



The people of the People's Daily want to talk about:

How to rationally understand the current Sino-US trade friction

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Sino-US **economic and trade relations have always been the "ballast stone" and "stabilizer" of the relationship** between China and the United States. But this year, the United States **has adopted unilateralist measures to provoke a trade war**, which has led to escalating trade frictions and disputes between China and the United States. [This is the standard official line of the CPC but internal and external critiques blame XI Jinping for provoking the US AZ]

In March of this year, the United States produced a so-called 301 investigation report. On July 6, the United States, in spite of various oppositions, imposed a 25% tariff on China's \$34 billion exported to the United States. On August 23, the United States imposed tariffs on another \$16 billion of Chinese exports to the United States. In order to safeguard legitimate rights and interests, the Chinese government has taken corresponding countermeasures in a timely manner. The unilateral provocation of the trade war by the United States not only seriously threatens Sino-US bilateral economic and trade relations, but also has a negative impact on the world economy.

How should we understand the current Sino-US trade friction? How to deal with the United States provocation of a trade war? These problems have aroused the concern of all sectors of society.

Sino-US economic and trade unions are both beneficial and fighting

Since the establishment of diplomatic relations between China and the United States in 1979, bilateral relations have developed in an all-round way, and economic and trade

cooperation has been rapidly advanced: a trade pattern of **complementary advantages, blending interests, and mutual benefit** has been formed. Sino-US economic and trade relations are essentially mutually beneficial and win-win, and the common interests far outweigh the differences, and the two sides benefit and the fight is hurt. The stability of Sino-US economic and trade relations is not only related to the interests of both China and the United States, but also to the development of the world.

Sino-US economic and trade cooperation is comprehensive: First of all, China and the United States are important trade partners of goods. The United States is China's largest export market for goods and the sixth largest importer. Exports to the United States account for 19% of China's total exports. In 2017, the bilateral trade in goods between China and the United States reached US\$583.7 billion, 233 times that of the establishment of diplomatic relations between the two countries in 1979. China is the fastest growing market for US exports. According to United Nations statistics, US exports of goods to China in 2009 were 129.9 billion U.S. dollars, an increase of 557 percent over 2001, much higher than the U.S. exports to the world 112%. 62% of soybeans exported by the United States, 25% of aircraft, 17% of cars, 15% of integrated circuits and 14% of cotton are sold to the Chinese market. Second, service trade has become increasingly important in bilateral economic and trade cooperation. According to US statistics, the bilateral trade in services between China and the United States increased from US\$24.94 billion in 2007 to US\$75.05 billion in 2017. Among them, US exports to China increased from US\$13.14 billion to US\$57.63 billion, an increase of 3.4 times. **The United States is China's second largest service trading partner, and China is the second largest service export market in the United States.** Again, the scale of **investment** between China and the United States is huge. As of the end of 2017, US direct investment in China totaled more than US\$83 billion, and there were approximately 68,000 US-based companies. China's investment in the United States is about \$67 billion. In addition, China **invests heavily in US financial assets**, holding more than \$1 trillion in US Treasury bonds, and is the country with the largest number of US Treasury bonds.

Sino-US economic and trade cooperation is reciprocal! The reciprocity of Sino-US economic and trade cooperation is reflected in many aspects. **First of all**, bilateral economic and trade cooperation has provided **huge market opportunities** for both companies. Both companies **share their market opportunities through exports or investments**. China has a surplus of more than 270 billion U.S. dollars in the Sino-US **trade in goods**. The United States has a large surplus in the field of Sino-US **service trade**. In 2016, the US trade surplus with China was about 55 billion US dollars. There are also many US-funded

companies entering the Chinese market through **investment** in China rather than exports. According to the statistics of the US Bureau of Economic Analysis, the sales of US-funded enterprises in China in 2008 was 481.4 billion US dollars, which was 455.8 billion US dollars higher than the sales of Chinese enterprises in the US\$25.6 billion. Therefore, from the perspective of using the opportunity of the other side of the market, the two sides benefit substantially.

Second, bilateral economic and trade cooperation has created a large number of employment opportunities for the two countries. According to estimates by the US-China Business Council, exports to China and two-way investment in 2015 supported 2.6 million jobs in the United States. According to related research, imported goods from China created about 4 million jobs in the US downstream industry chain. Since **China's labor productivity is much lower than that of the United States**, there are more jobs created by the US economic and trade cooperation. According to relevant research estimates, the export of US goods has created about 17.5 million jobs for China. Taking into account the gap in the total population of the two countries, the two sides are basically equal in terms of employment.

Third, bilateral economic and trade cooperation between China and the United States has boosted the industrial structure of the two countries and provided consumers and consumers with more cost-effective goods and services, which has increased consumer welfare.

