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## U.S.-China Trade Tensions

More than thirty years ago, the Communist government of China began enacting market reforms to strengthen its economy. Since then, the United States and China have developed an important economic relationship. The United States imports roughly \$500 billion in Chinese goods each year. In 2015, China became the United States' largest trading partner, surpassing Canada.

The economic relationship is enormously important to both countries, but some U.S. policy-makers have grown increasingly concerned about the nature of the U.S. relationship with China. They argue that China's trade practices are unfair to U.S. businesses and workers.

### Why are there trade tensions with China?

In his presidential campaign, Donald Trump created the slogan, "Make America Great Again," and pledged to boost U.S. industries hurt by the movement of manufacturing jobs to other countries. As president, President Trump imposed a tax, called a tariff, on some products imported from other countries, including some products from traditional U.S. allies like Canada, Germany, and Japan. Since the presidency of Franklin Roosevelt (1933-1945), all U.S. presidents have supported the idea that reducing tariffs leads to more "free trade" and that free trade is the best way to achieve greater peace and prosperity in the world. President Trump's trade policies can be described as "protectionism," an economic strategy to limit trade in the belief that it will help protect U.S. businesses and workers. Many economists and politicians argue that protectionism is an ineffective approach.

The Trump administration also signaled that it would pursue a different approach than past administrations in dealing with China. Since the 1970s, U.S. administrations sought to engage China and integrate it into the global economy with the goals of gaining access to its markets and encouraging Chinese officials to

move from an authoritarian government toward a more democratic, open society. As a result of decades of trade with China, the economies of China and the United States have grown more closely connected. Some policy analysts have questioned the effectiveness of U.S. policy because the Communist Party still maintains political control and influence over key aspects of the Chinese economy.

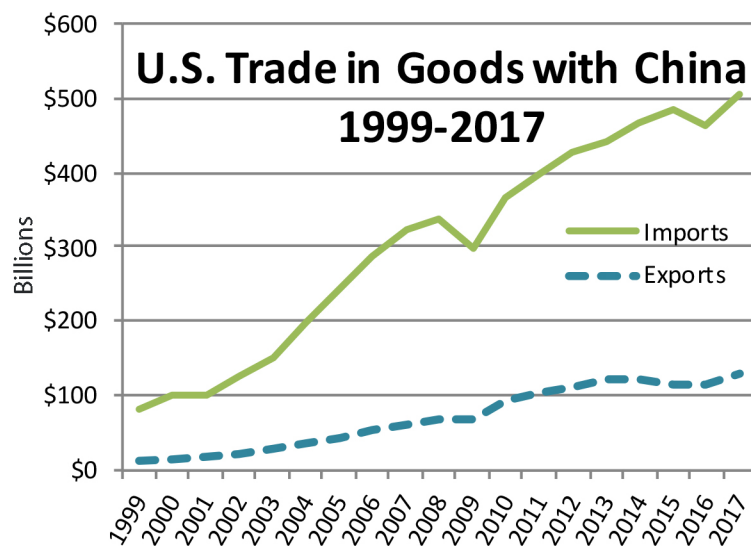
In its first National Security Strategy report, the Trump administration presented China as a threat to the United States.

**“China and Russia challenge American power, influence, and interests, attempting to erode American security and prosperity. They are determined to make economies less free and less fair, to grow their militaries, and to control information and data to repress their societies and expand their influence.”**

—National Security Strategy of the United States of America, December 2017

The Trump administration has raised a number of concerns about the U.S. relationship with China and seeks to address the following issues:

**1. U.S. trade deficit:** In 2017, China exported \$505 billion in goods to the United States while



the United States exported \$130 billion in goods to China. This chart shows how the U.S. trade deficit with China has grown since 1999. President Trump believes the U.S. government should enact policies to increase domestic manufacturing and reduce the trade deficit with China. Many economists do not believe that the trade deficit is the most significant issue in U.S.-China relations.

**2. Chinese government support for China's economy:** After the Communist Revolution in China in 1949, the Communist Party controlled all aspects of the economy. The government planned how much should be produced, how goods should be distributed, and how much they should cost. This is known as a command economy. Through significant reforms that began in the mid-1980s, China's government today has less of a direct role in the economy, but still owns some enterprises and continues to subsidize, or provide funding, for many critical industries. (Subsidies are not unique to China. Other governments, including the United States, provide subsidies to critical industries.) Foreign competitors complain that Chinese government support puts them at a disadvantage. When China sought to join the World Trade Organization (WTO) in 2001, its government committed to opening its markets to more foreign competition and allowing more foreign investment in its economy. Critics argue that the Chinese government has not kept those commitments and that the government must do more to allow for free trade.

