

Redefinition of Engagement in Sino-U.S. Economic and Trade Dynamics

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Abstract: In 2018, a significant transformation commenced in the economic and trade relations between the People's Republic of China and the United States, a trend that was further accentuated in 2022 following President Donald Trump's announcement of an economic decoupling strategy from China. This paper investigation delves into the evolving trade dynamics between these two global economic powers. It methodically analyzes changes in tariff policies, characterizes the evolving nature of trade flows, and assesses the progression of foreign direct investment between the two nations, utilizing a series of analytical charts. This comprehensive analysis furnishes an in-depth overview of the current state of economic and trade interactions. Drawing upon these empirical findings, the study formulates a set of nuanced policy recommendations, which is to strengthen multilateral or bilateral cooperation frameworks and strengthen cooperation in science, technology and innovation, strategically designed to navigate the complexities and exploit the potential opportunities inherent in this evolving bilateral relationship.

1. Introduction

The intricate relationship between China and the United States is completed. Their interactions are a focal point of international interest. China's entry into the World Trade Organization signaled the start of a rapidly growing trade partnership with the United States. Alongside this, China experienced a remarkable economic growth, sparking a burst of domestic innovation across various sectors, leading to significant technological and agricultural advancements.

In 2018, a notable shift occurred when the Trump administration instigated a trade dispute with China, primarily using tariff increases. This led to negotiations that resulted in the signing of the first phase of a trade deal in Washington D.C. on January 15, 2020, a critical moment in their trade relations [1]. However, the emergence of COVID-19 in 2020 presented a significant challenge to the global economy. Amidst this, the U.S. has accused China of human rights abuses and speculated about China's economic decline post-pandemic, further complicating their relationship. The Ukraine-Russia conflict beginning on February 24, 2022, added to global economic uncertainties. In response, the U.S. has adopted a policy of selective 'decoupling' from China, casting doubts on the future of their economic and trade ties.

This study seeks to explore the intricacies of the current economic and trade relations between China and the U.S. and to anticipate their future direction. It starts by examining the current state of their economic and trade interactions, using tools like charts to analyze tariff structures, trade barriers, trade flow patterns, and foreign capital movement. The study then explores the potential challenges and opportunities in these relations amid global economic shifts. It concludes with two policy suggestions, based on the analysis, to help navigate and possibly improve future economic and trade relations between China and the U.S.

2. Analysis of the Current Situation of Sino-U.S. Economic and Trade Relations

2.1. The Current Status of Tariffs and Trade Barriers

Tariff policies play a crucial role in shaping the economic and trade relationships between nations, greatly influencing the exchange of goods and services. These tariffs are established by the top administrative bodies of each country and differ based on the type of commodities and their stages, directly impacting the cost of goods. Generally, lower tariffs are beneficial for boosting import-export activities and enhancing international trade cooperation, which can lead to economic growth. Conversely, the high tariffs can create significant trade barriers and reduce international trade. Meanwhile, it can act as a protective shield for local industries by limiting foreign competition. China's integration into the World Trade Organization (WTO) was a key milestone in its trade evolution, leading to rapid economic growth. During this period, the United States faced an increasing fiscal deficit. To address this, under the pretext of "national security," the U.S. introduced additional tariffs to curb the growth of China's foreign trade [2]. This was part of the broader "301 Investigation" by the U.S. in 2017, casting a shadow over Sino-US trade relations and escalating tensions.

Table 1: China and the United States impose additional tariffs.

US imposes tariffs on China				China imposes tariffs on US			
Frequency	Time	Tariffs	Goods value (\$billion)	Frequency	Time	Tariffs	Goods value (\$billion)
First time	2018.7.6	25%	34	First time	2018.7.6	25%	34
	2018.8.23	25%	16		2018.8.23	25%	16
Second time	2018.9.24	10%	200	Second time	2018.9.24	10%	60
	2019.5.10	25%	200		2019.6.1	10% 20% 25%	60
Third time	2019.9.1	15%	300	Third time	2019.8.23	5% 10%	75

Sources: Ministry of Commerce of China and USTR [4]

According to Table 1, the trade war officially began on July 6, 2018, with the U.S. imposing a 25% tariff on \$34 billion worth of Chinese goods, mainly targeting the manufacturing sector, including electromechanical and audio-video equipment and parts. This appeared to be an effort to suppress China's manufacturing industry while minimally impacting American consumers. In retaliation and following WTO rules, China implemented a similar 25% increase in tariffs on U.S. goods. The conflict intensified when the U.S. extended its tariffs to \$200 billion worth of goods, impacting both manufacturing and consumer goods, indicating a comprehensive strategy against China [3]. On September 1, 2019, the U.S. added 15% more tariffs on \$300 billion worth of goods. China swiftly responded with 5% and 10% tariffs on \$75 billion worth of U.S. goods and reinstated

