THE US-CHINA TRADE WAR AND THE IMPACTS ON AUSTRALIA
THE US-CHINA TRADE WAR

Beginning on the 6th of July 2018 with the US announcing China specific tariffs valued at $34 Billion USD, setting the stage for, what Beijing describes as the ‘largest trade war in economic history’¹.

The back and forth of unprecedented tariffs between the two superpowers has led to one of the most impactful economic conflicts ever. The U.S, led by President Donald Trump has long felt that their economy was being taken advantage of by the ever-emerging Chinese market, especially shown with the US’s trade deficit with China. The election and following actions of Donald Trump have been those of the prioritization of the U.S and in particular their economy. Presidents Trump’s points of China being a ‘currency manipulator’, compromising the U. S’s intellectual property and using the Chinese Technology company ‘Huawei’ to compromise national security, have been the main arguments behind the Tariffs and Trade Barriers.

China has opposed these claims, and have filed multiple WTO claims (World Trade Organisation) against the US and has retaliated significantly with their own tariffs, escalating the conflict significantly².

Actions taken out by both the U.S and China have compromised Australia’s economical position. China purchases 1/3 of Australia’s exports and Australia has gone 25 years without recession, more than any other nation. Australia could not possibly have had this success without access to the significant growth of the Chinese Economy.

With repeated failed attempts at reconciliation between the two nations, Australia is fearing the worst with the pre-established economic downturn. Australia following the U. S’s lead with banning Huawei from their 5G network seemed to have done nothing to change Trump’s mind about his sanctions and his deal with China, that may affect Australia ever more, and the only hope of reconciliation has to be a steady framework designed by the two countries working together in the hope for economic stability for both themselves and the world³.

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KEY TERMS AND INDICATORS

Economic Conflict: Defined as an economic strategy based on the use of measures of which the primary effect is to weaken the economy of another state

Trade Deficit: The amount by which the cost of a country’s imports exceeds the value of its exports

Tariffs: A tax or duty to be paid on a particular class of imports or exports

Trade Barriers: A government induced restriction on international trade

Intellectual Property: Intangible property that is the result of creativity, such as patents, copyrights etc.

World Trade Organisation: The world trade organisation, or the WTO, is an intergovernmental organisation that deals with regulations concerning international trade between nations. Consists of 164 nations

Currency Manipulator: A designation applied by the United States to countries that participate, in certain degrees, in currency intervention, in which a central bank, buys or sells foreign currency in exchange for domestic currency to influence the exchange rate

Huawei: A large Chinese technology company with allegations against it by western nations for concerning cybersecurity.

KEY DATES
Chronology: Significant Dates
1st of March: Trump declares a 25% tariff on Steel and a 10% tariff on Aluminium, with only 4 countries receiving a permanent exemption (South Korea, Argentina, Australia and Brazil)
6th of July 2018: The US implements China specific tariffs valued at $34 Billion USD
10th of July 2018: US implements 2nd round of China specific tariffs valued at $200 Billion USD
3rd of August: China proposes an additional $60 Billion USD tariff on trade goods
14th of August 2018: China files WTO claim
28th of September 2018: Implements proposed $60 Billion USD tariff on US goods
2nd of December 2018: China-US agree to temporary truce
7th to the 9th of January 2019: China and US engage in talks in Beijing
22nd of January 2019: US cancels talks with China
5th of May 2019: Trump threatens to raise tariffs
10th of May 2019: US increases tariffs from 10% to 25%
16th of May 2019: Huawei placed on ‘entity list’ banning it from buying from US companies
16th of August 2019: US declares China as a currency manipulator

As of 23rd of September 2019
Total US tariffs applied exclusively to Chinese goods: US$550 Billion
Total Chinese tariffs applied exclusively to US goods: US$185 Billion

The significant trade deficit the U.S has with China of over $419bn USD has caused the U.S to impose sanctions on over 5,700 product categories. Significant U.S imports from China include Computer Electronics, Electrical Equipment and Manufacturing equipment amongst other things are some of the many products being affected by the U.S tariffs on 47% of Chinese Imports. Chinese imports on 91% of U.S imports are still significant, but in comparison to the value of the U.S tariffs, are significantly lower. The large amounts of products and the percentage of tariffs imposed on them are only set to rise if a solution is not found in the US-China trade war.