**3. Theft of intellectual property:** Many of China's trading partners (including the United States, the European Union, Canada, Japan, and South Korea) argue that China is not abiding by rules set up by the WTO. Among their concerns are the restrictions China places on foreign companies that want to invest in China, including requiring them to partner with a Chinese company (called a joint venture). These foreign ownership restrictions mean that companies are often required or pressured to share advanced technology (such as computer code, engineering plans, and patented technology and equipment) with Chinese companies in order to gain access to their market or to manufacture goods in China. U.S. officials have also accused China of stealing intellectual property through cyber espionage.

Intellectual property theft is a huge concern for U.S. government and industry officials who want to prevent Chinese companies from stealing or copying American ideas and technologies. The United States wants to maintain its dominance in the technology sector and protect its economic and security interests.

**4. China's 2025 initiative:** China has a ten-year national strategy to build up key technology sectors by the year 2025. These sectors include industries like electric vehicles, precision tools, aerospace, fiber-optic networks, robotics, artificial intelligence, and cybersecurity. As noted above, the United States and its allies are increasingly concerned about China's expanding ability to compete in high-tech sectors.

**5. China's growing international power:** China has grown to be the second largest economy in the world and is projecting its power in the region and around the world. China is expected to spend \$1 trillion developing the Belt and Road Initiative, first launched in 2013. The Belt and Road Initia-



Workers test laptop hard drives at a Chinese factory.

Robert Scoble (CC BY-SA 2.0).



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**A shipping container at a train station in Jasper, Alberta, Canada.**

tive aims to connect Asia with Africa and Europe through land and sea networks. China has been investing in new roads, railways, airports, seaports, and telecommunications networks in more than seventy countries. Critics of this initiative argue that the terms of the agreements China reaches with other countries are favorable to China, such as requiring Chinese laborers to complete work on projects rather than hiring local workers.

The United States and its allies also are concerned about China's growing economic and military power as the Chinese government becomes more aggressive in claiming territory in the East China and South China Seas. The Chinese government has been building artificial islands in the South China Sea that now contain military bases. These bases may be used to pressure smaller countries in the region into giving up their claim to undersea energy resources and fish stocks and to control international shipping lanes, where as much as \$5 trillion of vital trade transits each year.

Several of the issues discussed above—the U.S. trade deficit, Chinese government subsidies, and concerns about intellectual property theft—are not new issues. In the past, U.S. officials have tried to work through organizations like the WTO to resolve trade disputes with China.

The WTO also hears complaints made by other countries against the United States. The European Union, Canada, and Mexico, for example, lodged complaints about U.S. trade practices after the United States imposed a 25 percent tariff on imported steel and 10 percent tariff on imported

aluminum that took effect in July 2018. The United States is a respondent to more than 150 complaints lodged against it at the World Trade Organization.

### ***Why has President Trump criticized the WTO?***

President Trump claims the WTO is unfair to the United States by making rules that put the United States at a disadvantage. For example, he has criticized the WTO for allowing China to place tariffs

on imports of U.S. automobiles. He also believes that WTO rules make it too easy for companies to move production (and therefore jobs) to other countries where there is cheaper labor and then export goods back to the United States. As part of his “America First” trade strategy, President Trump has sought to reset U.S. trade policy and reconfigure the United States’ relationship with China by reducing the U.S. trade deficit with China.

To further its policy objectives to reduce the trade deficit, to persuade China to adopt fairer trade policies, and to pressure China to stop intellectual property theft, the Trump administration imposed tariffs on a wide range of Chinese imports to the United States. Chinese officials immediately retaliated by imposing tariffs on many U.S. products.

### ***What is a trade war?***

A trade war is when one country tries to damage another country’s economy through trade, typically by imposing tariffs or setting quotas. (For example, the United States might set a quota to limit the amount of a certain product imported from a country in a given year.) While President Trump has expressed confidence that his recent policies toward China will benefit the United States, others have raised concerns that tariffs will harm U.S. businesses, workers, and consumers.

***“...Trade wars are good, and easy to win.***

***Example, when we are down \$100 billion***

*with a certain country and they get cute, don't trade anymore—we win big. It's easy!"*

—U.S. President Donald Trump, in a Twitter post, March 2, 2018

“*Tariffs are a tax, quite basically. The first people to pay the tax are us, consumers and taxpayers. We all find that the goods we have to pay for and the inputs to those goods are more expensive.... Tariffs are blunt instruments that hurt everybody broadly on some level and only selectively help certain industries and sectors.*”

—Susan Rice, U.S. ambassador to the United Nations (2009–2013) and national security adviser (2013–2017), November 8, 2018

As the United States and China impose tariffs on imports coming into their countries, some fear that a trade war between the two countries has started and may be growing more intense. The timeline below outlines recent developments between the two countries.