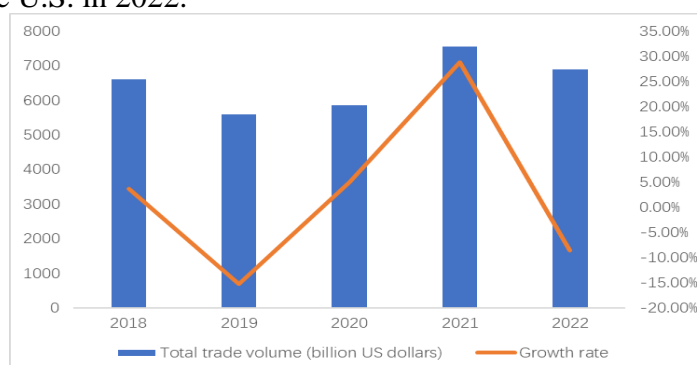
tariffs on American cars and parts. This phase of the trade dispute was brief, leading to the removal of some additional tariffs. By 2020, China and the U.S. reached a partial agreement, pausing the trade war temporarily.

The conflict primarily targeted China's "Manufacturing 2025" initiative, with the U.S. aiming to hinder China's technological growth in sectors like aviation, new energy vehicles, and new materials. The U.S. imposed these tariffs to challenge China's technological progress, while China set reciprocal tariffs to protect its industries and sovereignty, creating significant trade barriers, increasing prices for imported goods, and reducing trade volumes. In essence, the U.S.-China trade war, initiated under the guise of national security and economic imbalances, has significantly impacted global trade dynamics. The mutual imposition of tariffs not only affected their bilateral trade but also influenced the global economy, highlighting the intricate relationship between economic policies, national interests, and international trade relations.

2.2. Characteristics of Trade Flows

The imposition of additional tariffs has significantly altered trade dynamics between China and the U.S. As depicted in Figure 1, the trade friction led to a decrease in bilateral exports from \$659.8 billion in 2018 to \$558.87 billion in 2019, with the growth rate plummeting from 3.75% to -15.5%. However, following the phase one agreement in 2020, trade volume rebounded from \$558.87 billion to \$755.6 billion between 2019 and 2021, marking a growth rate increase to 28.79%. Yet, in 2022, the trade volume again dipped to \$690.6 billion.

Post-2020, the bilateral trade between China and the U.S. showed resilience despite earlier frictions. However, in 2022, the U.S. under President Trump's administration intensified export controls on China's high-tech sectors, notably chips and semiconductors. For instance, high-end gaming chips by NVIDIA were restricted from export to China. Notably, U.S. chip manufacturers, who derive a significant portion of their revenue from China, were impacted by these diversified and strategic export control measures [5]. These actions, aimed at hindering China's advancement in high-end technologies, included stringent export restrictions on 36 Chinese entities, such as the Shanghai Integrated Circuit R&D Center and Yangtze River Storage Technology Co., Ltd. [6]. These measures, while intended to restrict China's development in areas like artificial intelligence, have also sparked considerable discontent among U.S. domestic semiconductor producers. Consequently, these developments are likely to result in a decline in the bilateral export volume between China and the U.S. in 2022.



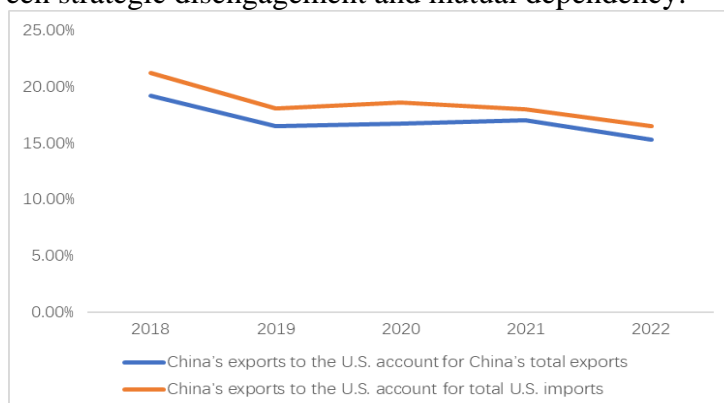
Source: Rhodium Group [9]

Figure 1: China-U.S. bilateral import and export volume and growth rate from 2018 to 2022

In 2020, President Trump's announcement of severing economic ties with China marked a strategic shift towards a precise decoupling from China [7]. According to Figure 2, this decision was reflected in the trade data: China's export proportion to the U.S., relative to its total exports,

initially increased from 16.74% in 2019 to 18.60% in 2020, but subsequently declined to 15.3% by 2022. Concurrently, the share of Chinese exports in total U.S. imports significantly decreased from 2020 to 2022, dropping to 16.5%.