Many countries, especially in Asia, are heavily reliant on Chinese trade. Countries such as Australia (30%), South Korea (22%) and Japan (15%) are affected negatively by the US-China trade war. China’s focus on retaliation on the U.S combined with the slowing economic growth of China has a negative side effect for those nations mentioned. With China, not being able to purchase as many Asian-Pacific nations imports, the countries have to find other ways to make up for the slowing economic growth in their respective countries, which primarily stems from the US-China trade war.

The continued escalation of tariffs between the US and China between July 2018 and June 2019 is significant. US tariffs at August 2018 worth $50 billion and Chinese retaliatory tariffs at August 2018 worth $50 billion (USD) marked the beginning of the trade war. In September 2018, the U.S increased their tariffs by $200 billion and China retaliated with $60 billion worth of tariffs. The U.S again increased their tariffs by another $200 billion in May 2019 with the Chinese again retaliating with $60 billion worth of tariffs as of June 2019.
CAUSES OF US-CHINA TRADE WAR

TRADE DEFICIT: The U.S imported 539.5bn in goods from China and sold $120.3 billion in goods to them, resulting in a trade deficit for the U.S worth $419.2bn for 2018. Progressively over time, the trade deficit the U.S has with China has grown due to Chinese specialisation in cheap manufacturing of goods, which, according to U.S President Donald Trump has ‘hollowed out’ U.S manufacturing. Trade Deficit’s pose the largest threat to both U.S jobs and the U. S’s National Security. The fears behind the trade deficits primarily stem from China but can also be traced to President Trump’s resulting conflicts with the EU (European Union), Canada and Mexico. The Trade-deficit, In Trump’s eyes, was one of the major reasons to conduct this trade war to both close the gap between U.S imports and exports with China5.

CURRENCY MANIPULATOR: President Trump has long accused China a ‘currency manipulator’, A designation applied by the United States to countries that participate, in certain degrees, in currency intervention, in which a central bank, buys or sells foreign currency in exchange for domestic currency to influence the exchange rate, especially seen when China devalued its own dollar in order to make U.S imports of Chinese goods cheaper. China, in the U. S’s eyes, has had a long history of committing currency manipulation, and in order to retaliate for the lower cost of Chinese goods imported, tariffs were implemented, causing the Trade War and further currency manipulation6.

INTELLECTUAL PROPERTY: China has a long history of intellectual property theft, especially involving the U.S. In March 2018, a CNBC poll found that one in five corporations in the U.S had intellectual property stolen from them within the last year from China. According to the Commission on American Intellectual Property, theft of American Intellectual property causes $600bn a year. This constant exploitation of the U.S free market by the Chinese is another of many reasons that Trump waged this trade war with China7.

ACCUSATION OF ESPIONAGE: Many U.S officials have accused China of engaging in espionage and implementing non-market practises in order to gain an advantage in trade with the U.S. These accusations focus heavily on commercial cyber espionage, especially the giant Chinese tech company, Huawei. 4 out of the 5 members of the security intelligence sharing group ‘Five Eyes’ (U.S, Canada, New Zealand and Australia) have formally declared Huawei telecommunications equipment, especially with the implantation of 5G network as ‘significant security risks’ These concerns over violation of U.S intelligence have made the U.S retaliation on Chinese companies warranted, but also further escalating the US-China Trade War8.