### Recent Developments

**March 2018**—The Trump administration announced that it would impose tariffs on \$50 billion of Chinese steel, aluminum, aircraft parts, TVs, medical devices, and other goods. Shortly thereafter, China announced it would impose a 25 percent



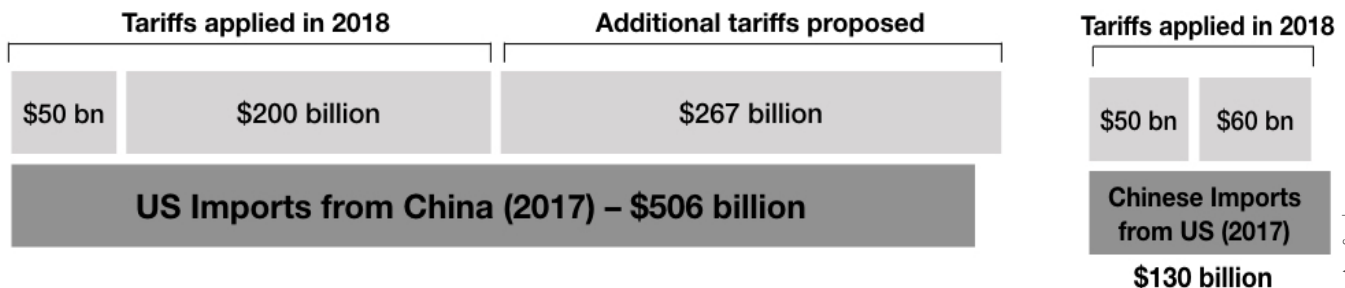
**President Trump and President Xi at the G20 summit in Hamburg, Germany. July 8, 2017.**

The White House. Public Domain.

tariff on \$50 billion of U.S. products, including pork, poultry, beef, soybeans, corn, and fruit.

**July 2018**—Tariffs announced by both countries in March went into effect. Further, the Trump administration announced it would impose a 10 percent tariff on \$200 billion worth of Chinese imports, including refrigerators, air conditioners, furniture, and toys. The Trump administration said that if China retaliated, those tariffs would rise to 25 percent by the end of 2018. China responded by announcing tariffs on \$60 billion of imports of industrial parts, chemicals, and medical instruments. China also increased its tariff on U.S. vehicles to 40 percent, hurting U.S. automakers.

**September 2018**—Tariffs announced by both countries in July went into effect. The Trump administration threatened to expand tariffs on another \$267 billion of Chinese goods, meaning that nearly all Chinese imports to the United States would be subject to tariffs. (U.S. imports from



Amy Sanders.

**Note:** These figures represent the value of goods imported into each country, not the actual monetary figure of tariffs collected.

China are projected to grow beyond \$505 billion in 2018.)

**December 2018**—At the G20 Economic Summit in Buenos Aires, Argentina, President Trump and Chinese President Xi Jinping agreed to a “trade truce” on December 1. They indicated that neither country would impose new tariffs or increase existing tariffs until March 1, 2019 while the two sides negotiate a larger trade deal. This means the United States would not increase tariffs from 10 percent to 25 percent on \$200 billion in goods as previously proposed and China would purchase more agricultural and energy products from the United States.

Just as this “trade truce” was announced, another issue threatened to strain further the relationship between the United States and China. On December 1, Canadian police arrested Meng Wanzhou, a Chinese telecommunications executive, at the request of U.S. officials who had issued a warrant for her arrest in August 2018. The U.S. Justice Department has investigated the company her father founded, Huawei Technologies, since 2010 for violating U.S. sanctions against Iran by selling technology and/or equipment to Iran. (Economic sanctions are a way for a country to try to pressure another country to change its policies; in this case, the United States wanted to pressure the Iranian government into giving up its nuclear weapons

program by closing off trade to important technology sectors.)

Huawei, the world’s second largest manufacturer of smartphones, is a prominent Chinese technology company. In addition to charges that Huawei violated U.S. sanctions, U.S. intelligence officials have advised U.S. consumers not to purchase Huawei-manufactured phones and banned U.S. government agencies from buying its equipment due to national security concerns. The United States has asked Canada to extradite, or send, Ms. Meng to the United States to face prosecution. Chinese officials have protested vigorously Ms. Meng’s arrest, which they view as politically motivated, further jeopardizing continued U.S.-China trade talks.

The future of the relationship between China and the United States has enormous implications not only for trade between the world’s two largest economies, but also for global economic and political stability. Some economists view the Trump administration’s willingness to go it alone against China—rather than continuing the practice of relying on institutions like the WTO to resolve trade disputes and working in collaboration with U.S. allies—as a historic gamble.