This decoupling, particularly in high-end technology sectors, is poised to impact China significantly [8]. China's export economy, predominantly manufacturing-based, faces higher substitutability risks compared to the specialized high-end technology industries. China's reliance on U.S. high-end technology means that any disruption in supply could adversely affect its related industries. However, the decoupling process presents challenges for the U.S. as well, given China's status as a major import source. Thus, the economic relationship between the U.S. and China is characterized by a complex interplay of conflict and cooperation, with both nations navigating a delicate balance between strategic disengagement and mutual dependency.



Source: Rhodium Group [9]

Figure 2: China's exports to the U.S. account for the respective shares of China's total exports of goods and total U.S. imports of goods.

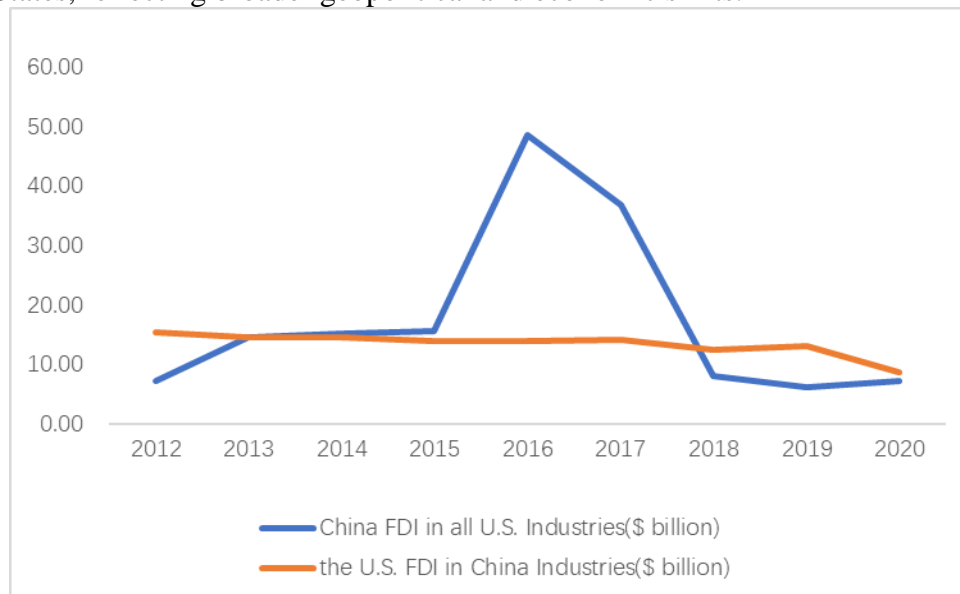
2.3. Current Status of Foreign Capital Inflows and Outflows

The evolving trade dynamics between China and the United States have significantly influenced the flow of foreign direct investment (FDI) between these two economic powerhouses. Initially, from 2012 to 2013, China's FDI into the U.S. was lower than the U.S. FDI into China. However, as China's economic prowess grew, its FDI into the U.S. surged, peaking at \$48.48 billion between 2013 and 2016. Subsequently, there was a notable decline in Chinese FDI into the U.S., dropping to \$7.99 billion from 2016 to 2018, while U.S. FDI into China remained relatively stable at around \$14 billion during the same period [9].

The onset of trade frictions in 2020 further impacted these investment trends. As depicted in Figure 3, China's FDI into the U.S. decreased to \$6.25 billion in 2019 but slightly recovered to \$7.2 billion in 2020, driven primarily by increased investments in the U.S. medical sector and other areas. Conversely, U.S. FDI into China declined to \$8.69 billion in both 2019 and 2020. According to Thilo Hanemann's report, Chinese FDI in the U.S. predominantly involves mergers and acquisitions, whereas U.S. FDI in China is largely greenfield investment. The trade tensions have led to a downturn in direct investments from both countries, with a significant reduction in U.S. greenfield investments in China, falling to \$6.76 billion between 2019 and 2020 [9]. This decrease in greenfield investments has adversely impacted China's employment landscape.

Moreover, U.S. restrictions on exporting high-end technology products, such as semiconductors, to China have compelled many semiconductor and chip manufacturers to reconsider their market presence in China. For instance, Marvell Technology Group announced layoffs and its withdrawal from the Chinese market, planning to relocate its production base to Vietnam. These developments

underscore the complex interdependencies and challenges in the FDI landscape between China and the United States, reflecting broader geopolitical and economic shifts.



Source: Rhodium Group [9]

Figure 3: Direct Foreign Investment (FDI) between China and the United States from 2012 to 2020

3. Possible Challenges

3.1. Global Economic Instability

From 2018 to 2020, the trade tensions between China and the United States had a noticeable effect on the worldwide economy. This strain was further intensified by the outbreak of the conflict between Russia and Ukraine on February 24, 2022, which increased global economic uncertainties. This conflict not only disrupted trade between Russia and the European Union, slowing down the EU's economic growth, but also led to significant sanctions being placed on Russia by the United States and other Western countries. These sanctions profoundly impacted the Russian economy and affected global crude oil prices.