IMPACTS ON U.S: The effects on the U.S resulting from the U.S-China trade war are significant and varying. Some companies and categories of goods have benefited from the tariffs, while some others have been disadvantaged. The effects on the country as a whole have been significant, such as in 2018, Mexico and Canada overtook China as the U.S’s largest trading partners and continuing to have trade surpluses with the U.S despite U.S focus on China, allowing for both Mexico and Canada to pick up opportunities left by the Chinese markets. Short Term impacts include a short-term increase in GDP as households would be able to provide more labour due to the falling international labour in the U.S and an increase in demand for American made steel and other positively tariff affected may rise, but will ultimately be undercut by other low-cost manufacturers like Vietnam, who have developed a trade surplus with the U.S after the Chinese tariffs have opened up opportunities for economies such as Vietnam. Long term effects of the US-China trade war include the diminishing agriculture exports from the U.S from $15.9bn in 2017 to $9.1bn in 2018, affecting the agriculture sector so significantly that the government had to provide $28bn in aid to offset the costs of the trade war. Other long-term impacts include lower foreign investments in to the U.S economy due to heavy blanked tariffs and higher costs for household’s due to many industries having to find other sources to import from due to the heavy tariffs on both sides of the trade war. Overall, despite initial intentions of the trade war, the U.S has suffered much more than intended and in industries not intended to be affected. Long term economic losses and higher prices for households are some of the many negative effects that will take place if the trade war is to continue.

IMPACTS ON CHINA: The impacts on China, as with the U.S, have been significantly affected by the trade war. The tariffs from the beginning significantly affected Chinese industry. As China, as well as many other Asian nations, specialises in low cost manufacturing the tariff means that manufacturers will take their markets to other low-cost nations such as Vietnam and Indonesia, leaving many industries, such as the Chinese textile industry (70% of all footwear in the U.S is manufactured in China) being significantly disadvantaged. The Chinese government does have significant tools at their disposal to alleviate the disadvantage, such as lowering taxes on the specific industries and de-valued their currency to allow cheaper exports to not only the U.S, but the world. The significant U.S tariffs worth $550bn have significantly impacted Chinese industry, due to the significant trade surplus with the U.S, but the government has more methods to alleviate the significant tariffs raised on them by the U.S. China has suffered and will continue to suffer if a solution is not found between the two powers. Despite China’s methods to avoid the tariffs placed on them, they will fail to see a significant growth in their economy in their near future and will fail to see the industries affected rise back to their potential, this negatively impacting China’s efficiency as a low-cost manufacturing nation.

IMPACT ON AUSTRALIA

ECONOMY: Trade hostilities between the US and China have had a negative impact on the ASX (Australian Security Exchange). Value of the Australian market has fallen again and again after the back and forth in tariffs between US and China, falling $50bn in August 2019. Despite the Australian stock market remaining fragile due to both the trade hostilities and slowing economic growth, Treasurer Josh Frydenberg has insisted the economy will remain stable throughout the hostilities and the government’s plan for an economies surplus will remain despite calls for using the money to help benefit the Australian Economy in the declining economic period. The Australian Governments belief that ‘cooler heads will prevail’ in these escalating times has allowed the government to continue in their pursuit of domestic economic stability despite claims from economists of the significance of this trade war on the economy. The overall impact, like most other developed nations, is negative, but Australia’s reliance on Chinas use of Australian exports may see a growing significance in the long term of this conflict, a general impact on the Australian economy is the impact on other nations that Australia has a strong economic relationship with such as Japan and South Korea, also having their economies negatively impacted by this resulting trade war due to their relationship with China. If nations that Australia has an economic relationship with are weakening, it will only continue to negatively impact Australia’s economy regardless of direct Chinese involvement.

EXPORTS/IMPORTS: The US-China trade war has had significant impacts on Australia’s exports and imports. Due to the large amount of Australia’s exports (30%) going to China worth around $137bn AUD, the devaluation of China’s currency impacted significantly on Australia, as mentioned before, wiping off $50bn AUD off of the ASX and significantly impacting Australian exports, due to them becoming more expensive to import due to Chinas weaker dollar, and Australia being able to buy more goods from China, closing the trade surplus Australia has with China. Significantly larger impacts on Australian exports and imports will continue if hostilities between the US and China continue, with China being less able to purchase Australian products and as a result, the Australian economy weakening. One benefit is the Chinese tariffs on U.S goods, including agriculture goods, allows Australia to fill in the need for agricultural goods once supplied by the U.S. As the U.S was Australia’s top competitor in China’s agriculture demand. This new-found demand could find Australian farmers having a short-term net benefit of $1bn AUD.