The United States **attributed the trade imbalance between China and the United States to "the unfair practices of China."** According to this, the United States "has suffered a loss" in bilateral economic and trade cooperation. This is a one-sided understanding. The **US savings rate is too low and the government's fiscal deficit is too high, which is the macroeconomic reason for the overall trade deficit.** In other words, the overall trade deficit of the United States is caused by its **internal economic structure**. Whether or not its trading partners include China, its overall trade must be a deficit. The current imbalance between China and the United States in bilateral trade is a **reflection of the comparative advantage and the status of international division of labor** between the two sides. Another reason that cannot be ignored is that the **United States has long imposed restrictions on the export of high-tech products** to China, which has weakened the competitiveness of American products in the Chinese market to a certain extent: the proportion of US products in China's high-tech product import market has been from 2001. 16.7% fell to 8.2% in 2016, and in China, up to 270 billion US dollars in chip imports, US

products accounted for only 4%. In addition, there are certain problems in the **US statistical methods, which leads to a significant overestimation of the imbalance** in bilateral trade in goods. In fact, China has **not deliberately pursued a trade surplus**. In recent years, the current account balance of payments has been basically balanced.

Sino-US economic and trade cooperation is complementary: China and the United States are the **largest developing countries and developed countries** respectively [The US now contests the status of China as a developing country - which it still is - because this status is what gives China certain benefits in terms of WTO rules which is why the TRUMP Administration wants to attack and even destroy the WTO AZ].

The two countries have **different resource endowments, development stages, industrial structure and international division of labor**. Although the competitiveness in bilateral economic and trade relations is rising, the basic pattern of complementarity has not changed. From the perspective of industrial competitiveness, the US **service industry is highly competitive and has a large surplus in the field of bilateral service trade**. As a big manufacturing country, **China has a large surplus in the field of goods trade**. From a **technical perspective, American companies have strong competitiveness in high-tech industries**. If the US government cancels or reduces restrictions on high-tech exports to China, the share of US high-tech products in the Chinese market may expand rapidly. China's exports to the United States are still dominated by labor-intensive products. Although China's export structure has been continuously upgraded in recent years, the proportion of "high-tech products" in customs statistics is about 1/3, but most of these products are added in China, mainly **concentrated in labor-intensive links**. From the point of view of resource endowments, the United States has a vast territory, and China provides a huge market space for energy products such as agricultural products and natural gas in the United States.

[In terms of its own National Security Strategy, China will rather soon switch to using AI, Automation and Robotics that will further strengthen its comparative advantage in manufacturing of goods - the Author seems to suggest the US should do likewise in terms of services AZ]

The real reason for the US to have launched a trade war

China-US economic and trade cooperation has a wide range of content and deep interests. It is inevitable that there will be various economic and trade frictions. However, such frictions

in the past **have not affected the overall situation** of China-US economic and trade cooperation. In recent years, the **two sides have their own concerns in economic and trade cooperation: 1) China is concerned that the US side fulfills its Article 15 obligations under the Protocol of China's accession to the World Trade Organization** (in the anti-dumping investigation against China, it completely **stops using the "alternative country" approach**) and exports high-tech to China so limiting the abuse of trade remedy measures and discriminating against Chinese companies investing in the United States.

2) The US is concerned about trade deficits, intellectual property protection, overcapacity, and industrial policies. In the past, the two countries have responded to each other's concerns through negotiations and consultations, resolved economic and trade frictions, and promoted the development of bilateral economic and trade cooperation.

However, this time, the US side abandoned the cooperation agreement reached between the two sides, took the ruling, adopted unilateralist measures, launched the largest trade war in history, and threatened to continue to expand the scope and scope of tax increases.

There is no winner in the trade war, which will have an impact on both **exports and employment**. It will also increase the production and living costs of both enterprises and consumers. It will also impact the normal operation of the global production value chain and have far-reaching negative impact on the multilateral trading system. [Please Read this against the importance of BRI/OBOR in the Chinese Strategy AZ]

Then, if the US knows that it has to pay such a price, **why should it launch a trade war?**

The reasons for the US to launch a trade war are **complex and profound**. In summary, there are three points:

1) Interest extortion. It is a **common practice** in the United States **to force trade partners to open up markets and transfer economic benefits through trade wars or threats of trade wars**. It has been used in many countries in the past. Although the United States has achieved great economic benefits from bilateral cooperation between China and the United States, some people in the US political circles have viewed bilateral economic and trade cooperation **with a zero-sum game view** [Please see the **'Game Theory in Strategy'** component in our **Advanced Course Book AZ**] blaming internal problems such as the expansion of the domestic income gap on "China having seized employment opportunities" and the trade deficit caused by low internal structural

problems is attributed to China's policy and the belief that the US is "losing". In recent years, the United States has shifted from **advocating "free trade" to protectionism, ignoring the World Trade Organization's principle of authorization for developing countries, misinterpreting "peer-to-peer openness", unreasonably demanding tariff levels for each specific product and each industry.** Investment access should be exactly the same as in the United States, **placing the vast majority of developing countries in a very unfavorable trading position.** In resolving the Sino-US economic and trade issues, the United States has ignored China's great sincerity and has abandoned the consensus reached by both sides and unilaterally initiated a trade war. Its direct motive is to attempt **to force China to further expand market access to the United States in trade and investment, increase the purchase of US products,** so that the United States can obtain more economic benefits, while at the same time **shifting domestic contradictions** within the United States. [This is similar to what the US tried to do to African economies in the 1980/90' through Structural Adjustment Programs and why we fought against it then in many African continental and regional forums AZ]

- 2) **Strategic containment.** After the Second World War, the United States became the dominant country in the Western world. After the end of the Cold War, the United States became the world's only superpower with its technological, economic, military, and financial strengths far ahead of other countries. In **order to maintain its world hegemony, the United States has been guarding against any possible catch-up.** In the past, the **Soviet Union and Japan** had been hampered by the United States. With the rapid development of China's economy and the rise of comprehensive national strength, the United States has fully turned to its cognition and sentiment towards China, **redefining Sino-US relations.** The 2018 edition of the US National Defense Strategy Report states that **"strategic competition between countries is now the primary issue of US national security" and defines China as a long-term "strategic competitor" of the United States.** The report also stated that **economic security is the foundation of national security and is national security.** On August 13, 2018, the President of the United States signed the **National Defense Authorization Act of 2019, which contains two important bills: the Export Control Reform Act and the Foreign Investment Risk Review Modernization Act, which further strengthens high-tech export restrictions and** prevent foreign companies from acquiring technology through investment. Therefore, the **trade war is not only a means for the United States to obtain more economic benefits, but also an important means for the United States to contain China.** The US\$5 billion Chinese export product that imposes tariffs on the

United States is mainly aimed at the high-tech field contained in "**Made in China 2025**", **reflecting the US's intention to curb Chinese technology catching up.**

3) The model is suppressed [Here the ideological friction and contest is **acknowledged and is of great significance as it means China is beginning to see and articulate the conjuncture in Cold War terms AZ**] From the perspective of maintaining its global hegemony, the United States has **blamed China's development model**. The United States' labels the China **development model as "state capitalism"**, which blames China's foreign-invested enterprises for mandatory technology transfer requirements, China's support enterprises' "going out" is really a government act to acquire advanced technology, and the Chinese government supports the network to steal US trade secrets. With intellectual property rights, it is willing to criticize China's implementation of **industrial policies**. In fact, since the founding of the People's Republic of China, **the United States has been implementing the same industrial policies in substance.**

[**This is correct so also see the ANC positions on the Developmental State available at andrezaaiman.com for easy reference - we have been pointing this out for sometime now AZ**].

The first US Treasury Secretary, **Hamilton, proposed a plan to promote manufacturing development and was the initiator of the policy of protecting the infant industry**. In recent years, the US government has **still introduced a large number of industrial policies**, such as the "Revitalization of the US Manufacturing Framework" (2009), the National Strategic Plan for Advanced Manufacturing (2012), and the National Manufacturing Innovation Network (NNMI) Project Strategic Plan. (2016) and so on. While **pursuing industrial policies**, it has **blamed the normal industrial policies of other countries, which reflects the hegemony** of the United States.

In the field of international economy, the United States **puts domestic law on top of international law, not through the dispute settlement mechanism** of the World Trade Organization, but through the use of unilateral measures to deal with Sino-US economic and trade differences, and **blatantly violates the rules of the World Trade Organization to impose tariffs**. The United States **intends to obstruct the appointment of new judges of the World Trade Organization Appellate Body** and affect the normal operation of the World Trade Organization. The United States ignores China's commitment to abide by WTO accession, abide by the rules of the multilateral economic and trade system, and advocates

the promotion of trade and investment liberalization and facilitation. It claims that China is the **"revisionism" of international rules and challenges the US-led international economic and trade system.** To this end, the United States **exerted a combination of public opinion warfare, customs warfare, and science and technology warfare when launching a trade war. The motive of the United States is to stigmatize China's development model** through public opinion warfare, and force China to change through tariff wars and scientific and technological warfare, its original development model.

