the time horizon of research for the last 4 years (2015-2019), obtaining a total of 391,056 publications. Subsequently, new segmentations were used, limiting the number of articles: exclusive research of peer-reviewed scientific articles in academic publications and geography was the United States and China (40 articles). However in several papers there were missing the expression "trade relations," and consequently we obtain a smaller number of publications, setting a total of 20 papers for the analysis.

3. FINDINGS

China and US relations conditionate the international trade in a significative way, as the imposition of duties from the US to Chinese companies decreases their profit margins. In addition, the exchange rates throughout the supply chain impact China's exports, and the relationship between the United States and China remains with important areas to be negotiated. However, companies from both countries need to define a strategy to enter each other's markets and a way to overcome the difficulties and increase trade relations, besides all the obstacles imposed by geopolitics and security conditions.

The main research product of this research is a model proposal to potentiate the US–China companies, and the following sections will respond to this challenge.

3.1. China–US Firms' Contexts for International Trade Operationalization

A firm is an entity hierarchically structured that presents a functional division to achieve certain objectives. It is an autonomous economic agent with the sole purpose of optimizing long-term shareholder wealth, although survival and development in the highly competitive environment are critical objectives.

In the neoclassical view, the company engages in an optimal combination of inputs (inputs) intended for the production of a product/service (output's) and achieving effectiveness satisfying shareholders or the stakeholders—clients, suppliers, employees, banks, partners, investors, municipalities, state, and others.

Firms do not coexist in isolation; thus, they are embedded in a specific environment and context. They get the resources they need through the environment, and it is through them that they place their products/services and the environment and the company are both affected and influenced by each other.

China's contextual environment is characterized by a set of elements that define the exterior of the firm, and that condition its activity. These characteristics are political, social, cultural, ethical, and economic and define the broad social system of which the firm is a part. Firms need to have a deep knowledge of these characteristics because their activity is framed within its contextual environment; thus, it enables them to define their internal and external capacity.

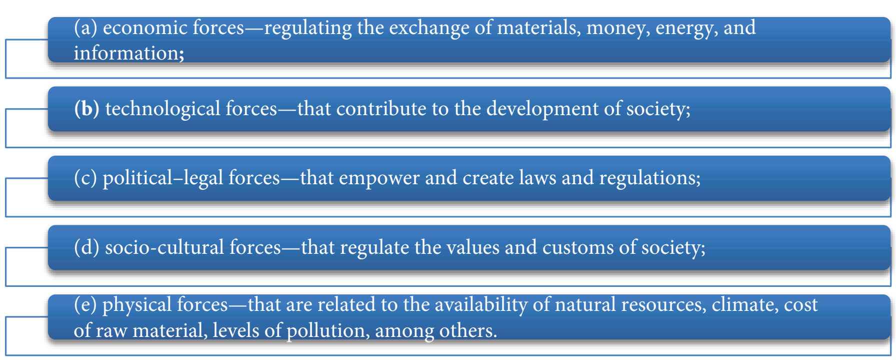
There are different types of enclosures: a company's transactional model represents the set of entities or individuals that come into contact with this organization, usually through an exchange relationship (transaction), and can be an immediate or mediated direct exchange; external model is made up of two parts: specific or transactional environment, which includes elements or groups that affect, or are directly affected by, the main operations of a company.

Various forces also condition the firm's implementation in other countries and to adapt to their specificities, culture, and legal framework. However, when established, the firms tend to disseminate their activity in other countries; the best way to accomplish that goal is to consider several dimensions of the macroenvironment (see Figure 1):

Chinese firms have been in evolution for the past 20 years, learning the western culture and defining strategies that lead the country to worldwide power. They define the rules of international markets and have been buying several companies that were the economic structure of several countries. Therefore, their economic forces are all directed for increasing their GDP, the interest rates, capital supply, and price controls, among others. In addition, technological forces increase the R&D investments, patents, new products, automation, and robotization, among others.

The political–legal forces frame this with the creation of laws and regulations, namely tax legislation, special incentives, and regulation of foreign trade, among others; and by sociocultural forces, as changes in

Figure 1. Model Dimensions for Chinese and US Companies Enter Each Other Markets.



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lifestyle influenced by the global world and markets, demographic growth rate, population age distribution, regional demographic changes, life expectancy, among others; and finally, the physical forces, namely the natural resources.

To promote the international trade among China and the United States, all of these dimensions play a crucial role, and in this specific case, the political forces have been the main conditionate of the trade relations between these two countries.

3.2. Principles of Strategy for US and China Firms to be Prepared for International Trade Relations

Chinese and US companies will be prepared to face the competition of the international markets when they have a strategy considering the internal and external forces, opportunities, obstacles, and facilitators, being part of international value chains. The concept of strategy has been studied by several authors, such as Mintzberg and Quinn (2001), who point out that "strategy is the standard or plan that integrates the main goals, policies, and sequence of actions of an organization into an all coherent. A well-formulated strategy helps to order and allocate an organization's resources to a unique and viable position, based on their relative skills and internal shortcomings, anticipated environmental changes, and contingent action by smart opponents."

The definition of the company's strategy is what allows it to differentiate itself from its competitors. For Andrews (1978), if well articulated, the strategy may favor the company's position vis-à-vis competitors and also establish a competitive advantage (Porter, 1985). Strategy can be conceptualized as the way to be followed to achieve the goals defined by an organization.

Ansoff and Mcdonnell (1993) argue that four distinct types of approaches should be considered in defining strategy:

1. Standards by which the company's present and future performance are measured. In qualitative terms, these standards are called objectives, and in their quantitative aspect they are called goals;
2. Rules for developing the company relationship with its external environment: what products and technologies the company will develop, where and for whom the products will be sold, how the company will gain some advantage over competitors. This set of rules is called product and market strategy, or business strategy;
3. Rules for establishing relationships and internal processes in the organization, and this is often called an organizational concept;
4. The rules by which the company will conduct its day-to-day activities called organizational policies.

The different approaches presented earlier demonstrate the comprehensiveness of the concept of strategy, from plan to perspective. As a plan, it directs the strategist to the implementation stage and its adopted methodology, and as a perspective, it seeks the vision shared by all the people of the organization.

The strategy implementation process should not only be considered as an isolated event, following fixed and rigid plans, but as a set of activities whose results will configure and guide the strategy. During its implementation, the company must be open to learning and, on many occasions, to readjust the course. The process of strategic control must be interwoven with the development of control standards or indicators. Implementation of strategies involves implementation and follow-up, which are carried out simultaneously. It can be concluded that in execution, the action plans and approved projects are put into practice. Already the follow-up of implementations occurs through indicators, reports, charts, review meetings, and analysis of results, among others. Strategic planning will not be complete unless action plans are ready. For each goal or goal, there must be specific action plans to ensure that the actions and steps required to implement the strategies are implemented and monitored by the people allocated.

4. CONCLUSION

This article identifies the main strategies regarding trade relations between China and the United States. Chinese and US companies tend to develop new skills by enhancing their competitive capacity through the adoption of new technologies that help them to increase their market share, besides all the regulation conditions and also the taxes applied to exports/import of products.

Chinese and US companies increased their performance in the past 5 years in areas as operational management, predictive and remote maintenance; hardware innovations; and increasing the visibility of products, processes, customers, and partners; new related ecosystems, based on software platforms without industry boundaries; collaboration between people and machines, which will result in high levels of productivity; increasing “digital work” in the form of intelligent robots. In addition, value chains are another important strategy as it facilitates trade relations among international markets.

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Conflict of Interest
None.

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