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SOLUTIONS TO US CHINA TRADE WAR

TRUCE: Establishing a truce is paramount in the suggested solutions to the trade war. A truce with realistic terms that are agreed by both parties is the only way negotiations can proceed to de-escalate the conflict through phases safely for the sake of the world economy. Multiple economists have recommended extended truces and economic collaboration between the two countries to be the only way to stop the conflict before it has progressed too far\(^{18}\).

FRAMEWORK: To ensure the solution to the trade war works well in the long term as well as it does in the short term, a ‘framework’ for economic collaboration for both of the countries in the trade war is incredibly important in coming to a solution. Economists from both sides of the conflict have called for this solution. In a joint statement by 37 economists, including 5 Nobel prize winners, argued for a sensible framework for future trade relations that would ‘give China room to pursue industrial policies that are often a target of U.S criticism’ but also allow the U.S to respond with tariffs if China is damaging’s it’s interests. They believe that it preserves the majority of gain from trade between the two economies but also without ‘presuming convergence in economic models’. This method of a solution is one of the only that will feasibly work considering the different government, economies and ideologies of the two nations, and ensure that another trade war on this scale will not happen again\(^{19}\).

AUSTRALIA’S RESPONSE: Due to both the political and economic relationship Australia has with both nations, Australia has an interest in solving this dispute. A nation with significant interests in both countries economic success can act like a mediator in this process, as well as other nations with similar interests, to ensure the framework for economic success is followed and no dispute on this scale ever happens again\(^{20}\).

PROBLEMS: Problems that may be encountered with these solutions is the culture of both nations. With both countries insisting on ‘winning’ this trade war and refusing to back down before the other does is the main reason for the escalation of the trade war. These solutions will only work if both nations set aside their basic differences, both culturally and politically, and set out some sort of framework that will benefit both their different economies in the long run regardless of political and cultural disputes.

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CONCLUSION

The U.S initially began this conflict on the 6th of July 2018, in retaliation for the perceived economical injustices against them. The perceived injustices of a large economic imbalance between the two nations, theft of intellectual property, espionage and China’s currency manipulation all warranted, in the U. S’s eyes, the need for this conflict. Around 47% of Chinese Imports to the U.S have been affected and around 91% of exports to China have been affected. These significant tariffs on thousands of item categories have affected both countries economy’s significantly. U.S households and Agriculture, despite short term gains for other industries, have suffered significantly in the conflict and will continue to suffer if a resolution is not made. China has suffered as well, with the U.S moving to other low-cost nations such as Vietnam and Indonesia to import goods that once China specialised in. These economic consequences have not only affected the U.S and China’s economies, but the World’s economy. Countries that have benefited, as previously mentioned, Vietnam and Indonesia, are among the few who have successfully out manoeuvred this conflict. Many other nations, especially China dependent nations such as Australia and South Korea have suffered due to limiting Chinese Spending. Australia’s economy has weakened in an already fragile economic state and exports to China have slowed down despite the increase in Australian agriculture. All of this needless escalation by both countries have rendered this trade war unwinnable, and the world has a limited time for a solution before the world’s economy is permanently affected by the conflict. An extended and reasonable truce has to be established for purposeful negotiations to begin for both short term and long term economic collaboration between the two conflicting economies, preferably with nations with interests in both countries mediating in an effort to calm the high tensions. This is the only hope in the short time the conflict has left before significant and irreversible damage has been done and the conflict cannot be resolved due to the pride of the two nations, both who are unwilling to step down. But if cooler heads prevail, a truce can be achieved and the world can progress despite the failures made by many nations in the needless conflict. The world’s economy has suffered enough and a significant lesson is to be learned considering the side effects of an economic conflict, especially on this scale.

Source: New York Times
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