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RSIS-WTO Parliamentarian Workshop

US-China Trade War: Emerging Dilemmas

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SYNOPSIS

The US-China trade war has been rapidly escalating into an economic and political warfare between the two big powers. The fundamental transformation of US-China relations will reshape the global order and create economic and diplomatic dilemmas for many other countries.

COMMENTARY

THE TRUCE between the United States and China has finally ended, as the trade talks collapsed in Washington DC last month. As of 10 May 2019 at 12:01 am, US increased tariff rates from 10% to 25% on US\$200 billion worth of Chinese goods that included 5,745 items. After three days, China immediately responded by declaring that they would impose tariffs of up to 25% on 5,140 American products amounting to \$60 billion.

On the same day, the United States Trade Representatives (USTR) drafted a list of 3,805 Chinese products valued at approximately \$300 billion dollars that could be subject to potential tariffs up to 25%. On 30 May, it was reported that China put on hold the purchase of American soybeans that come from the Midwest farm belt, the core constituencies of the US president Donald Trump. And before leaving for the D-Day Ceremony in Normandy recently, US President Donald Trump made another fresh threat that he could go for tariffs on another \$300 billion of Chinese goods at the right time, which means he might slap tariffs on virtually every Chinese export.

Tit-for-Tat

Tit-for-tat tariff strategies by the two great powers are one of the worst outcomes from the breakdown of the talks, but they are not that surprising, since the US and China had already gone through similar phases last year.

What was not fully expected this time is that the standoff between the US and China that started as skirmishes over tariff issues is now taking a completely new turn, as the two countries are plunging into conflicts over almost everything, including technology, diplomatic, and geopolitical issues with no signs of ending.

Even when the two sides announced retaliatory tariffs against each other in May, there seemed to be a silver lining for a negotiated settlement, since the two countries were evidently seeking concessions, delaying the effects of retaliatory tariffs until imports from one country reach the port of another on 1 June. Then why did the US-China trade talk fail all of sudden?

Differing Expectations

Many sources say that the two parties had quite different expectations about implementation of the draft agreement, which was complicated by the dynamics of domestic politics in each side. Last March, China passed a new Foreign Investment law at the National People's Congress in efforts to attract foreign investors, while the trade conflict with the US has sparked its economic downturn.

Chinese officials were quite reluctant to make any further legal changes to improve the outcome of the trade talks, as they believe that the newly drafted investment law provides foreign firms with fair treatment and protection from illegal interference from the Chinese government.

The Trump administration and American firms did not agree. Like the European Union and many other critics, they see that China's new investment law does not really go very far, as it remains vague and broad on the issues of forced technology transfers, intellectual property rights, and know-how disclosure.

China wanted to carry out the agreement by administrative actions without legal commitments. In contrast, the US wanted to specify changes that China needs to make in legal terms and publicly disclose them in order to institutionalise an enforcement mechanism. Both sides were equally concerned about domestic criticisms of weak deals.

Evolution of Trade War

Recent developments after the breakdown of the trade talks show that the current standoff between the US and China is not just triggered by the spontaneous reactions of strong leaders. The two great economies have indeed embarked on a war over a new global order that will not be resolved any time soon.

By implementing toughest sanctions on China's Huawei and declaring a national emergency on information security, the Trump administration made it clear that they are seeking to thwart 'Made in 2025', a blueprint for China's developmental plans to become a manufacturing powerhouse with an emphasis on high-tech sectors.

It is worth noting that the US' current stance on China has no bipartisan differences. Despite their ongoing feuds, the Democratic Party asked the Trump administration to be tough on China's "bad behaviours," including regulatory behaviours, unfair trade practices, and human rights issues.

Strong statements on the Tiananmen Square protests came from both the US House Speaker Nancy Pelosi and the Secretary of the State Mike Pompeo, while the US House passed pro-Taiwanese bills at around the same time.

Meanwhile, Chinese President Xi Jinping urged the Chinese people to start the new "Long March" with loyalty and unity for the nation's great survival during his visit to Jiangxi province, where the Red Army of the Chinese Communist Party undertook its historic military retreat against the Kuomintang from 1934 to 1935. Jiangxi province is also housing mining facilities for rare earth minerals that China might weaponise in its trade war with the US.

Emerging Dilemmas

How would the US-China frictions affect the global trading system? The damage seems to have been already done. The IMF Director Christine Lagarde has recently warned that retaliatory tariffs by the US and China will cause a reduction of 2020 global growth by \$455 billion.

Another dilemma in the current spat between the US and China is that some countries will be forced to take sides, as shown in the relationship between the US, China, and South Korea. Harry Harris, the US Ambassador to South Korea has recently urged Korean telecommunication companies not to use Huawei network equipment, emphasising the importance of a reliability of 5G suppliers for national security.

It was just a day after Chinese diplomats warned the Korean press that Korea should make a good judgement instead of following the preferences of the US.

It remains to be seen whether Presidents Trump and Xi Jinping will resolve the deadlock between the two countries at the G20 Summit in Japan later this month as they did in Buenos Aires in December 2018. Whatever the outcomes, it will be still subject to certain volatility caused by the two countries' fight over global hegemony.

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