It is not difficult to see that the motives for the US to launch a trade war are diversified. The reasons are improper. The behavior is not in conformity with the rules of the World Trade Organization. The impact is harsh and far-reaching. [Please see the Course article "The Three Warfares (三战) : psychological warfare, public opinion warfare, and legal warfare. AZ]

How to properly respond to Sino-US trade frictions

Properly responding to Sino-US trade frictions is **related to China's reform, development, and stability.** Under the strong leadership of the Party Central Committee with Comrade Xi Jinping as the core, we must maintain **strategic strength and strategic endurance.** We will **unite and unite throughout the country,** further **strengthen the cohesiveness** of the Chinese nation, **turn pressure into power,** and **give full play to China's institutional advantages, industrial advantages and market advantages, resolutely safeguard national interests, strive to safeguard the international environment for national development, unswervingly promote reform and opening up, and push China's overall national strength to a new level.**

Starting from the overall situation of **safeguarding the country's development environment,** we should **deal with Sino-US trade frictions.** [What TRUMP is doing is altering this environment through the measures he is taking which is what seems to rile the Chinese

As the United States defines China as a "strategic competitor," Sino-US relations will undergo profound adjustments. As two big countries, Sino-US **cooperation and competition are the norm.** Cooperation does not mean that there is no contradiction. **Competition does not mean a full-scale war.** We must lose our illusions and fight for it; we must maintain our rationality and strive to maintain the **stability of the overall situation.** We must fully understand the complexity of Sino-US trade frictions, adhere to "reasonable, favorable, and festival-oriented" and adhere to the **principled stance of "do not want to**

fight, not afraid to fight, and have to fight when necessary." [Chinese strategic posture AZ]

The Chinese side insists on not shooting the first shot. However, in response to the unilateral action of the US side to provoke a trade war, it is inevitable to **adopt reciprocal counter-measures** and **report the US unilateralist behavior to the World Trade Organization dispute settlement mechanism.** It is not enough to just defend the national dignity and the interests of the people, not enough to defend the principle of free trade and the multilateral trading system, is not enough to defend the common interests of all countries in the world. At the same time, if the US side abandons the wrong position and actions of the trade war, insists on treating each other as equals and keeping its promises, China is willing to respond to each other's concerns through equal negotiations, tap the potential of bilateral economic and trade cooperation, establish bilateral economic and trade cooperation mechanism arrangements, and promote bilateral economic and trade cooperation through continued development.

Comprehensively respond to short-term shocks. The adverse impact of Sino-US trade friction on China's macro economy is limited and controllable. According to research by many institutions, the United States will impose a 25% tariff on China's \$50 billion product, which will affect China's GDP growth rate by about 0.1 percentage point. But the adverse effects **may spread to multiple areas** through expected changes. Therefore, it is necessary to attach great importance to comprehensive measures and properly respond. First, do a good job in the relief work of export-blocked enterprises, help enterprises to **turn to domestic sales** or **export to other countries' markets**, and strengthen the rescue, training and transfer work of laid-off workers. The second is to take effective measures to encourage enterprises to adjust the import structure, **increase imports from alternative countries**, ensure a stable supply of the domestic market, and prevent the price of individual commodities from rising sharply. The third is to do a good job in **stabilizing employment, stabilizing finance, stabilizing foreign trade, stabilizing foreign investment, stabilizing investment, and stabilizing expectations, maintaining stable macroeconomic growth** and financial market stability that could prevent major risks from being resolved.

Keep your strategy and do your own thing. In response to the US's act of provoking a trade war, the key is to avoid interference from the **other side, maintain strategic strength, and avoid making subversive mistakes.** The **Soviet Union was dragged into the arms race** in the cold war. **Japan had a bubble economy in the trade war.** It was not far from the lessons and profound lessons. We must **learn from the lessons of other countries,**

maintain strategic strength, and focus on building the goal of building a socialist modernization and strengthening our country.

First, adhere to the economic **construction as the center, concentrate on development, continuously improve China's overall national strength**, and continuously improve **people's lives**.

Second is to strengthen the direction of socialist market **economic reform, accelerate the comprehensive deepening of reforms, constantly improve** the socialist system with Chinese characteristics, and **promote the modernization of the national governance system** and governance capacity.

Third is to fully enhance the **ability to innovate**. Firmly grasp the **strategic opportunities of the new technology revolution, accelerate technological catch-up, strengthen research and development of cutting-edge technologies, upgrade traditional industries with new technologies, vigorously develop emerging industries, and accelerate the realization of high-quality development**.

Fourth is to continuously **expand opening up to the outside world**. We will link high-standard international economic and trade rules, **build a new open economic system**, create a new pattern of comprehensive openness, enhance the international competitiveness of the industry and the status of international division of labor, and build a strong trade country. Vigorously **advocate free trade and safeguard the authority of the multilateral trading system**. Actively promote the **strategy of the free trade zone and promote the construction of the "Belt and Road"**. We will fulfill the responsibility of the major powers that are **compatible with our own strength and stage of development**, and uphold the concept of a community of human destiny, and make new contributions to building a world of lasting peace, universal security, common prosperity, openness, tolerance, and clean beauty.