



Introduction to the Special Issue on Understanding the Current China-U.S. 'Trade War'

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Introduction to the special issue on understanding the current China-U.S. ‘Trade War’

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ABSTRACT

One of the most important international economic events in 2018 was the China-U.S. “trade war.” With China’s growing role in the worldwide economy and geopolitical impacts, the United States has labeled China as a strategy competitor. This notes briefly introduce the six articles covered in the volume. We highlight the causes and possible economic consequences from the perspectives of the United States, China, Japan, the Europe, and even East Asian countries like Association of Southeast Asian Nations (ASEAN) countries.

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Perhaps the most important international economic event in 2018 was the China-U.S. ‘trade war.’ In March 2018, the United States threatened to impose high import tariffs on US \$50 billion of Chinese imports, which became a fact in June. Triggered by the U.S. action, China retaliated with the same tariff rates on an identical amount of its imports from the United States. In September, the United States launched its second round of the trade war, by imposing 10% tariffs on an additional US\$200 billion of Chinese imports. In response, China retaliated again, on an additional US\$60 billion of U.S. imports.

With China’s growing role in the worldwide economy and geopolitical impacts, the United States has labeled China as a strategy competitor, and even an existential threat to U.S. security and interests. In Sachs’s view, adopting the official stance of treating China as a threat to U.S. national interests would be a disaster for the United States and the rest of the world.

Sachs identifies the United States’ growing hostility toward China as ‘American paranoia.’ He argues that there are three ways to interpret the paranoia in U.S. politics. First, the United States has a psychological projection of its own expansionism. Second, this is due to the United States’ relative geographical isolation from the rest of the world. Third, it is also related to the relatively low level of social trust within U.S. society. Consistent with the ‘Thucydides Trap’ coined by Graham Allison, Sachs states that, in the U.S. paranoid mind, U.S. interests and security mainly depend on the country’s unchallenged primacy. U.S. primacy endogenously requires the United States to contain the rise of any potential rival. The key to understanding this U.S. perspective is the double standard the country holds for itself and any other country: the United States must be a strong leader of the world, whereas others must not challenge the primacy of the United States. Thus, in Sachs’s view, China is merely a victim of U.S. efforts to maintain primacy.

Bown's article investigates the evolution of the Sino-U.S. trade war and offers a possible economic rationale to understand this from a long historical perspective. Bown first constructs a new measure of special tariff protection. He then discusses several key areas in which the U.S. administration has requested China to carry out structural reforms. These include whether China's industrial subsidies, state-owned enterprises, possibly forced foreign technology transfer, and development strategy tend to impose large costs on its trading partners. Finally, Bown examines whether the U.S. strategy generates a potential threat to weaken the mechanism of multilateral cooperation under the World Trade Organization (WTO).

An interesting and important question is whether the United States can promote its manufacturing sectors amid the China-U.S. trade war, which was triggered by the Trump administration. Sheng and his coauthors argue that the U.S. current account deficit and declining manufacturing sectors are mainly driven by the country's internal structural factors, such as the high cost of labor and low saving rates, rather than by import competition from China. Accordingly, a trade war against China would not help the United States win back its lost job opportunities in the manufacturing sectors. Instead, the trade war will result in further deterioration of the U.S. current account deficit and erosion of U.S. comparative advantage in the manufacturing sectors. In this sense, it will be impossible for the Trump administration to achieve its strategic goals, and it will eventually lose the trade war.

Yu and Zhang's article summarizes the Trump administration's main ideas behind engaging in a Sino-U.S. trade war, for example, that Trump believes that the United States' bilateral trade deficit with China harms U.S. interests. He believes that the cause of the bilateral deficit lies in China's unfair export subsidies and high import tariffs against U.S. imports. Hence, for the United States, the only way to reduce the bilateral deficit is to impose high import tariffs against Chinese products. Yu and Zhang then argue that the bilateral trade imbalance indeed does not harm the U.S. economy, because Chinese investors invest back in the United States, using funds from the bilateral trade surplus. The cause of the bilateral imbalance is indeed rooted in the two countries' economic structures, based on their factor endowments in the globalization era. Even in a scenario of free trade, China would still have a huge trade surplus against the United States, in labor-intensive industries and capital-intensive sectors. A wise way to address the Sino-U.S. trade imbalance would be to increase China's imports, by urging the United States to reduce the restrictions on high-tech exports to China, and for both countries to reduce bilateral trade barriers against each other.

By the same token, Qiu and his coauthor investigate several unique factors that may explain the China-U.S. trade war, including the increased import competitiveness of Chinese firms, China's accession to the WTO and its compliance, and even China's exchange rate policy. Although each factor is important, the individual factors would not have led to a large-scale trade war. However, Qiu and his coauthor argue that when these factors combine simultaneously to become a 'China shock,' short-run trade frictions seem to be inevitable.

The United States and China are the two largest economies in the world. There is no doubt that the current China-U.S. trade war affects the economies in the rest of the world as well. In his article, Trefler examines how the fast growth of China's exports raised concerns in Europe. Trefler aims to provide possible solutions, like cooperating in frontier industrial fields, such as artificial intelligence, to settle the current trade

tensions between China and the Organisation for Economic Co-operation and Development (OECD). Essentially, the article suggests that, to avoid a possible trade war, the Trump administration should realize that it is impossible to isolate China from the global trade system. In return, China should aim at making greater efforts toward protecting intellectual property rights. But the most important thing is that the two countries must return to the international institutional architecture. Without global trade rules, Treffer argues, OECD countries would increasingly treat China and the United States as trade bullies and respond with trade sanctions. In the end, this would lead to a major global setback.

In addition to Europe, it is also important to understand how the China-U.S. trade war affects countries in East Asia. Pangestu examines the direct and indirect impacts of the China-U.S. trade war on Association of Southeast Asian Nations (ASEAN) countries like Indonesia. She argues that the ongoing China-U.S. trade war is a symptom of a range of more fundamental issues, including, but not limited to, the political and geo-economic rivalry for global leadership between China and the United States. Accordingly, ASEAN countries, like Indonesia, need to be aware of the strategic directions and possible responses, domestically, regionally, and even globally.

Finally, Zhao investigates the roles of state-owned enterprises and China's dual-track economic system, which in turn leads Chinese manufacturing firms to over-export. He lists important policy suggestions for Chinese policy makers, to guarantee the country's sustainable and peaceful development. Zhao argues that China's traditional wisdom for its development strategy and international affairs, known as 'hidden-and-bide' (in Chinese pinyin, 'tao guang yang hui'), is no longer applicable. The article suggests that it is good for China to alleviate trade disputes and conflicts with the United States, Japan, and the rest of the world.

This brief introduction cannot do justice to the important information conveyed in the articles in this volume. I enthusiastically invite readers to read the full-length articles covered in this issue.