As a reaction to these Western sanctions, Russia's retaliatory actions have worsened its trade relations with the EU. During these times of geopolitical upheaval, China has adopted a diplomatic approach marked by non-interference in internal affairs of other countries, non-involvement in regional conflicts, and a commitment to non-alignment and non-confrontation. This policy aligns with China's long-standing commitment to uphold international justice and adhere to the fundamental principles of international relations [10]. This approach highlights China's strategic role in global matters, showcasing a balanced and non-interventionist stance amidst complex international conflicts.

3.2. Development Opportunities

In an era of global transformations, China is positioned to harness these shifts for significant development. First, the U.S.'s limitations on Chinese imports and export controls offer China an opportunity to enhance its domestic industries and pivot towards self-driven innovation. A notable instance of this is Huawei's endeavor to create its Kirin chip by 2023, signaling a move towards technological self-reliance.

Additionally, during the ongoing Russia-Ukraine conflict, China's decision to refrain from imposing economic sanctions on Russia, contrary to the approach of the European Union, has reinforced Sino-Russian ties, strengthening their trade relations. China's increased purchases of Russian oil, natural gas, and other commodities not only bolster its national strength but also reduce its economic reliance on the U.S. This strategic move allows China to diversify its trade partnerships and improve its resilience in response to global economic changes.

4. Suggestion

4.1. Strengthening Multilateral or Bilateral Cooperation Frameworks

Amid escalating trade tensions with the United States, characterized by strict import and export regulations, China finds it necessary to broaden its economic strategies. The U.S.'s targeted actions towards China's key sectors, including artificial intelligence, semiconductors, and chips, have stirred global economic uncertainty. To counter this, China's focus on enhancing its bilateral and multilateral ties can help reduce its dependence on the U.S. market, a crucial step in bolstering its ability to navigate external economic pressures. In this context, China's "Belt and Road" Summit Forum stands out as a significant initiative. It serves as a platform for technical and scientific exchange with various countries, aiding in the acquisition of advanced technologies. Participation in such forums not only elevates China's position in international trade but also contributes to creating a mutually advantageous environment for global cooperation and resilience [11].

4.2. Strengthen Cooperation in Science, Technology and Innovation

Facing export restrictions from the United States aimed at impeding its advancement in artificial intelligence and other high-tech fields, China must emphasize strengthening scientific and technological cooperation with the U.S. Despite these challenges, China remains the U.S.'s largest export market, highlighting the importance of collaborative innovation for both countries, especially in an era of global economic uncertainty. This relationship, a blend of cooperation and competition, necessitates China's increased focus on self-innovation. Concurrently, enhanced Sino-American collaboration in science and technology could bolster China's comprehensive strength and counter the U.S.'s decoupling strategy. Such measures are crucial for deepening trade relations and fostering mutual growth in these critical sectors.

5. Conclusion

The dynamic economic and trade interactions between China and the United States are significantly influenced by mutual actions. The start of trade disputes in 2018, primarily through tariff impositions, has markedly defined this relationship. The U.S.'s approach of imposing additional tariffs on China's manufacturing sector, with the aim of hindering its development by 2025, was met with China's reciprocal tariffs on American products. Despite these challenges, a preliminary agreement was reached in 2020, indicating a shift towards negotiation and possible resolution. However, the trade conflict has notably impacted the trade volumes of both nations, with a clear decrease during the period of the trade war. In 2022, the U.S. heightened tensions by restricting the export of high-end technologies to China, trying to limit China's technological advancement. Nonetheless, China remains a significant exporter to the U.S., highlighting the intricacy of their trade ties.

The repercussions of the trade war go beyond just trade statistics, affecting Foreign Direct Investment (FDI) between the two countries. The U.S. has traditionally favored greenfield

investments in China, but the trade frictions have led to the exit of several major semiconductor and chip manufacturers from the Chinese market, influencing direct investment figures. This scenario provides China with an opportunity to reassess and fortify its trade relations with the U.S., especially in light of global economic instability. To address these challenges, this paper proposes two policy recommendations. Firstly, China could strengthen multilateral or bilateral cooperation frameworks, such as the "One Belt, One Road" initiative, to lessen its reliance on the U.S. market. Secondly, promoting collaboration in science, technology, and innovation between China and the U.S., in addition to emphasizing domestic innovation, could enhance China's overall strength and counter the U.S.'s strategy of decoupling. It should be noted that this analysis focuses on the trade of goods and does not encompass the service sector, suggesting a need for more comprehensive research to fully grasp the complexities of the Sino-American trade dynamics.

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